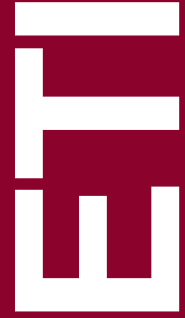




Ethical Trading Initiative
Respect for workers worldwide



Step-by-step guide to reviewing and improving purchasing practices

**Initial lessons from the ETI
Purchasing Practices Project**

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ETI member briefing

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Step-by-step guide to purchasing practices

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Introduction

It is increasingly recognised that retailers' purchasing practices can have a significant negative impact on working conditions in the supply chain. Many key purchasing processes and decisions within a sourcing company – such as critical path management, terms and conditions in the buyer–supplier relationship, sourcing and merchandising – affect how suppliers manage their workforce and production, and can indirectly impact on working conditions. This is supported by findings of the ETI Impact Assessment (2006) which found that 'suppliers in all countries and sectors reported that [downward pressure on prices and lead times] limited their ability to make improvements in labour practices'.

The Ethical Trading Initiative (ETI) Purchasing Practices Project is helping to shed light on the specific ways in which purchasing practices can undermine labour standards, and helping retailers and brands to develop ways of addressing these. By talking with their suppliers and analysing their own practices in key supply chains, retailers have been identifying ways in which they can improve purchasing practices so as to support – rather than undermine – suppliers' ability to uphold working conditions.

About this guide

This 'step-by-step guide' outlines the methods which have been developed and used by members of the ETI Purchasing Practices Project to review purchasing practices from an ethical trade perspective.

The purpose of the guide is to help companies to develop strategies to review their own purchasing practices, and to provide a framework for action that will promote better labour standards within their supply chains.

It should be noted that information contained in the guide is based on the way in which project group members have found it useful to address this issue, as they started to review and address issues around purchasing practices and ethical trade. As such, the document should be treated as 'work in progress', and will be updated and amended as further learning and best practice emerges from the Purchasing Practices Project Group.

Who is this guide for?

The guide is primarily aimed at staff in buying companies (retailers and brands) who are involved in developing and implementing an ethical trade strategy. It will be particularly useful for:

- Buyers.
- Merchandisers.
- Technical and Quality staff.
- Senior managers.
- Corporate responsibility teams.

The guide also provides useful information for:

- Suppliers seeking to improve working relationships with customers.
- Public sector or non-governmental organisations (NGOs) with ethical trade objectives.
- Individuals and organisations wanting to develop a practical understanding of how purchasing practices can better support labour standards in supply chains.

What does the guide cover?

This guide sets out five steps which members of the project group have been using to review and improve their purchasing practices from an ethical trade perspective. The steps go from initial activities such as getting buy-in and building a team, through a review of current buying practices and impacts of those on workers and suppliers, to the analysis of findings and development of an improvement plan to address key issues.

Details of each step are set out in detail in Sections 1-5 and summarised on page 6. Each step sets out suggested activities, issues to explore, and case studies describing experiences of several companies. Guidance is also given on how companies can engage beneficially with suppliers, trade unions and NGOs.

Although the steps are presented as separate activities/stages, this is likely to be an iterative process with overlap between the different steps.

How to use this guide

The guide can be used in a number of ways. For example, it can be used to:

- Improve understanding of the issues (eg the relevance of purchasing practices to your business, potential impacts of your current purchasing practices, etc).
- Assist detailed planning of purchasing practices (eg identifying who to involve, what issues to investigate).
- Generate ideas about future work (eg from examples of activities being carried out by ETI members, or from the analysis of information gathered at each steps).

The guide will be valuable to organisations at different stages of developing and implementing their ethical trade strategy or learning about ethical trade. It will be equally useful for companies starting out on their ethical trade journey, as for those with more developed strategies who are starting to take on some of the more challenging issues around ethical trade.

Why review purchasing practices? Building a business case

There are many reasons why your business should undertake a review of purchasing practices. These include ethical reasons (eg relating to the impact purchasing practices have on workers) and business reasons (relating to the impact on the buying business). However, work of the Purchasing Practices group shows that these are closely linked, with negative impacts on workers nearly always filtering down to impact on the buying business – even if those impacts are not immediately obvious.

For ETI members, addressing purchasing practices is a key membership obligation. All ETI members will be assessed according to the ways they integrate ethical trade into their core business practices – as outlined in the new Principles of Implementation and set out in more detail in the new management benchmarks (www.ethicaltrade.org/resources/key-eti-resources/eti-management-benchmarks).

Clearly, the detailed business case for addressing purchasing practices will differ for each business and supply chain, but four key reasons for addressing purchasing practices are:

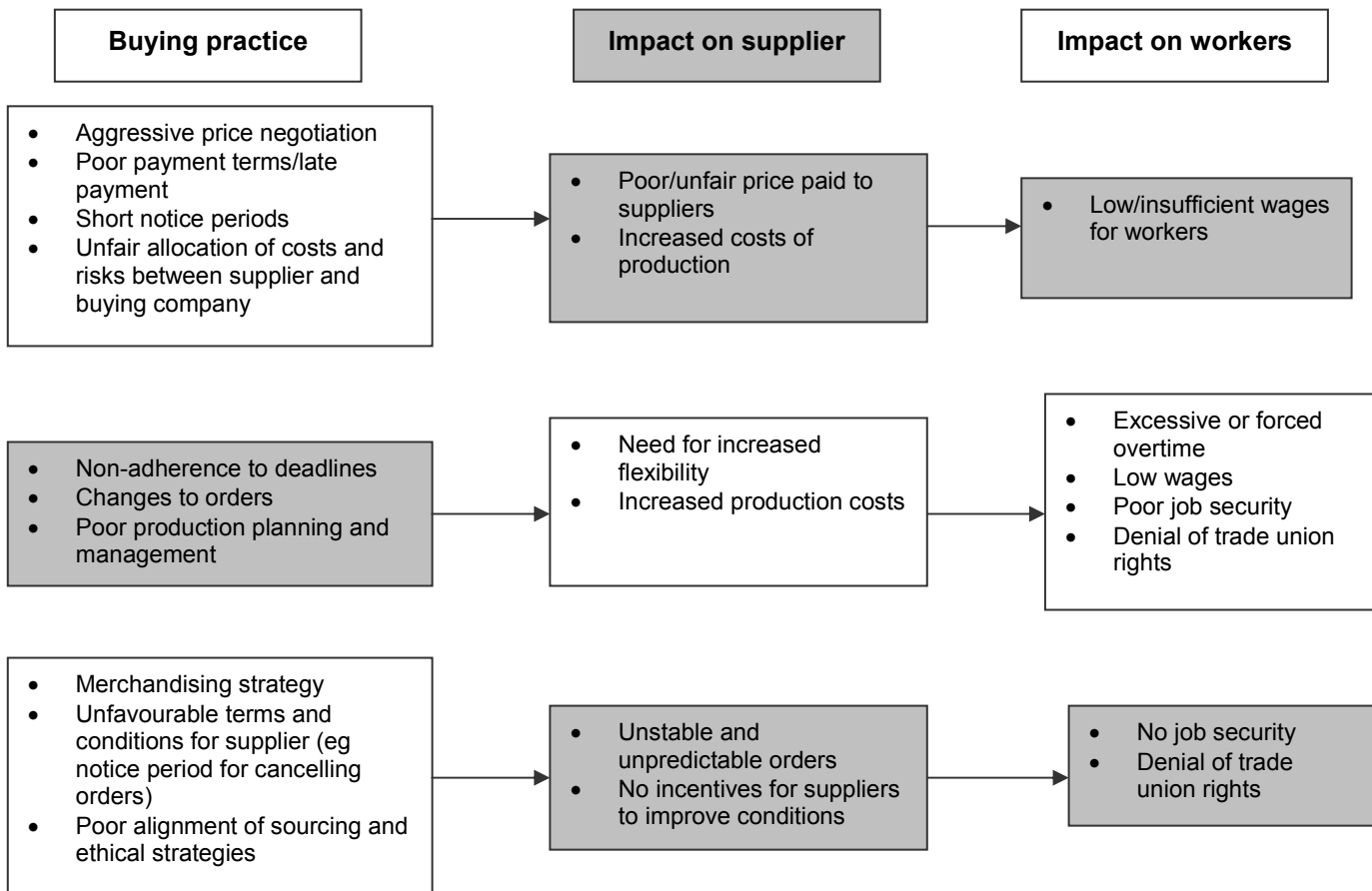
- To reduce negative impacts on workers' conditions.
- To reduce costs to the business.
- To avoid brand damage.
- To meet ETI membership obligations.

