Better Buying™ Special Report

Purchasing Practices and Sustainability: What improvements are suppliers seeing?

INTRODUCTION

The 2020 Better Buying™ Purchasing Practices Index (BBPPI) included, for the first time, a number of new questions on the sustainability impacts of buyers' purchasing practices. In addition to looking at the social sustainability impacts of buyer purchasing practices, which Better Buying™ has been monitoring since 2016, we wanted to capture the environmental and business impacts as well: the "3 Ps" of sustainability - People, Planet, and Profit. These questions will be included in future BBPPI ratings cycles, capturing supplier insights to enable and track improvements, highlight best practice, and support buyers and suppliers to work together as partners for sustainable growth.

INSIGHTS AND RECOMMENDATIONS FOR BRANDS AND RETAILERS

1. **Poor communication and excessive design changes are top contributors to waste and unnecessary costs in the sampling process**
2. **Some of the most impactful improvements are relatively cheap and easy to introduce**
3. **Empower your designers to talk directly to suppliers to clarify design concepts**
4. **Share the costs and benefits of social and environmental sustainability efforts, including investment in alternative technologies, with your suppliers**
5. **Provide incentives and offer rewards to suppliers who prioritize sustainability**
6. **Constantly changing order size from month to month negatively impacts all aspects of sustainability - social, environmental, and economic**

BETTER BUYING™ INSIGHT

Our findings indicate that buyers' expectations of suppliers are much more attainable when supported by incentives for improved performance. Shared goal-setting on compliance and environmental sustainability, where suppliers provide input and craft goals jointly with buyers, leads to a better business relationship and social and environmental outcomes.

This report focuses on 4 key areas:

- Design and Development
- Investment in cost-reducing alternative technologies
- Expectations and incentives for CSR/compliance and environmental sustainability performance
- Impacts of steep variations in month-to-month order volume

KEY FINDINGS

Design & Development

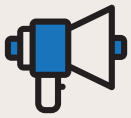
The Design and Development stages are critical points for avoiding and eliminating waste. Many of the most impactful practices reported by suppliers do not require expensive investments or drastic changes to a buyer's workflow.

Improving the alignment between sample requests and actual orders reduces waste and eases the financial burden on suppliers who have made significant investments in producing those samples.

SUPPLIER INSIGHT

Buyers should reward suppliers who invest in sustainable and environmentally-friendly development, instead of awarding orders to other, cheaper suppliers who have not incurred these costs.

TOP SUSTAINABILITY EFFORTS CURRENTLY BEING MADE BY BUYERS



1. Giving feedback on reasons for rejecting samples

2. Setting a target price prior to development

3. Improving the conversion rate for samples, and cutting down on the number of physical samples

Giving feedback on reasons for rejecting samples enables suppliers to better understand their buyers' expectations and make improvements to future samples, leading to less waste in the sampling process (Figure 1).

Setting a target price prior to beginning development gives clarity about what is possible in terms of design and eliminates the likelihood that costly trims, embellishments, and other details will need to be removed later in the process - or pressure put on suppliers to include them at reduced cost.

Improving the conversion rate of samples is a key driver in reducing waste, with one supplier noting that about 30% of their material waste is due to dropped styles.

