



Monitoring purchasing practices

14 February 2019, 14:00 – 15:30

Objectives of the session

The link between poor purchasing practices and adverse labour outcomes has been demonstrated through the research of organisations such as the ILO, Better Buying and the Ethical Trading Initiative (ETI). Despite the evidence, benchmarks indicate little movement to meaningfully adopt responsible purchasing practices in the sector. This session will seek to understand what actions governments, business associations, multi-stakeholder initiatives, and other stakeholders can take to drive, facilitate and enable the uptake of responsible purchasing practices. The session will likewise include a technical deep dive on how companies can integrate changes in national wages into pricing models.

Background

PURCHASING PRACTICES & WAGES

FINDINGS FROM THE PURCHASING PRACTICES AND WORKING CONDITIONS IN GLOBAL SUPPLY CHAINS: GLOBAL SURVEY RESULTS BY THE ILO



INNACURATE TECHNICAL SPECIFICATIONS FROM THE BUYER ARE ASSOCIATED WITH 22% LOWER WAGES AT THE SUPPLIER LEVEL.



BUYERS THAT OFFER PRICES COVERING AT LEAST PRODUCTION COSTS ARE ASSOCIATED WITH NEARLY 10% HIGHER WAGES AT THE SUPPLIER LEVEL

The term purchasing practices refers to the full range of activities associated with a company's process of buying goods. In the apparel sector this may include: planning and forecasting, design and development, cost and cost negotiation, sourcing and order placement, payment and terms, and management of the purchasing process.¹

The link between purchasing practices, wages and working conditions

The link between purchasing practices, wages and working conditions is increasingly being demonstrated by research. In a comprehensive study conducted by the ILO, five major business practices by buyers towards their suppliers were identified to influence wages and working conditions. These included contract clauses, technical specifications, order placement and lead times, prices and market power and requests for social standards.

The study, which included a sample size of just under 1,500 companies across 87 countries, found a significant link between purchasing practices and wages. Inaccurate technical specifications

from buyers were associated with 22% lower wages at the supplier level. Conversely, buyers that offer prices

¹ Adapted from Better Buying, <https://betterbuying.org/>

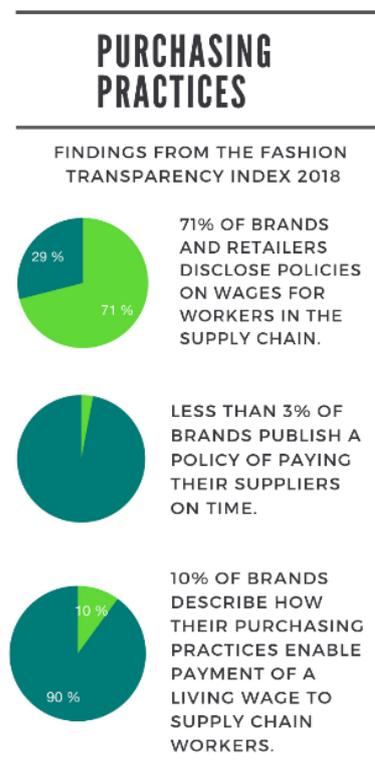
covering at least production costs were associated with nearly 10% higher wages at the supplier level. A buyer’s market power, or proportion of sales, likewise played a significant negative role in wage outcomes, with suppliers with one buyer accounting for almost half of its production being associated with almost 20% lower hourly wages. This finding has implications on due diligence as market-power is often used as an example of leverage that a company can use positively with a supplier; however, the link between market power and lower wages indicates a possible abuse of leverage.

Beyond wages, purchasing practices were also demonstrated to be linked to overtime, subcontracting and temporary contracts. For example, insufficient lead times generated an increase of nearly 3% in the number of hours worked. Thirty-four percent of suppliers pointed to changes in order levels as one of the main reasons for using temporary workers.²

Findings on the uptake of responsible purchasing practices

The 2018 edition of the Fashion Transparency Index - which analyses 150 of the largest global fashion companies – found that 71 percent of brands and retailers disclose policies on wages for workers in their supply chain. While this marks a positive development, research indicates that it is not being met with similar commitments on purchasing practices. For example, the Fashion Transparency Index also found that less than 3 percent of brands publish a policy of paying their suppliers on time and only 10 percent describe how their purchasing practices enable the payment of a living wage to supply chain workers. While disclosure is only a proxy for responsible behaviour, the findings do potentially point to a lack of buy-in from the top on reforming purchasing practices.

The Better Buying Purchasing Practices Index uses anonymously submitted data by suppliers to measure the performance of brands and retailers against seven categories of purchasing practices. The Fall 2018 report included an analysis of company pricing negotiations and payment of orders. The report found that 55.4% of suppliers reported being affected by high-pressure cost negotiation strategies such as: asking for price commitments based on a larger volume than actual quantity ordered (18.7 % of respondents), take it or leave it in which a supplier must meet the target cost or is unable to win the order (31.6% of respondents), and demanding level prices be maintained from year to year without consideration for inflation (26.2% of respondents).



Due diligence on purchasing practices

The OECD Garment Guidance incorporates the expectation that companies address their purchasing practices as part of their due diligence. Specifically, companies should:

- Engage with their suppliers to understand if and how their purchasing practices may be contributing to harm.

² Vaughan-Whitehead, Daniel and Luis Pinedo Caro, (2017) INWORK Issue Brief No.10: Purchasing practices and working conditions in global supply chains: Global Survey results, ILO, Geneva.

- Track relevant indicators of practices, such as % of orders placed late, % of orders changed after order is placed; # of days between the last change and shipment.
- Develop pricing models that account for the cost of wages, benefits and investments in decent work.
- Implement control measures to reduce the likelihood of contributing to poor labour outcomes such as: setting final order placement dates with the supplier; communicating the deadlines to everyone in the purchasing teams; improving forecasting alignment, amongst others.
- Develop procedures for purchasing teams to follow in instances in which practices could contribute to harm. For example, in instances in which orders are changed after order placement or orders are placed late.

Discussion questions

- What drives action on responsible purchasing practices?
- How can stakeholders, including governments, trade unions, investors, suppliers and multi-stakeholder initiatives monitor and hold companies accountable on responsible purchasing practices?
- How can governments monitor responsible purchasing practices of companies operating within or from their jurisdictions?
- How can we demonstrate that purchasing practices are leading to impacts in the supply chain? What indicators should be monitored and by whom?

For more information

- Vaughan-Whitehead, Daniel and Luis Pinedo Caro, (2017) INWORK Issue Brief No.10: Purchasing practices and working conditions in global supply chains: Global Survey results, ILO, Geneva.
http://www.ilo.org/travail/info/fs/WCMS_556336/lang--en/index.htm
- Better Buying Purchasing Practices Index Reports. The 2018 Fall Report can be found online, https://betterbuying.org/wp-content/uploads/2018/10/Better-Buying-Benchmark-Report_fall-2018.pdf
- Fashion Revolution, Fashion Transparency Index, <https://www.fashionrevolution.org/about/transparency/>