Each of these reasons, which include the impacts of not addressing purchasing practices, are summarised below. These arguments can be used to gain wider support for this work from the Board and buying departments, as set out in Step 1 of this guide.

1 Reducing negative impacts on workers' conditions

The need to ensure that buying practices do not undermine the efforts of suppliers to improve working conditions has never been greater. In the current economic climate, with the ever-increasing squeeze at the end of the supply chain, workers in global supply chains are even more vulnerable than before.

In 2006, an independent assessment of ETI found that there had been good progress in meeting some areas of the Base Code through consistent monitoring and remediation efforts by ETI members. However, the study also found that there was no improvement in some areas of the Base Code, and that some significant abuses of workers' rights were still prevalent in members' supply chains. The purchasing practices of retailers and brands were found to be one of the significant factors holding back progress in these areas. Practices such as price negotiations, payment terms, changes to orders and merchandising strategies all have the potential to impact on workers' conditions, as shown below.



2 Reducing costs to the business

In the same way that the impact of purchasing practices ripple through the supply chain to impact on workers, the same decisions can have a negative impact on the buying business. These impacts are not always obvious, yet ETI members have uncovered significant hidden costs created by last minute decision-making and the search for ever cheaper products. Purchasing practices can also affect important relationships in and outside the buying business. For example:

- Delays in finalising orders can lead to:
 - Time and cost of re-planning production.
 - Risk of late delivery and lost sales.
 - Risk of quality problems.
- Downward pressure on existing suppliers to reduce prices can lead to:
 - Risk of drop in quality and corresponding costs.
 - Risk of unauthorised sub-contracting to less reliable producers.
 - Relationship undermined by unreasonable demands.
- Cost of auditing and remediation for unknown suppliers can lead to:
 - Time to implement quality and technical standards.
 - Search for cheaper suppliers.
 - Risk of late delivery, poor quality, and worker rights abuses.

Box 1 shows some of the negative impacts uncovered by ETI member companies during their review of purchasing practices.

3 Avoiding brand damage through poor publicity

There is growing awareness of and interest in working conditions along global supply chains amongst consumers, the media, government and campaign groups. Consumers in Europe and North America increasingly care about working conditions of people making the goods they buy. Media coverage of these issues is growing – and retailers are being held responsible. International and national NGOs continue to campaign about these issues – which keeps up the pressure.

Negative publicity about poor working conditions can seriously damage brand image, which in turn can have a direct impact on business and the financial bottom line.

Different constituencies and groups have different interests, different ways of operating, and can exert pressure on a business in different ways. Examples of ways in which different interests are working to raise public awareness and the awareness of retailers' responsibilities for working conditions at their suppliers are shown in Appendix 1.

Box 1. Examples of the negative impact of purchasing practices on ETI buying companies

Hidden costs of seeking out lower prices

A buyer working for a major retailer was keen to work with a new supplier in Bangladesh offering good product at lower prices than existing suppliers. The supplier proposed 11 factories to use for production, and the retailer arranged for them to be assessed prior to business being placed. All 11 factories were of a poor standard, and some did not even meet the minimum requirements to start production. At the insistence of the buyer and the agent, all factories were revisited and audited with a view to supporting them in making continuous improvements to working conditions. Over a period of more than 12 months, a total of 25 site visits were made by the retailers' staff from the UK and South Asia. At the end of this time, little or no progress had been made, and there was no sign of interest or commitment from either the supplier or the factories to make the necessary improvements. Therefore, a decision was made to disengage the supplier.

It was later calculated that the cost to the retailer of all travel and resources associated with managing this supplier and the 11 factories far exceeded the saving made by the buyer for the product bought. If these costs had been factored into the prices quoted, the buyer would have bought the same product from a factory that had already improved working conditions.

Lost sales from excessive pressure on suppliers

A buyer in one ETI member company described how a supplier had been asked to produce an extra 200,000 garments in one week. The supplier initially resisted and explained that this would not be feasible, but the buyer continued to persuade until the supplier finally agreed. The buyer did not explore how the extra unplanned production would be achieved. The goods were shipped on time, but all were rejected as poor quality and the store deadlines for that product were missed. It was later established that the factory was already at full capacity when the new requirement came in, so the work was sub-contracted to a factory not audited to the company's ethical or quality standards. As well as unnecessary costs being incurred in the supply base and missed store deadlines, there was a high risk of poor working conditions in the sub-contracted factories.

