

The Common Framework for Responsible Purchasing Practices

BUILDING RESILIENCE IN TEXTILE SUPPLY CHAINS

VERSION 1 – JUNE 2022



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1. Introduction to the Common Framework for Responsible Purchasing Practices

The Common Framework for Responsible Purchasing Practices (CFRPP) (“the framework”) is a reference point for companies working to improve their purchasing practices and for Multi-Stakeholder Initiatives supporting their member companies in implementing practical improvements in purchasing, to increase the scope for improved working conditions in supply chains.



Relevance of the framework

The purchasing practices of textile and footwear retailers and brands have an enormous influence on factory conditions. Responsible purchasing practices (RPP) are essential to achieve the improvements in factory working conditions that many brands and retailers have publicly committed to.

‘Purchasing practices’ are the actions taken by a buying company in order to purchase a product or service (in whole or in part) from a supplying business. They encompass design and product development, planning and forecasting, critical path management, contracts, technical specifications, order placement and lead times, cost and price negotiations, payment terms and also the underlying behaviours, values and principles of purchasers which impact supplying companies and ultimately workers’ lives.

Research by the International Labour Organisation, the Joint Ethical Trading Initiatives, Fair Wear and the Better Buying Institute¹, amongst others, has found that pricing below production cost, short-term planning, last minute changes in order specification or order size, inaccurate forecasting and late payments all have negative effects on the management of orders and financial stability of suppliers, which in turn leads to issues related to overtime and wages for workers. Adopting a responsible stance on purchasing contributes to suppliers’ ability to plan production effectively, manage working hours, pay workers fairly and invest in improving labour conditions, which in turn helps to boost productivity, stabilise suppliers’ workforces and build resilience in supply chains. Improved purchasing practices will contribute to preventing harm and facilitating both social and environmental improvements in the supply chain.

The OECD ‘Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector’ explicitly calls upon companies to adopt responsible purchasing practices. The response to the COVID-19 crisis has drawn our attention to how crucial responsible purchasing practices are to ensuring worker rights are protected.

Objectives

Many brands and retailers are working on improving their purchasing practices. Companies taking action to make progress in this area have requested clarity on what exactly constitutes ‘responsible purchasing practices’ and support towards implementing these practices. In response to this, a group of Multi-Stakeholder Initiatives (MSIs) have developed a Common Framework for Responsible Purchasing Practices.

Objectives of the MSI Working Group on Purchasing Practices (‘The Working Group’)

- 1) Gain alignment and consensus on a common framework outlining what constitutes responsible purchasing practices.
- 2) Support companies to implement responsible purchasing practices by
 - Developing and harmonising practical tools and training
 - Developing and providing principles and guidelines for tracking progress
- 3) Implement the framework within the MSIs and make it accessible for others, including policymakers.

Who’s involved?

The MSI Working Group on Responsible Purchasing Practices which has collaborated to write the framework has included representatives of ETI², Ethical Trade Norway³, Fair Wear⁴, the German Partnership for Sustainable Textiles (PST)⁵ and the Dutch Agreement for Sustainable Garments⁶ (AGT/NGA), and consulted with ACT (Action Collaboration Transformation), Better Work (BW), Better Buying Institute, the Sustainable Terms of Trade Initiative⁷ and amfori.

The Framework

Scope of the framework

The framework focuses on the individual responsibility of a purchasing company to improve their own purchasing practices. These practices should be integrated into strategies and actions for due diligence in line with OECD guidelines to provide an enabling environment for good working conditions. The CFRPP specifically focuses on purchasing practices, whilst acknowledging that freedom of association and collective bargaining, human rights due diligence, effective grievance mechanisms, providing access to and contributing to remediation, are also paramount in improving supply chain conditions.

For the purposes of this framework, Responsible Purchasing Practices (RPP) are those which do not negatively impact the human rights of workers in supply chains. The MSI Working Group acknowledges the importance of how purchasing practices can also contribute to environmental impacts in the supply chain, but the primary focus of this document is the impact on labour standards.

Although, at this stage, the framework is focused on textile and footwear purchasing and supply chains, the Working Group believe that many of the practices will be relevant and helpful for companies in other industries working to make their purchasing practices more responsible.

It is clear that there is a disproportionate human rights impact that affects women workers in textile and footwear supply chains and efforts to implement this framework and tackle these issues will need to carefully take this into consideration.