FIGURE 1. SUSTAINABILITY EFFORTS THROUGH DESIGN & DEVELOPMENT

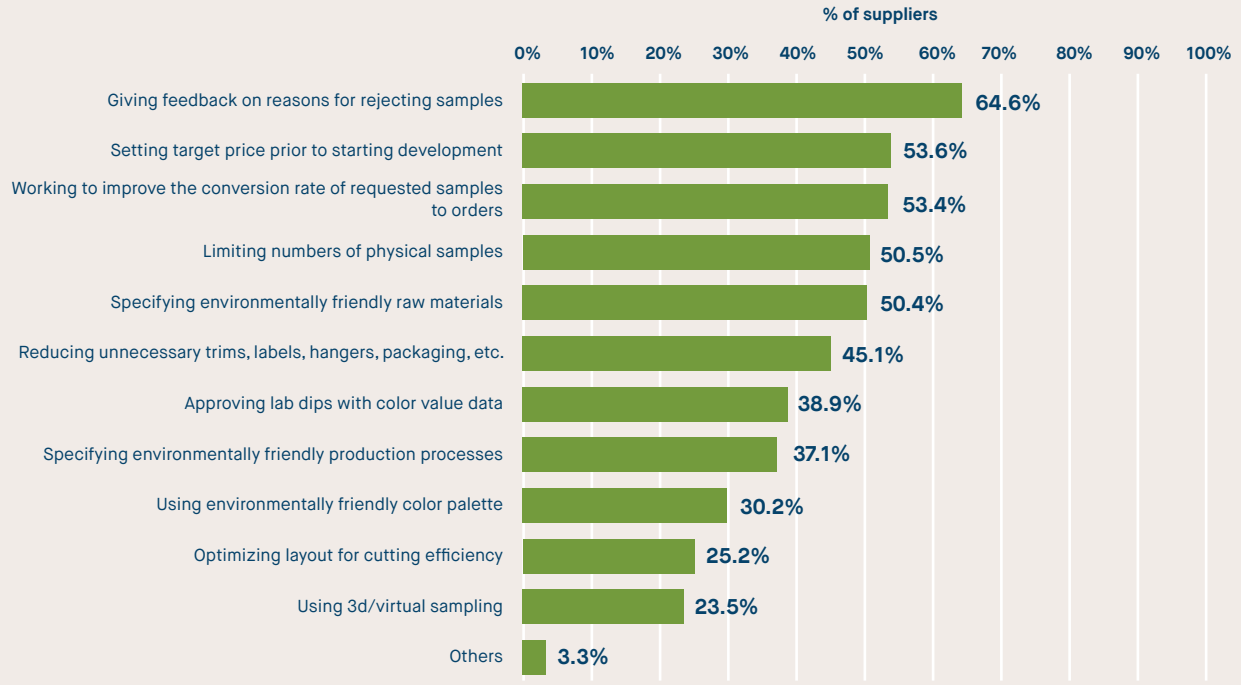


TABLE 1. SUPPLIERS' COMMENTS ABOUT THE SUSTAINABILITY IMPACTS OF THEIR BUYERS' DESIGN AND DEVELOPMENT PRACTICES

THEME	# OF MENTIONS	SAMPLE QUOTES
Design & Development practices that negatively impacted sustainability		
Business sustainability		
Affects timeline	11	BOM not accurate and spend a lot of time to cross check Design & development includes almost 2months of extensive exercise where line gets changed or dropped at the stage of order confirmation which affects timeline Too excessive QPP (approval sample) for GPA orders (promo), impacted on manufacturing lead time
Added costs	8	Compare to many other brands , this customer use too many branding labels , paper packaging which cost for both supplier & brand extra cost as well not sustainable Counter developments were required without a sample to copy & finally rejected for not matching to the original production. This results in loss of ... money
Unnecessary complication and misunderstanding	4	There are duplicated requests of LA samples via different SPR in the same cc and same style. Sometimes the later duplicated SPR causes vendor confused about the requested sample quantity and missing update since it's late-added

THEME	# OF MENTIONS	SAMPLE QUOTES
Design & Development practices that negatively impacted sustainability		
Business sustainability (continued)		
Sampling overload	3	Buyer takes style wise each colorway sample in actual color in development stage, we suggest to take style wise anyone colorway sample along with Lab dip or strike-off to have a color & design idea to minimize vendors sampling overload as we have to submit each colorway sample again with actual colors in pre-production stage after the order confirmation
Other themes	3	Supplier comments about increased material liability, production processes bottlenecks, and impact on product quality, were coded under the Other themes
Environmental sustainability	6	Drop rate is high, so we have waste much resource Approx 30% material waste happens due to products dropping - please ensure that fit tests and pricing are done earlier to minimize product drops
Design & Development practices that positively impacted sustainability		
Business sustainability	3	PD process improved last year through different training received from our suplier for a better understanding of their expectation and goals In our business, the development comes from the design team and not the buyer. We have recently changed the process to be more collaborative and it has worked well
Environmental sustainability	1	For the environmental sustainability-[buyer company name] already introduced organic/BCI program so this is pretty ok

Suppliers also highlighted poor communication and excessive design changes as top contributors to waste in the sampling process, with one commenting that the "hidden cost is huge."

Extensive internal reviews, late comments, inaccurate tech packs, and numerous sample requests impact lead times and increase the pressure on suppliers to deliver on time. "Design & development includes almost 2 months of extensive exercise, where [a] line gets changed or dropped at the stage of order confirmation, which affects [the] timeline," comments one supplier.

All of these last-minute changes can have a snowball effect, delaying production and at the same time increasing suppliers' costs. Multiple suppliers also highlighted the need to speak directly with the individuals who have intimate knowledge of a design concept, as opposed to other team members, to resolve any questions or concerns about design details and streamline communication.

SUPPLIER INSIGHT

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Investments in Alternative Technologies

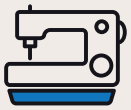
TOP 3 BUYER INVESTMENTS
DESCRIBED BY SUPPLIERS IN OPEN-ENDED COMMENTS

1

Software upgrades

2

3D and virtual sampling technology



3

Investments in machinery

Investments in alternative technologies reflect a win-win approach to buyer-supplier business partnerships, but are not yet standard industry practice. For sustainability efforts to be long-lasting, costs and benefits need to be spread more evenly between buyers and suppliers.

