

## *Shopping for a Bargain: How the purchasing practices of clothing brands in Australia impact the women who make our clothes*

Brand responses (v2 uploaded 26 November 2020)

### Section 1: Brand responses to research interviews<sup>1</sup>

H&M Group: 17 February 2020

#### **Direct vs Agent, Living Wage Commitment and Transparency**

H&M group purchase a substantial percentage of clothing and apparels internationally. All purchase in Bangladesh is done directly. The key strengths of direct sourcing for the H&M group are a) knowledge of suppliers and relationship building b) transparent and open costing ensures that workers are earning what they should c) opportunity to audit, to check and perform better to the sustainability requirements and the ability to follow-up. H&M group have made a commitment to living wages and have published its suppliers' list.

#### **Forecasting**

H&M group always send a forecast to the Factories about buying plans for the season in advance of more than 90 days before order placement. However, they highlight the trade-off between early forecast versus accuracy, where earlier forecast might be less accurate. However, the factories are regularly updated as further precise information becomes available. Therefore, forecasting data is constantly update. Consequently, they cannot say that all forecasts are 100% accurate. Via two-way communication, they are constantly in contact with factories to communicate and improve processes. H&M group always conduct production capacity assessments or ask for capacity assessment reports and place orders based on these reports.

#### **Price setting**

According to H&M, the price paid by them cover more than 100% of the cost of compliant production and has never used any high-pressure negotiation strategies to reduce the price., H&M group treat labour cost as a separate cost item. However, factory survey shows that 5% to 10% of their order did not cover the compliant production and they also 'regularly' apply high pressure to reduce price.

#### **Incentives and support for compliance**

As set forth by H&M group, they pay a higher price for the higher compliance rating of the factories, as they depend on long term relationships which are mutually "win-win". Their Supplier Relationship Management (SRM) ratings are based on sustainability measures among other measures such as quality, lead time etc. SRM rating is used to provide longer term plans for higher-rated suppliers that includes investment into the relationship and upskilling. H&M group reward factories when they make improvements in compliance

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<sup>1</sup> All brand interviews were conducted by a research team from Monash University.

besides offering a better price. It was highlighted that H&M Group looks at different parameters when rewarding a supplier, where the improvements in compliance are one among other parameters such as quality, lead time. The key rewards include placing larger order volumes, placing orders in advance (e.g. six months), providing with a consistent minimum volume of production per month, the brand paying for training for skill development or technical capacity development.

The non-fulfilment of Accord is one reason among other reasons why H&M Group would terminate the relationship with a factory. Other such reasons would be the use of an undeclared production facility<sup>2</sup>, not respecting freedom of association. H&M group provide support to help factories meet the requirements of their Sustainability Commitment, via regular training, supporting to develop and implement corrective action plans, providing tools for improvement and follow-up through long term partnerships. Also, H&M group never make demands that conflict with compliance requirements. Their contracts clearly include ethical requirements.

Factories supplying to H&M group agrees that they received training from H&M group, but they reported that H&M group do not offer better price for higher compliance or provide any additional assistance.

### **Order placement**

H&M group believe that 90% - 99% of times of their purchase orders were accurate and complete (including technical specification) that did not require the factories to request clarification from H&M. It was explained that most standard orders planned well in advance. Though as some fashion change, some orders also change with later notice. Changes are discussed and developed together in partnership.

Their order lead-times believe to be always reasonable, as they discuss with suppliers to match capability to order volume. H&M group in principle never change order quantity at the last minute, but admit that in practice, it can change a little bit in partnership with the supplier. They extremely rarely cancel orders, and when done, they cover the costs incurred (such as material, work) by the suppliers. It was highlighted that they have worked hard to address this problem, and have made it a practice not to be in the position of changing orders. Changing the style after placing the order happens in seldom. But if it does occur, then it is discussed with the supplier about what is possible, which might change the end supply date, as they seek a win-win relationship.

From factory perspective, H&M force unreasonable lead time 10% to 20% of their orders H&M had the biggest difference between their self-rating and they factory rating. Clearly H&M are overrating themselves on lead time.

H&M admit that there could be rare situations that they may have missed any key milestones in the last twelve months. However, they are working extremely hard not to be in the position. If a milestone is missed, then they work in partnership with the supplier for mutual agreement and outcomes. H&M group is always flexible and accountable in ensuring adequate production time because H&M group had missed milestones. Accordingly, they are always flexible in ensuring adequate production time because of some unavoidable

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<sup>2</sup> Produce garments in a factory without informing H&M Group, this may include subcontracting.

reasons (flood, strike, etc.). H&M Group always deals with things with a partnership approach together with the supplier for win-win outcome

H&M group generally nominate raw material (fabrics, trims, and accessories) suppliers (do not nominate 100% of suppliers) for the factory, as they believe that they can get a better price by clubbing together, which means a better price for both factories and H&M group. As the facilitator between the two parties, they do take responsibility for managing the relationship between the factory and the nominated raw material supplier.