The process of writing the framework

The framework has been written with reference to a mapping exercise of existing frameworks and documents on responsible purchasing practices from the organisations in the MSI Working Group, and from others, listed in the footnote⁸, including The Joint Ethical Trading Initiatives, Fair Wear, ACT (Action, Collaboration, Transformation) and builds on recommendations by the ‘Sustainable Terms of Trade Initiative’ (STTI), which is led by the STAR Network (Sustainable Textile of the Asian Region), the International Apparel Federation (IAF) and The Better Buying Institute and supported by GIZ FABRIC. Based on this mapping and a series of Working Group consultations, including input by competition law experts, the Working Group developed a first draft of the framework. This was shared for consultation with a wide group of stakeholders from the end of 2021 to early 2022.

The Working Group had feedback from 34 organisations, with a spread of companies, trade unions, suppliers, NGOs, international organisations and academics. That feedback has been discussed by the Working Group and where appropriate, integrated into an amended version of the framework, which is given in this document. A summary of the feedback provided and how it was integrated can be found [here](#).

¹ The Joint Ethical Trade Initiative’s Guide to Buying Responsibly, 2017 <https://www.ethicaltrade.org/resources/guide-to-buying-responsibly>
Purchasing practices and working conditions in global supply chains: Global Survey Results. International Labour Office, INWORK Issue Brief No.10. 2016/2017 https://www.ilo.org/travail/info/fs/WCMS_556336/lang-en/index.htm
Better Buying Index Reports. Dr Marsha A. Dickson with the support of Dipti Bhatt and Doug Cahn. www.betterbuying.org <https://www.fairwear.org/programmes/living-wage>

² The Ethical Trading Initiative (ETI) is a UK based alliance of companies, trade unions and NGOs that promotes respect for workers’ rights around the globe. <https://www.ethicaltrade.org/>

³ Ethical Trade Norway is a member based organization and resource center for sustainable trade. The around 170 members include some of Norway’s largest companies, small and medium-sized enterprises (SMEs), public enterprises and organizations. <https://etiskhandel.no/en/dette-er-etisk-handel-norge/>

⁴ Fair Wear is an MSI working with 140+ member brands to improve worker rights in textile supply chains, engaging directly with factories, trade unions, NGOs and governments. <https://www.fairwear.org/>

⁵ The Partnership for Sustainable Textiles (PST) is a multi-stakeholder initiative with around 130 members from companies, associations, trade unions, civil society, standard setting organisations and the German Federal Government: <https://www.textilbuendnis.com/en/>

⁶ The Dutch Agreement on Sustainable Garments and Textile (AGT) is one of the International Responsible Business Conduct (IRBC) agreements that is hosted by the Social-Economic Council of the Netherlands (SER). The AGT ran until the 31st of December 2021. A broad coalition of businesses and other organisations worked together during the term of 5.5 years to improve working conditions, prevent pollution, and promote animal welfare in production countries. The Next Generation Agreement (NGA) is currently being negotiated as a next step for the Dutch garment and textiles sector.

⁷ STTI consists of 13 textile industry associations from 9 countries, facing similar challenges regarding purchasing practices in the textile and garment industry. <https://sustainabletermsoftradeinitiative.com/>

⁸ Resources included in the mapping: The Joint ETIs Guide to Buying Responsibly, Fair Wear’s Brand Performance Check Guide, Ethical Trade Norway’s member assessment, ACT’s purchasing practices commitments and self-assessment, The Better Buying Institute’s supplier questionnaire and the Assessment Framework of the Dutch Agreement on Sustainable Garments and Textiles, NYU Stern’s Social Metrics for the Apparel Industry, the American Bar Association’s Responsible Purchasing Code of Conduct and also took into consideration the recommendations of the ‘Sustainable Terms of Trade Initiative’ (STTI).

Process for further development and implementation of the framework

This version of the framework can be used by policymakers and stakeholders as a reference document that further defines responsible purchasing practices, as well as being used by the MSIs and their company members and also by other companies who are taking action to improve purchasing practices.

Learning and Implementation Community (LIC)

The LIC is a group of companies committed to improving purchasing practices, who want to take action to implement the principles of the framework in partnership with supply chain partners, trial different approaches to making change and learn from each other and from manufacturers and experts in that process. The LIC will run for about 2 years from September 2022. The LIC is funded by the Initiative for Global Solidarity (IGS) implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)⁹ GmbH (supported by the German Federal Ministry for Economic Cooperation and Development) and the Sustainable Textile Initiative: Together for Change (STITCH)¹⁰ (supported by the Dutch Government).

This will involve online meetings for discussions between manufacturers and purchasing companies, sharing good practice case studies and learnings, and sharing and developing practical tools, resources and guidance to support companies in their progress.

The Working Group is open to refining the framework in the future based on the learnings and outcomes of the Learning and Implementation Community, if necessary.