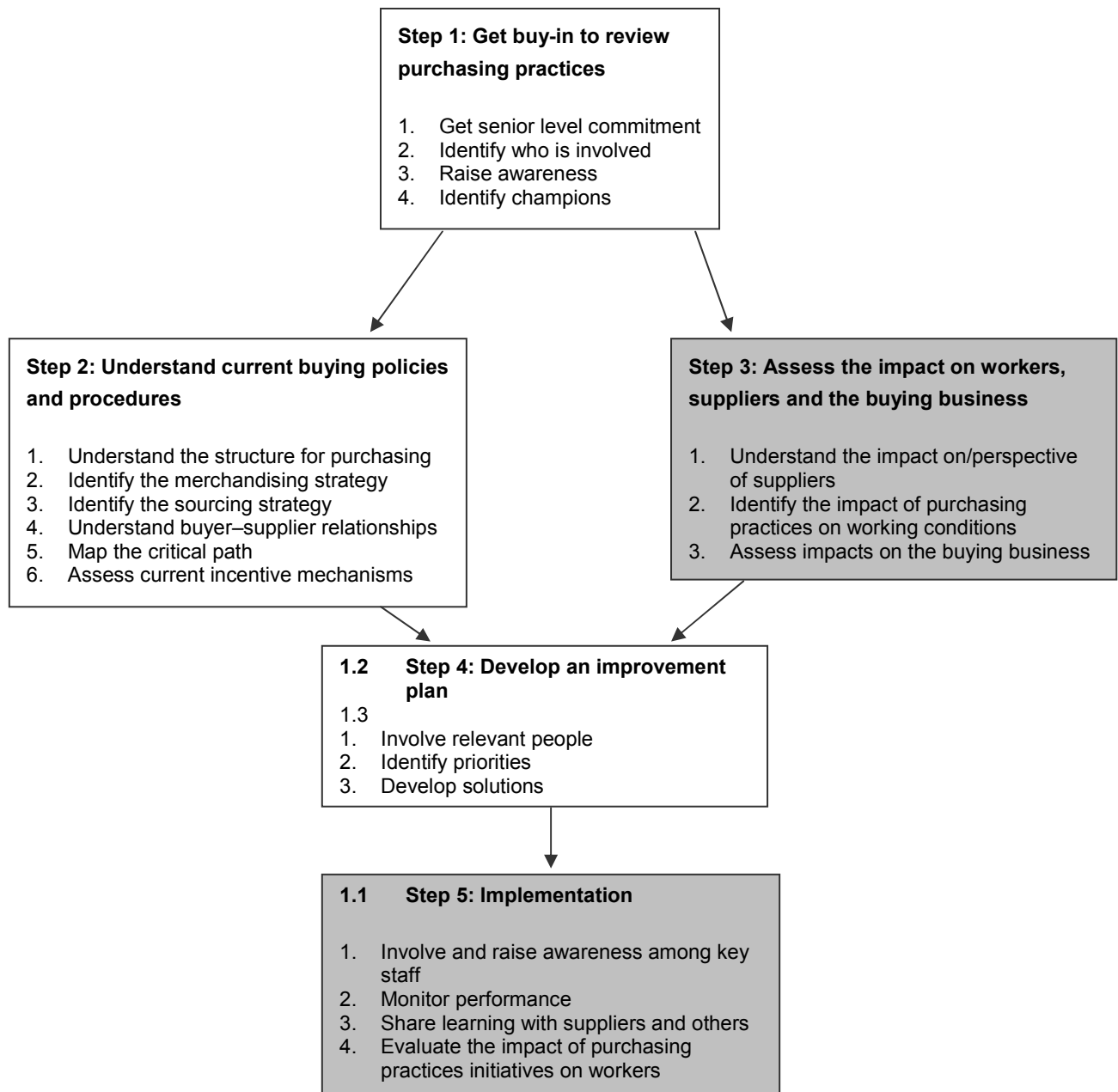
Lost sales from late decision-making

The knitwear merchandiser of a large retailer made reservations for Autumn–Winter production four weeks later than planned, due to delays in finalising the range. As a result, the preferred factory had allocated all its production capacity to another customer. The factory had no choice but to sub-contract the late orders to 15 different units and, due to poor efficiency, the deliveries were delayed by two weeks. The cost of lost sales for that two-week period meant that the knitwear department missed its sales targets for the Autumn–Winter season.

Further information

Further information on the impact of purchasing practices on workers can be found in Appendix 2, and can be used to build and support a business case for reviewing and improving purchasing practices

Summary of steps



Step 1: Get buy-in to review purchasing practices

To carry out a review of purchasing practices and identify the likely impact on workers of different practices, you will need support and buy-in from range of colleagues across the business, including the Board, senior managers and buying departments (just as you do for implementing your whole ethical trading strategy). Members of the Purchasing Practices Project Group identified and undertook the following steps in order to get buy-in within the business.

1.1 Get senior level commitment

Commitment from senior management is crucial. Not only will this demonstrate that the organisation is serious about ethical trading, but it will provide you with valuable support when requesting assistance or information from colleagues, as well as ensuring that your colleagues are given the time and resources they need to help with the review of purchasing practices

Senior managers should already be aware of the company's overall commitment and approach to ethical trade. However, it will be important to talk to them about why you are carrying out the review of purchasing practices, the benefits of doing so (drawing on the business case set out on page 2), and an overview of what/who this will involve in practice (as set out in steps 1–5 of this guide).

1.2 Identify who is involved in the purchasing process

A review of purchasing practices will involve many people throughout the supply chain in gathering information, analysing issues and adopting new practices. At an early stage, you will need to identify the main people in the buying business and the supply chain who are involved in or affected by purchasing, as these are the people you will need to communicate and collaborate with during the review.

To identify the key people, start by considering:

- Who is responsible for each of the key buying processes (ie sourcing, forecasting, design, buying, merchandising, quality and technical).
- Who implements the buying procedure on a daily basis.
- Which people are affected by the various purchasing decisions (ie who should be consulted about the impacts of and possible solutions for purchasing practices).

1.3 Raise awareness of the purchasing practices review

In many companies, responsibility for ethical trading is confined to a single department such as Corporate Responsibility or Quality Assurance. Many people in other business departments, or even with different roles in the same department, may be unaware of the company's ethical trade programme and what it actually encompasses. They are also unlikely to understand how their own role and activities – including purchasing practices – might impact on labour standards and working conditions along the supply chain.

It is important to raise people's awareness of the company's commitment to ethical trade, and the importance of purchasing practices within that.

There are different ways in which you can raise awareness, eg through one-to-one or departmental meetings, via internal communications channels such as company newsletters, or through tailored awareness-raising workshops/seminars. The mechanism will depend on factors such as the resources (time, money) available, and the level of awareness that different audiences need.

Key aspects to think about when awareness raising are:

- Draw from your own experience to bring the issues alive.
- Use public research to demonstrate the impact of purchasing practices on labour standards.
- Draw on the business case – see page 2 to highlight the relevance and benefits of this approach for your business.
- Talk about other companies' approaches.
- Invite other company representatives, trade unions, NGOs or researchers to speak.
- Tailor the session to the audience in terms of their prior knowledge, time available, and detail needed.
- Make it relevant to the audience – in terms of how it relates to what they do in their department and/or role.

1.4 Identify purchasing practices champions

A review of purchasing practices will inevitably cut across several business functions. It is invaluable to have the support of people who have links across the business and who can act as purchasing practices 'champions' by:

- promoting the objectives of the purchasing practices review in the different business areas;
- bringing managers of these areas on board at any early stage;
- supporting the research process; and
- resolving any conflicts that may arise.

Purchasing practices champions can often be identified during steps 1.2 and 1.3, eg by involving people who have shown a keen interest during the awareness raising activities, and using the business case to persuade others. However, it is essential that champions have top-level support, otherwise they will lack the authority to change company practice.

Box 2 provides some examples of the ways in which ETI member companies have been building teams and getting buy-in for their ethical trade activities, and the impacts these activities have had.

Box 2. Getting buy-in for a review of purchasing practices: Experiences of ETI member companies

Marks & Spencer's company-wide commitment to purchasing practices

In 2007, the Chief Executive of Marks & Spencer launched a high-profile public campaign setting out the company's commitment to social and environmental responsibility. 'Plan A' includes a commitment to develop responsible buying guidelines and to offer UK farmers a guaranteed price for their products where possible. Having demonstrable support for this initiative from the top of the business has brought buyers and social compliance staff together to plan and manage implementation of the commitments. Furthermore, all staff have specific targets linked to Plan A commitments.