### **Paying for work**

H&M group pay for making samples. According to H&M majority of orders include the cost of samples in the overall price.<sup>3</sup> They do always pay on time for making samples. Price is rarely the main reason for the H&M group to terminate their relationship with the factories. H&M group always pay the factories in line with the agreed timeline. The amount paid to the factories is always in line with the payment terms agreed. They do not make any retrospective changes to the payment terms, which were not mutually agreed or even mutually agreed, but to the detriment of the factories. Also, H&M group never imposes any payment penalties that fall outside the terms of the purchase agreement. The purchase agreements/contracts always clearly reference financial consequences for non-performance, and the price is always a part of the written contract. Importantly, the purchase agreements/contracts refer to a price increase in the case of a wage increase. A matter of fact, the H&M group increased the price after the last wage increase in Bangladesh. They have also provided some favourable terms for the factories over the last twelve months in terms of payment terms, support for sustainability, stability and partnership.

Though, H&M Group claimed that price is rarely the reason for ending business relationship with factories and they provide favourable terms to suppliers, supplier survey did not support this claim.

### **Modern slavery**

According to H&M group current policy, practices and oversight on their supplier is meeting the requirements of Modern Slavery Act.

### **Good practices**

H&M Group shared quite a few good practices that they exercise, these include:

- Through anonymous annual survey H&M Group measures if the suppliers recognise H&M as a responsible business partner and seek feedback.
- Implementing monitoring and accountability framework as part of the ACT member.
- H&M Group has a Global Framework Agreement with IndustriALL and IF Metall. The Global Framework Agreement aims to strengthen industrial relations in H&M Group's global production supply chain.
- Ensured democratically elected workers representatives in workers participation committees in all garments factories in Bangladesh.
- The isolation of the labour cost in price negotiation

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<sup>3</sup> Other brands also mentioned that the sample cost is embedded in the actual order..

### **Direct vs Agent, Living Wage Commitment and Transparency**

Both Kmart and Target Australia owned by Wesfarmers Group have same purchasing practices. Hundred per cent of their garments is manufactured internationally. Out of which, 30% of the clothing is purchased from Bangladesh directly. The advantage of direct sourcing they believe is that it allows retailers and factories' to engage in a more meaningful face-to-face conversation. Also, they insist that the middlemen add to the cost but not necessarily add a lot of value. Kmart and Target Australia have made a commitment to living wages and published their suppliers' list.

### **Planning and forecasting**

They consider forecasting as one of the most challenging areas of the business, and if retailers could forecast a bit more accurately, it would benefit everyone in the supply chain tremendously. Kmart and Target Australia focused on forecasting 5-6 years ago, transforming from a manual process via excel sheets to more most advanced forecasting tools. They try their level best to place orders that match the forecast.

Kmart and Target Australia send a forecast to the factories for the season around 90% - 99% of times. Forecasts are sent more than 90 days in advance of order placement. They think that they achieve very small variation in forecasting and purchase. Over the past 12 months, the difference between actual purchase orders and the forecast has sometimes resulted in an unutilised capacity in the factories by more than 10%. Kmart and Target Australia 90% - 99% of times conducts production capacity assessments or ask for capacity assessment reports and place orders based on these reports.

Kmart and Target Australia have made a conscious choice to work with factories who can manage the capacity. They explained that the factories would subcontract when they oversell capacity, which will bring retailers a bad name. Therefore, they don't want to work with factories who don't want to make the technology investment on capacity management, Product Lifecycle Management (PLM)<sup>4</sup> systems etc.

As per the factory survey, for Kmart the gap between forecast and order placement varies from 60 to 89 days, for Target Australia the time gap is close to 90 days most of the time. variation between forecast and actual order quantity is always more than 10% . Conducting a production capacity assessment or asking for factory capacity appears to be more of a regular practice for Kmart than Target Australia.

### **Price setting**

The price paid by Kmart and Target Australia covers more than 100% of the cost of compliant production. Kmart and Target Australia acknowledge to sometimes using high-pressure negotiation strategies to reduce the price. They explained that they are a multibillion-dollar business and someone, somewhere in the structure, might use high-pressure strategies. But that's not because the company ask them to. When negotiating price, Kmart and Target Australia do not treat labour cost as a separate cost item, but this practice will change soon as new open costing system being implemented.

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<sup>4</sup> Product lifecycle management (PLM) is the process of managing complex product information, engineering and manufacturing workflows, and collaboration

### **Incentives and support for compliance**

In general, Kmart and Target Australia do not pay a higher price for the higher compliance rating of the factories. However, they do reward factories when they make improvements in compliance. They link supplier performance with order placement, and if the suppliers do better, they get more orders. Rewarding factories for improved compliance has not been supported by factory survey.

