

Better Buying Commercial Compliance Tracker™ Report

AUGUST 2023



Commercial Compliance: Are buyers in compliance with STTI's key recommendations?

A Baseline Survey

KEY TAKEAWAYS

1. 238 supplier ratings from 38 different countries/regions were received, with responses from 10 countries/regions comprising 74.5% of the total data (see Figure 1).
2. 84 different buyer companies were rated. Rated buyers included large and small companies headquartered in North America, Europe and the United Kingdom, Australia, and Japan.
3. Eighty-eight percent of suppliers received orders directly from the buyers they were rating. The remainder received orders through a third party (7.4%) or both ways (4.6%).
4. The commercial compliance score for this year's ratings cycle was 29.4.

The practices with best compliance (see Figures 2 and 3) included:

- Buyers paying full price as agreed in the purchase order;
- Buyers not extending payment terms without supplier approval;
- Terms of the order specifying when ownership and responsibilities are transferred from the supplier to the buyer.

The practices with poorest compliance included:

- Buyers allowing prices to be changed when external costs fluctuated by +/-5%;
- Buyers updating forecasts at least monthly;
- Prices covering all costs of compliant production including a reasonable profit for suppliers.

5. Measures of commercial compliance were significantly and positively correlated, meaning that when buyers complied with one key recommendation, they were more likely to comply with many others. And when buyers were non-compliant with one key recommendation, they were likely to be non-compliant with many others.
6. Compliance with paying in full, allowing changes to be made in prices when costs fluctuated, paying prices that cover all costs, and confirming capacity were all positively and significantly correlated with compliance to every other key recommendation.
7. While buyers are well-equipped to fairly address issues that arise in verifying and addressing quality disputes and delivery claims, they are much less likely to have policies in place that fairly address compensation for unused capacity and late payments, fair distribution of profits when prices are revised, and force majeure events.

Introduction

As part of its participation in the [Sustainable Terms of Trade Initiative](#) (STTI), Better Buying™ has developed its Better Buying Commercial Compliance Tracker™ and provided a baseline measure of the extent buyer purchasing practices meet the definition of commercial compliance as found in the STTI White Paper published in September 2021.

Commercial compliance refers to a buyer's adherence to the minimum level of performance outlined in key recommendations set forth by manufacturers as central elements to the terms of trade they wish to do business under. These recommendations encompass "purchasing practices that do not cause obvious and avoidable harm to manufacturers" in buyers' supply chains ([STTI White Paper, page 6](#)).

Better Buying™ created an instrument and conducted an initial survey of commercial compliance in late 2021. Seeking to improve the instrument, Better Buying™ engaged further with STTI participating supplier associations on simplifying and streamlining it so as to maximize supplier participation and provide more meaningful results. Data were collected with the new version of the survey between December 2022 and January 2023. The changes we made, and the larger number of suppliers that participated in this second survey make it difficult to make comparisons between the two, so we are treating data reported here as the baseline from which we will compare data from future years going forward.

We anticipate incorporating measurement of commercial compliance into our existing [Better Buying Purchasing Practices Index™](#) (BBPPI) in order to provide an annual assessment of the status of commercial compliance. This will allow brands and retailers that subscribe with Better Buying™ to see their levels of compliance and track progress that is being made. The survey will also be available as a standalone module for those brands and retailers who do not subscribe to the BBPPI.

Methodology

Better Buying™ invited suppliers from around the world to voluntarily participate by submitting data about one or more of their customers' purchasing practices. Supplier associations that are part of STTI also encouraged their members to participate.

The survey included 11 questions that measured specific practices and expected performance for the key recommendations. For these specific practices (e.g., "were the payment terms 60 days or less"), we used "all of the time" as the expected level of performance for the buyer to be in compliance.

To determine an overall level of compliance to the Key Recommendations, we used net-promoter type scoring to calculate a composite score reflecting the proportion of ratings that indicated the buyer was in compliance "all of the time" with each recommendation contrasted against the proportion of ratings reporting the buyer was "never", "rarely", or only "sometimes" in compliance with each recommendation.