Gap Inc leadership from the VP for Social Responsibility

In 2003, Women Working Worldwide (WWW) conducted a study in nine markets that looked at the impact of garment brands' and retailers' own decision-making process on social compliance in their supply chains. Gap Inc was one of the brands that was critically captured in this study. The Vice President for Social Responsibility responded by inviting WWW to work with the company to review its purchasing practices. Although the corporate responsibility team initiated this project, they soon gathered support from senior commercial managers across the business. Initially, when there was some resistance to having an NGO conduct this kind of work within the HQ level, they reworked the program design to start with research at the Sourcing Hub and supplier level. This information was then fed back to HQ. The response to this was very progressive and some individuals responsible for brands within Gap Inc then showed particular interest and gave strong support to this project – providing vital information for the research, arranging interviews, and considering how to act upon the findings.

Next's awareness sessions with buying teams

Next held one-hour training sessions with all staff and senior managers in the buying teams. The sessions were deliberately short to ensure full attendance and to hold people's attention. A video was shown of working conditions in garment factories around the world. The video also pointed out key questions buyers can ask of their suppliers, and the role they can play to support better labour standards. Following the video, participants discussed the company code of conduct, the role of the ethical trade team and the possible role of buyers. Next says that these sessions have given participants a better understanding of how their decisions impact on working conditions and many participants were highly motivated to look for opportunities in their role to support ethical trade.

New Look buyer workshops and volunteer ethical champions

New Look delivered separate workshops of one to four hours for directors, buyers and technologists to raise awareness of ethical trade and how commercial staff can help implement it. A presentation was given with an opening statement from the Managing Director. The presentation included details of factories with labour issues and the business case for ethical trade. For staff who work closely with suppliers, the workshop lasted four hours and concluded with buyers and technologists drawing up a list of actions to support ethical trade. Some buyers volunteered to play a role of ethical champion in their team – promoting positive involvement of buying teams in improving labour standards. Technologists were given additional training on communicating with suppliers and understanding the sensitivities of discussing workers' conditions. According to New Look, these sessions created important ways to progress responsible purchasing and several buyers, including a senior manager, volunteered to champion this in their teams.

Step 2: Understand current buying policies and procedures

Before you can improve your company's purchasing practices, you must first understand current practices in depth. ETI member companies have found that undertaking a cross-cutting review will provide insight into the potential impacts of practices on workers' conditions, as well as being useful from a business perspective. By undertaking such a review, you will discover examples of existing good practice, that work for your organisation, as well as barriers and challenges to improvements.

For some organisations, reviewing their current practices across the whole business may seem like a daunting task. However, where time, expertise or other resources are limited, companies can 'start small' – using the guidelines to look at one product and a few suppliers to see what can be learnt, before progressing to other products and other suppliers.

Once you have decided the scope of your review, you will need to examine:

- The organisational structure for purchasing.
- Your merchandising and sourcing strategies.
- The buyer-supplier relationship.
- The critical path.

Details of each of these areas are set out in 2.1 – 2.5 below. For each area, you should aim to record:

- Any examples of good practice, so that these can be built on and possibly replicated in other areas. (Note, good practice examples may be specific to your organisation alone, as the way you operate will be unique.)
- Different ways in which current buying processes and practices are impacting on workers and suppliers.
- Key pressures that need to be resolved.
- Any other associated issues.

Involve trade unions and/or NGOs

Many trade unions and non-governmental organisations (NGOs) have an interest in purchasing practices and the impacts these have on workers, and value companies being open and transparent about the way they are addressing the issue. There can be mutual benefit from talking with representatives of trade unions and NGOs about these issues – they may be able to provide you with advice and support in assessing the impact of particular practices on workers and suppliers and, in turn, they will learn more about the purchasing process and your activities in this area. If there are concerns in your business about sharing commercial information, start discussions at a general level and then, if necessary, set up a confidentiality agreement in order to protect more sensitive information.

Consider engaging a third party

There can be advantages to engaging a third party to carry out or take part in the review of purchasing practices. An independent consultant/organisation may find it easier to get

an accurate picture of the way purchasing practices currently operate and the potential pressures on different parts of the supply chain, and to take a more holistic view of purchasing practices. There are obviously resource implications associated with engaging a third party, although these need to be weighed against the time available to carry out the review internally.

2.1 Understand the organisational structure for purchasing

Every company manages the buying process differently, according to its size, product range and company history. By understanding how your company organises its buying functions and the communication channels between the different functions, you will be able to identify areas of best practice and issues that arise through poor internal communication.

To get a clear idea of the organisation's buying process, you should:

- Map all job roles within each product category for your company.
- Hold in-depth interviews with a selected sub-set of every job role within each category.

You may find that different categories have different ways of operating and communicating, even though job titles (and perhaps descriptions) will be identical.

Key things you need to find out include:

- The different product categories, and who manages each of those.
- The job roles within each category and within each team (eg product director, category manager, designer, buyer, merchandiser, technologist) and where these jobs roles sit (eg head office, regional offices, etc).
- The communication channels between the different job functions and in particular where there are the key communication gaps as seen from the different roles.

Box 3 illustrates the good practice one ETI member company was able to identify when investigating how different internal departments communicate with each other.

Box 3. Benefits of good communications between functions: Experiences of an ETI member company

Drawing on local knowledge before pursuing new suppliers

A buyer in a major UK retailer was approached by an existing supplier who wanted to work with a factory in Bangladesh which offered to deliver a cheaper product and still maintain product quality. Before pursuing this new supply opportunity, the buyer contacted the regional office in India to see if they knew anything about the supplier. The regional office knew the factory, and upon further enquiries found that this factory was well known for treating employees poorly, use of under age workers and previous court cases for cruelty. The buyer was then able to feed this information back to the supplier and no further action was taken.

Normally, audits and financial checks are conducted whilst samples are commissioned, without drawing upon any local knowledge of a factory's standards. The buyer's actions saved approximately 3 months time as well as cost, and meant that factories which had invested in improvements to working conditions kept the business.

2.2 Identify the merchandising strategy

The merchandising strategy – ie the way in which the number of product lines, their volumes, lead times and prices are both forecast and set – will influence your company's overall sourcing strategy (see 2.3 below), as well as the way critical path and supplier relationships are actually managed at a product line level.

Merchandisers or buyers will be able to provide important information on trends in the following areas:

- Prices: Whether they are rising or falling for different products, and why.
- Lead times: Whether they are increasing/decreasing for certain products, and why.
- Volumes: How volumes are forecast.
- Changes: The extent to which the product specification or volume is changed after an order is given and how this is managed (eg who is authorised to make changes and what the authorisation process is).

Box 4 shows an example of the impact that merchandising strategies can have on an industry.

Box 4. The impact merchandising strategies can have on an industry.

Buying UK poultry products: low prices and highly variable orders

Research for ETI into the UK poultry industry identified trends in retailers' merchandising strategies, which may have an impact on working conditions.

- **Pricing strategy:** In order to keep retail prices low, suppliers reported that they are asked to keep prices on a level for fresh unprocessed products, despite input cost increases.
- **Lead times and changes:** Whilst buyers of poultry products will set out the overall seasonal order expectations for a year, they will also vary orders significantly on a week-by-week basis. Poultry buyers often change orders at the last minute in order to respond to fluctuations in customer demand due to changes in weather and to respond to competitors' promotions.