Less compliant (nonfulfillment of Accord and Alliance) is often the main reason why Kmart and Target Australia terminate the relationship with a factory. Thus, Kmart and Target Australia provide support to help factories to meet the requirements of their Code of Conduct (COC) via regular training, with significant support to develop and implement corrective action plans. Kmart and Target Australia do not make demands that conflict with compliance requirements. Their order contracts always clearly include ethical requirements (e.g. Ethical code of conduct).

### **Order Placement**

Kmart and Target Australia stated that their purchase orders were accurate and complete (including technical specification) 90% - 99% of times that did not require the factories to request clarification. They think that the suppliers may feel that the order lead-times were reasonable on around 60% of times to complete the order volumes. They acknowledge that around 10% of times Kmart and Target Australia has changed order quantity at the last minute. Also, Kmart and Target Australia have changed the style after placing the order around 10% of times. Also, Kmart and Target Australia admit to missing key milestones at around 10% of times in the last twelve months. However, they have often been flexible and accountable in ensuring adequate production time because Kmart and Target Australia had missed milestones. Also, Kmart and Target Australia have often been flexible in ensuring adequate production time because of some unavoidable reasons (flood, strike, etc.) for the factory. Kmart and Target Australia do not nominate raw material (fabrics, trims, and accessories) suppliers for the Factory.

### **Paying for work**

Kmart and Target Australia rarely pay specifically for making samples. Cost of samples is generally a part of the cost of the products. The price is rarely the main reason that Kmart and Target Australia terminate the relationship with the factories. However, this has not been supported by the survey respondents. Also, Kmart and Target Australia often do pay the factories in line with the agreed timeline. The amount paid to the factories is often in line with the payment terms agreed. They do not make retrospective changes to the payment terms, which were not mutually agreed. However, they do acknowledge to sometimes making retrospective changes to the payment terms, which were mutually agreed, but to the detriment of the factories. Also, Kmart and Target Australia rarely impose any penalties that fall outside the terms of the purchase agreement. Reasons Kmart and Target Australia asks for discount is due to poor sale and drop in the price of raw materials. Their purchase agreements/contracts never reference financial consequences for non-performance. However, the price is a part of the written contract with Kmart and Target Australia. But, the purchase agreements/contracts do not refer to a price increase in the case of a wage increase. Kmart and Target Australia did not increase the price after the last wage increase in Bangladesh. According to Kmart and Target Australia, they have provided some favourable terms over the last twelve months to the factories such as paying in advance upon request and arranging interest-free credit from raw material suppliers, however this has not been supported by the factory survey.

## **Modern slavery**

Kmart and Target Australia have quite a mature social compliance system that manages Modern Slavery risks. They conducted a gap analysis and identified a few gaps. They are now working on certain requirements to bridge that gap. The challenge is further down the supply chain in tier 2 and tier 3<sup>5</sup> on which they have less visibility and have more Modern Slavery risks. They believe that initiatives like Better Cotton become important as they have little control to perform audits at the cotton cultivating level. The belief is that the Modern Slavery risks in Bangladesh are in general lower than India and China where there is a higher proportion of migrant workers from the provinces, and workers living away from home, which can be vulnerable to exploitation. China is a higher risk, particularly given recent reports in Xinjiang province regarding forced labour.

## **Good practices**

Some of the good practices shared by Kmart and Target Australia includes:

- Empowering sourcing team based in Asia to take decision as they are closer to the supplies and have better understanding of the ground reality.
- They invested in Product lifecycle management systems which will help them to improve production planning and forecasting..
- As a member of ACT, committed to global purchasing practices standards and also a part on Better Buying and ILO's Better Work Program. They use shared knowledge for continues improvements.
- As a part of ACT, they want to work together in ensuring consistency and continuous improvement and move towards open costing system.
- Kmart and Target Australia are trying to get better at the management of the production and "pre-production process". They aim to reduce pre-production time so that factories get longer lead time to produce their garments.

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<sup>5</sup> Tier 2 and 3 refers to spinning mills, fabric manufactures, dyeing mills, accessories suppliers etc.

## **Direct vs Agent**

Of its total international procurement, Best&Less purchases 22% of their cloths from Bangladesh, with 98% purchased directly, and 2% obtained through agents. Best&Less has a stringent supplier<sup>6</sup> selection process.

Best&Less have a small supplier base and work very closely with them. About 20 % of the suppliers supply about 80 percent of the products. Best&Less started with six main suppliers in Bangladesh, this has now been reduced to five suppliers. According to Best&Less, order volume for supplier remains consistent with low levels of variability.

Best&Less claimed to have good relationships with most of the suppliers and that the suppliers also that know that Best&Less will keep placing orders with them. In case of reduced order volume to a particular supplier, Best&Less transparently explain the reasons for reduced order and support supplier to address the issue and build capacity. Direct relationship with supplier allows them to reach out to communities as well. In the interview Best&Less cited example of India, where they provided support local schools to access clean water.

