

IRBC Agreements

*Agreement on Sustainable Garments and Textile*



## Purchasing Practices in times of Corona

CEO and top management webinar  
14-05-2019

# Agenda

- Anti-trust statement
- Summary – practical suggestions now
- Summary – suggestions for a sustainable future
- Webinar rules
- Goal
- Detailed agenda
- Main points per speaker
- Annexes
  - International guiding documents
  - McKinsey reports on making fashion sourcing more agile and sustainable & fashions new must have sustainable sourcing at scale
  - Deloitte report on managing cash flow in crisis
  - Mentimeter results

# Anti-trust statement

As participants in this meeting, we need to be mindful of the constraints of anti-trust laws (*mededingingsregels*).

This implies that:

- Participants are free to exchange or discuss publicly available information.
- Discussions on commercially sensitive information are **strictly prohibited**.
- Commercially sensitive information = company-specific information which could influence competitor's future conduct.

Strictly prohibited to share **non-public** information on:

- Prices and pricing elements, -strategy, planned -changes, other trading conditions
- Cost structures, profit margins, capacity or output
- Plans on future business, investment, product, marketing / advertising strategies
- Purchasing or bidding plans or other commercial strategies
- Sales volumes or values, sales quotas or market shares
- Propriety technical development
- Individual dealings with customers or suppliers including content of yearly negotiations

If at any time during this meeting you feel uncomfortable about the nature of the discussion, please raise this with the chair.

# Summary – practical suggestions now

## Financial

- Honour commitments of past orders and make full payments
- If this is really not possible; don't force adjusted terms on your supply chain but work with your suppliers to establish an agreement that you can both live with
- Be aware of the price build up;
  - factory margins are only a few % – keep this in mind when asking for discounts
  - pushing for even lower prices in the future will not allow for a sustainable future
- Communicate clearly and timely about expected payments-orders

# Summary – practical suggestions now

## Buying practices

- Be considerate of the effects of your decisions on your supply chain
- Maintain frequent and transparent dialogue with all supply chain partners
- Share forecasts well in advance and update them & work collaboratively to plan and secure capacity
- Anticipate changes and delays in production and be flexible about delivery dates
- Increase flexibility and adjust working methods:
  - Consider partial shipments (combo boat-airplane)
  - Check availability of stock at suppliers
    - Finished goods – place own label
    - Materials and accessories - design product together (shorter leadtimes-cheaper)
  - In development stage: research technical options: f.e. give approval based on digital picture or fitting via 3d designs
- Increase awareness/knowledge within your organisation on the build up of your supply chain, f.e. where are fabrics/accessories coming from, and how are they purchased (LC), MOQ's, etc
- Increase awareness/knowledge within your organization on how decisions impact factories and production to allow for more informed decisions and engage with supply chain partners more efficiently
- Apply responsible business exit strategies

# Summary – suggestions for a sustainable future

- Use this Covid-19 crisis to:
  - Increase awareness/knowledge within your own organization on how decisions impact factories and production. Align CSR policies between different departments.
  - Improve the efficiency of internal product-development processes f.e.
    - Finalise techpacs
    - Technical options: f.e. Fitting approval based on 3d
  - Turn supplier relationships into strategic partnerships
    - Make binding longer term volume commitments
    - Share strategic plans with suppliers
    - Invest in (sustainability) innovations together
  - Define KPI's that can improve internal product development processes and have a positive effect on the social and environmental performance in the supply chain
    - frequency of late orders
    - frequency of order revision
    - frequency of order cancellation
    - sample efficiency

# Webinar rules

- Chatham house rules:
  - You are free to use the information received
  - Do not reveal the identity nor the affiliation of the speaker(s), nor that of any other participant
- The webinar will be recorded
- We will ask your feedback via an online mentimeter poll

# Goal

- to increase awareness about the impact of purchasing practices in times of Corona on production locations in producing countries and offer practical guidance for good practices

# Detailed agenda

- Opening by our chair and moderator **Pierre Hupperts (AGT)** in cooperation with **the Minister for Foreign Trade and Development Cooperation, Sigrid Kaag**
- **Outline of the current situation** and the negative effects of the crisis on companies and its supply chain, **Saskia Hedrich, Senior Expert Apparel, Fashion and luxury at McKinsey**
- Anant Shahi Exports. one of **India's largest suppliers** will share their insights and the effect for them and the workers and offer practical suggestions for action
- Samen Dikmen, managing partner of European T-Shirt Factory, board member of International Apparel Federation and **vice president of Turkish Clothing Manufacturers Association**, will share her insights and effects for the business and workers and offers practical suggestions for action
- Mariëlle de Groot of **Fully Fashion**, a Dutch knitwear specialist will share which **buying practices have contributed to mitigating risks** in their supply chain, and how this behaviour will contribute to the future cooperation.
- **Concrete suggestions for actions** to support you in to mitigating the risks and to act according to the OECD regulations by Han Bekke, chairman of Modint and president International Apparel Federation.
- Closure: **Way forward within the AGT**