2.3 Identify the sourcing strategy

In many companies, buying decisions are taken within an overall strategy that has been communicated from senior managers or above. Anyone involved in a review of purchasing practices needs to understand this context as it can strongly influence buying practices. For example, an important element to consider is whether suppliers are selected, or even incentivised, to meet ethical standards.

The sourcing strategy may vary across product areas, but you will need to consider the following factors:

- Whether your company is seeking new sourcing destinations and, if so, what the main criteria are for new sourcing destinations (eg cost, delivery, quality, product, service, labour standards).
- Whether your company is trying to consolidate the sourcing base and use fewer suppliers.
- Whether your company has 'preferred', 'core' or 'strategic' suppliers and, if it does:
- What percentage of spend goes to these suppliers.
- What the criteria are for being a preferred supplier, and whether the criteria include the suppliers' labour standards.

- Whether suppliers are aware of the criteria they must meet in order to achieve preferred supplier status.
- Whether there is an open and transparent process to promote suppliers to preferred status.
- Whether or not your company uses agents or intermediaries who take responsibility for sourcing and, if so:
 - Why and for which types of products/what percentage of spend.
- Whether you monitor their suppliers for code compliance? If yes, how often and what percentage do you monitor?

Box 5 illustrates the way some ETI member companies' sourcing strategies could potentially impact on their ethical trade activities, both positively and negatively

Box 5. Sourcing strategies and ethical trade: Experiences of ETI member companies

Sourcing decisions which do not take suppliers' working conditions into account

One ETI member company uses an extended 'traffic light' system to grade the conditions of workers in its supply chain, using data from its extensive audit programme. Suppliers with good working conditions are graded green; those with a few minor infringements of the ETI Base Code are graded yellow; and suppliers with more serious breaches are graded orange. Where critical, and persistent or possibly life-threatening problems are found suppliers receive a red grade and are excluded until they remedy the situation.

An analysis of suppliers in each category showed that the proportion of suppliers with good working conditions (those rated green) fell from 40% in 2005 to 24% in 2006, and that there was an increase in suppliers in both the orange and yellow categories (from 33% to 43% and 24% to 34% respectively), over the same period. This indicates that orders are not being directed to suppliers with better working conditions, and that this company needs to explore how to direct orders to suppliers with better working conditions in order to bring about improved conditions for workers across the supply base.

Since this analysis has been undertaken, the company has put in place a comprehensive purchasing practices improvement programme, with clear targets to increase the proportion of suppliers with good working conditions.

Directing orders to suppliers with better labour standards

Some companies have started to assess their suppliers according to commercial and ethical criteria, so that they can assign "preferred supplier status" to those that perform best on both fronts. According to suppliers, this preferred supplier status creates a strong incentive to improve and maintain good labour standards, as they know it is a greater guarantee of a long and stable relationship with a retailer.

One company has set the following terms in their contracts with preferred suppliers:

- Strategic plan in place with brand until 2010.
- Changes in volume are agreed 120 days before shipping or before the order is placed.
- No changes to design after the order is agreed.
- Orders are planned and predictable.
- On-line money transfers ensures payment as soon as the goods are shipped.

2.4 Understand the buyer–supplier relationship in-depth

The relationship between your organisation and its suppliers – in particular how prices are negotiated, terms and conditions agreed and changes to orders managed – will have a big impact on your suppliers' ability to meet ethical standards. Understanding current relationships and exploring where there is a disproportionate allocation of risk to the supplier will allow you to identify potential areas of change.

Look at a range of contracts with suppliers and consider how the terms and conditions allocate risk and costs between the buyer and supplier. Where there is no written contract, ask buyers about the standard arrangements and common practices that govern the buyer–supplier relationship.

Key aspects to explore include:

- How price is negotiated. For example, is this done:
 - With suppliers on the basis of production costs.
 - By using 'counter quotes' as a way of bargaining a lower price.
 - Via e-auctions.
- The procedures for changes in orders. For example:
 - If an order changes in volume or design, does the delivery deadline change?
 - Who bears the cost of lost production time?
 - Who bears the cost of unused fabric or accessories?
 - If an order is cancelled, how is the supplier compensated?
 - Is compensation formally outlined in terms of trade (or is it accepted as a 'favour')?
- Payment terms, including:
 - What the payment term is.
 - Who negotiates the raw materials prices (eg do brands specify that suppliers must use nominated manufacturers, or do suppliers source raw materials?).
 - Whether interest payments are made in the case of late payment.
- When and why rebates or discounts are requested from suppliers (if at all).
- Examples of good practices that support suppliers in meeting labour standards.

All relationships should be two way, and there should be mechanisms in place to get feedback from suppliers. This can be used when looking at incentives mechanisms for staff (see section 2.6; ways to solicit feedback from suppliers are explored in Section 3.

Box 6 provides some examples of the relationships between ETI member companies and their suppliers.

Box 6. The buyer–supplier relationship: Experiences of ETI member companies

Recognising prices that are 'too good to be true'

Buyers from M&S have reported rejecting quotes from suppliers on the basis that they are too low. Buyers have a good industry knowledge and are able to calculate the approximate cost of production from a factory with sound quality and labour standards. This means that buyers realise when a quote is unsustainable, and can therefore avoid inadvertently supporting poor practices.

Balanced terms and conditions

One ETI member is focusing efforts to ensure balanced terms and conditions are common practice, instead of placing too much risk with the supplier. Flexible standard payment terms are in place, and an ad hoc 'Pay Me Now' (PMN) option exists for UK suppliers.

2.5 Map the critical path

Mapping the critical path (setting out the decisions and cut-off dates from design to distribution) shows how turnaround times are achieved between the retailer and supplier.

The critical path will be very different for different product types, depending on whether products are seasonal, perishable, or highly fashion-driven. The tighter the critical path, the bigger the potential impact will be down the supply chain of any changes.

Many companies map the critical path for their products in order to plan their process, but rarely record or effectively manage the impacts of cancellations and/or changes in volume or design. However, these changes will have a big impact on suppliers, and capturing this information will allow you to identify pressure points and areas for improvement.

Draw your critical path(s) and identify the key decision points, the times when those decisions need to be made, and who makes those decisions.

Key things to identify when investigating the critical path are:

- The most common causes of missed deadlines and where missed deadlines most often happen.
- How flexibility is managed. For example, is time built in to allow for unplanned changes or alterations (which commonly arise)?
- How changes to orders are managed. For example: who most commonly changes an order, what consultation process is entered into with the supplier, at what point are changes most commonly made, the most common types of changes, whether there are any hidden costs attached to changes (eg shipping materials at short notice, delays with samples, etc).
- Whether continuous (flow) production is used.
- Where the key pressure points are in this process.
- Any good practices in place to manage pressures.
- Investigate how IT and other infrastructure supports the critical path. Experience of ETI members shows that critical path management can sometimes be undermined by insufficient infrastructure, particularly IT systems. It is important to recognise what your company's IT systems are designed for when reviewing how the critical path is managed, and focusing on what can realistically be achieved given the infrastructure.

Box 7 illustrates the way some ETI member companies have been able to make positive change to their critical path management.

Box 7. Examples of good critical path management

Marks & Spencer: Phasing orders to fill out-of-season capacity

Buyers of knitwear products from Marks & Spencer can plan ahead for orders of core items and are therefore able to place orders outside of peak production time. The buyers have made an agreement with their supplier that creates a win-win scenario: the supplier is able to make the most of production capacity in a quiet period and reduce pressure on workers during the peak periods, and Marks & Spencer gains a lower unit cost per item.