## **Living wage commitment and transparency**

Best&Less has a commitment to a living wage and according to Best& Less they are making efforts with factories to work towards this. They do this through regular workshops. There is, however, some understandable push back from suppliers. Suppliers are stuck between needing to offer lower prices while at the same time needing to increase wages. Best&Less focus on building long term relationship with factories and helping factories to enhance efficiencies. Also, Best&Less has published its suppliers' list. Factory representative we interview, including factory owners are not aware of Best&Less's commitment on living wage.

## **Forecasting**

According to Best&Less, 80% -89% of times send a forecast to the suppliers about buying plans for the season. The forecast is sent more than 90 days in advance of order placement. Over the past 12 months, rarely the difference between actual purchase orders and the forecast resulted in unutilised capacity or over capacity in the factories by more than 10%. Best&Less always conducts production capacity assessments or ask for capacity assessment reports and place orders based on these reports. However, in survey, factory representative stated that the time gap between forecast and actual order is 90 days but the difference between forecast and actual order was always more than 10% over the last 12 months.

## **Price setting**

Best&Less offers two categories of "commodities" basic products, and fashion. There are two seasons in a year for basic products. To place seasonal order for basic product Best& Less asks their factories to offer best price. Based on the offer received, Best&Less select factories based on price. Beside price Best&Less also considers the reliability and capacity of the factories and the profit margin Best&Less is able to achieve. Selected factories receive purchase order for the season. This allow selected factories plan their production,

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<sup>6</sup> Suppliers refers to garment manufacturing companies owning more than one factories

procure fabric and accessories on time. For the 'fashion' category, Best&Less has a critical timeline of four months. Out of four months, three months are allocated for order placement and production and one month for shipment, warehousing and then into the shops.

According to Best&Less, the price they offer to the factories covers more than 100% of the cost of compliant production. Best&Less acknowledge using high-pressure negotiation strategies sometimes to reduce the price. In the survey, factory representative stated that 5% to 10% of Best & Less order did not cover compliant production and frequently apply high pressure negotiation strategy to reduce price.

### **Incentives and support for compliance**

Best&Less admits that the company does not pay a higher price to the suppliers for maintaining high level of compliance. However, Best&Less claimed that they place larger order volume, place orders in advance (e.g. six months), give a consistent minimum order volume per month when supplier make improvements in compliance. However, factory survey data dispute this claim, factory representatives stated that they do not receive any additional assistance due to maintaining higher compliance standards.

Nonetheless, Best&Less provide support to help Factories to meet the requirements of their Code of Conduct (CoC) by providing regular training, providing significant support to develop and implement corrective action plans and providing tools for improvement. They do not make demands that conflict with compliance requirements. Also, their contract with suppliers clearly include ethical requirements such as an ethical code of conduct.

### **Order placement**

Their purchase orders were accurate and complete (including technical specification) on 90% - 99% of times that did not require the factories to request clarification from Best&Less. Also, 90% - 99% of times, the order lead-times were reasonable to complete the order volumes. However, factory survey revealed that Best&Less force unreasonable lead time for 5% to 15% of their orders. According to Best&Less, only around 5% of the times that they change order quantity at the last minute. Also, only around 5% of times that they have changed the style after placing the order. Importantly, Best&Less has never missed any key milestones in the last twelve months. They have often been flexible and accountable in ensuring adequate production time because they had missed milestones. Likewise, often been flexible and accountable in ensuring adequate production time because of some unavoidable reasons (flood, strike, etc.) for the factory. Best&Less does not nominate raw material suppliers for the factory. .

### **Paying for work**

Best&Less do not pay specifically for making samples. Cost of samples is generally a part of the cost of the products. According to Best&Less, price is rarely the main reason why Best&Less terminates the relationship with the Factories. However, this has not been supported by their factories, according to factory survey price is always the main reason why Best&Less terminates relationship or shift order to another factory. Best& Less always pay the suppliers in line with the agreed timeline. The amount paid to the suppliers is also always in line with the payment terms agreed. Likewise, Best&Less does not make any retrospective changes to the payment terms, which were not mutually agreed or mutually agreed, but to the detriment of the supplier. Also, they never impose any payment penalties that fall outside the terms of the purchase agreement. Only reasons that Best&Less impose financial penalties due to unreasonable quality defects. The price part of the written

contract and their purchase agreements/contracts always clearly reference financial consequences for non-performance. Also, their purchase agreements/contracts sometimes refer to a price increase in the case of a staff wage increase, and they increased the price after the last wage increase in Bangladesh. Best&Less sometimes has provided favourable terms including paying in advance upon factories request, nevertheless none of the respondent of factory survey reported to receive any favourable terms from Best&Less.

