

Ending Unethical Brand and Retailer Behavior:

The Denim Supply
Chain Speaks Up.

#ETHICALIZEDENIM



TRANSFORMERS
FOUNDATION

This report was commissioned and authored by the Transformers Foundation. Our goal is to help suppliers share their expertise and opinion on industry threats and solutions, brands and retailers transform their jeans from a commodity into unique and valuable fashion, and consumers choose the most environmentally-sound denim products and avoid greenwashing. Our events connect industry professionals who want a deeper understanding of the denim industry, covering topics ranging from energy and water to social responsibility, technology and waste.

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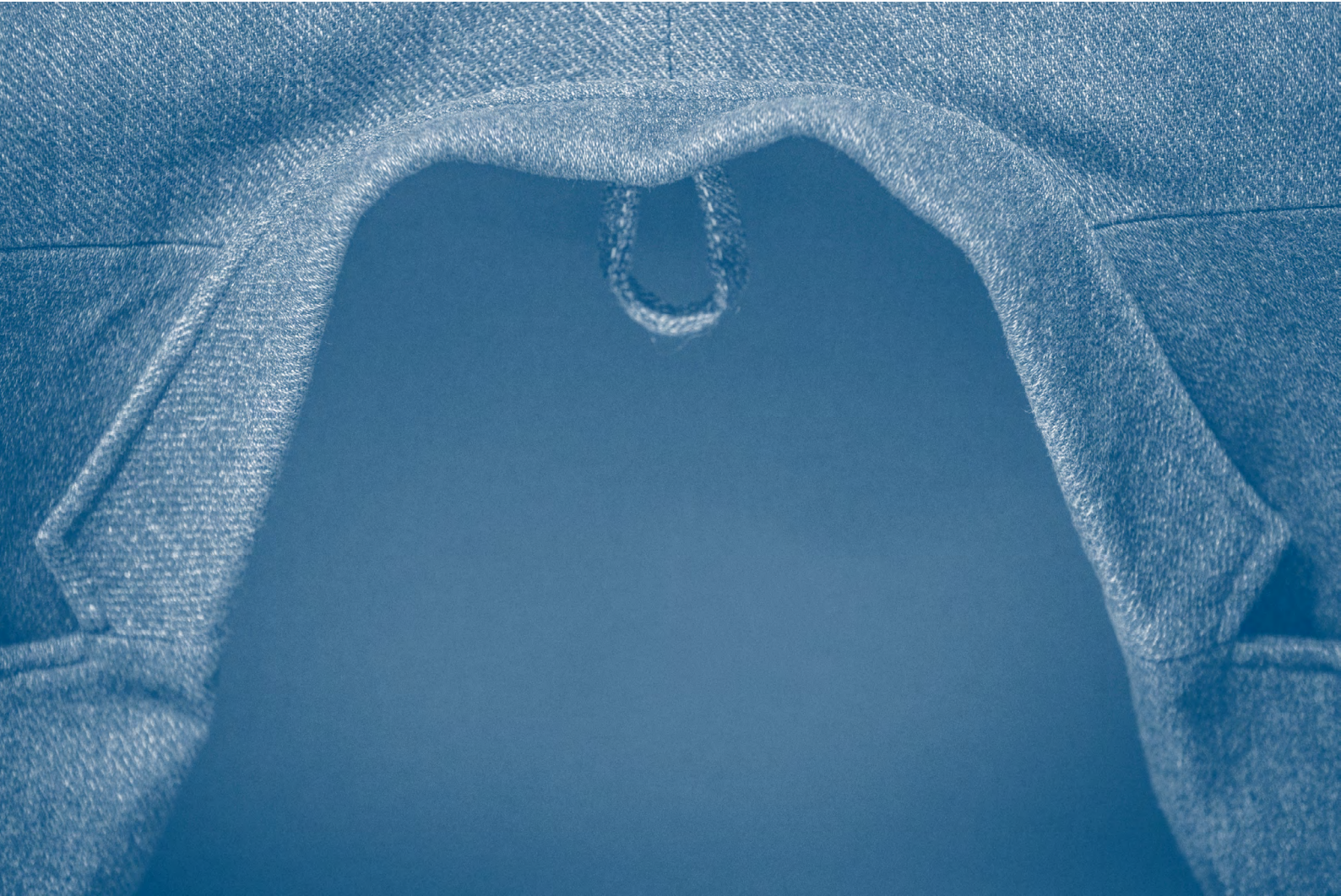
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Why This Report is Needed.

When a scandal explodes in the global fashion supply chain, from forced and child labor to factory fires and collapses, the media sometimes briefly seeks out the voice of workers, who are well represented by NGO and labor activists. But brands still manage to dominate the conversation, often using cynical environmental and labor claims to lull consumers and industry professionals into trusting that brands are acting ethically.

The Transformers Foundation was created to give a voice to the professionals who have been excluded from the conversation: the denim supply chain. From farmers and chemical suppliers to denim mills and jeans factories, we represent them all. Collectively, our best-in-class suppliers know exactly what it takes to make the highest-quality and innovative denim products. They are also the foremost international experts on what needs to change in the denim industry, and how to do it.

When the Transformers Foundation was created at the beginning of 2020, we planned to focus our first annual report and recommendations on environmental issues. Then the COVID-19 crisis happened. We believe environmental issues are crucial, but the crisis has exposed how deep the cracks in the supply chain go. We have a rare window of opportunity to fix the power differential that allowed brands, retailers, and importers to walk away from their contracts with suppliers without almost any consequence. More than just enforcing contracts, we hope to build ethics and care into an industry that right now seems to have very little of either.

We are not saying that all denim mills and jeans factories are perfect examples of ethical behavior. But what has become clear is that even the best suppliers and factories in the world cannot operate, much less pay their employees fairly and provide a safe working environment, in these conditions. We must transform the denim industry to share profits and risks fairly across the supply chain. In short, suppliers' disrespect and exploitation mean disrespect, exploitation, and mass layoffs of garment workers.

We must do better.

The Intent of the Report.

Because of the control that brands, retailers, and importers (BRIs) have over the supply chain, few denim suppliers are brave enough to speak to the press about the shocking behavior from BRIs, behavior that not only transgressed legal and contractual boundaries but ethical boundaries and basic business decency. So we have stepped in to do so. We spoke to as many suppliers as possible and collected their thoughts and experiences to:

1.

Identify the causes of the problematic relationship and power imbalance between brands and denim suppliers.

2.

Put forth actionable, effective, and realistic solutions beyond the immediate crisis to enact long-term change.

We also recorded hundreds of hours of conversation with suppliers, supply chain experts, governmental organizations, and activists and combined them with news, analysis, and reports pertaining to the denim industry and the fashion industry at large before and during the COVID-19 crisis.

On page **38** you will find our calls to action for each stakeholder in the denim industry.

Our hope is that if the stakeholders come together to follow our recommendations and find success, the denim industry can inspire the rest of the apparel and accessories industry as we look toward a more just and equitable future.



CHAPTER 2

The Symptoms of a Broken System.

December

COVID-19 identified in Wuhan, Hubei province, China.

February

More Chinese cities go under lockdown. Suppliers outside of China have trouble getting materials from the country.

Brands pressure suppliers to produce faster, financially penalize them for late shipments.

April

Early: China lifts the lockdown and encourages citizens to start shopping. Vietnam imposes partial lockdown, factories reduce hours and capacity. The European textile and apparel sector is predicted to drop 50% in 2020.⁶

13th: True Religion files for bankruptcy.⁷

20th: Under pressure from consumer outrage and the #payup campaign by the nonprofit Remake, Primark agrees to pay its suppliers for all completed and in-production orders that had been scheduled for shipment by April 17th.⁸

2019
2020

January

23rd: Wuhan goes under lockdown. At least 11 textile and apparel factories within the city are affected.¹

30th: WHO declares the COVID-19 epidemic a public health emergency of international concern.²

March

9th: National quarantine in Italy. Factories shutter, stores close. Factories and mills in China start reopening at partial capacity.

14th: Spain imposes lockdown.

Week of 16th: Suppliers start receiving emails canceling orders.

20th: New York State in the U.S. and United Kingdom close non-essential businesses, including stores.

22nd: Germany imposes lockdown, including stores.

Primark cancels all supplier orders that had not reached distribution centers.

Bangladesh Garment Manufacturers and Exporters Association (BGMEA) announces that \$1.5 billion in garment orders to Bangladeshi suppliers have been canceled.

4 million garment worker jobs are at risk.

2020

March

The International Labor Organization (ILO) projects that 25 million jobs could be lost worldwide across industries.

24th: India abruptly orders nationwide lockdown. Factories shutter.

26th: Bangladesh shuts factories.⁵

May

1st: Interfaith Center on Corporate Responsibility (ICCR), in collaboration with KnowTheChain, sends letters to 43 apparel and footwear brands urging them to protect garment workers during the pandemic.⁹

5th: Garment factories start to reopen in India.¹⁰ Figures released showing retail sales contracted in the U.S in April by 89%.¹¹

18th: Parent company of Joe's Jeans files for bankruptcy.¹²

25th: Bangladesh clothing manufacturers threaten to halt production and deliveries to billionaire Philip Day's Edinburgh Woollen Mill group over alleged £27m in unpaid bills.¹³

August

1st: U.S. imports of jeans are down 35% to \$1.08 billion in the first seven months of 2020.¹⁸

April

22nd: ILO releases Call to Action, a voluntary and non-enforceable commitment by leading brands to protect the wages of garment workers for a "more just and resilient garment industry."