Good practice by design in Gap Inc

Through the research with WWW (see Box X), Gap Inc found that designers in one of their product areas had streamlined their approach to design and sampling. Instead of sending quickly drawn design specifications to suppliers for sampling, designers invest time up front in developing paper models of the designs and considering them from all angles. This has cut down the need for full sampling (sample products being flown from producer country) and the sample-to-adoption ratio has reduced. This has saved time in the critical path and reduced pressure on suppliers' sampling departments, and also resulted in time and cost savings for Gap Inc.

2.6 Assess current incentive mechanisms

The targets and incentives of buying staff (managers, buyers and assistants) will influence how they manage supplier relationships. Indeed, without clear targets and incentives, staff are unlikely to feel empowered to make changes to the way they procure, even if they are aware of the potential issues.

When looking at the incentives that operate in your company, you will need to consider the following factors:

- The main criteria used to assess the performance of key buying personnel.
- Whether buying teams are aware of audit results for all factories in their supply base and, if so, whether they have any targets related to audit results.
- Whether staff receive performance-related pay and, if so, how this is calculated.

Buyers should ideally be aware that they need to deliver on a range of issues (eg ethical considerations), not just cost. Any key performance indicators (KPIs) developed should be partially based on feedback from their suppliers on their trading relationships. Box 8 provides examples of the incentive mechanisms being used by some companies as a way of supporting their ethical trade activities.

Box 8. Company experiences of linking staff incentives and ethical trade objectives

Nike balanced scorecard: Aligning supplier and buyer performance

Nike has a Balanced Scorecard system of monitoring supplier performance on four factors: price, delivery, quality and corporate responsibility. There is also an Internal Scorecard which is used by senior management to evaluate the performance of teams within Nike, eg on timeliness of design sign-off and booking in line with factory capacity. Nike has seen correlations between all components of the Balanced Scorecard (ie good performance on price, quality and delivery correlates with higher compliance), as well as a correlation between internal team performance and the supplier scorecard. A standardised supply-chain database enables the company to track data on suppliers, including audit scores, so that Nike can manage the scorecard easily.

Tesco staff with social objectives and performance-related pay

At Tesco, ethical trading is considered to be part of good supply chain management, which is why accountability sits within the commercial teams (buyer and technical managers). The ethical trading team ensures that there is a consistent delivery of Tesco's ethical trading programme requirements across its business.

Tesco uses a management tool called the Steering Wheel to coordinate work in all areas of its business and performance. This defines the objectives of all Tesco personnel, and senior management remuneration depends in part on achievement of key performance indicators in the Steering Wheel. Key performance indicators for ethical trading are set out under the 'Responsible, Fair and Honest' segment of the Wheel. All Tesco commercial personnel involved with buying are expected to understand and reflect ethical considerations in their purchasing practices, and this is made clear in their job description. Performance reviews based on achievement of objectives are carried out twice yearly and are used to determine remuneration for all personnel.

Within each commercial category there are nominated Category Ethical Champions who report on ethical issues, progress made and upcoming issues in their routine four-weekly meetings. Tesco has found that Category Ethical Champions in particular are highly motivated to promote better labour standards, perform well on their social objectives, and are therefore well rewarded for their contributions to ethical trading.

Step 3: Assess the impact on workers, suppliers and the buying business

Your purchasing practices will have a direct impact on your suppliers, and it will be important to get an accurate picture of the main pressures – and their subsequent impact on workers – if you are to address any negative impacts on working conditions. Purchasing practices which create pressures for suppliers and ultimately for workers can also have negative impacts on retailers' costs, staff and trading relationships, and there may be scope to improve buying practices to achieve a 'win-win' for workers, suppliers and buyers.

3.1 Understand the impact on/perspective of suppliers

Although an internal review of buying practices and strategies, including buyer-supplier relationships, will help highlight some issues and areas of best practice, it is important to get a more detailed understanding of issues from your suppliers' perspective if you are to make an accurate assessment of where the real pinch points lie.

Getting suppliers' feedback on issues around purchasing practices will be key to understanding how they are being affected by purchasing practices. However, many suppliers will be reluctant to give full and honest feedback to retailers, for fear of losing their orders. It may take time to build up trust with a supplier to get honest feedback on purchasing practices. The following may help in this process:

- Using an independent interviewer, eg from an NGO or independent consultancy.
- Asking an independent party to facilitate discussions between the retailer and supplier.
- Conducting the first interview with the most senior person on site, to help others feel more confident to speak up (as they see the research has top-level support).

There are a number of issues you can seek feedback on, as shown in Box 9. It can also be useful to ask suppliers if any buyers (including other companies) are particularly good to work with, and if so, ask what they do differently to others.

Box 9. Understanding the suppliers' perspective: One ETI member's approach

Gap Inc seeking feedback on its own practices

In 2006-07, Gap Inc sought detailed feedback from a sample of suppliers about their own practices. Interviewees were asked to comment on the following aspects of trading with Gap Inc:

- Communication
- Critical path management and delays
- Flexibility and changes (volume, design)
- Seasonality
- Quality demands
- Payment and penalties
- Contractual arrangements
- Impact of third parties (eg fabric mills)
- Their priority in terms of a possible change they could make in the trading relationship.

The NGO Women Working Worldwide (WWW) conducted interviews with the following people within suppliers: Managing Director, General Manager, Deputy General Manager, Production Manager, Floor Manager, Planning Manager, QA Manager, Marketing Director, Merchandising Manager, Compliance Manager, Sampling Manager, Shipping Manager and HR Manager. According to Gap Inc, the report from WWW 'showed that we face many of the same challenges as others in our industry. It identified what we do well, and what we can do better.'

3.2 Identify the impact of purchasing practices on working conditions

It can be hard to predict how the direct impacts that purchasing practices have on a supplier will subsequently impact upon workers' conditions, and it is therefore important to ensure that these are assessed in a variety of ways during the review.

You can begin to understand the impact of purchasing practices on workers by:

- Carrying out a social audit to identify any breaches of the Base Code in a workplace at that point in time. However, although social audits may uncover breaches of the Base Code at a supplier site, they will not always uncover how those breaches have arisen.
- Conducting extended worker interviews to investigate the extent of any labour issues and whether these are continual, occasional or if there is any pattern to the breach. Worker interviews (see below) can be a very valuable way of supplementing the information gathered through the social audit.
- Consulting local trade unions and NGOs to identify the general issues for workers in the local industry.

Conducting worker interviews

Ideally, you should carry out interviews with workers from several suppliers. Worker interviews should be conducted off-site wherever possible. If interviews are conducted on-site, try to avoid factory managers choosing the people in the workforce who are interviewed. Make sure that the interviewer has relevant language skills and is trained in participatory techniques, such as focus group interviews. There may be local organisations who can advise on this, and it is best to collaborate with NGO and TU representatives who may have local partners on the ground that can help.

Examples of issues workers could be asked about include the following:

- The extent of overtime, when it occurs and who works those hours.
- The causes of production stoppages and re-working of orders (other than for quality reasons).
- The increase/decrease in numbers of contract workers on site over a given period.
- What happens where they have no work to do
- Whether they are paid on time and whether overtime premiums are always paid.
- Whether temporary labour is used to meet shortfalls in production and, if so, how common this is.
- Their views/comments on how production is planned and managed.
- What their/other workers' priorities are for improvements in conditions.