# Opening speech Minister



- Speech from Sigrid Kaag, Minister for Foreign Trade and Development Cooperation, as delivered by Steven Collet Director and Ambassador for Business & Development
- See full speech [here](#)



# Presentation McKinsey



- Saskia Hedrich, Senior Expert Apparel, Fashion and luxury at McKinsey
- Discussion of highlights from report [Time for change: How to use the crisis to make fashion sourcing more agile and sustainable](#), May 2020
- Click [here](#) for full report
- For questions please contact Saskia Hedrich directly <saskia\_hedrich@mckinsey.com>

# Presentation McKinsey



- Anant Ahuja, Head Organizational Development at Shahi Exports
- CEO and Co-founder at Good Business Lab
- Shahi Exports was established in 1974 by Mrs. Sarla Ahuja, Shahi has grown to become India's largest apparel manufacturer, operating 65 factories and 3 processing mills across 9 states. They have over 100,000 employees, including 67,000 women.
- For questions please contact Anant Ahuja directly: <ahuja@goodbusinesslab.org>

- Lockdown in India
  - India went into a national lockdown on March 23, we're still currently in lockdown but factories have been allowed to reopen starting last week (following safety guidelines)
  - Over the past few weeks we've seen most customers' initial impulse to cancel orders, even for finished goods.
  - Immediate concern was paying the wage bill for the 120k workers.
  - Due to the labor intensity of manufacturing, wages are 30% of our cost. And if you're a garment worker, you can't work from home.
- The Government's Response
  - The government has asked employers to not lay off workers and continue to pay full wages.
  - This meant companies had to pay full wages for March and April, when factories had to remain closed and could not produce any goods.
  - In India, there are very limited systems of social protection and until yesterday no financial package for businesses had been announced.

# Interview Anant Ahujia

- Strategies
  - Throughout this crisis, dialogue and engagement has led to better decisions.
  - Our request has simply been to honor commitments of past orders and make full payments. We're not asking for additional funds or any favors.
  - but it is crucial to be considerate of the effects on supply chain of all actions and impact of decisions
  - the survival of suppliers is needed for the future of a sustainable garment and textile industry
  - We have been told by some key partners that they are consolidating their vendor lists and would like to place more future orders with us.
  - Dialogue and engagement can lead to a responsible exit strategy

# Interview Sanem Dikmen



- Sanem Dikmen, Managing partner of European T-Shirt Factory (ETF)
- Board member of International Apparel Federation
- Vice president of Turkish Clothing Manufacturers Association
- ETF is a Tubular Graphic t-shirt producer for Sports Brands, Denim Brands and E commerce companies.
- For questions please contact Sanem Dikmen directly [sdikmen@etf.com.tr](mailto:sdikmen@etf.com.tr)

# Interview Sanem Dikmen

- The Turkish Clothing Manufacturer's Association Help desk received the following information from different factories;
  - Purchase orders for min 2,000,000 garments were cancelled as of March by the Brands and Retailers
  - 5,000,000 pieces garments are in the pipeline of production, without a solid definition for shipment/payment
  - More than half of the Brands have delayed their payments by 90 days.
- This supports the McKinsey report and more than **50 % of manufacturers will be distressed due the CASH FLOW** issues in a **very short term**.
- All brands should **focus on DIGITAL for sales**, not with the bottom line prices only but **pointing out their significance of quality and sustainability**. We are willing to offer different business models which helps stock levels decrease, the digital shopping will not go back to the stores in a short term.
- **Complying with social compliance requirements and keeping up with the standards in the long run will increase labor cost and overhead.** Brands asking for this should commit to not moving to cheaper factories/countries who do might be at the early stages of this.

# Interview Mariëlle de Groot



- Mariëlle de Groot, Head of Product Management at Fully Fashion - DPDB Group
- Fully Fashion is a knitwear specialist in Europe that designs, manufactures and distributes under private label. They have buying offices in China and Bangladesh but they do not own production facilities.
- For questions please contact Mariëlle de Groot directly [marielle.degroot@fullyfashion.nl](mailto:marielle.degroot@fullyfashion.nl)

# Interview Mariëlle de Groot

- Which **positive buying practices of customers** have you experienced in the last couple of weeks. And how have they **contributed to being able to prevent/mitigate human right violations in your supply chain.**
  - **Clear and open communication and corporation** with customers, f.e.
    - Receive **constant/timely update on expected forecasts/priorities**
    - **Flexibility on delivery dates;**
    - Aligning prioritizing orders and potential extension for later delivery date or promotion/advertisement/photo shoot with customer
  
- How do you think that this behavior will contribute to a sustainable future as business partners.
  - **Long term cooperation with and commitment to suppliers and factories**
  - **Knowledge of the supply chain and impact of buying decisions** on it
    - Alignment between CR department and buying.
    - Make sure that you have eyes and ears on the ground (own team or independent CSR team) as this will give you better insight and understanding of the actual situation and will help advance the situation