23rd: *The Nation* publishes a damning report on corruption and incompetence in the global auditing industry.

June

5th: Nineteen Bangladeshi suppliers threaten legal action against Sears for \$40 million in unpaid orders.

16th: London reopens stores.¹⁴

July

5th: Boohoo accused of slavery for paying its garment workers in Leicester as little as £3.50 an hour. Its stock drops by 47% in the next 10 days.¹⁵

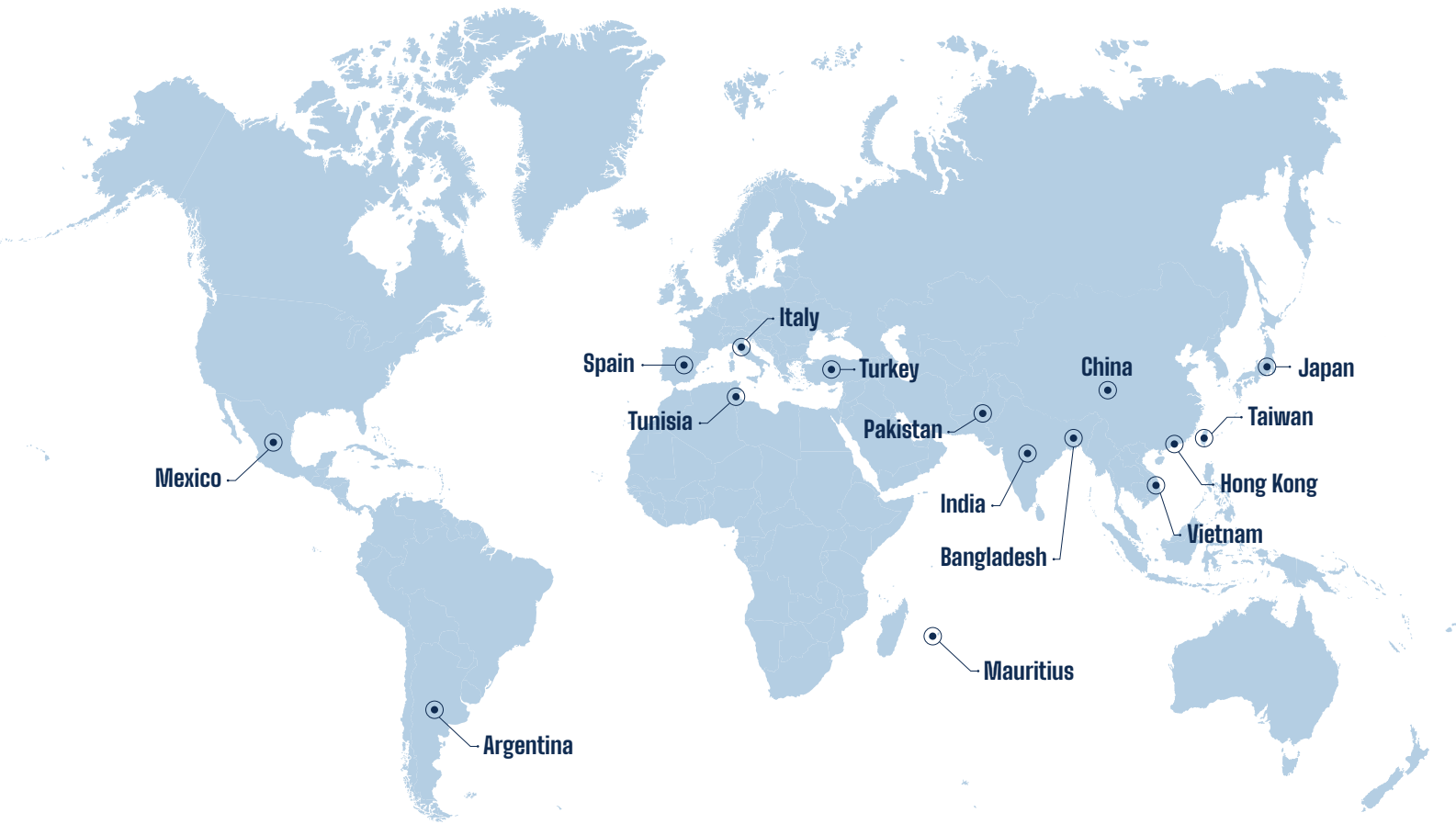
6th: G-Star U.S. files for bankruptcy.¹⁶

17th: G-Star lays off 10% of global workforce. 150 of those laid off are in The Netherlands.¹⁷

What happened to the Denim Supply Chain: Results of our Survey.

The Transformers Foundation sent a survey to 79 leading denim suppliers and jeans factories. Many declined to respond out of fear that their participation, even anonymously, would lead to retaliation from the brands, retailers, and importers they work with. However, we did receive 25 responses, mostly in June, representing a cross-section of the supply chain.

Our goal was to get a broad overview of the damage caused by brands breaking their contracts, attempt to identify patterns and collect examples of poor as well as partnership behavior from brands. Our responses came from 14 countries – representing five continents and one island nation. A few had second locations and offices in China, Vietnam, and New York. Three respondents were owners, and four were CEOs. Other responses were mostly from those in the strategy, sales, marketing, sustainability and creative departments. All were at the managerial, vice president, director level, or higher.



We had...

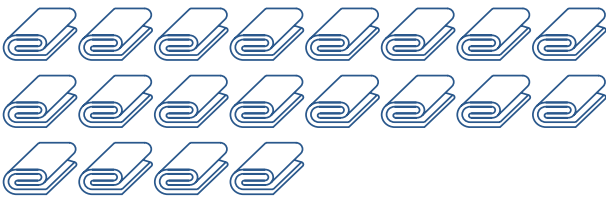
7 respondents with denim laundries,



10 with denim cut-and-sew factories,



and 20 with denim mills



Several suppliers are vertically integrated and have two or three of these operations under one roof, which is why this adds up to more than 25 responses.

They collectively represent an output of more than 694 million meters of denim a year and 114 million units a year, and more than 93,000 employees. They range in size from what we would consider small mills and garment factories making 1.5 million meters and 200,000 units a year, up to 115 million meters and 40 million units each year.

Some notes: Our sample of responses is not large enough to be statistically significant. The responses also came in during a period of over a month, from the beginning of June to the middle of July. The situation changed drastically during that time, so we cannot precisely compare suppliers' financial damage to each other. The data is also self-reported and not verifiable from our end. Finally, the data comes from mostly large mills and garment factories capable of serving the world's largest brands. The experience of small and medium enterprises (SMEs) was likely much, much worse. However, we are confident that the ideas, quotes, and shocking experiences contained within this report represent a large portion of the denim industry's best and most ethical suppliers. Anyone involved in pursuing systemic change in the fashion industry should consult this report.

Brand, Retailer, and Importer Behavior Towards Suppliers.

Destructive.

Cancelling orders.

Unilateral decisions without discussion.

Lying about financial status prior to bankruptcy.

Confirming order then cancelling it.

Asking for discounts in excess of supplier margins.

Delaying payments.

Threatening to never work with a supplier again if they don't agree to discounts.

Bare Minimum.

Paying on time.

Receiving orders on schedule.

Asking to put order on hold temporarily.

Creative Solutions.

Helping supplier secure low-cost financing.

Changing orders instead of cancelling or delaying.

Using fabric that factory had on hand.

Offering to cover cost of storage.

Shifting production to masks.

Paying in advance.



Transformer Behavior.

Taking responsibility for all fabrics and trims purchased for orders.

Publishing detailed supplier lists.

Supporting development programs (like Fair Trade) at suppliers.

Lobbying for transparency and due diligence legislation.

Reforming KPIs for buyers to include ethical indicators.

Committing to long term relationships with all your suppliers.

Signing an ethical code of conduct.

Unfortunately, nobody has yet demonstrated more than one of what we would consider *Transformer* behavior. But we do see brands and retailers engaging in a combination of behaviors from different categories.

The suppliers who responded are some of the best in the industry, and we feel confident in saying they care deeply about their employees, their product, and their reputation. Still, it is striking that even the leading denim suppliers with the longest relationships with brands faced significant financial damage from brand, retailer, and importer (BRI) behavior:

- » Most experienced unilateral decisions to cancel and delay orders, delay payment, and extend payment terms, with no possibility for negotiation or discussion.
- » Several customers (a.k.a. brands, retailers, importers or BRIs) refused to pay for goods even after they were delivered to the retailer or the next supplier in the chain.
- » Multiple suppliers reported that BRIs tried to impose retroactive "discounts" on products a ready made or shipped, threatening to never work with the supplier again if they didn't comply.
- » One brand tried to lengthen payment terms from 45 to 90 days, impose a discount of 15%, as well as delay payments into a months-long repayment schedule. "We tried to negotiate but it was non-negotiable," the mill said.
- » One brand persuaded a mill to accept 60-day payment terms, but two weeks later filed for bankruptcy. It refused to pay another mill for the previous shipment of denim fabric unless the mill went to court, but continued to push the mill to ship the fabric on to the garment factory. Multiple suppliers reported it also asked for a 60% discount.
- » Multiple suppliers reported that a customer had confirmed to go ahead with receiving fabric, cutting fabric, or producing the product, then canceled the order. Because the suppliers declined to share the brand with us, this might be one brand, or several that engaged in this behavior.
- » At least one brand or retailer requested a mill extend credit to a vendor with a bad payment record, but refused to be liable if the vendor didn't end up paying.

Apart from buyer behavior, suppliers indicated their shipping costs went up due to the delays and the COVID-19 lockdowns, and their staffing costs went up as many strived to pay workers even when nothing was being produced.