Outline key pressures that need to be resolved

You should go over the information gathered during your review, and record any issues that could impact negatively on working conditions. Workers, suppliers and retailer staff will all have mentioned the issues which they believe prevent adherence to labour standards in the workplace. Where possible, group together issues that are linked (ie those which relate to a particular process or aspect of the trading relationship). For each issue, you should note the expected or potential impact this is having on working conditions.

3.3 Assess impacts on the buying business

There are clear business reasons for identify any negative impacts that your purchasing practices are having on retailers' costs, staff and trading relationships. As well as helping bring about improvements for your business, suppliers and workers, these can also be useful in helping build a 'case' for changing current practices and getting buy-in to those changes.

In this step, you should consider the impact of current buying practices in terms of the following areas.

- Costs to the buying business, for example from:
 - Sourcing new suppliers.
 - Bringing new suppliers up to speed on quality, technical and design and code requirements.
 - Time spent re-sampling products.
 - Time spent by local office staff managing changes with suppliers and/or managing new suppliers.
- Costs to the supplier, which may then be passed to the buying business in the form of higher prices in future, for example:
 - Re-planning production.
 - Paying overtime premiums.
 - Product wastage (eg fresh produce, unused fabric, accessories).
 - Airfreight costs.

Step 4: Develop an improvement plan

To act upon the findings of the purchasing practices review, you need to identify and prioritise areas for improvement within your business, and develop a plan for putting those improvements in place.

This stage of the review involves pulling together and analysing all the information you have gathered in steps 2 and 3, and using it as the basis for developing an improvement plan. Initial experience of company members of the ETI purchasing practices project has shown the following factors to be beneficial to this process. Lessons on developing sustainable action/implementation plans will be captured and shared as ETI members continue to address these issues.

4.1 Involve relevant people

Involve and bring together people who will be able to help prioritise issues, develop solutions and put them into action. Refer back to Step 1 to identify likely people (such as people from sourcing, design, buying, merchandising, quality, technical, social compliance and marketing) and, at a minimum, ensure the following are involved:

- Senior people with a stake in the changes (eg those whose departments or staff will be involved in implementation, whose budgets might be affected by implementation, or who will be directly involved in implementing changes).
- Staff in relevant departments who will be directly involved in implementing changes.

It would also be useful to include suppliers and workers that were involved in the review, if at all possible.

4.2 Identify priorities

Identify priorities for action by involve:

- Considering the main findings from the review (key pressures, good practices, impacts).
- Identifying areas of overlap, where purchasing practices that put pressure on suppliers and workers also have negative impacts on the business.
- Identifying good practices that could be replicated and rolled out across other business areas.
- Prioritising changes that will best support good working conditions in the supply chain and be commercially sustainable.

4.3 Develop solutions

Once you have identified priorities for action, you will need to develop practical solutions to bring about change. This should involve:

- Working with staff in relevant departments to develop practical solutions within their job roles.
- Considering how these solutions fit with existing responsibilities and targets, and whether staff objectives need to be amended to reflect the changes.

You should use knowledge and skills effectively, for example:

- Some retailer staff (eg technical or local office staff), have good information about production and what can realistically be expected from suppliers. There may be scope to involve them more in sourcing and buying decision making processes.
- Suppliers may be better able to source better value inputs or packaging, or have suggestions for design.

4.4 Formulate a SMART improvement plan

The final stage in this step is to document the priorities, solutions and good practices in a comprehensive improvement plan. This should be a SMART (specific, measurable, agreed, realistic and timebound) plan which has:

- Specific actions with clear objectives and responsibilities for implementing them.
- Key performance indicators (KPIs) to measure progress on implementing actions and achieving objectives.
- Agreement from the parties involved.
- Realistic, achievable actions (taking into account the resources, skills and time needed).
- Timescales for implementing actions throughout the relevant departments.

The expected benefits of the plan – for the buying business, suppliers and workers – should also be set out.

Step 5: Implementation

Changing culture and practice in a business can be hard to achieve and maintain. However, there are various mechanisms that will help ensure that your plan to address purchasing practices is put into action. Key to this is making sure that new practices are embedded into the business. This will involve developing appropriate procedures and policies, but will also depend on keeping people motivated and involved, and monitoring and evaluating performance.

5.1 Involve and raise awareness among key staff

Getting buy-in and raising awareness of the purchasing practices review is not just something to do at the start of the process (as set out in Step 1) – it should be a continuous activity essential for maintaining momentum and bringing about change.

Involvement and buy-in for implementation can be brought about by:

- Raising awareness among senior managers and buyers of the way that typical buying practices can undermine decent working conditions down the supply chain (see steps 1.1 and 1.3 and the business case (page 2, Box 1 and Appendix 1).
- Involving key staff in the review and development of purchasing practices. For example, buyers and senior managers could be involved in workshops to explore areas for improvement; teams responsible for different aspects of the supply chain could be encouraged to put forward suggestions for improvements (as they will know what is realistic and are more likely to support the initiative if they have been involved in developing it) – see Step 4, for example.
- Building knowledge about the supply chain and production within the buying teams, for example through training on production processes and travel to production sites.
- Encouraging communication between ethical and commercial teams, eg to share information on all areas of suppliers' performance. You could propose regular meetings to discuss sourcing, buying and ethical strategies.

See Box 10 for examples of how some ETI member companies are embedding new practices into their business.

Box 10. Examples of activities to embed new purchasing practices into core business

- Involving cross-functional teams in problem solving
- One ETI company member organised a workshop with an external facilitator for senior managers in the corporate social responsibility (CSR) and sourcing departments. The workshop involved the following:
 - An introduction to the main issues by the facilitator (on the basis of publicly available research on purchasing practices).
 - Cross-functional working groups in which participants identified the issues which resonated with challenges in their own work.
 - A whole-group exercise to prioritise issues from both a CSR perspective and a commercial perspective.
 - A group discussion on the issues that could be resolved in the short and medium term, and the next steps to start working on these issues.
 - Development of a joint action plan for CSR and key commercial managers.

Increasing buyers' understanding of supply chains through a visit to homeworkers in India

Members of the ETI Homeworkers Group have been developing their understanding of the supply chain for products made by homeworkers in Bareilly, India. As part of this, one company took a group of buyers on a trip to Bareilly and Delhi to meet with homeworkers, contractors and suppliers. Buyers came away with a much better understanding of the conditions for workers, the production process, the complexity of the supply chain and ways in which they can support workers. Specific learning points included the importance of clear product quality specifications, stabilising orders and encouraging strong communication through the supply chain to workers.

Seconding a New Look Senior Garment Technologist to supplier factory

A Senior Garment Technologist in New Look was seconded to work in one of the company's core suppliers for several months to study production and planning, with a key focus on the sampling and fit procedures. As a result of this, the technologist has identified many pinch points along the garment ordering critical path and has made recommendations for both purchaser and supplier improvements. These improvements should allow the time allocated to production to be maximised, benefiting both New Look commercially and the manufacturing plants and their workforce.