To find out more about the LIC, you can access an information document to download [here](#) or you can email info@cfpp.org

Implementation by MSIs

The Multi-Stakeholder Initiatives involved will support their member brands and retailers to achieve meaningful, step-by-step progress, using the framework as a reference point, aiming to integrate it into their own implementation systems, with flexibility in how this is done by different MSIs. The journey towards implementation of this framework will look different for each brand and retailer depending on their starting point, their business model, size, sector, operational context, ownership, structure and supply chain composition.

Implementation of Responsible Purchasing Practices by companies

The purpose of the framework and the LIC is to support companies to make practical improvements in their purchasing practices.

Companies in the LIC are expected to be committed to and working towards the 5 core 'Principles' outlined in the framework, and have a willingness to improve and to take active steps towards those principles.

The 'Practices' listed under each principle are a collation of existing materials to outline what good practice looks like in terms of steps companies can take to implement those principles. We understand that some of the practices/lines in the framework will be more or less applicable to different business models and sizes. If a practice does not seem to apply to a specific type of company, the purchasing company is encouraged to focus on practices they feel will make an impact and where they can get traction to make change. The framework is not a compliance mechanism, it is a description of what responsible practices look like, to be used by companies to stimulate practical action.

The framework does not aim to include all the detail that would be needed for companies to implement the practices. During the LIC, supporting guidance and case studies will be developed and the MSI Working Group will also signpost to resources that already exist, to support practical implementation.

Measuring progress and learning

Regarding questions that companies may have about accountability and reporting, we want to emphasise that the MSI Working Group and the framework are not compliance or accountability mechanisms. The focus instead is on stimulating learning and positive action. The framework is a reference point, which outlines what the MSIs agree that good looks like, in terms of responsible purchasing practices. Each MSI involved will integrate the framework into their own structures in different ways.

- Some MSIs (eg PST and Fair Wear) will integrate the CFRPP into their existing mechanisms, working together with the other MSIs in the Working Group to align this as far as possible.
- Other MSIs (eg ETI) will use the framework in a different way, as a basis for discussions and support of companies, to stimulate ideas of improvements that can be made.

It's important to note that there won't be tracking or reporting publicly of individual companies' progress by the LIC.

How does the framework relate to HREDD?

Research has shown that the commercial purchasing practices of companies can undermine and even pull in the opposite direction to the very same company's requirements of suppliers in terms of working conditions, human rights and environment. A fundamental principle of this framework is that purchasing companies need to take shared responsibility for their suppliers meeting the standards that the purchasing companies set, and work to identify and mitigate where their own practices can limit and undermine the ability of suppliers to achieve these standards, or even actively contribute to situations that aren't in line with their standards.

Business enterprises should carry out human rights and environmental due diligence (HERDD) which is the on-going process to identify, prevent, mitigate and account for addressing adverse human rights and environmental impacts. The process should include assessing actual and potential impacts, integrating and acting upon the findings, tracking responses, and

communicating how impacts are addressed (art. 17 UNGP). Effective HREDD includes companies committing to and implementing relevant international human rights instruments such as the UN Guiding Principles on Business and Human Rights (UNGPR), the OECD MNE Guidelines and ILO Fundamental Principles and Rights at Work (FPRW) and other relevant ILO declarations. Since purchasing practices can have an adverse impact on the working conditions in factories and human rights of workers, therefore reviewing purchasing practices is one of the steps to take when carrying out HREDD.

Wider HREDD also covers tackling human rights issues in supply chains which are not directly related to purchasing practices of brands, but need addressing by the company nonetheless. This framework takes a specific focus on defining responsible purchasing practices and making sure that these practices result in the prevention, mitigation and remediation of potential adverse impacts of purchasing practices on suppliers and workers and bringing actual adverse impacts to an end.

The MSI Working Group on Responsible Purchasing Practices recognise that there is a need for a number of streams of parallel action on purchasing practices such as The Better Buying Institute, The Sustainable Terms of Trade Initiative, ACT and also some organisations which are pursuing regulatory measures. We believe that all of these activities are valuable and complimentary to work towards the shared goal of implementing responsible purchasing practices and ceasing purchasing practices that drive human rights issues. The MSI Working Group does not oppose regulatory measures and the framework does not nullify the need for that.

When we speak of Responsible Business Conduct, we understand it in the same terms and responsibilities as the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector.