Just 8.9% of suppliers reported that their buyer invests in alternative technologies to help them save on operational costs.

The most common type of investment involved software upgrades, which enable suppliers to conduct data-driven analysis, improve communication with their buyers, and increase efficiency.

Next was investment in 3D or virtual sampling technology, which helped some suppliers cut down on the number of physical samples required, leading to less material waste and reducing their financial burden.

Additionally, suppliers mentioned investments in machinery to increase their capabilities and improve their productivity.

SUPPLIER INSIGHT

The retail environment does require the brands to constantly challenge manufacturers to better their efficiencies and pass on benefits to the brand, but there should be a sustainable partnership towards a joint cause. There is a strong push from [our buyer] for vendors to constantly upgrade and update technology, but the cost of investment is borne by the vendor alone whereas the benefits thereof are expected to be shared, with the lion's share going to the brand.

TABLE 2. EXAMPLES OF CURRENT INVESTMENT TYPES AS DESCRIBED BY SUPPLIERS

THEME	# OF MENTIONS	SAMPLE COMMENTS
Operational tools	16	SMEE (ERP system)
3D or virtual sampling technology	13	3D for 1st proto sample checking styling details and fitting
New machinery or machinery parts	12	Introduce especial sewing machine to improve the productive, thanks
Worker training programs	4	introduce productive development training. aid efficiency development through third party consultation. Her Health & Her Finance
Other themes	3	Other types of investments like conducting audit programs and recruiting technicians, were coded under the Other themes

Expectations and Incentives

Setting expectations for sustainability performance ensures buyers and suppliers are aligned on their goals. Where buyers offer incentives for improved performance alongside these expectations, the impact on sustainability is much greater, provided the incentives offered are the right ones, and offer direct financial benefits to the supplier.

TOP FINDINGS ON EXPECTATIONS AND INCENTIVES

1

Most suppliers reported their buyers are setting expectations for CSR/compliance (91.8%) and environmental sustainability (82.0%)

2

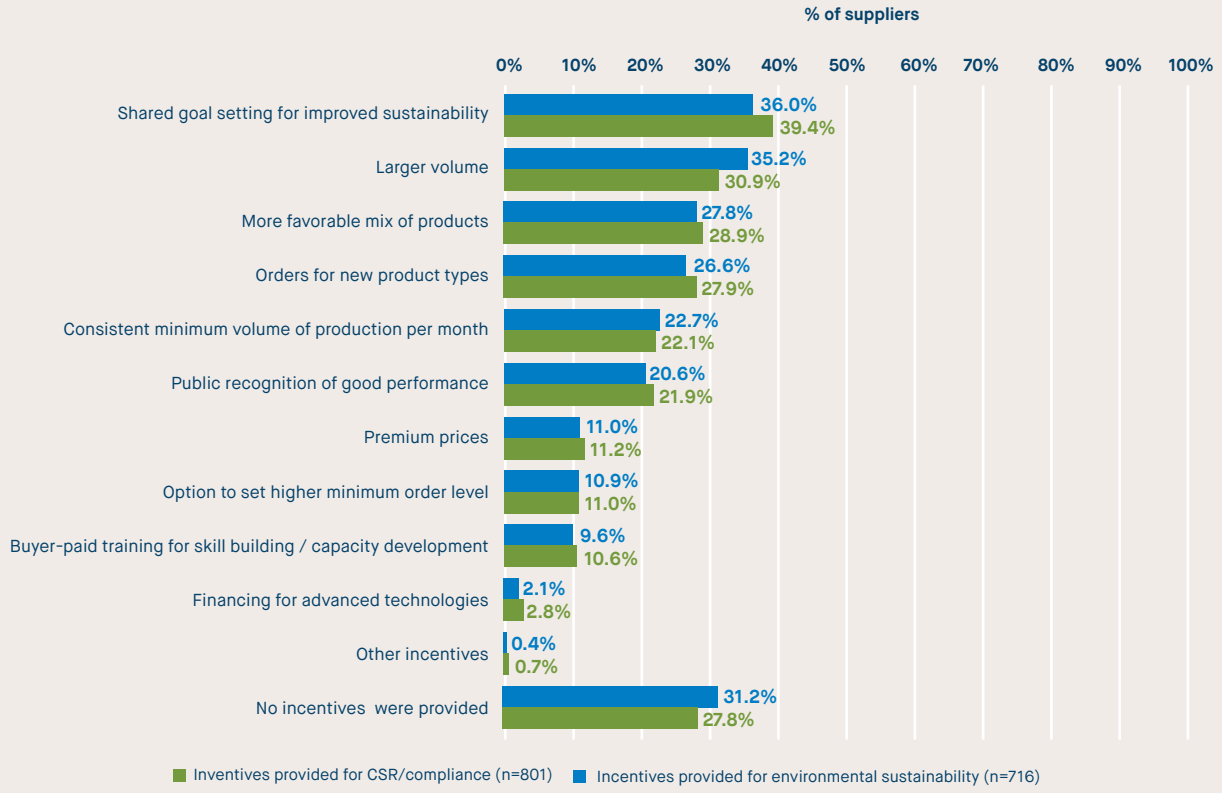
Far fewer suppliers reported their buyers offered incentives for either CSR/compliance, or for environmental sustainability (Figure 2)