### **Modern slavery**

To meet the requirements of Modern Slavery Act, Best&Less made no changes so far as their current practices already exceed the requirements of Modern Slavery Act. They also undertake audits through their direct suppliers and are now extending audits to the fabric manufacturers.

### **Good practices**

Best&Less organise regular in-country workshops with suppliers. They have inspectors visit all factories and regularly reporting on the working conditions. They engage third party auditor to conduct social compliance audit the factories. Best&Less conducts final quality inspections on all orders at own cost. Best&Less also holds an annual summit in Sydney where all the suppliers meet with them and get informed on the progress of their business

Best&Less uses an agent for a small percentage of what is purchased from Bangladesh. They would like to establish direct relationship with the suppliers by shifting to direct sourcing only.

### **Direct vs Agent**

As reported by Big W, out of total international procurement, Big W acquires the majority from Bangladesh and China, and small amounts from other locations including India and Pakistan. Between 50-60% of their apparel product that is direct sourced internationally is from Bangladesh. Big W has an office in Bangladesh to enable sourcing from this region. All factories that they work with are required to comply with Big W's stringent ethical and quality policies and practices, whether the method is direct or indirect sourcing. These are made transparent to all factories in written form and are supported with training. Also, annual factory supplier updates include sharing of performance, strategic direction and also responsible sourcing.

The direct sourcing model is supported in Bangladesh by a local team who work collaboratively with factories. Bangladesh team includes Quality Assurance (QA), and Responsible Sourcing. The Responsible Sourcing team is engaged in social compliance, and Business Social Compliance Initiative (BSCI)<sup>7</sup> program on gender empowerment. They have also supported a factory's effort to supply 4,000 educational books and toys for childcare centres in the factory and as an associated school in the community.. While this scale of initiative is small at the moment, Big W is working on expanding these efforts in partnership with supplier factories.

### **Living wage commitment and transparency**

Big W has made a commitment to living wages and is in the process of implementation. Big W joined Action Collaboration Transformation (ACT)<sup>8</sup> initiative at the end of February 2020 and have commenced work on building their plan which aligns with the commitments. Further to this, Big W has a database of all their factories, which includes how much the factories pay their workers and the factories' compliance ratings. Big W claimed to have worked closely with their factories over the last few years to ensure this is aligned (or better) than legally required pay scales and that, wherever possible, additional benefits are available to workers such as health care and childcare. Also, Big W has published its suppliers' list.

### **Forecasting**

Big W sends a forecast to the factories about buying plans for the season about 90% - 99% of times. Big W stated that they send forecasts more than 90 days in advance of order placement. Over the past 12 months, the difference between actual purchase orders and the forecast has never resulted in unutilised capacity or over capacity in the factories by more than 10%. On the opposite side, factory data revealed that not only the gap between forecast and order placement for Big W and Just Group is less than 60 days but also the variation between forecast and actual order quantity is always more than 10%. Big W always conducts production capacity assessments or ask for capacity assessment reports and place orders based on these reports.

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<sup>7</sup> Business Social Compliance Initiative (BSCI) is a leading supply chain management system that supports companies to drive social compliance and improvements within the factories and farms in their global supply chains.

<sup>8</sup> ACT is an agreement between global brands, retailers and trade unions to transform the garment, textile and footwear industry and achieve living wages for workers through collective bargaining at industry level linked to purchasing practices

### **Price setting**

The price paid by Big W covers the cost of a minimum of 100% compliant production (more than 100% or 100%). Big W has transparent relationships with suppliers, so the suppliers are able to understand the costs of compliance and embed these in Big W ways of working and operating model.

Big W works to build mutual strategic relationships, and the average tenure of factory base is between 7-8 years, with the longest at 14 years of partnership. As they have curated their factory base in recent years, this has strengthened their strategic partnerships and enabled better alignment to Big W's rigorous standards. These standards include ethical and quality standards, capacity and ability to responsibly manufacture. Big W supports and guides factories for areas of improvement.

Big W has never used any high-pressure negotiation strategies to reduce the price. They are underway in treating labour cost to be treated as a separate cost item during price negotiation. They have recently (FY20) commenced open book costing with some selected factory partners so that they can trial and learn together. Big W will iterate the process based on feedback and will then look to extend this method of costing through FY21. Big W has recently become a member of ACT and will ensure responsible purchasing practices are aligned to the ACT commitments and become embedded in the business.

### **Incentives and support for compliance**

Big W does not pay a higher price for the higher compliance rating of the factories but claimed to assist factories when they make improvements in compliance. Further to local training and an annual factory update, Big W conducts annual supplier engagement sessions in their Australian office. In these sessions, their key factories are hosted in Australia and are showcased within the organisation and celebrated. These visits support their suppliers to see the organisation, meet the teams and visit stores and understand customer demands. These events present Big W with opportunities to recognise, learn and continue to improve together.