⁹ The Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is a federally owned enterprise and supports the German Government in achieving its objectives in the field of international cooperation for sustainable development. It hosts among others the Initiative for Global Solidarity: <https://www.giz.de/en/worldwide/104524.html>

¹⁰ Sustainable Textile Initiative: Together for Change (STITCH) is a partnership with a common vision: a global textile and garment industry that contributes to an equal and just society by respecting human rights in the world of work. STITCH consists of 6 partners: two labour rights organisations – CDI in Vietnam and Cividip in India; two Dutch unions – CNV Internationaal and Mondiaal FNV; and two multistakeholder initiatives – Ethical Trading Initiative (ETI) in the UK and Fair Wear in The Netherlands. The Dutch Ministry of Foreign Affairs has provided the financial support for the programme and is aligned as strategic partner for STITCH. www.stitchpartnership.org



2. Summary of the framework

Principles and Practices

As a result of mapping the existing frameworks and documents mentioned earlier, the group organised the recurring elements of what constitutes responsible purchasing practices (RPP) into five core principles. In the framework, for each principle, associated 'practices' are outlined, which provide steps/guidance for how companies can practically put those principles into action. This page only gives a brief summary of the practices under each principle which are outlined in more detail in the full framework.

Staged implementation process: Groundwork and Progress Practices

For each principle, the practices are presented in two stages, Groundwork practices and Progress practices, to support a gradual, staged implementation by companies, whatever their starting point.



Principle 1: Integration and Reporting

In order to implement changes to purchasing practices, the company has top leadership buy-in and commitment; has a thorough understanding of existing suppliers and purchasing systems and (possible) negative impact on human rights; and uses this to decide on priorities that feed into an agreed improvement plan. Responsible purchasing practices are integrated into the commercial and other relevant departments of a business.

This includes integrating purchasing practices into strategy and decision making processes; and establishing external reporting, internal KPIs/ accountability and training.



Principle 2: Equal Partnership

The purchasing company and their suppliers respect each other as equal business partners; engage in respectful sourcing dialogue; and pursue win-win situations, with a shared responsibility to improve working conditions.

This includes building long-term, secure sourcing relationships; reducing the churn of suppliers; formulating agreements on mutual responsibilities for responsible purchasing; only using force majeure clauses responsibly; improving communication; achieving partnership in problem solving and employing responsible exit strategies.



Principle 3: Collaborative Production Planning

Critical path¹¹ and production planning is done collaboratively between the purchasing company and suppliers. Any changes are mutually agreed and cannot be detrimental to the supplier.

This includes reducing samples; providing accurate tech packs; increasing forecasting accuracy; balancing orders; tracking reasons for delay in the critical path; and the purchaser taking responsibility for delays caused by missed deadlines on their part.



Principle 4: Fair Payment Terms

The purchasing company and suppliers agree on fair and transparent payment terms that include all relevant information regarding the payment procedure and do not place a disproportionate burden on one party. Contractual obligations are honoured at all times. Payments are made in full & on time.

This includes ensuring payments are made on time; aiming to improve the timeline of payment; and mutually agreeing reasonable penalties, taking into account the cause of any delay in delivery.



Principle 5: Sustainable Costing

The costing procedures and levels of the purchasing company reflect and support wage increases and sustainable production. Prices cover all costs of production in line with responsible business conduct and allow for a reasonable and maintained supplier profit margin.

This includes developing mechanisms to ensure costing allows for all labour costs and increases when labour costs increase (through national minimum wages and/or collective bargaining); and implementing a costing strategy that supports increased wages to reach a living wage.



¹¹ Critical path is what others may refer to as Time and Action Calendars

3. What constitutes responsible purchasing practices?

Principle 1: Integration and reporting

In order to implement changes to purchasing practices, the company has top leadership buy-in and commitment; has a thorough understanding of existing suppliers and purchasing systems and (possible) negative impact on human rights; and uses this to decide on priorities that feed into an agreed improvement plan. Responsible purchasing practices (RPP) are integrated into the commercial and other relevant departments of a business.