Alberto Candiani, whose mill is located in Europe and was able to take advantage of the social safety net for their employees, estimated his cost per unit increased by 2%. That may not seem like a lot, but profit margins are 5 to 10%. Added with the discounts and delayed payment from suppliers, even the mills who fared relatively well compared to their competitors still saw losses.

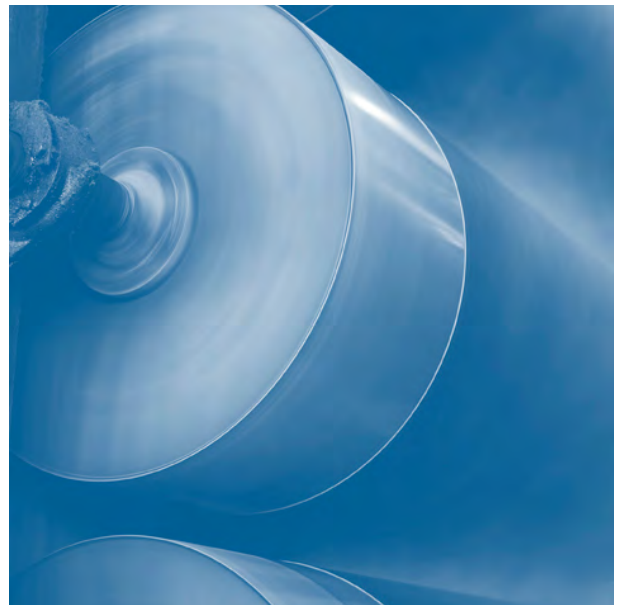


If you're coming in five, six, seven percent below cost, that's better than having to shut down the whole factory.

- Mark Anner of Worker Rights Consortium to *Vogue Business*¹⁹

It wasn't all bad, however. We asked suppliers for examples of helpful behavior and they indicated in the survey that:

- » Several customers, including Nudie, Denham, Mother, Amiri, Armani, Uniqlo, Zara (Inditex), Diesel, and Citizens of Humanity were cited as honoring their contracts and paying on time. However, it has been noted, that in some cases, brands behave differently toward different suppliers so this should not be an indication of ethical behavior across the board.
- » Other customers committed to taking orders as originally scheduled, even though stores were closed.
- » ASOS and Ahlers worked with suppliers to change the order instead of canceling it.
- » After putting some orders on hold, Levi Strauss planned collaboratively with a mill on how to restart the production. It also extended a financing program to suppliers so they are less affected by cash flow issues.
- » According to a follow-up interview, Mango assured a mill that whatever was produced they would take, and offered to pay in advance.
- » A customer advanced payment to a mill even though it had not yet delivered the fabric.



- » Several customers paid the mills and factories to produce masks.
- » Several customers asked the suppliers to hold product, but either offered to cover the costs of storage, or committed to more orders in the future.
- » One customer offered to use some of a garment factory's denim fabric inventory to reduce the cost and time of production.



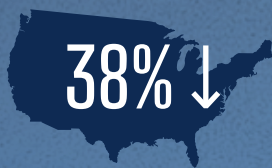
Rarely did brands attempt to put in place measures to protect the livelihood of workers. A quarter of respondents said pandemic's effects had a "considerable: emotional impact on their employees. Suppliers stepped up by:

- » Pushing their government to provide financial support to the laid-off and furloughed workers
- » Guaranteeing the job of all employees through factory shutdowns
- » Paying wages even for days not worked
- » Reducing the salary of high-level employees
- » Furloughing employees on rotation
- » Paying wages early and in shorter intervals
- » Providing boxes of food to employees
- » Providing COVID-19 safety training

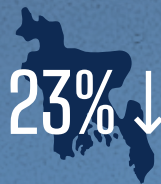
The Damage Continues.

Since the survey, business has improved for all the suppliers we spoke to. Many (but not all) brands have come back to the table to come up with solutions. Partly because of the #PayUp campaign in some cases, in others, because their panic has subsided. Europe has started to open up again, and they are looking to the future.

Overall, however...



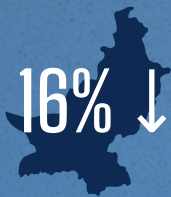
Shipments from the U.S. were 38% lower in the first half of the year, at \$1.08 billion, compared to the first six months of 2019.



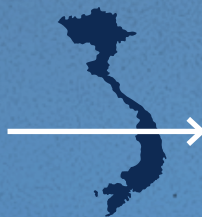
OTEXA reported that imports from Bangladesh fell 23%.



Mexico's shipments fell 55%



Pakistan's shipments fell 16%.



Vietnam's stayed almost flat.



Cambodia jumped from the same period last year by 40%, as it stole China's market share due to the tariff war.²⁰

“If I compare this year against last year till the end of July, we're down 24% in Europe, and down 40% in America.

- Alberto Candiani, Candiani Mill

What kind of brands, retailers and importers canceled orders?

We tried to find some commonalities between the brands that unilaterally canceled orders and the brands that came to the table to find solutions.

There were no similarities in geographic locations, price points, or even the brand's strongly-communicated sustainability goals. **The only factor that some suppliers told us was that independent, a.k.a. privately-owned brands tended to act more reasonably.** A few said that it came down to a company's core culture, which tends to atrophy once a company grows large and goes public.

"The faster a company grows, the more a company becomes a public Fortune 500, Fortune 1000 company where their shareholders become the ones that they are most accountable to," Ayesha Barenblat, founder of the nonprofit Remake, told us.

For example, one South Asian supplier said that Levi Strauss, "really value their suppliers, to the point where if they cancel an order, they own the liability of, let's say, the fabric that trims all of what you've taken under your roof at your factory. They will try to facilitate utilizing that in future orders.

So, Levi has had a very good history in not causing any financial losses to their suppliers." However, the brand went public last year, and the industry is watching to see whether that will affect the company culture. During the COVID-19 crisis, it took some time for Levi's to confirm that it wouldn't cancel orders, and it extended the length of payment terms for its suppliers.²¹

“We have a situation in which the suppliers, and hence the garment workers, have to rely on the voluntary benevolence of large companies that are accountable to no one except money. **This is untenable. We surely need to have some say in our own destiny; our survival cannot be in the lap of the gods.”**

- Bangladesh denim mill owner, Mostafiz Uddin for *The Daily Star*²²

What do suppliers think?

Suppliers indicated that other vendors and suppliers they do business with mostly behaved honorably — likely because they have equal power. But 14 (56%) of the suppliers surveyed indicated they had trouble paying their suppliers, demonstrating the cascading effects of order cancellations down the supply chain.

Overall, suppliers said most customers kept transparent communication and took a collaborative approach, while half of the customers engaged in discussions to find mutually beneficial decisions, and the other half made one-sided decisions.

Surprisingly, when asked in the survey, suppliers and factories indicated they mostly didn't see BRIs as taking advantage of the situation for their benefit. Even fewer BRIs were seen as engaging in unethical behavior. The survey respondents understood that everyone is suffering from the effects of the pandemic. It's just the way BRIs went about it that seemed unfair.

It comes down to a system in which — absent any transnational governance to monitor and enforce ethical behavior and legal contracts — brands hold absolute power. They have no incentive to consider the ramifications of their actions on suppliers, or even think about whether their actions are technically legal.

When asked, respondents weren't interested in small changes, like improving communications, improving flexibility, or implementing payment terms. Instead, they indicated wanting a true and equal partnership with customers, who should take responsibility for their orders and liabilities.

Voluntary commitments are not enough.

We compared brand behavior against the voluntary commitments and multi-stakeholder initiatives they have signed on to, including being a member of ACT, signing the ILO's call to action, signing on to the Bangladesh Fire & Safety Accord or the Alliance for Bangladesh Worker Safety, and transparency as measured by Fashion Revolution's index. While there was some correlation between voluntary commitments and good behavior, **no voluntary commitment or transparency guaranteed good behavior from all members.**

Industry professionals have known about and tried to educate their colleagues on these problems for at least 13 years, and yet they continue to get worse.²³ And while the social media campaign by Remake helped an acute crisis, we cannot rely on consumer outrage for very long, and especially not as we get into the complex work of reforming the entire industry.

What can suppliers do individually?

Keep in mind that these represent some of the most well-regarded suppliers in the denim industry. We found no shared characteristics (size, market segment, country) of the suppliers that managed to keep order cancellations below 10%.

When asked what they had learned and were planning to do moving forward, suppliers said they would:

- » Research on potential customers and be more selective about which they work with
- » Broaden and diversify their customer base, so the risk is spread out among customers
- » Keep investing in R&D to create innovative new products
- » Reduce the pre-ordering of materials
- » Reduce lead times of development and production
- » If possible, ask for a deposit for orders
- » Never offer unsecured credit
- » Be more proactive about communicating with customers



When selecting from a menu of options we provided for assessing potential new customers, the suppliers were most interested in evaluating the business model of the customer and its history of financial stability. They were the least interested in hearing about their peers' experience and looking at the favorability of the contract terms.

In our follow-up conversations with industry-leading suppliers, some business decisions had limited some of the damage. We share these suggestions for the benefit of other suppliers, both in the denim industry and the broader fashion industry, who would like to improve their operations and become best-in-class factories and mills. We strongly suspect the era of building a garment factory to get rich quickly is over.

But for those who are passionate about creating quality denim, you'll find illuminating ideas in here...

1

Right size your capacity.