The Big W team based in Bangladesh works with the factories to make improvements rather than terminate the relationship. Big W does provide support to help factories to meet the requirements of their Code of Conduct (COC). Over the last three years, Big W has run roadshows that provide training on how to implement the new quality and responsible sourcing standards for factories. In addition to roadshows, Big W has manuals or guides translated into local languages. They have extended their Speak Up program to allow workers to provide feedback through an independent provider.

Big W also does not make demands that conflict with compliance requirements. Order contracts of Big W always clearly include ethical requirements (e.g. Ethical code of conduct). The Woolworths Group Responsible sourcing policy is embedded within all trading terms, and factories/suppliers must be able to demonstrate compliance to trade with the business.

### **Order placement**

Their purchase orders at 90% - 99% of times were accurate and complete (including technical specification) that did not require the factories to request clarification from Big W. Technical specifications are mandatory on all items at the time of costing. They believe that the order lead-times at 90% - 99% of times are reasonable to complete the order volumes.

Big W never changes order quantity at the last minute or the style after placing the order. Likewise, they have never missed any key milestones in the last twelve months. Big W has always been flexible in ensuring adequate production time because of some unavoidable reasons (flood, strike, etc.) for the factory. Big W does nominate raw material (fabrics, trims, and accessories) suppliers for the Factory. However, this varies by product and by Factory.

### **Paying for work**

Big W pays for making samples as cost of samples as making samples is part of the cost of the products, and always pay on time for making samples. Price is never the main reason why Big W terminates the relationship with the factories. However, factory management told us that price is always a key reason why Big W terminate business relationship or shift order to another supplier.

Big W always pays the factories in line with the agreed timeline. The amount paid to the factories is always in line with the payment terms agreed. They do not make any retrospective changes to the payment terms, which were not mutually agreed, or which were mutually agreed, but to the detriment of the Factories. Likewise, Big W never imposes any payment penalties that fall outside the terms of the purchase agreement. Their purchase agreements/contracts always clearly reference financial consequences for non-performance.

The price is always a part of the written contract for Big W. Their purchase agreements/contracts do not refer to a price increase in the case of a wage increase. Furthermore, as part of the work Big W will undertake with ACT, they will be looking at improvements to existing processes. Also, Big W claimed to increase the price after the last wage increase in Bangladesh. According to Bit W, they have a strong relationship with factories, including clear visibility of wages, payments, and advance notice to understand wage increases for the future. Big W claimed to provide favourable terms over the last twelve months but none of the respondent we interviewed agreed that they received favourable terms from Big W.

### **Modern slavery**

Many of the requirements of the Modern Slavery Act (MSA) were already being completed through Big W's existing audit programs and processes. There are continuing efforts to better align with global/international standards.

### **Good practices**

Big W place a strong emphasis on close and transparent relationships with factory owners and are always looking at how we can partner for better community engagement. For example, their local team participates in sports events with partners to raise money for charities and have also provided Big W apparel to workers so that they are recognised as part of the extended team.

Big W has joined ACT and are undertaking team training on what ACT is and how they can better align with it. As part of the ACT requirements, they will be completing a purchasing practices survey, with factories and retailers to benchmark practices.

## Section 2: Brand responses to draft report findings

Inditex (Zara): 18 November, 2020

Dear Oxfam Australia,

Thank you for conducting the research report “Shopping for a bargain: how the purchasing practises of clothing brands in Australia impact the women who make our clothes” and for sharing the report and responses with us – for which we are grateful.

Inditex is fully committed to enabling the workers in our supply chain to receive a living wage through the promotion of collective bargaining and responsible purchasing practices, in addition to enhancing production and management systems, wage digitisation and financial inclusion. Our approach to the social management of our supply chain is based on the premise of understanding and responding to the needs of workers, their families, and the communities in which they live in order to foster decent work and sustainable production environments.

We read the report in detail and it is worth noting that we have a unique business model where the majority of our products are made in or close to our Spanish headquarters, primarily in Spain, Portugal, Morocco, and Turkey. We noted a number of limitations on the final pages, including that researchers were unable to verify the responses due to limited access to documents and time. We also noted that, on average, 19% of the 32 selected factories’ production is supplied to the 11 brands covered in this research and therefore that “some answers may be reflective of the whole factory experience compared to fully attributed to the brand”. Our concern is that these limitations risk a high margin of error and that it does not therefore reflect the true performance of Inditex in the area of study.

We believe our commitment to responsible purchases as a means to support the payment of living wages within our supply chain has been most recently highlighted through our response to the Covid-19 pandemic. Inditex made its commitment known publicly to pay for orders produced or in production, according to original payment terms at the end of March, and we are grateful that you have updated your report to accurately reflect our early response to not cancel orders.