Groundwork Practices

- 1.1 **Gaining buy-in:** Buy-in is gained to review purchasing practices, including securing top leadership commitment, allocating sufficient resources, raising awareness across departments and identifying champions to drive action and implementation across key departments/functions.
- 1.2 **Responsibilities:** Responsibilities are defined and allocated to senior staff with the necessary competence, knowledge and experience to oversee the implementation of RPP.
- 1.3 **Assessing of impact and prioritisation process:** The purchasing company carries out a risk analysis on their purchasing practices. This includes a review of their sourcing and supplier relationships, mapping production locations, mapping the critical path and assessing current incentive mechanisms for suppliers and buyers. The risk analysis includes an assessment of the high risk products, processes and countries where pricing may not be allowing for production in line with responsible business conduct. The impact of current purchasing practices is assessed, and risks are prioritised based on internal discussions and consultation with key external stakeholders (see 1.10). The process is not a static one-off action but ongoing, responsive and regularly revised.
- 1.4 **Improvement plan:** Based on the impact assessment and prioritisation process, the purchasing company develops and implements a plan to achieve more responsible purchasing practices, including responsibilities, targets and measures. Relevant staff agree on priorities. Resources and budget are assigned.
- 1.5 **Strategy:** Responsible purchasing practices are formally integrated in the company's overall strategy, management systems and sourcing strategy.
- 1.6 **Internal communication:** Social Responsibility teams, purchasing departments, design units and other employees whose actions impact suppliers are in regular exchange, to ensure aligned communication and action towards suppliers.
- 1.7 **Training:** The purchasing company provides awareness raising, training and capacity building on responsible sourcing for all staff whose decisions and practices affect purchasing practices and/or conditions at the suppliers. This is provided for relevant staff on arrival to the company and repeated regularly.
- 1.8 **Tracking progress:** The purchasing company's progress on implementing responsible purchasing practices and their impact is evaluated regularly, including evaluation with top leadership, and the company adjusts its practices accordingly. The process is ongoing, responsive and changing to adapt to findings and changing circumstances.
- 1.9 **Reporting:** The purchasing company's progress on implementing RPP is shared publicly, for example by including it in their sustainability report.

Progress Practices

- 1.10 **Integrating supplier and worker feedback:** Suppliers are systematically and regularly consulted to gain feedback on purchasing practices. Feedback is used to assess the impact of purchasing practices, prioritisation and development of an implementation plan. In addition, feedback of workers (especially those most at risk) or their representatives is gathered and integrated. Where this is currently not possible, an action plan is developed to ensure such integration in the future.
- 1.11 **Decision making:** Responsible purchasing practices are owned and managed by the commercial teams, with the support of the Social Responsibility teams. RPP are integrated into daily business decisions with Social Responsibility teams and considerations having a veto in decision making, alongside sourcing/ commercial considerations.
- 1.12 **Internal performance evaluation:** RPP are included in job role competencies and performance reviews of relevant roles such as buyers and top leadership. Data is collected against KPIs to track and incentivise individual and/or team performance on purchasing practices (e.g. compliance to critical path, accuracy of forecasts and working towards living wages). Margin targets are adjusted, where necessary, to support this progress.
- 1.13 **Training:** Training for relevant internal teams goes beyond awareness raising, is interactive, applied and focused on implementing changes in day to day decision making. Training is of sufficient quality, well-designed by subject matter experts. This includes training buyers on costing for living wages.
- 1.14 **Tracking progress:** Progress on mitigating and ceasing negative impacts of purchasing practices are measured, including the impact of actions on risks to worker welfare such as overtime, wage payments, etc. This includes input from workers, worker representatives, suppliers and other relevant stakeholders. If a recurring negative impact is identified, the root causes are analysed and addressed.
- 1.15 **Reporting:** Public reporting of progress on implementing RPP includes risks and actions taken, accounting for how the purchasing company identifies and addresses actual or potential adverse impacts.



Principle 2: Equal Partnership

The purchasing company and their suppliers respect each other as equal business partners; engage in respectful sourcing dialogue; and pursue win-win situations, with a shared responsibility to improve working conditions.

Groundwork Practices

- 2.1 **Commitment:** The purchasing company actively informs suppliers about their commitment to RPP and labour rights. This includes stating that the company's aim is to develop and maintain stable, long-term business relationships and that all negotiations and agreements will be conducted in a fair manner that represents equal partnership. This includes the purchasing company supporting and enabling suppliers to achieve the social and environmental standards required. Such commitment is also communicated to workers and democratically elected worker representatives.
- 2.2 **Strategic partnership:** The purchasing company defines their long-term, strategic suppliers and evidences a higher level of partnership and transparency with them, including sharing strategic plans. The benefits of being a strategic supplier are defined and clearly communicated.
- 2.3 **Dialogue:** The purchasing company establishes processes for regular and on-going two-way communication and feedback with suppliers. Communication and feedback addresses business processes such as lead and delivery times and dialogue on avoiding negative impact on and improving working conditions. Appropriate action is taken to amend purchasing practices based on feedback.
- 2.4 **Intermediaries:** The purchasing company aims to have direct relationships with production facilities, regarding labour standards, even where intermediaries are present. If intermediaries are used, the purchasing company requires that intermediaries uphold the practices in this framework. The purchasing company requires that the intermediaries are transparent about where production takes place.
- 2.5 **Subcontracting:** The purchasing company and their direct suppliers agree on whether subcontracting is allowed and the definitions and expectations. The purchasing company and its suppliers agree when the supplier needs to inform the purchasing company of its intention to subcontract. If it is not allowed, the company puts additional measures in place to ensure that order placement does not result in overbooking of production capacity or other negative labour impacts.
- 2.6 **Force Majeure** can only be invoked on mutually agreed and legally valid grounds, and respects the transfer of ownership and risks defined elsewhere in the contract. If the purchasing company invokes force majeure on legally valid grounds, then at a minimum, costs already incurred by the manufacturer for the order should be paid by the purchasing company.