Multiple suppliers told us about how they had shrunk their workforce before COVID-19 to be more selective with the kind of customers they work with, and preserve profit margins. Overcapacity within a factory can lead to a supplier taking on unprofitable orders in order to keep the machines running and workers employed.

"Around 15, 17 years ago, we already downsized the factory," Jose Royo of Tejidos Royo in Spain says. "The company was old and needed to be modernized. We reduced our capacity, but with newer machines. Today we believe that we have the perfect capacity."

"Most important is the size and scale of our business. We have anywhere between seven to ten customers. That's it," a South Asian mill told us. "We have retained or maintained a scale based on a certain set of customers. So I think we're not overexposed."

It's the right time to get to a manageable size and be in a position to say no to business that will gradually be a cancer that you will not be able to shake off.

- Sanjeev Bahl, Owner of Saitex in Vietnam, to *Forbes*

We acknowledge that there have been financial incentives in the form of low-interest loans and grants from development organizations and governments in some countries to open factories at a higher capacity than the market can bear. We see a market correction and consolidation happening in the next year as financially unhealthy denim suppliers go out of business.

2

Diversify your client base, especially with privately-owned brands.

Diversification is a fundamental principle of business, but we will stress it again here in the context of denim suppliers. It's easy to fall into the trap of letting one large customer make up the majority of your orders, but it's more important than ever to stick to a diversified client base and work with independent and privately-owned brands that are not public and/or are owned by a holding company or private equity firm.

"My biggest selection act was probably to renounce work with the fast retailers," Alberto Candiani of the Candiani mill in Italy told us. "The pattern I see is that large corporates are acting like assholes more than independent brands."

In this and our first observation, denim mills have an advantage over factories in that they have fewer workers but many times the customers. In Bangladesh, for example, many garment factories have more than 5,000 workers but only around ten customers. Denim mills can have more than 200 customers, making the pain of losing a customer more manageable.

"At the inception, it's always the founder's vision and mentality," says Sanjeev Bahl, founder and CEO of Saitex. "He or she is the one who really inculcates the philosophy of the business. As the organization grows larger and turns dependent on investors, the goalposts start shifting. Capitalism comes to the forefront, with environmental and social justice taking the back seat".

3

“Fortunately, we work with denim specialists, we don’t really work with big big groups. It’s a better market, we are very much diversified in terms of customer base.

- Alberto Candiani



Cultivate long-term relationships with brands and retailers.

In a follow-up interview with a factory representative, we asked them why the factory had zero cancelations. "I just think it's because we have such good relationships and partnerships over the years," they said.

If you find a dependable and fair customer, do what it takes to become their favorite supplier — not by reducing your prices, but in making quality goods and being pleasant to work with.

"The long-standing relationships we have with some of these customers probably date 15 to 20 years plus," a mill representative told us, saying long-term customers represent 80% of the mill's business. "It helps to be a core vendor or being in a key relationship, where they go over and beyond to help you out."

"It totally depends how important you are in that relationship," Bahl of Saitex agrees. "There's always a top tier, mid tier, low tier. The top tier is very important. You need them much more than anybody else. Mid-tier is somebody who you need. If push came to shove, you could probably consider moving away from them, but you'd have to replace them. The bottom tier is purely transactional and disposable."

Successful suppliers cultivate relationships not only with the buyer but with all the people involved in buying decisions including employees in the buying office, creative, merchandising, production, quality control, logistics, CSR, the executive level, and the local office. In the case of mills, cultivate a relationship with the garment factory you ship to. All of these people have some say in sourcing decisions. The goal is to make authentic connections at multiple levels to create a company-to-company relationship that continues even if your direct contact leaves. At the very least, make sure to have at least two connections at the brand or retailer.

4

Hire office staff with foreign market experience, and open local offices in main markets.

Most suppliers we talked to that had fared relatively well have a diverse team of directors ranging from two to 25 that are multilingual and have lived in multiple places. "We have two foreigners who are working in our management team," one Asian mill told us. "One is an American, and one is a European. Their culture, business knowledge, management skills — they can help to negotiate with brands."

One South Asian mill with four to six foreign staff said it helped keep communication alive at the height of the crisis. "When all emails were dead for two weeks, [our European director] could still call and speak to the buyer and kind of pulse out how things are going," they said. The representative quoted here is a great example: he is from the mill's country, grew up in the West, and was educated both in the mill's country and in the West.

One factory owner who was hit hard with cancellations, prided himself in having no foreigners on staff. However, another factory owner pointed out that it's not necessarily about nationality, but about speaking the language fluently and understanding your market from living there at some point.



Successful suppliers also have at least one employee in their biggest markets, including New York, Shanghai, Los Angeles, Hong Kong, and Amsterdam. While this can seem like an unnecessary cost, it ultimately pays for itself and can move you into a higher tier with your buyers. Just sharing a time zone with a brand or retailer was helpful during the week of chaos, confusion, and cancellations when the shutdowns in the West began.

5

Co-create branded and innovative collections.

First-tier factories make themselves indispensable by creating products that brands cannot get anywhere else. The brands then talk about these factories and mills in their marketing, cementing the relationship.

"I believe with our innovation — our sustainable innovation in particular — and with the custom developments we're making... we are in a way creating stronger consistency," Candiani says. Note that he has started to decline doing capsule collections with brands who do all their production elsewhere, as it's not a long-term relationship.

One factory that was hit especially hard admitted that they have never created a co-branded collection or been included in brand marketing, even though it's a leading factory in terms of sustainability and ethics. That is a missed opportunity.

6

Vertically integrate.

Being a vertically integrated supplier — a denim mill, jeans factory, and laundry — simplifies the supply chain and takes away pain points for both the supplier and brand. The brand only has to coordinate with one supplier instead of several. The supplier has control over the entire process and reaps the value created at each step.

In one instance, a brand that had canceled orders to multiple suppliers didn't cancel anything with a South Asian mill we spoke to. The representative mused that it was because that business was handled through their cut-and-sew factory in Europe.



Pre-pandemic, the future was all about vertical operations. There's speed, agility, quality, and transparency. Post-pandemic, digitalization has also become important.

- Sanjeev Bahl, Owner of Saitex

7

Invest in sustainable, circular, and digital ordering technology.

We envision a future in which materials are traceable, waste is diverted from the landfill, and environmental footprints are accurate. Brands and retailers also dream of finding a sustainable way to grow their business, and will increasingly see circular and sustainable services as a value add.

"We are looking towards circularity. If it's not rent and resale, it's recycled, right?," says a mill, who last year opened a new section for denim recycling.

However, be thoughtful about only buying equipment that supports the sustainability goals of brands. There is a lot of technology out there that will cost you money but won't help you land new accounts.



*While we have experienced the rapid evolution of digitization in consumer-facing businesses, the business-to-business apparel industry continued to operate in the same old, traditional fashion. **Factories failed to digitize, and that left them vulnerable to disruption.***

- Sanjeev Bahl, Saitex

8

Record aggressive conversations.

We suspect buyers knew that what they were doing toed the line of international legality, and at least did not make them look good. It's easier to make the destructive decisions they did, like demanding huge discounts and threatening to never work with a supplier again if they didn't comply, using impersonal email. But Alberto Candiani came up with a smart solution to hold buyers accountable.

"In the early days, a bunch of them popped up quite aggressively, and then they cooled down because I was like, 'If you want to talk about this, it has to be on Zoom, and I have to record it because I need to share with my team. And of course, nobody really wants to fuck with you if they know they're being recorded because we're talking about borderline legality right now.'"

Individual action by suppliers is not enough to protect them or garment workers.

Unfortunately, even the suppliers who employed all of these strategies still had to furlough or lay-off employees, and lost money on orders. We will see consolidation. The hope is that the suppliers and brands that go out of business are the unethical ones. But there is no guarantee unless we reform the industry and purchasing practices. **Industry-wide change is needed.**



Why Did This Happen? The Causes of the Broken Denim Supply Chain.

Consumers and professionals outside the fashion world were shocked when they heard that apparel brands, retailers, and importers could walk away from legal contracts and refuse to take finished goods sitting at a port.

But this behavior was the logical conclusion of a two-decade run of consolidation of power into the hands of multinational retailers, growing overcapacity in denim and jeans manufacturing, a colonialist attitude from buyers toward suppliers, and a lack of legal or moral accountability in the industry.

Here we break down the exact mechanisms that led us to where we are today.

1

Overcapacity means suppliers take on unethical and distressed clients.

It's an open secret that the industry is far over-capacity. The exact percentage hasn't been measured, but experts' gut feelings are that there is around 20% to 30% extra capacity internationally. In the past two decades, many factories were launched by novices based on financial incentives from NGOs and governments in an oversaturated market.

In practice, this means a supplier will accept an order from any large brand, retailer, or importer (BRI) at almost any price, even if it means losing money. And buyers leverage this fact to play suppliers off each other to get the lowest price.

It doesn't matter if there are red flags in the new relationship, or the brand is financially stressed. One supplier told us that after a well-known brand declared bankruptcy and demanded a 60% retroactive discount on orders in progress, the supplier continued to work with them and even started discussing new orders.

Jose Royo of Tejidos Royo says he doesn't say no to risky customers, "because the customer can change your factory situation. Suddenly one of these guys can do a big order. Maybe we didn't make any money, but at least you're paying the fixed costs of the company."

BRIs also leverage over-production to engage in counter-sourcing, in which they take a sample of a new, innovative fabric from a top-tier mill, and then hand it to another mill for copying, to create competition and lower the price of the fabric. "Effectively, trying to leverage the overcapacity in the industry to lower prices by copying intellectual property of other mills," a mill told us. "In some cases, we have received 20 fabrics from one customer to counter source." Even reputable brands engage in this behavior.