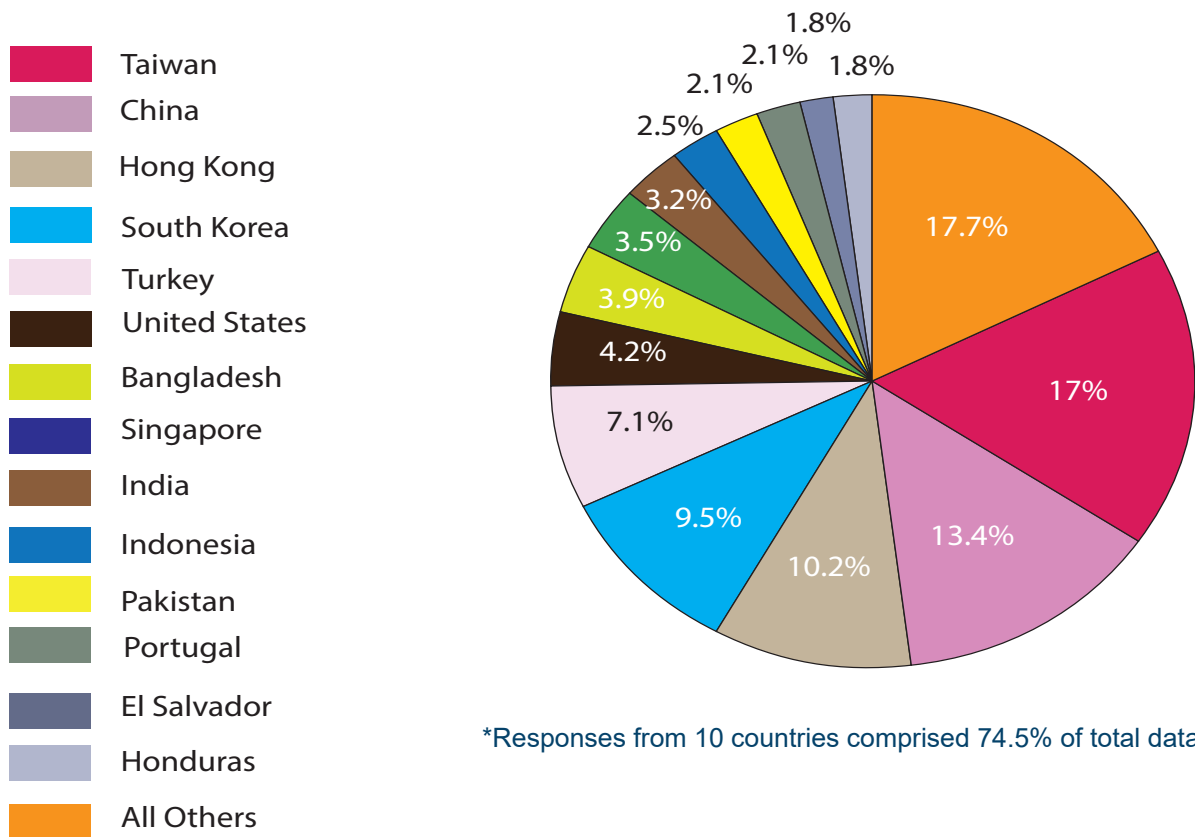
Another question asked about several topics covering policies and processes expected in the key recommendations for buyers to follow when their practices fail to meet commercial compliance. Because many suppliers indicated that they had not faced these situations in their business relationships with the customers they were rating, those were analyzed separately with descriptive statistics, and not included in the commercial compliance score.

HOW IS THE SCORE CALCULATED?

The commercial compliance score from this year's ratings cycle was +29.4. Possible "commercial compliance" scores range from -100 to +100 with negative scores indicating more buyers were "never", "rarely", or "only sometimes" in compliance and positive scores indicating more buyers were in compliance "all of the time" across all recommendation areas.

While we are using this year's score as a benchmark to compare future scores, we anticipate that the commercial compliance score could decline over the first few years as more suppliers participate and submit data about a broader range of their customers.