Communicating and sharing audit results at Tesco

Tesco has been working to ensure that the results of supplier audits are shared between ethical trading teams and those responsible for dealing with suppliers. The central Ethical Trading Team at Tesco generates monthly reports for each commercial category. Ethical Champions in each commercial category review the monthly reports with their teams, following up on corrective action plans and any other concerns at individual sites. A member of the central Ethical Trading Team also meets with each Category Ethical Champion to discuss progress and plan how to resolve any issues with suppliers performing poorly regarding labour standards. The main board Commercial Director also reviews aggregate audit data every four weeks, and discusses any concerns with the relevant Commercial Directors and the Ethical Trading Manager.

5.2 Monitor performance

You will need to establish procedures to monitor how the improvement plan. This will help ensure that the plan becomes a living and dynamic process rather than a stable and stagnant document. It will also be key to managing the plan and generating data by which you can judge the success or otherwise of specific actions and provide feedback on performance.

A key part of this will be to measure and manage performance of all staff with ethical supply chain responsibilities. This could be done, for example, by using:

- Key Performance Indicators within buying teams that reflect the agreed changes in purchasing practices. (These could be developed in Step 4 as part of the improvement plan.)
- A Balanced Scorecard to measure suppliers' performance on ethical and commercial factors, and then tracking this within each team. (See case study in Box 8 for example.)

5.3 Share learning with suppliers and others

Any proposed changes to purchasing practices are likely to have an impact on suppliers and should help suppliers to manage their businesses better. Suppliers should therefore

be informed of any plans coming out of the review of purchasing practices, so that they can plan accordingly.

It will also be valuable to share the information with others, such as trade unions, NGOs and other companies within ETI, in order to enhance understanding of best practice in this area.

5.4 Evaluate the impact of purchasing practices initiatives on workers

It is vital to remember, when reviewing purchasing practices, that a key objective is to improve workplace labour conditions and that changes to new purchasing practices should result in improved conditions for workers in your supply chain. It is therefore important that the impacts of any changes you make are regularly evaluated.

The impact of previous purchasing practices on working conditions should have been reviewed and assessed in Step 3, so there should be a baseline from which to measure any improvements. It is likely that changes will take some time to filter down the supply chain to result in measureable improvements for workers, so set a timeframe for conducting extended worker interviews at randomly selected sites (eg at six months, one year, two years). This should be in addition to regular planned social audits.

The use of KPIs for buyers and balanced scorecards for suppliers should help ensure that improvement to worker conditions remains the focus for all involved in driving changes.

The ETI purchasing practices group is still in the early stages of exploring the impacts (on workers, suppliers and the buying business) of purchasing practices initiatives. It is hoped that additional learning will be shared as the experience of the group develops.

Appendix 1: Examples of pressure being put on retailers to take responsibility for working conditions

Quotes from different interest and pressure groups about retailers' responsibilities for working conditions at their suppliers' sites:

- 'Whilst UK grocery retailers are, in many respects, delivering a good deal for consumers, action is needed to...address relationships between retailers and their suppliers... Some aspects of the way retailers deal with their suppliers could, if left unchecked, also harm consumers. We think that it would be in everyone's interest that a code governing retailers and suppliers enjoys the confidence of all those involved. Retailers with good practices and relationships should have nothing to fear.' Competition Commission, News Release, 30 April 2008
- 'The ITGLWF will campaign to make merchandisers and retailers responsible for the conditions under which goods they market are produced.' International Textile Garment and Leather Workers Federation
- 'A change in the relationship between supermarket and supplier would contribute to a relaxing of the downward pressure on job security, wages and working conditions. It would help to open up the possibilities for poor workers to take matters into their own hands, to secure their rights and demand improvements in their own terms of employment.' Who Pays? How British Supermarkets are Keeping Women Workers in Poverty, ActionAid, 2007
- 'Millions of people in developing countries depend on international buyers for their livelihoods. The highly competitive nature of purchasing puts pressure on both the buyer and the supplier, and it is frequently farmers and workers who suffer most.' Buying Matters, Traidcraft, 2006

"An onus on retailers to keep hands clean", extracts from a Financial Times article, 16 February 2007

"Millions of dollars have gone into codes of conduct and monitoring efforts, and the major output has been to create an army of fraudsters," said the late Neil Kearney, former General Secretary of ITGLWF, an international group of clothing worker unions.

Ineke Zeldenrust, of the Clean Clothes Campaign, one of the largest European anti-sweatshop groups, says: "If retailers are not willing to change the way they deal with their purchasing practices and be transparent about that, then codes will never be effective."

Gap, which has more than 3,000 stores worldwide, last year received a field study by Women Working Worldwide, which looked at how factory owners and workers were affected by purchasing decisions made at its offices in San Francisco and New York. Marks & Spencer, in the UK, is pursuing a similar approach with the ETI.

One result is that companies may think twice before modifying designs in response to fashion whims. Mr Henkle says he hopes that this year Gap will start taking the message to merchandising and design.

"If you are a buyer, do you understand the impact of a decision, and the ripple effects it has all the way down to the factory floor?" Mr Henkle asks. "If you did, would you have made a different decision? Maybe it would be better to defer a change until next season."

"This is going to be a critical issue in the future," says Rev Schilling of the new focus on purchasing practices. "It is going to be tough, because it goes to the heart of behaviour changes at the companies themselves."

Appendix 2: Reports on purchasing practices

Buying matters. Consultation: Sourcing fairly from developing countries, Traidcraft, February 2006
(http://www.traidcraft.co.uk/Resources/Traidcraft/Documents/PDF/tx/policy_buying_matters.pdf)

Buying your way into trouble? The challenge of responsible supply chain management, Acona/Insight Investment, 2004
(<http://acona.co.uk/reports/Buying+your+way+into+trouble.pdf>)

'Core business practices: Make it your business', report from ETI conference 2008, Workshop 4 (<http://www.ethicaltrade.org./resources/key-eti-resources/core-business-practice-eti-conference-08-briefing-paper>)

Material Concerns: How responsible sourcing can deliver the goods for business and workers in the garment industry, Traidcraft/Impactt, October 2008
(http://www.traidcraft.co.uk/Resources/Traidcraft/Documents/PDF/tx/policy_reports_Material_Concerns_3_page_view.pdf)

Purchasing practices: Case studies to address the impacts of purchasing practices on working conditions, Report from ETI members' meeting , 29 November 2007
(<http://www.ethicaltrade.org./resources/key-eti-resources/purchasing-practices-case-studies>)

Taking the Lead: A guide to more responsible procurement practices, Chartered Institute for Purchasing and Supply/Traidcraft, May 2008
(http://www.traidcraft.co.uk/Resources/Traidcraft/Documents/PDF/tx/policy_reports_taking_lead.pdf)

Trading away our rights: Women working in global supply chains, Oxfam, 2004
(http://www.oxfam.org.uk/resources/papers/downloads/trading_rights.pdf)

Who Pays? How British supermarkets are keeping women workers in poverty, ActionAid, 2007 (http://www.actionaid.org.uk/doc_lib/actionaid_who_pays_report.pdf)

About ETI

The Ethical Trading Initiative (ETI) is a ground-breaking alliance of companies, trade unions and voluntary organisations. We work in partnership to improve the lives of workers across the globe who make or grow consumer goods – everything from tea to T-shirts, from flowers to footballs.

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