“So many factories, they are very bad quality and very cheap. They make the competitive environment very bad. Everybody is fighting about the price, not concerned about the quality. **After the virus is gone, I think we're also in a very good condition because the worst quality of the supplier or the customer will go away.**

- East Asian factory owner

“JCPenney has not paid many factories in Bangladesh.²⁴ The truth is the factories knew that JCPenney is in trouble.²⁵ **But for the factory, it is more important to keep working.**

- A Bangladeshi factory owner

“If you ask me, my standard is nothing less than **\$8.50**, that is in retail minimum \$29. But I also produce for \$5, \$4.50. When my capacity is getting empty, I **get nervous. So I start to take the orders.**

- A South Asian factory owner

2

All the financial risk is pushed down to suppliers.

Multinational conglomerates have used their power to chip away at the amount of financial responsibility they have over the production of jeans to almost nothing.

They don't put down a deposit on orders. Instead, they sign a contract with a promise to pay for the order within a certain time period after the goods are shipped or delivered. Suppliers then take this promise and order materials and pay the workers who produce the denim and jeans.²⁶

Before the pandemic, it was already an open question of when suppliers would recoup this investment. According to a [Special Report](#) by Better Buying based on the fourth quarter of 2019...

out of 784 suppliers...

40% reported payment terms of over 60 days

2.4% reported payment terms of over 120 days or more

31% reported the buyer they rated paid on average 26 days late

out of 179 suppliers...

In a [survey](#) conducted during May 2020, Better Buying™ asked which practices should be prioritized as industry standards as the industry recovers.

25% reported that their top priority would be to receive deposits upon release of bulk purchase orders.

This was further supported by open-ended comments of the suppliers.

"There are brands that used to pay 45 days after the product shipped that are now paying 90 days after," says Foxvog of the Worker Rights Consortium. She says they started extending payment times before the pandemic to stay competitive. During the crisis, brands extended these laughably bad payment terms to 120 days and delayed orders so they wouldn't have to pay for them. Suppliers were forced to pay for storage and take on the additional risk of orders getting damaged or destroyed while they waited at ports.

In Bangladesh, the price paid by large brands to suppliers declined by 13% between 2013 and 2018. That was completely absorbed by suppliers, whose profit margins dropped by 13% between 2011 and 2016.²⁷ In Cambodia, while the legal minimum wages went from \$100 to \$153 a month between 2014 and 2017, the nominal apparel prices paid by E.U. and U.S. retailers in the same period mostly dropped.²⁸

Several large fashion brands, at least temporarily, claimed that financial distress precluded them from honoring the original terms of their contracts, while their owners personally held billions in wealth. Meanwhile, suppliers scrambled to find a way to pay at least partial salaries to the furloughed workers. Coming off of many years of falling profit margins, they were unable to provide a financial buffer for their workers.

"These last quarters, if you look at particular brands, you see a lot of them shored up liquidity," says Barenblat. "And essentially kept their own balance sheets looking good on the basis of not paying these bills. And then when you think of the average Bangladeshi worker, she was making \$96 a month. Workers don't have safety nets, they don't have health insurance."

“We’re talking of upwards of 230 days cash-flow cycle. **There are no margins or liquidity in this business that can allow for 230-day cash cycles.**

- A South Asian supplier



“**You sourced out your risks and you sourced in flexibility and additional revenue. When the shit hits the fan, you run for the hills and leave those who made it possible for you to increase your turnover out in the rain.**

- MSI Manager

3

Brands refuse to own their liabilities.

The denim fabric makes up about 40 to 50% of the cost of a pair of jeans. A high-end denim brand will often nominate a denim supplier and tell a jeans manufacturer to order enough custom fabric – to make the order.

In Better Buying's Fall 2018 Index Report ²⁹

out of 290 suppliers...

25% indicated that the buyer failed to manage relationships with their nominated raw materials suppliers.

And few brands, it turns out, will take responsibility for the fabric if the jeans don't end up being made. Suppliers are then on the hook to pay for it and store it until the brand hopefully finds a way to use it. And if the denim mill that was nominated by the brand delivers a subpar product? It's the manufacturer's job to find a fix.

Fast fashion brands take even less responsibility, telling a manufacturer to figure out the denim sourcing on their own.

In short, there is no plan B specified in the order contract, because it's assumed Plan B is the supplier's responsibility.

“I think the bottom line is that the brands or retailers need to own their liabilities, if you have, let's say, half a million meters made for your orders, and you decide that you don't need those orders, then the least you can do is **work out a utilization plan for the wrong material that somebody has bought on your behalf.**”

- A South Asian supplier

4

Brands charge markdowns and chargebacks to suppliers.

When it's finally time to pay, brands and retailers can and do take the liberty of slicing additional money off invoices under the rubric of chargebacks and markdowns.

Chargebacks occur when a retailer says a supplier made a mistake on an order, including packaging, documentation errors³⁰, or minor faults in the product, such as deliberately distressed jeans having a hole in a slightly wrong place. According to Better Buying's May survey,

22% of suppliers reported that they received chargebacks for late shipment due to inadequate lead time, unsubstantiated claims about packaging or unsubstantiated claims of quality defects.

This was prevalent even before the pandemic, according to Better Buying's 2018 Fall Index Report ³¹

27% of suppliers reported that the buyer did not pay the full price specified in the agreement.

"If our documents are not the way they're supposed to be, they debit us. So everything is the expectation for the suppliers to perform at a 100 percent, and if you don't perform at 100 percent, there is a penalty attached," Sanjeev Bahl of Saitex told [Sourcing Journal](#).

If retailers have to discount the product in stores, they will sometimes "request" that the supplier give them a discount on the invoice. This was so frequent during the crisis as to become the norm.

“**Discounting you can accept to some degree until the point that it becomes totally unviable. Fifteen percent takes us into that category basically where it's not feasible. But you can't do much, right? You accept the discount because you still need money to pay your suppliers.**

- A South Asian supplier

4

Secure financing available to suppliers is expensive and rare.

Suppliers have a shrinking menu of options to get their hands on the cash needed to order supplies and produce the goods.

Letters of credit (LCs), in which a bank guarantees the supplier will receive payment once the bank receives documents proving the goods were shipped and accepted by the buyer, are the most secure. The supplier can get the payment faster than the days stipulated in the contract if it pays a small percentage to the bank handling the LC.

Credit Insurance is where the insurance agency will pay the supplier around 80% of the order value if the customer refuses to pay. And there is factoring, in which a factoring institution will assess the financial viability of the customer, and front the cost of the materials and production to the supplier. All of these tools cost the suppliers, but provide some security.

Unfortunately, most vulnerable suppliers do not have access to these financial tools. Even before the crisis, many of these institutions had seen the writing on the wall and were backing away from the fashion industry. Brands have recently refused to have enough cash in the bank to make letters of credit possible. As a result, only 17% of apparel and footwear suppliers say they have some form of insurance that guarantees payment for orders.³²

The suppliers had to trust the brand contracts, which proved to be worthless in the end.

“The secured letter of credit has almost become like a dinosaur in our business. Very few customers actually are working on LC.

- South Asian factory owner



5

Suppliers have no legal power.

The problems start with the contracts that suppliers sign with brands.

According to a report by the European Center for Constitutional and Human Rights, ECCHR, retailers including Kohl's, Arcadia (Topshop), and Primark used the now-infamous force majeure clause in their contracts to unilaterally cancel orders at any time for reasons that were out of their control. But their definition was so vague as to include almost any circumstance.

Suppliers signed these lopsided contracts for the same reason they make all of the other concessions: all the power rests with brands, and an industry overcapacity means there's always another supplier willing to sign it.

A force majeure clause can usually only be invoked if the contract specifically includes "pandemic." However, even in jurisdictions where this is not the case, the brand would have to prove that it was impossible for them to fulfill their side of the contract, i.e. there was no way for them to pay for and accept the orders. Even if the retailers could have anticipated the business interruption, had a robust online business, or was deemed an essential retailer and stayed open, they took no responsibility for warning suppliers or finding mutually beneficial solutions.³³ It's clear that for all of the brands who canceled, save for perhaps the ones that declared bankruptcy, they could have accepted and paid for the orders.³⁴ Legal experts believe they were in breach of their contract.

Arguably, it's the suppliers who could have invoked force majeure at the beginning of the pandemic, as China shut down, and shipments of materials were delayed. But according to Sharon Benning-Prince, an English lawyer who represents suppliers in other industries and was involved in the Rana Plaza compensation process, that's not currently possible. "I've not had the leverage to be able to renegotiate terms for suppliers," she says. "Lately, as an example, I have tried to include in the force

majeure provision events such as if any of the subcontractors' employees go on strike, if a third party goes on strike, the supplier can invoke force majeure. However, nine times out of ten, a customer will strike that out. Both parties want to have the ability to make the agreement flexible, but it is usually in favor of the customer, especially in the garment industry."

“*The learning for me is that the value of a contract is... there is no value. They've said no liabilities for us, thank you very much, we'll see what we can do in the future. And for me, that doesn't feel right, that it's so easy to walk away from it.*

- Ali Abdullah, Managing Director,
Diamond Denim by Sapphire

These cancellations also seem to be illegal under international law, under both the UN Guiding Principles on Business and Human Rights (UNGPs) and the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.³⁵

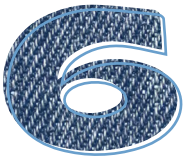
In short, if suppliers had the resources to take brands to court, they would likely win. But legal action can cost more than the value of a canceled order and moves too slowly to help suppliers with the cash flow problems caused by non-payment. Contracts also specify that legal action takes place on retailers' turf, in Europe or North America.