In addition, Inditex went further than committing to pay for orders from the outset by, in April, publicly endorsing and becoming a member of the implementation working group of the call for action under the International Labour Organization to collaborate with The International Organisation of Employers (IOE), the International Trade Union Confederation (ITUC), IndustriALL Global Union and other brands to support manufacturers to survive the economic disruption caused by Covid-19. This commits us to work with governments and financial institutions to mobilise sufficient funding to keep manufacturers in business including payment of wages, as well as income-support and job-retention schemes to address the impact of the crisis. We also continue to work tirelessly as an individual company to collaborate with financial institutions across our sourcing markets to improve access to financial options for our suppliers. The main aim of this effort is to ensure that wage payments for workers can continue.

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Central to our efforts to uphold workers rights in the supply chain through the Covid-19 pandemic has also been our Global Framework Agreement with IndustriALL Global Union signed in 2007 and renewed in 2019. Our local sustainability teams continuously collaborate with IndustriALL local affiliates in order to promote social dialogue, respect for Freedom of Association and Collective bargaining rights in Inditex's supply chain. Our work together with local IndustriALL affiliates through the pandemic has helped deliver resolutions related, among other aspects, to the payment of wages and compensation according to local labour laws, thanks to this GFA.

Moving forward, we want to detail our commitments and how we are working globally across our entire supply chain to meet the recommendations of the report.

### **Supply Chain Transparency**

Inditex shares detailed information about its supply chain with the relevant stakeholder groups in the most updated and comprehensive manner not only as a firm commitment to transparency but also with the purpose of working collaboratively with these stakeholders in the shared objective of ensuring decent working conditions, including living wages, across the supply chain<sup>1</sup>.

First and foremost, names, addresses and other details (including social performance) of the whole supply chain - all tiers - are disclosed to IndustriALL Global Union (hereinafter, IndustriALL) as part of our Global Framework Agreement. Inditex is the only company in its sector that provides this information to a union and facilitates union access to all suppliers.

Inditex also discloses relevant information about the supply chain with other important stakeholders such as the International Labour Organization in the countries where we participate in the programme Better Work Programme (109 factories in our supply chain participated in the Programme in 2019 in Vietnam, Cambodia, Bangladesh and Indonesia). The list of direct and indirect wet process factories - dyeing, tanning, washing, and printing - declared by suppliers is published. Also, IPE's Green Supply Chain has been signed<sup>2</sup>.

We also provide information about our supply chain on demand and on a regular basis to customers, benchmarks, indices, NGOs etc.

Finally, there is open collaboration with other brands and companies in the sector by sharing information on supply chain management and establishing joint remediation and action paths. Examples of this are the Bangladesh Accord, the SLCP (initiative for common assessment of facilities) and, more specific to living wages, the ACT Initiative.

### **Living Wages Commitment**

At Inditex we are committed to enabling the workers in our supply chain to receive a living wage. By living wages we mean enough income for workers to meet the needs of themselves and their family including some discretionary income and that this should be earned through legal working hours. We are facilitating this by promoting collective bargaining and adopting responsible purchasing practices, in addition to enhancing production and management systems, wage digitisation and financial inclusion.

Inditex signed a Memorandum of Understanding with IndustriALL, endorsing our commitment to purchasing practices conducive to pay living wages and promote decent working conditions back in 2015. This commitment is supplemented by our membership of the ACT initiative on living wages to drive industry wide collective bargaining and to ensure the adoption of responsible purchasing practices across the industry. This means we have committed to ensure that our purchasing agreements with suppliers include wages as an itemised cost to ensure that wages are protected. It also commits us to fair terms of payment, training our buying teams on responsible practices, improved forecasting and planning, as well as responsible exit strategies – as demonstrated by our commitment to pay for orders produced or in production from the start of the Covid-19 outbreak.

Our role as a lead brand in the ILO Global Call to Action has also been fundamental to identify the needs of the initiative and work towards reaching the goals of protecting garment workers' income, health and employment and support employers to survive during the COVID-19 crisis. We continue to drive the initiative with the end goal of establishing social protection for a more stable and resilient garment industry.

### **Price Setting**

Inditex acknowledges that a responsible approach to purchasing practices is a vital part of achieving a more sustainable supply chain, including living wages for workers. As a member of ACT, Inditex commits to ensure that purchasing practices facilitate the payment of a living wage.

The company is adapting an open cost sheet system for calculating FOB prices for buyers and suppliers where labour cost will be reflected as an itemized cost. Each member of the purchasing team will receive training on the use of this tool and management encourages its use. This tool should be fully operational across our global supply chain by Q4 21 in line with the brands ACT commitment.

As part of our responsible purchasing practices strategy (which includes building a culture of sustainability throughout the company including the buying teams) Inditex actively participates in the purchasing practices Working Group of ACT, which provides tools to assess and improve purchasing practices. Against this backdrop, Inditex understands and is committed to facilitating living wages by committing with the countries with a collective bargaining agreement at industry level by making them a preferred destination for sourcing. Training has been provided to buyers on responsible purchasing practices and, specifically, on the commitments developed by ACT and how they are implemented in the company.