# Interview Mariëlle de Groot

## ▪ Practical suggestions for CEO's

- Increase internal **knowledge of the buying/production process** (due diligence) and **open communication with supplier or factory** regarding the **financial perspectives**.
  - Ex. The CR, buying or production department could take stock of where the fabric/yarn per order or entered style is coming from and what the production processes look like:
    - Does the material come from the country of production or are these imported from, for example China (where the situation around Corona is now much more stable).
    - When the fabrics / yarns have to be imported will this be done together with a LC agreement. This is an agreement between the fabric or yarn supplier and the factory. The chance of delays or not closing the LC is very high in this situation. In this case, it directly relates to a large loss for the factories. The raw materials should be exported from the production country within 6 months, otherwise there is a chance that the LC cannot be closed. In this situation could it be better for factories to consider whether there are production options in China for example. In the case of locally produced fabrics and yarns, the only option is to consider what the status is and how the production capacity in the factories has been built. Are there all computer machines in the factory or, for example, handloom machines? In the first case, far fewer workers are needed and the chance of delays is less than in the second case.
- **Collaborate with the factory** and make sure that you have access to a **local team** (or a supplier who has a local CR team) to **support the factory and review the production capacity**

# Interview Mariëlle de Groot

- **Practical suggestions for CEO's**
- Open communication about cancellation/postponement of orders and/or payments
  - **Offering perspective by planning when deliveries and payments can be made, while meeting the agreements,** will ensure that it can be made workable for every party in the supply chain.
- Knowledge of price build up
  - Increase awareness of the actual build up of the price; **margins of factories are only a few percent** – asking for discounts that are multiple of this has a direct effect on a supplier / factory and ultimately the workers.
- **Long-term cooperation, investing in each other** and offering suppliers a future (giving confidence by **placing orders** with the same parties in the future) will be the basis for getting out of the crisis for all parties.

# Closing Han Bekke



- Han Bekke, chairman of Modint and president International Apparel Federation
- See separate PPT
- For questions please contact Han Bekke directly [<Bekke@modint.nl>](mailto:Bekke@modint.nl)

# Way forward with AGT

- Responsible Buying Practices have been and will continue to be at the core of the AGT
- During coming assessment round buying practices during this Covid-19 crisis will be reviewed:
  - To what extent do you have insight in how your decisions during this crisis have/will impact workers in your supply chain
  - What you have done to mitigate negative impacts
  - For more information please check with your account manager or check Sharepoint with PPT “CKT Webinar 2020 Due Diligence Cycle”
- A follow-up webinar with more practical guidance and focus on financial implications will be organized soon (in June)

- Statement Dutch Agreement on Sustainable Garments and Textiles & other MSI's which includes references to concrete suggestions and actions:

<https://www.imvoconvenanten.nl/-/media/imvo/files/kleding/2020-responsing-responsibly-covid19-crisis.pdf?la=nl&hash=F0092609B8C2E1B53E1340F063D64803>

- Statement OESO:

<https://mneguidelines.oecd.org/COVID-19-and-Responsible-Business-Conduct.pdf>

- Statement ILO:

[https://www.ilo.org/global/topics/coronavirus/sectoral/WCMS\\_742343/lang--en/index.htm](https://www.ilo.org/global/topics/coronavirus/sectoral/WCMS_742343/lang--en/index.htm)

- Statement Global Compact:

<https://www.unglobalcompact.org/news/4531-03-16-2020>

- McKinsey reports

<https://www.mckinsey.com/industries/retail/our-insights/time-for-change-how-to-use-the-crisis-to-make-fashion-sourcing-more-agile-and-sustainable> - May 2020

<https://www.mckinsey.com/industries/retail/our-insights/fashions-new-must-have-sustainable-sourcing-at-scale> - October 2019

- Deloitte report on managing cash flow in crisis

<https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-COVID-19-managing-cash-flow-in-crisis.pdf>

# Mentimeter results – input for follow-up session

- **What main take away will you bring back into your organisation**
  - Different perspectives/chances of the impact of Covid-19
  - Crisis needs a collaborative and worldwide approach
  - Partnership, trust and dialogue with suppliers is key
  - Need support/action at CEO level
  - How this crisis is an opportunity to improve our purchasing practices & intensify relation with suppliers
  - Insight in garment purchasing sustainability issues and options in the current and future situation]
  - Suppliers are looking into which brands are viable enough and put preference on producing those
  - Due diligence legislation at EU level in the make
  - Change to rebalance supplier-buyer relationships
  - From push to pull supply chain

# Mentimeter results – input for follow-up session

## ▪ What key challenges do you foresee

- Liquidity/cash flow struggles
- Decrease in consumer demands
- On time deliveries
- Bankruptcy of (wholesale) customers
- Managing the transformation and change
- Way retail is financed
- Change management challenges from within
  - Value driven buying instead of cost driven
- Balancing sustainability goals with financial goals
- Getting this global approach active
- Corona effect in production countries
- Continuity of order placement to nominated suppliers
- Consumer awareness and consumption behaviour
- Realising sustainability within the current business model
- Trying to keep very low prices and achieving social compliance at the same time