The one exception is a group of 19 Bangladeshi suppliers, who are suing Sears for \$40 million in unpaid orders. Sears is refusing to accept orders that have been delivered and are waiting at an American port,³⁶ the clearest available example of breach of contract.



*If I was one of those big, big groups that invoice €100 million, believe me, I would go to court. But the problem is that we are not that big. They put in the contract that in case we have a difference, we will use the Californian or New York State laws. We are talking about €50,000, €150,000. **The lawyer is more expensive than the money that you make.***

- Jose Royo of Tejidos Royo in Spain



Buyers are inexperienced and unaware of repercussions of low prices.

In the British Channel 4 TV documentary, *Inside Misguided*, a young buyer for the ultra fast fashion brand haggles the price for a dress down from £7.75 to £7.40. The narrator says, "Shelley's done a great job of getting it for £7.40. Nice one, girl."³⁷

A Junior Buyer's role is an entry-level job, in which inexperienced Westerners compete to extract the lowest price and shortest turnaround time from suppliers. Their aggressive negotiation tactics to meet their KPIs (Key Performance Indicators) can verge on bullying. And they can sometimes have a colonialist, condescending attitude toward suppliers, foisting the responsibility for labor violations on "greedy" factory owners, without understanding the ethical ramifications of their haggling "wins" on the lives of garment workers.

For example, lead times in Bangladesh declined by about 8% between 2011 and 2015, increasing forced overtime. Real wages dropped by 6.5% since the minimum wage increase in 2013 until the minimum wage increase in 2019. The number of violations against workers' rights to form unions, bargain, and strike increased by nearly 12% between 2012 and 2015.³⁸ In Cambodia, buyers forced prices down while the minimum wage went up, and subcontracting factories nearly tripled from 82 in 2014 to 244 in 2016.³⁹



*If I was faced with rising minimum wages on the one hand (which I was), and volatile uncommitted sales forecasts from brands on the other (which I also was)... I might choose to dismiss some staff in order to be able to secure the jobs of the remaining staff. I might opt for overtime, figuring that longer hours are better than no income at all. **If factories had bigger profit margins and cash cushions, if fronting production costs came with more guarantees from brands, maybe some of these choices could be avoided.***

- Kim van der Weerd, former Cambodian garment factory manager on *Medium*⁴⁰

For Better Buying's report⁴¹, more than half of suppliers reported that the buyer they rated had used high-pressure cost negotiation strategies. They include:

1.

Take it or leave it: meet the target cost or supplier cannot win the order;

2.

Demanding level prices be maintained from year to year without consideration for inflation;

3.

Demanding across-the-board price cuts from previous orders or years.

During the crisis, one factory owner was told he would have to accept 20% and 30% discounts. "They have no idea the margins in our business are like 5%, 10% if you're fucking genius," the owner says.



There is little communication or alignment between the buying, CSR, marketing, and financial departments of brands and retailers.

When lockdowns swept across the West, insiders tell us that the financial controllers took complete control at several BRIs and forced the decision to cancel all orders down to the buying department, bypassing the Corporate Social Responsibility (CSR) and marketing departments completely.

If these departments were consulted, even briefly, they would have pointed out that canceling orders was unethical, and would hurt the company's business relationships and reputation, not to mention have a significant impact on garment workers.

The extent of this disconnect between departments became clear when Kohl's canceled an estimated \$1 billion in orders and paid \$109 million in dividends to shareholders a few weeks later in April.⁴³ As of this publication, JCPenney has yet to pay for canceled orders but paid out \$4.5 million in executive bonuses in May.⁴⁴

“My Canadian buyer is saying that all the suppliers accepted a 30% discount except me. I said I'm not going to accept any discount. Now they are saying, if you don't accept the discount, I am not going to take your goods.

- A Bangladeshi supplier

Marsha Dickson of Better Buying points out that even being a key supplier doesn't protect you from bullying. "Sometimes, practices are worse with strategic suppliers," she says. "Because they're on the hook of a brand, who says you need to deliver for us no matter what it takes." In Better Buying's 2019 Index Report⁴² suppliers reported that if they had longer business relationships with the BRI they rated, they also experienced more high-pressure cost negotiation strategies.



**It's a question of priority,
the shareholders or the workers.**

- Carrie Somers to *Vogue Business*

Note that one of the first brands to publicly confirm that it would honor its contracts was H&M, whose new CEO, as of February 2020, Helena Helmersson, had worked her way up through the company to Head of Sustainability and then Global Head of Production before becoming the COO in 2018.

"To me, certain behavior patterns are not so much unethical as they are unwise," says WRAP CEO Avedis Seferian. "How can a major retailer, on the one hand, tell its factories it doesn't have the money to pay for these orders, and on the other hand, issue a dividend to its shareholders? The finance people were looking only at a certain set of information, making a decision based on that information, and not seeing the bigger picture. Organizations and buyers who have done a better job over the past few years of integrating social compliance directly into their sourcing decision process are making much wiser choices."



Factories fear speaking out.

Because there is always another factory a brand can go to, suppliers fear speaking publicly or informing the media about bad behavior. Even the most shocking behavior is swept under the rug, in case the supplier is seen as "difficult" and blacklisted by the entire industry. A few leading factory owners have given media interviews about the crisis, but have spoken in generalities.

"We'd thought suppliers would be more activist about some of these topics that we cover, because we know that they've been complaining about it for decades," Marsha Dickson, President and Co-Founder of Better Buying, told us. "But even with our assurances of anonymity, for the most part, suppliers were a bit more timid than we anticipated."

The one exception is Mostafiz Uddin, the owner of Denim Expert LTD in Chittagong, Bangladesh. Uddin was outspoken before the pandemic, and during the crisis has ramped up his media interviews and opinion editorials, naming brands and sharing financial information about lost orders. When employees of brands express their displeasure privately, Uddin shares those conversations with the public as well. "Brands and retailers talk a lot about transparency," he told us. "But when I am transparent, they don't like it."

Uddin says that other factory owners worldwide have contacted him privately to grouse, but don't feel comfortable going on the record. He says he has been suffering financial repercussions because of his advocacy.





No organization holds brands and retailers accountable.

Because the fashion supply chain is global, there is no single government or non-profit organization to enforce contracts and promote ethical behavior. In other industries, contracts refer disputes to an industry body for arbitration, but that body does not exist for fashion suppliers.

Brands try to avoid being held legally accountable by signing on to a growing list of voluntary and industry-funded multi stakeholder initiatives (MSIs) and open letters that lack any authority to punish or eject members who contravene the mission statement of the group.

"They're supporting the ILO Call to Action, which is fine, but the danger is that they hide behind that," says Holdcroft of IndustriALL. "Oh yes, we've adopted the so-and-so code, and oh yes, we're members of this MSI.' They're not making any commitments to which they can be held to account."

When the crisis hit, the Bangladesh Manufacturers and Exporters Association (BGMEA) went to bat for its suppliers, collecting and handing over data on canceled orders to the Worker Rights Consortium and Remake. The resulting WRC Tracker and #PayUp campaign convinced some brands to reinstate about half of the previously canceled orders. The BGMEA also threatened to blacklist the Edinburgh Woolen Mill from doing business in the country.

Arguably, however, national supplier organizations like the BGMEA should have made demands of retailers, brands, and importers before granting export licenses, and started blacklisting chronically unethical BRIs years ago when their amoral behavior first became apparent.

The Way Forward: Our Calls to Action.

For too long, the fashion industry has taken a top-down approach to address labor, safety, and environmental violations at factories.

The silver lining of the past eight months is that COVID-19, by exposing the rotten business relations in the industry, has also created a brief window in which we can transform the industry for the better. But we need to act decisively. For those who survived, memories of those catastrophic weeks in March are already starting to fade. It's time to spread the risk, reward, and responsibility evenly amongst the players.

The following calls to action are for everyone in the industry: brands, suppliers, NGOs and labor unions, policymakers in countries producing and buying and denim lovers. Plus, we lay out the role we will take on as the Transformers Foundation.

“Partnership behavior means: *“Shared setting of objectives and the strategies for achieving them. It’s that mutually beneficial focus on win-win, shared risk-taking, shared responsibility. **Each doing their part, and really respecting each other in that process, too.**”*

- Marsha Dickson of Better Buying



The many ideas in here all come together to do three things:

1.

Rectify the power imbalance between denim and jeans suppliers on one side, and the brands, retailers, and importers (BRIs) on the other.

2.

Create consequences for unethical and/or illegal behavior from BRIs.

3.

Provide support and a space for suppliers to voice their concerns.

We want to reiterate that picking and choosing the easy and quick recommendations and leaving behind the others won't do much good. We know some will take longer than others to implement, but we see this as a continuous effort of improvement, while we work on these issues in tandem. Each recommendation is part of an imagined future global denim ecosystem where value is distributed equally along the supply chain. And where brands, retailers, importers, jeans makers, denim suppliers, workers, and consumers trust that the system is fair.

We suggest that you read all the call of actions, but especially focus on the section directed at your role in the industry, and think about the concrete steps you can take tomorrow, in the coming months, and in the coming years to bring about change in the industry.



TRANSFORMERS
FOUNDATION

The Transformers Foundation is eager to do its part to reform the industry. We've already started work, with the help of Better Buying, on the following commitments:

1

Create a brand, retailer, and importer (BRI) ethical code of conduct.