Figure 1: % Ratings Submitted by Supplier Countries/Regions (n=238*)



*Responses from 10 countries comprised 74.5% of total data

Commercial Compliance Findings

Figure 2: Compliance with Key Recommendations n=283

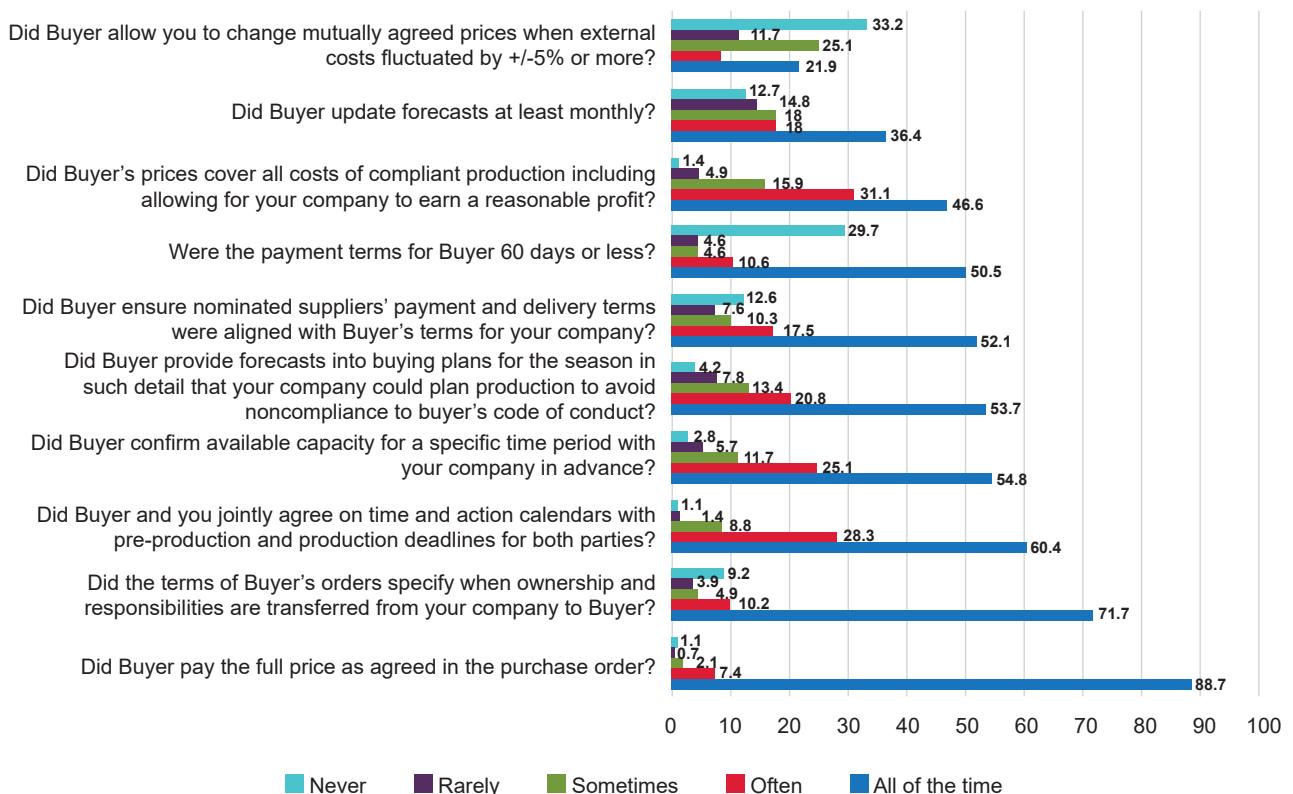
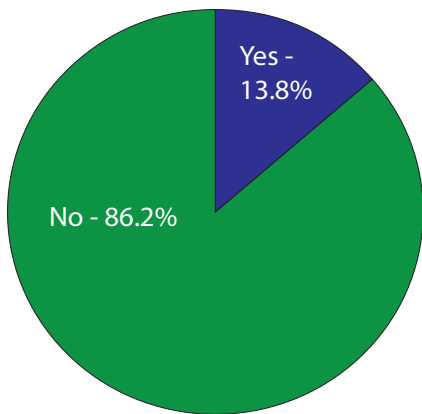


Figure 3: Did buyer extend its payment terms without your approval?