For those that did receive incentives, shared goal setting was the most frequently reported for both CSR/compliance and environmental sustainability. Next were larger order volumes and a more favorable mix of products – both of these types of incentives have direct financial benefits for suppliers, making them quite compelling. One of the most coveted incentives – premium prices – was much less frequently reported by suppliers.

SUPPLIER INSIGHT

An absence of incentives indicates that “there has been no conversation or concern from the buying team around sustainability or the environment”.

FIGURE 2. INCENTIVES PROVIDED FOR CSR/COMPLIANCE AND ENVIRONMENTAL SUSTAINABILITY



Incentives – Emerging Themes

A number of themes emerged from our supplier responses in relation to best practice in relation to incentives and rewards:

- When price, quality, and delivery dominate buyers' conversations with suppliers, sustainability can be de-prioritized or ignored altogether
- Incentives and rewards need to be more clearly defined, and explained by buyers
- Clear incentive and reward structures, where the benefits are clearly defined and explained to suppliers, support compliance

SUPPLIER INSIGHT

Our fair practices are appreciated, leading to growing confidence in us from the buying team. This has also led to recommendation with other divisions, hence the business growth.

BETTER BUYING™ INSIGHT

Clear expectations and incentives are useful tools for accelerating progress on key sustainability issues. Supporting suppliers to introduce fair practices leads to improved buyer-supplier relations and real business growth.

Monthly Order Variability (MOV)

This year, we also examined the impacts of monthly order [volume] variability (MOV), including for the first time various business and environmental sustainability impacts. MOV impacts everything from workforce to inventory levels, and leaves suppliers with difficult choices to make, and additional costs to absorb.

Better Buying™ uses a metric called ORR Order Risk-to-Reward (ORR) to measure MOV over the course of a year and make data comparable across suppliers with vastly different volumes of production. ORR compares the consistency of month-to-month orders based on the volume (shipped pieces or units or pairs) suppliers report were shipped for specific customers each month. It is the percentage of risk (measured by order volatility) to reward (measured by average orders) over a period of time. An ORR of zero, although rare, is ideal, as it represents steady and consistent business throughout the year. Best practice is to keep the ORR as low as possible. In 2020, the average ORR across all softgoods ratings was 90.4%, ranging from a low of 0% to a high of 363%. Average ORR scores were higher for fashion than for basic orders, reflecting the added unpredictability of fashion products due to seasonal and trend factors.

An Order Risk-to-Reward (ORR) of zero is ideal, as it represents steady and consistent business throughout the year.

Frequently reported business impacts of MOV included increased operating, warehousing, and/or logistics costs, reduced factory efficiency and productivity, higher costs of raw materials or component parts, and increased worker turnover. Social impacts ranged from increased overtime to high stress on workers and management, hiring of temporary or casual labor, and reduced hours or underemployment of workers. In common with previous Better Buying™ Index reports, we also observed significant regional differences in suppliers' experiences of MOV based on both buyer headquarters location and supplier headquarters location, as well as by buyer and supplier region. Better Buying™ will be publishing more in-depth findings on MOV in a Deep Dive Report later in 2021.

CONCLUSION

Objective business data collected from suppliers about purchasing practices and business performance reflects a new and valuable resource for global brands and retailers seeking to understand the impacts of their day-to-day business practices on suppliers and workers. Incorporating questions around the sustainability impacts on suppliers of buyer purchasing practices into the BBPPI provides subscriber brands and retailers with authentic, actionable data which they can use to drive improvements, to demonstrate progress being made year-on-year, and to develop win-win sustainable partnerships with their suppliers, aimed at meeting shared sustainability goals.

About Better Buying™

Better Buying Institute reimagines supply chain sustainability, leveraging data to strengthen supplier-buyer relationships and improve purchasing practices that drive profitability while protecting workers and the environment. Our goal is to accelerate industry-wide transformation of buyer purchasing practices so that buyers and suppliers create mutually beneficial business relationships that achieve shared goals of profitability and social and environmental sustainability. 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.

Visit our website: **www.betterbuying.org**. For general inquiries, contact **info@betterbuying.org**