BRIs require suppliers to sign a code of conduct with strict terms, while not adhering to any ethical standards.

To help fix this power imbalance, we have created our Eight Ethical Principles for Jeans & Denim Purchasing.

These are appended to the report. This conduct should be adopted not just by BRIs, but by suppliers to govern their behavior in business-to-business relationships with the suppliers they work with down the supply chain. We are open to collaborating with other organizations to refine a fashion-industry-wide code of conduct with more details.

2

Facilitate formation of a short-term supplier working group.

So far, a unified voice of denim suppliers has been missing from this conversation.

A panelist in a session on purchasing practices at Sustainable Apparel Coalition's 2020 Global Member Meeting mentioned that they benefited from having clear expectations established by MSIs to clarify the goals they were working toward. This temporary working group composed of stakeholders interested in changing purchasing practices would receive a time-bound directive to discuss these main purchasing issues and provide recommendations on how to address them:

1. Forecasting.
2. Costing.
3. Payment terms.
4. Liabilities.
5. Binding agreement for international industry players.
6. Living wage implementation.
7. Counter-sourcing fabrics.



If suppliers come together in ways that provide some anonymity for particular suppliers, a coalition or group message, I think that can be really useful in terms of making it clear to the media what suppliers need in terms of reforms on payment practices and purchasing practices from the brand.

- Liana Foxvog, Worker Rights Consortium

If you are a supplier and would like to be part of this working group, please [join us here](#).

3

Facilitate the formation of a long-term, independent, multi stakeholder group.

This group, which we are calling the Ethical Denim Council, EDC, will provide support and arbitration to suppliers struggling with unethical buyers and contractual terms by:

a. Connecting suppliers to independent legal counsel as soon as issues arise. Currently, suppliers don't have access to experienced attorneys who work within the jurisdiction of BRIs. EDC will keep a list of international attorneys who can quickly answer questions or write formal letters to BRIs. We hope that a nonprofit attorney group will eventually provide this service.

b. Providing arbitration in cases where a supplier cannot get a satisfactory resolution. In other industries, buyer-supplier contracts typically include guidelines for resolving disputes, which send them up the chain of command at the supplier and brand until the issue is referred to an industry body for arbitration. This system holds brands accountable for breaking the terms of the contract and provides a quicker and more affordable resolution than a court case. This arbitration is not just for disputes with BRI, it can also be requested for conflicts with other suppliers, including the Transformer Foundation founders and board of directors, who will be subject to the same guidelines and consequences as the BRIs and the entire denim supply chain.

“If you change certain terms in an agreement, **there should be certain penalties associated.**”

- A South Asian supplier

c. Publishing the outcomes of these investigations into bad brand behavior on the EDC website for activists and media outlets to use in their campaigns and articles.

d. Providing collated information on BRI purchasing behavior to the environmental, social, and governance (ESG) investment funds to guide their investment decisions and financially incentivize fair purchasing practices.

Prior to the July scandal revealing that British factories producing for Boohoo pay as little as £3.50 an hour⁴⁵, the labor conditions in Leicester were an open secret⁴⁶. And yet, 20 environmental-social investment funds were invested in Boohoo, which was rated AA⁴⁷ merely because its production is in the UK. Once the slave-wage conditions in its factories were revealed, these funds divested, culling £1.5 billion from its value.

“Social media in the COVID case has played a role. Speaking about some of these brands by name has helped. **There should be an avenue to be able to get this information out there and let the public publish it. Anonymously.**”

- A South Asian supplier

There are other examples of the power of investors. The Ethical Council of Norway's Sovereign Wealth Fund dropped its investment in Page⁴⁸, a supplier to Speedo and Jockey International, leading Speedo to investigate. In May, the Interfaith Center on Corporate Responsibility (ICCR) claimed to have 314 signatories representing over \$9 trillion in assets under management for a letter sent to 43 apparel and footwear brands urging them to protect workers. Dutch asset management firm Robeco, which was a signatory, works with the Platform for Living Wage Financials, an alliance of 13 European financial institutions with more than \$2.8 trillion in assets under management that focuses its work on fashion brands with global supply chains⁴⁹. There's also ShareAction's Good Work Investor Coalition (formerly known as the Living Wage Coalition), an alliance of 30 major investors with £2.4 trillion assets under management.⁵⁰

The proposed group would work with these organizations to provide accurate information to guide their decisions and provide a robust financial deterrent for unethical purchasing practices by BRIs.

To be clear about our role, Transformers Foundation cannot provide any of these services, nor will we employ any counsel ourselves. But as a connector and educator, it can help in the formation of an entirely legally separate body to perform these functions.

We will release more details in November 2020.

4

Provide continued education on best-in-class practices.

Transformers Foundation was created to move the needle on environmental and human health protection via open sharing of best practices in the denim industry.

We will formalize in-person and digital learning programs for all stakeholders on:

1. **Purchasing practices.**
2. **Sustainability.**
3. **Innovation.**
4. **Financing and credit.**
5. **Contracts.**

The Denim Fabric and Jeans Manufacturing Supply Chain.

In the Symptoms section of this report, we shared some of the protective business strategies employed by best-in-class denim suppliers and jeans factories. However, individual action won't be enough.

Denim suppliers need to band together to make meaningful change in the industry.

Calls to Action.

1

Join the temporary working group for suppliers.

As described above, this temporary working group would receive a time-bound directive to discuss these main purchasing issues and provide recommendations on how to address them:

1. Forecasting.
2. Costing.
3. Payment terms.
4. Liabilities.
5. Binding agreement for international industry players.
6. Living wage implementation.
7. Counter-sourcing fabrics.

2

Adopt/endorse our Eight Ethical Principles of Jean & Denim Purchasing.

We have published an ethical code of conduct for buyers, it is appended to this report.

We ask that suppliers adopt it, share it, and have BRIs sign it as a reciprocal gesture when suppliers sign the code of conduct given to them by BRIs. We realize this might sound like a big ask, except if it is taken up by a critical mass of top denim fabric and jeans suppliers, and supported by stakeholders taking action on some of the other areas we have suggested here. Transparency and due diligence legislation, a binding agreement, and action by the governments in supplier companies to enforce contracts are especially crucial.



Brands publish their codes of conduct, why don't we have buyer codes of conduct? We should be looking at contracts also in a way that doesn't give brands all authority, and a way for suppliers to hold these buyers responsible.

- Ayesha Barenblat, Remake

If you are part of the denim and jeans supply chain and would like to be part of this working group, please [join us here](#).

3

Demand a seat at the table...

with policymakers, NGOs, and brands for all discussions and agreements affecting the denim industry. Ensure your voice is heard and contribute your valuable expertise and experience to any legislative debates and industry events.

4

Hold yourselves to the same standard.

We expect jeans and denim suppliers who adopt the The Ethical Principles of Jean and Denim Purchasing, and to treat other suppliers and their employees with the same high standard of respect and transparency that they ask for from BRIs.



Brands, Retailers, and Importers (BRIs).

Harmful purchasing practices waste BRIs and suppliers' time. They waste products, materials, and environmental resources. And they waste money. "There's a business benefit for [brands, retailers and importers] and their entire supply chain and their sustainability efforts to be able to improve what they do and work in stronger partnership with their suppliers," says Marsha Dickson of Better Buying. "I think we are going to see some leaders come out of this with very strong and very sustainable supply chains and committed partnerships"

Brands that opt for full traceability of their supply chains will gain consumer confidence and their vote of confidence in the form of loyalty and purchases.



Most of the following calls to action are happening at leading companies that source and sell jeans, proving they are possible.

Calls to Action.

1

Own your liabilities.

Take responsibility for any fabric, trims, and units ordered to fulfill a contractual purchase order.

If you change the order after the denim is manufactured or delivered. In that case, you should take care of any commercial impact on the supplier. Either take the material, collaborate on equitable solutions to use the material in another product or another factory, let the factory use the material with another brand, let the factory sell the product off and pay the difference, or pay for the costs of warehousing the product, plus interest on the loan taken out to purchase the materials. These terms should be in the contract, with a defined time limit for how long the factory will hold the product.

2

Establish long-term relationships with suppliers and factories.

A long-term relationship and repeat orders not only improves the quality of the product, but it's also a crucial component of a safe and fair workplace, along with any brand's plan to achieve transparency, traceability, and sustainability targets.

Do not demand programs, like worker committees, based on one purchase. Do not chase lower prices from factory to factory or country to country. And do not engage in counter-sourcing of suppliers' original products and ideas, which we consider intellectual property theft.

Support development programs at your suppliers.

We are impressed with J. Crew for supporting the process of certifying the Saitex factory in Ho Chi Minh in Vietnam as Fair Trade. J. Crew pays a little extra on top of the price of every product manufactured, which goes into a fund that the workers decide how to use. This system benefits J. Crew's brand, because it can sell Fair Trade certified jeans, benefits Saitex's reputation, and benefits the workers. The transparency and third-party certification by Fair Trade USA also assure J. Crew that the additional income is going to the right place. This is one example of how a BRI can leverage a long-term relationship to benefit all stakeholders, but we are open to hearing about other programs.

“You see a lot of customers today talk about sustainability. But by canceling orders, and by hoarding everything and by not being certain what's going to happen, there's bound to be a lot of waste. That's going against the exact thing that they're pitching to the customers. Why use organic cotton, but waste what you make with your suppliers?”

- Ali Abdullah, Managing Director,
Diamond Denim by Sapphire

3

Go beyond the simple supplier list.