(No responses on this measure of commercial compliance were counted as compliant in the Commercial Compliance score.)

We analyzed the extent that buyer purchasing practices followed patterns of behavior (see Figure 4). Most of the measures of commercial compliance were significantly and positively

correlated, meaning that when buyers complied with one key recommendation, they were more likely to comply with many others. And when buyers were non-compliant with a key recommendation, they were likely to be noncompliant with many others.

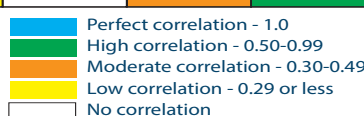
For example, when buyers were compliant with providing forecasts at least 60 days in advance, they were also compliant in updating those monthly and confirming capacity before submitting orders. There was also an almost-never observed perfect correlation between updating forecasts monthly and providing jointly agreed time and action calendars (see Figure 4). When buyers were compliant with one of these, they were always compliant with the other.

On the other hand, buyers who complied with these recommendations more often complied with all the key recommendations.

Figure 4: Relationship Between Commercial Compliance Measures

	Payment Terms	Pay Full Price	Allow Price Changes	Transfer of Ownership	Prices cover all costs	Confirm Capacity	Provide Forecasts	Update Forecasts	Agreed Time and Action
Payment Terms	1								
Pay Full Price	224**	1							
Allow Price Changes	142*	180**	1						
Transfer of Ownership	0.041	239***	213***	1					
Prices cover all costs	136*	303***	268***	152*	1				
Confirm capacity	167**	202**	240***	209***	426***	1			
Provide Forecasts	146*	183**	251***	0.103	334***	653***	1		
Update Forecasts	0.089	238***	289***	0.075	372***	589***	645***	1	
Agreed Time and Action	0.089	238***	289***	0.075	372***	589***	645***	1,000***	1

***Correlation is significant at the .000 level (2-tailed)
 ** Correlation is significant at the 0.01 level (2-tailed)
 *Correlation is significant at the 0.05 level (2-tailed)



Key Findings on Process-Related Measures

In addition to purchasing practices that have defined standards of performance in the key recommendations, additional elements of the key recommendations of suppliers participating in STTI's work detail processes for how issues are to be addressed.

Suppliers' experiences with those processes and, if applicable, the performance of the buyer in following the process, were mixed.

Suppliers had most experience with policies addressing allocation of costs between buyers and suppliers when orders were modified, and just over one-quarter of suppliers said the buyer fairly allocated costs all of the time.