Progress Practices

- 2.7 **Stable, long term business relationships:** The purchasing company and suppliers work together to develop and maintain stable, long-term business relationships. The purchasing company grows the proportion of long term suppliers over time.
- 2.8 **Number of suppliers, leverage and dependency:** The purchasing company takes action to keep the number of facilities in their supply chain at a level that allows effective implementation of the framework principles. (Building leverage with key suppliers, in order to meaningfully influence working conditions, does however need to be carefully balanced, to protect suppliers from over dependency and vulnerability to purchasers' buying decisions.)
- 2.9 **Purchasing company and supplier agreement:** The purchasing company and the supplier agree on a mutual, written agreement regarding responsible practices (e.g. a 2 way code of conduct), which specifies minimum labour standards and also includes practices such as business conditions, provision of materials and payment terms. The agreement is signed by both parties and is legally enforceable.
- 2.10 **Subcontractors:** When subcontractors are used, the purchasing company requires the supplier to uphold the same purchasing standards as the purchasing company. The purchasing company has a monitoring system in place that checks subcontracting and monitors the purchasing standards of its suppliers.
- 2.11 **Evaluating and incentivising suppliers:** The purchasing company evaluates suppliers' responsible business conduct and gives it equal weight in sourcing decisions alongside other factors such as quality, cost, delays etc. Evaluations occur when starting a business relationship as well as on a regular basis. There are incentives in place for suppliers who perform well and the incentives are meaningful in business terms. Evaluations and incentives are developed, shared and discussed with suppliers.
- 2.12 **Responsible exit strategy:** When a business relationship is terminated by the purchasing company; they follow a responsible exit strategy that takes into account and mitigates negative impacts on the supplier and its workers. This complies with national laws, international standards and Collective Bargaining Agreements including a commitment that severance payments are made to workers, in the case of dismissals. The purchasing company provides timely communication and reasons supporting the exit decision.
- 2.13 **Audits:** The purchasing company regularly assesses its own implementation requirements towards suppliers, especially concerning audit requirements, aiming to reduce the burden of social audits on suppliers.

Principle 3: Collaborative Production Planning

Critical path¹² and production planning are done collaboratively between the purchasing company and suppliers. Any changes are mutually agreed and cannot be detrimental to the supplier.



Groundwork Practices

- 3.1 **Critical path:** The purchasing company has a system in place to accurately track critical path schedule adherence and delays. Any changes to delivery are mutually agreed and if the purchaser causes a delay in the critical path, they take responsibility for it and carry related costs.
- 3.2 **Collaboration:** Timelines are jointly developed to allow production to take place within regular factory working hours and to clearly distinguish each party's responsibilities for meeting the agreed deadlines.
- 3.3 **Feedback on samples:** The purchasing company gives suppliers timely feedback on requested samples, including on rejection or approvals and further process steps.
- 3.4 **Samples:** The purchasing company takes active steps to reduce the number of requested samples necessary before the design is agreed and to convert as many samples as possible into orders. Conversion rate of requested samples to orders is monitored and steps are taken to improve the ratio.
- 3.5 **Tech Packs:** All the specifications in the tech pack defined by the purchasing company are clear, complete, accurate, include all relevant information about a product that is needed for production (sampling and bulk production), are provided in a timely manner and are confirmed by the supplier.
- 3.6 **Order modifications:** If order modifications do occur, these are mutually agreed, based on clear and fair procedures (e.g. for production design, delivery date). Resulting costs of changes are incurred by the responsible party.
- 3.7 **Capacity:** The purchasing company knows the production capacity of supplying factories (specifically when orders are going to be produced) and is able to relate the required capacity of the order to the declared production capacity.
- 3.8 **Forecasting:** The purchasing company commits to a transparent forecasting methodology that includes providing forecasts in advance and updating those forecasts as new information about the end market is obtained.