### **Lead Times**

Instead of advertising our products, Inditex's unique model works to accurately anticipate customer demands and avoid excess products and waste. With this in mind, we work with our suppliers to understand how we can work together to ensure we work efficiently and accurately. We work side by side to discuss material sourcing, capacity, production, finishing, logistics, and any other key point that can have an impact on the supplier. With all these factors in mind we then set our lead times with our suppliers in a mutually agreed manner.

When suppliers accept our orders, we understand that they accept them based on our Code of Conduct and that this will be fully respected throughout the entire production process of all our garments. We also allow our suppliers to manufacture our items in any of their Inditex approved facilities. This allows the supplier flexibility through production options.

In addition, we reward suppliers for their compliance with our stringent social and environmental standards with increased business. 95% of our orders last year were placed at suppliers with the highest ratings for social and environmental compliance (A and B) last year. Furthermore, as we increase the proportion of our most sustainable products for both environmental and social sustainability, named Join Life, we reward suppliers who meet these higher standards with more business. Join Life garments accounted for 1 in 5 of our garments placed on the market last year.

## **Recommendations**

To ensure the payment of living wages in the supply chain, we believe Inditex's commitments and processes are completely aligned with the report's recommendations by:

- Endorsing responsible purchasing practices commitments and our actions to implement internal tools, trainings, and guidelines that help our buyers and suppliers are a fundamental part of the business. Inditex has convened an internal Living Wage Working Group compiling Social Sustainability team members from different countries to foster the Group's Living Wage Strategy to align its implementation with the Social Sustainability Strategic Plan 2019-2022.
- Signing an agreement with IndustriALL, which encourages workers' freedom of association and their right to hold free elections to choose their representatives. Inditex believes that collective bargaining is vital to achieve real and sustainable progress on the provision of living wages. The experience that the company has in this field demonstrates that wage improvements are correlated to the promotion of worker rights and particularly their freedom of association<sup>3</sup>.
- Carrying out joint interventions to reinforce social dialogue structures within factories along with IndustriALL and their local affiliates. This means the establishment of structures to enable collective bargaining to ensure workers are empowered when negotiating with factory management.
- Being an active member of the ACT (Action, Collaboration, Transformation) for Living Wages as a joint initiative of global brands and IndustriALL. Its goal is the payment of living wages<sup>4</sup> in the garment, textile and footwear sector based on living wages through collective bargaining at industry level between employers and trade unions<sup>5</sup>. As an ACT member, Inditex signed a Memorandum of Understanding with IndustriALL Global Union committing to ensure that our purchasing practices facilitate the payment of a living wage. One of the five purchasing practices commitments that we have adopted through ACT Initiative is the inclusion of wages as itemised costs in the purchasing prices by the end of 2021<sup>6</sup>.
- Sharing detailed information about its supply chain with the relevant stakeholder groups in the most updated and comprehensive manner not only as a firm commitment to transparency but also with the purpose of working collaboratively with these stakeholders in the shared objective of ensuring decent working conditions, including living wages, across the supply chain.
- Being a direct buyer partner since 2013 of The Better Work Program. The Program, created in 2007 by the International Labour Organization, aims to improve working conditions and promote competitiveness in global supply chains of the textile industry. Regarding industrial relations, the approach of Better Work lies in

promoting representatives of workers freely elected to committees national. Unions are included in this process and a proportional representation of women. The bipartite committees, made up of representatives of workers and management of the company, suppose the generation of the condition's prerequisites for the development of social dialogue in the centre of work.

- Establishing a Whistle Blowing Channel in place for all employees, and manufacturers, suppliers or third parties with any direct relationship and lawful business or professional interest in Inditex, regardless of their tier or location. Through this channel, individuals may report any non-compliances with the Code of Conduct and Responsible Practices or with the Code of Conduct for Manufacturers and Suppliers, they may be aware of. Contact details for the Committee of Ethics are included in the Code of Conduct for Manufacturers and Suppliers which has to be placed in all sites producing for Inditex so that it is visible and accessible at all times to all workers. It must also be communicated to all workers of these sites. Through Inditex's social audits we verify that the Code is visibly posted and that workers are aware of its contents. The Committee ensures the indemnity of any person complaining through the channel in good faith.

All the points raised are relevant and highly interconnected and demonstrate our efforts and commitments to responsible purchasing practices and living wages with an integrated approach that always puts workers at the centre of our social sustainability strategy. Crucially, we believe our response at the very start of the Covid-19 pandemic by committing to pay for orders, actively endorsing the industry Call to Action and directly working with financial institutions to improve access to funding for our suppliers in order to continue wage payments demonstrates our commitment to workers.

Thank you for taking the time to consider the way in which we are working to meet the recommendations of the report. We remain at your disposal should you require any further information.

Kind regards,

Inditex Sustainability Team