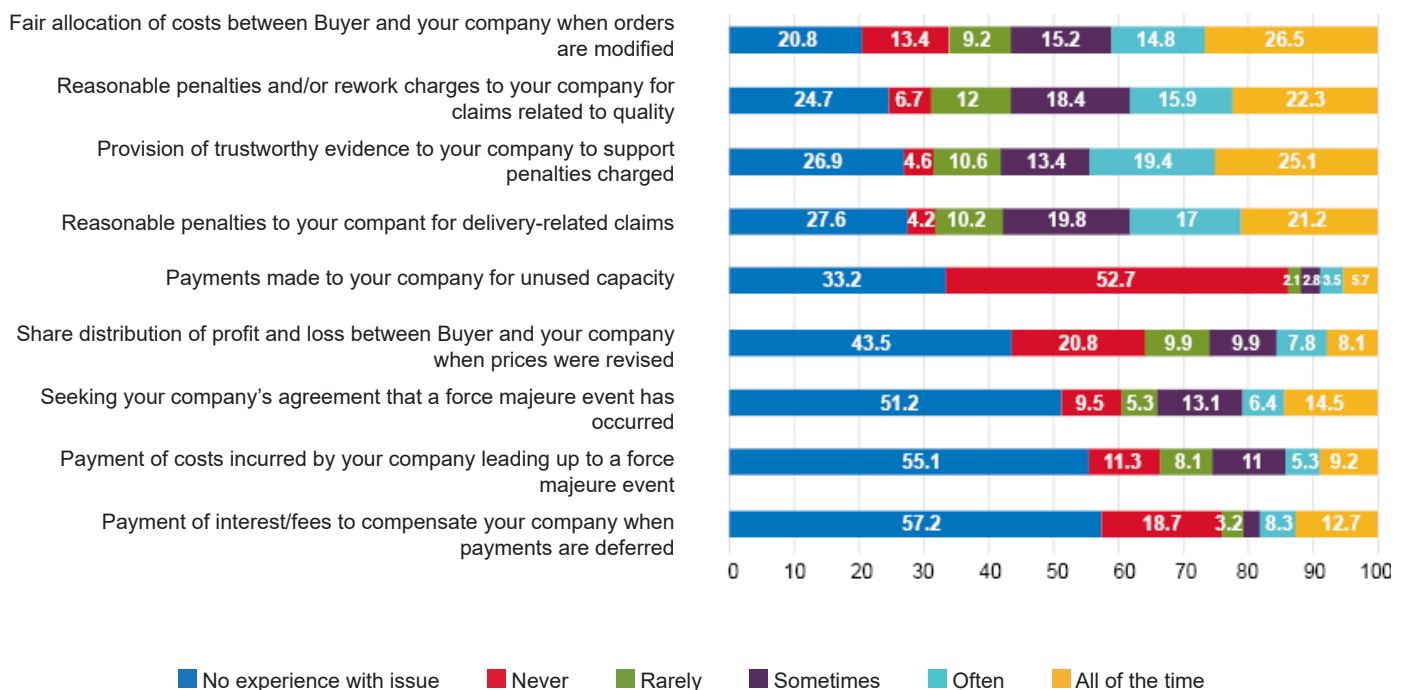
While two thirds of suppliers had experience with buyer policies for handling payment for unused capacity, nearly 53% of those were

never paid for unused capacity. Most suppliers had not experienced any type of policy related to payment of interest/fees to compensate them when payments were deferred.

However, the largest percent of those suppliers who had encountered this type of situation, reported the buyer never compensated them.



Figure 5: Compliance with Key Recommendations



Recommendations

Significant improvements are needed by buyers to be in compliance with the key recommendations issued by STTI. Especially high impact areas to work on include compliance with paying in full, allowing changes to prices to be made when costs fluctuate, paying prices that cover all costs, and confirming capacity, which are all significantly correlated to compliance with every other key recommendation.

Better Buying™ stands ready to help buyers begin measuring their commercial compliance so they can identify and mitigate areas where they are deficient.

The patterns of behavior we observed with most practices either being compliant or not increases the possibility for suppliers to easily identify and avoid non-compliant buyers who will strain their business relationships with their suppliers and add to the pressures on workers in global supply chains. We will continue to monitor findings about these relationships in subsequent ratings cycles to see if they hold.

The findings related to policies and processes for how buyers handle non-compliance suggest that while buyers are well equipped to fairly address issues that arise in verifying and addressing quality disputes and delivery claims, they are much less likely to have policies in place that fairly address compensation for unused capacity and late payments, fair distribution of profits when prices are revised, and force majeure events.

The shortcomings found here represent opportunities for buyers to collaborate with suppliers to create workable policies respectful of the business relationship between true partners.

About Better Buying™

Better Buying Institute reimagines supply chain sustainability, leveraging data to strengthen supplier-buyer relationships. Our goal is to accelerate industry-wide transformation of buyer purchasing practices so that buyers and suppliers create mutually beneficial business relationships. Better Buying's programs provide retailers, brands, suppliers, and industry with data-driven insights into purchasing-related activities. The transparency we deliver to supply chain relationships promotes sustainable partnerships and mutually beneficial financial and other outcomes.

www.betterbuying.org

info@betterbuying.org