¹² Critical path is what others may refer to as Time and Action Calendars

Progress Practices



- 3.9 **Critical path setting:** The critical path and any subsequent changes are genuinely mutually agreed between the purchasing company and the supplier.
- 3.10 **Critical path adherence:** The purchasing company has procedures and actions in place to ensure timely order placement, to minimise delays and change requests and every effort is made to prevent style change requests once final approval has been granted. If any changes are made after final approval (eg lead times, design, volume), the purchasing company understands the impact on suppliers and workers and takes actions to prevent and mitigate any negative impacts.
- 3.11 **Samples:** The purchasing company takes actions to reduce the financial burden on suppliers of paying for samples that are requested by the purchasing company.
- 3.12 **Tech packs:** Tech packs are mutually agreed and signed-off between the purchasing company and the supplier.
- 3.13 **Planning:** The purchasing company collaborates with the supplier to effectively plan, monitor and evaluate the production process.
- 3.14 **Forecasting accuracy:** The purchasing company sufficiently invests in data analysis, and improvement of demand planning, to support increased accuracy of forecasting and planning. The purchasing company improves forecasting alignment, which involves coordinating across geographies, categories and product designs to get the right information and decisions made at the right time.
The purchasing company can evidence that forecasting accuracy is increasing over time (% deviation between average forecast and order is decreasing).
- 3.15 **Mitigating impacts of fluctuating orders:** The purchasing company works with suppliers to mitigate the impacts on suppliers and workers of fluctuations in orders (vs forecasts). Leading approaches include conducting regular reviews of forecasts vs orders to identify where there is a significant difference and working with the factory to avert negative impacts (e.g. to ensure work is done within regular hours, without unauthorised subcontracting and without redundancies)
- 3.16 **Confirming capacity:** The purchasing company confirms available and required capacity for a specific time period with the supplier in advance. The purchasing company and supplier agree on a reasonable timeframe in which changes can still be made. After that date, the purchasing company takes responsibility for capacity reserved, especially when the reserved amount is significant, above 20% of total capacity. If the actual orders are lower than the reserved capacity, they collaboratively find solutions to use the capacity with other orders and if the supplier is not able to utilise the capacity, the purchasing company should assume financial responsibility for the reserved amount. If the orders are more than booked capacity, delivery deadlines of this, or subsequent orders, are reviewed, and/or the purchasing company pays for additional labour costs.
- 3.17 **Order balancing:** The purchasing company takes active measures to balance its required capacity throughout the year to reduce peaks and troughs and to optimise the sourcing base to handle fluctuations in capacity. (This could include placing orders (e.g. non-season sensitive) outside peak season and spread across multiple months or spreading core/continuing styles across all suppliers)
- 3.18 **Material supply:** When the purchasing company nominates specific material suppliers for the supplier to use, it takes responsibility for the nominated material suppliers meeting calendar deadlines and quality requirements, and ensures that if they are not met, it does not have a detrimental impact on suppliers.



Principle 4: Fair Payment Terms

The purchasing company and suppliers agree on fair and transparent payment terms that include all relevant information regarding the payment procedure and do not place a disproportionate burden on one party. Contractual obligations are honoured at all times. Payments are made in full and on time.



Groundwork Practices

- 4.1 **Timely payments:** The purchasing company has systems in place to ensure and monitor on-time payment, in line with what involved parties have agreed upon.
- 4.2 **Compensation:** If payments are deferred past the agreed payment term, the purchasing company and the supplier agree on compensation that covers the supplier's interest for the period and actual incurred costs, directly related to the deferred payment, whilst the timely payment of wages remains ensured.
- 4.3 **Payment term:** The purchasing company's payment terms should not exceed 60 days, or the number of days that is customary between a purchasing company and supplier, whichever is shorter. Payment terms are mutually agreed upon, before orders are placed.
- 4.4 **Price changes:** No changes to mutually agreed prices should be permitted except when external costs (e.g. raw materials) change significantly. In the case of increased costs, the relevant party notifies the other immediately and any profit or loss that results will be shared between them. Once the purchase order is agreed, the purchasing company should not unilaterally demand a reduction in price or a discount.
- 4.5 **Ownership:** Every order includes a clear demarcation of transfer of ownership of the goods and responsibility for risk, which is not later than the moment the goods are delivered. Past this point, the purchasing company accepts and pays for the finished goods.
- 4.6 **Penalties:** If the purchasing company has penalties for suppliers, they are only applied on terms mutually agreed upon in advance. They are reasonable, proportionate and clearly stated. Penalties are monitored by the purchasing company for fairness and legality. The purchasing company is able to give supporting evidence for claims of supplier fault. (e.g. quality penalties only applied when commercial value is affected, late delivery penalties are proportionate to damage caused by delay). If re-processing is required, charges will be reasonable and never exceed the original price agreed.
- 4.7 **Nominated material suppliers:** Payment term of the nominated material supplier may not be shorter than the payment term defined between the purchasing company and supplier.

Progress Practices

- 4.8 **Payment terms:** The purchasing company takes further actions to improve the timelines for prompt payment, reducing the number of days of payment terms below 60 days, ensuring that its payment terms support a stable and healthy supplier cash flow.
- 4.9 **Penalties:** The purchasing company aims to minimise fines, penalties, cost price reductions or airfreight at a supplier's expense. A monitoring mechanism is in place to track penalties issued and their root causes, and the company has a process in place to mitigate root causes. Penalties for late delivery are based on root cause analysis.
- 4.10 **Missed deadlines:** If the purchasing company misses mutually agreed deadlines that affect shipping timelines, then the purchasing company covers the costs of unutilized capacity or expedited shipping.
- 4.11 **Intermediaries:** If agents or intermediaries are used, the purchasing company approves that their payment terms are fair, as defined by the practices in this principle. The purchasing company requires that their intermediaries apply effective systems to ensure payments are made on time and the purchasing company makes regular checks to ensure this is consistently happening.
- 4.12 **Additional services:** Pricing includes additional services requested by the purchasing company and offered by manufacturers, including 'pre-contract' services.
- 4.13 **Materials:** Advance payments covering costs of raw materials are made when a purchase order (PO) is released. If the purchasing company's actions cause there to be leftover raw materials and they want the supplier to hold these materials, the costs of carrying over stock from season to season should be borne by the purchasing company.

Principle 5: Sustainable Costing

The costing procedures and levels of the purchasing company reflect and support wage increases and sustainable production. Prices cover all costs of production in line with responsible business conduct and allow for a reasonable and maintained supplier profit margin.



Groundwork Practices

- 5.1 **Prices covering responsible business conduct:** The purchasing company understands how prices are built up, to genuinely cover production costs, and has systems in place to ensure prices cover suppliers being able to meet the requirements the purchasing company makes of them in terms of responsible business conduct (including fulfillment of labour rights and environmental requirements). Prices also allow for reasonable and maintained supplier profit margins.
- 5.2 **Wage increases:** The purchasing company ensures that purchase prices reflect increases in negotiated wages and/or national minimum wage increases.
- 5.3 **Understanding the Living Wage gap:** The purchasing company understands the wage gap between the current situation and paying living wages. The purchasing company understands what prices they need to pay to allow for payment of living wages, based on internationally recognised benchmarks¹³.

Progress Practices

- 5.4 **Increased production costs:** When production costs rise due to external factors (eg inflation or increased transport/material costs), this should be absorbed by the price.
- 5.5 **Root cause analysis:** Root causes of wage levels below living wages are assessed, including the company's own purchasing models (including purchase price).
- 5.6 **Living wages:** The purchasing company works with suppliers to ensure the prices paid allow for wage levels to be raised, to reach internationally recognised living wage levels/benchmarks¹⁴ or living wage levels which are agreed by relevant local stakeholders (eg TUs), based on internationally recognised methodologies. A concrete action plan to close the gap is developed, effectively implemented and monitored. The purchasing company has systems in place to ensure purchase price increases are reflected in increased workers' wages and can show progress that wages are being raised to living wage levels.
- 5.7 **Workers/ workers representation:** The purchasing company ensures the involvement of workers collectively and/or democratically elected representatives in both the development and effective implementation of the action plan to close the living wage gap.
- 5.8 **Ring fencing labour costs:** If ring-fencing labour costs, to enable wage increases towards living wages, all direct and indirect labour costs are isolated as a non-negotiable costing block, detailing labour minutes per product. This methodology can be applied by either supplier or purchasing company to strengthen understanding for price negotiations. Transparency can just include labour cost aspects and does not require full cost breakdown. Transparent costing is done in good faith, on the basis of equal partnership and openness and is not used to pressure suppliers into cost reduction.

¹³ Recognised benchmarks with robust methodology such as Asia Floor Wage, Global Living Wage Coalition (Anker), Wage Indicator or estimates that are calculated and/or endorsed by a legitimate and representative local organisation, typically a trade union federation and/or confederation.

¹⁴ Recognised benchmarks with robust methodology such as Asia Floor Wage, Global Living Wage Coalition (Anker), Wage Indicator or estimates that are calculated and/or endorsed by a legitimate and representative local organisation, typically a trade union federation and/or confederation.

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Front page, page 2, 3 and 4: Better Work
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 Page 6 left: Sewing machine operators Bangladesh
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 Page 6 right: Garment factory workers in Lao PDR work in many sections of the factory sewing, ironing, cutting, and trimming etc.
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