Every BRI should host an organized and easily searchable supplier list on its website. But this is just the first step in the necessary exercise of knowing your supplier chain. The list should include first, second, and third-tier suppliers and each supplier profile should include:

1. Whether it is a factory or trading company.
2. What the supplier makes or does.
3. Location.
4. Website and contact information.
5. Owner or parent company.
6. Start and end date of the relationship.
7. Volume relative to other suppliers.
8. Certifications.
9. Results of its latest audit.



In order for us to be socially compliant, in order for us to pay our salaries, in order for us to sustain the business, we need [brands, retailers, and importers] to at least honor their commitments.

- Ali Abdullah, Managing Director,
Diamond Denim by Sapphire

4

Support transparency and due diligence legislation.

Buyer governments are starting to discuss transparency and due diligence legislation.

In Switzerland, citizens will likely vote in November on a referendum that would make Swiss corporations liable for human rights abuses and environmental violations in operations outside Switzerland⁵¹. Due diligence legislation is already on the books in France, but still lacks reporting guidelines and enforcement mechanisms⁵². There are additional discussions in the UK, US, and EU⁵³. Leading fashion companies should want more regulation on these issues, not fewer, so that they are not undercut by unethical players willing to do whatever it takes to get the lowest price and shortest lead times.

5

Create an executive track for CSR professionals and embed them in the boardroom.

As we described in the Causes section, employees with Corporate Social Responsibility experience understand the ramifications of board-level financial and operational decisions. They can warn fellow executives about potential labor violations and reputational damage that might manifest as a result.

But they need to be present during these high-level conversations and not siloed in a poorly-funded CSR department.

I think for the future, it will be a requirement. And to say, I don't know, my chain is too complicated, with blockchain and the technological developments there – it's not an argument that really holds water.

- MSI Manager

6

Reform the KPI system for buyer performance.

Embed an ethical approach into the buying team's Key Performance Indicators. These might include:

1. Selecting best-in-class suppliers.
2. Respectful interactions with supplier contacts, as measured by an anonymous feedback system for suppliers on the behavior of individual buyers.
3. Adhering to the points within the Ethical Buying Code of Conduct.
4. Better Buying's annual ratings cycle.

7

Improve your forecasting.

If a BRI's forecasting is wrong, they should take responsibility for the financial impact, instead of asking for discounts from the supplier, who had no say in the matter.

The forthcoming Better Buying Index Report 2020, to be released in late October, demonstrates that improvements in forecasting are possible, and there are now tools to help brands improve their forecasting.

H&M created an AI forecasting department in 2018, which now staffs 270 people. "We're actually working very specifically on being able to, for instance, calculate and quantify how many cases you're going to buy [of any item]," Arti Zeighami, H&M's global head of advanced analytics, said in January at the National Retail Federation's Big Show.

In another case study, a retailer with 600 stores tested various scenarios using AI-based demand predictive software on bikes and kayaks, which have seasonal demand. The results included a 7% lower inventory requirements and a 4.5% reduction in inventory carrying costs. The company started using AI software to manage demand for other products.⁵⁴

8

Come to table with NGOs and labor unions on binding agreements.

The legally binding Bangladesh Fire & Safety Accord is an example of a system with an enforcement mechanism that led to measurable improvement over a short period.

We defer to the ILO and Better Work on outlining the details of the agreement, but believe that it should include an independent, international office that floats above country-level politics and corruption, enforcement mechanisms, and an additional way to funnel money to workers in developing countries to provide a social safety net.

9

Be honest with consumers.

Consumers appreciate a company that is level with them about the challenges it is facing and the choices it has to make.

One example is Everlane's "Choose What You Pay" program, in which the retailer offers several discount options, explaining what each one means for the brand and its suppliers. This program is a key component of Everlane's ethical reputation, and they continue to put it on every year instead of a typical clearance sale. However, Everlane found itself in the center of a scandal when allegations surfaced that it had fired a portion of its employees without warning near the start of the pandemic, including those that were unionizing.

In France, a group of fashion companies led by Galeries Lafayette and the Paris Good Fashion association, along with the French government, are currently seeking comments from the public until October 25th on how to address sustainability issues in the industry. The French Ministry for the Ecological Transition and Paris city council will present the results in December.⁵⁵

We suggest that the brands and retailers not only resist the urge to keep the decision-making process secret from employees, but that they go further and explain difficult choices to consumers to collect feedback before making a decision. Next spring, brands like Gap⁵⁶ will be rolling out marketing for the timeless fashion it had ordered but was unable to sell during the pandemic. Business publications deemed it a risky move, but we hope to see some radical honesty.

A lot of these measures are traditionally seen as a supplier thing – paying for severance or paying the regular wages. That's certainly true, but if brands are not factoring in the cost of severance into their pricing, then it often financially can be very hard for suppliers to have the cash flow to pay for severance when factories are closed. That's something that we really want brands to be contributing to.

- Liana Foxvog, Worker Rights Consortium

NGOs/Labour Unions.

Recommendations:

1

Help broker a legally-binding purchasing practice agreement for brands, retailers, importers and suppliers.

It has become abundantly clear that any attempts to fix the system through voluntary means – agreements, open letters, and promises – will only nibble around the edges of the problem. According to 2018 research by Dr. Amy Benstead on horizontal buyer collaboration⁵⁷ (what we call multi-stakeholder initiatives or MSIs), "horizontal collaborations can fail or be delayed when there is a lack of effective governance. In the case of modern slavery, a lack of effective (informal and formal) governance can create power struggles and delays as business actors seek to meet their targets for the collaboration and bring about change internally within their organisations."

The most successful industry solution in the past decade has been the Bangladesh Fire & Safety Accord created in the wake of the 2013 Rana Plaza garment factory collapse. We support a similarly robust, legally binding agreement – but this time, transnational and with a fair pricing mechanism – to reform purchasing practices.

2

Create a consumer-facing campaign to support long term reform.

We've been impressed with the simplicity and robustness of Remake's #PayUp campaign, which pivoted in September into a longer-term reform campaign called Payup Fashion.⁵⁸ While purchasing practices reform is a little less intuitive and more complex, we hope that nonprofits can create a message that can successfully pressure brands, retailers, and importers to sign a legally-binding agreement, along with our other directives listed above.

3

Provide pro bono legal support for suppliers.

Suppliers need access to affordable or free representation by attorneys practicing in buying countries and the supplier's home country. We support forming a subsidiary organization to an existing NGO whose cross-jurisdictional legal team can provide legal advice to suppliers and take legal action on their behalf when necessary.

4

Lobby for transparency and due diligence legislation.

Combined with research on costing and living wage challenges, this legislation would make it impossible for buyers to aggressively haggle prices below cost, then claim ignorance when labor violations occur. Under this legal framework, if there are safety or environmental violations, the brand, retailer, or importer is financially and legally responsible for making it right, whether they were aware or not. Nonprofits can and should help with raising public awareness and lobbying for robust due diligence legislation.

“*And this is what we are also struggling with, strategically and intellectually: What is the business case for companies to really join this kind of effort? Why should I, as a brand, commit myself to changing my purchasing practices, paying more at the end of the day? Voluntary alone will not solve the problem. It should be backed up with some elements of regulatory requirements.*”

- MSI Manager

Ideas to explore:

5

Help administer and oversee social safety net fund for garment workers.

Brands profit from the low prices that come from a lack of social safety nets in countries like Bangladesh and Cambodia. When cancellations happen, factories end up shouldering the cost of mitigating the worst effects of layoffs and furloughs, even though they have limited funds in which to do so. An international fund administered by labor unions, worker groups, and governments from both production and buying countries that portions out a severance and partial pay to workers affected by large events would ease factories' burden while providing help directly to garment workers. Institutional investors have supported this idea focused on labor rights.⁵⁹

6

Become a BRI shareholder through group buying.

Nonprofits focused on improving fashion's supply chain can advise ESG investment funds. They can take a more direct role by pooling their resources and buying shares in fashion brands to have a say in quarterly earnings calls and investor meetings. For example, PETA bought shares in about 20 different fashion brands earlier this year to push them to stop using animal materials.⁶⁰

Policy Makers in Buyer Countries.

Recommendations:

1

Enact transparency and due diligence legislation.

The suppliers are subject to multiple audits with consequences if they do not pass. But what about the brands, retailers, and importers? Real transparency for them is optional and only happens partway in almost all cases. While modern slavery legislation in the UK and California has nudged the industry forward, it has not come with any financial penalties for brands, so they carry on the way they were after adding boilerplate language to the site. Any legislation mandating disclosures, supply chain mapping, and due diligence must come with clear reporting requirements and large financial penalties for non-compliance. The legislation should also fund an effort to gather data about BRIs purchasing practices.

2

Invite the manufacturing voice to the table.

It's important to have suppliers as part of any conversation around ethical and sustainable manufacturing, as they are the experts and the ones who will implement these changes on the ground. You need their buy-in and their help, so include them in your panels, conferences, working groups, committees, and government testimonials. Listen to what they tell you, and act on it.



Monitoring of brands' purchasing practices must be done by suppliers – through programs like Better Buying. **And the results must be made public.**

- former manager of Cambodia garment factory on *Medium*

Policy Maker in Supplier Governments.

We realize that governments in supplier countries sometimes have fewer resources and less power than a multinational fashion corporation. **But banded together in a trade agreement, they could revolutionize the industry.**

Ideas to explore:

1

Measure and manage garment and fabric manufacturing capacity.

A factory that exploits its workers and brings prices down for the entire industry is **not** better than no factory at all, in our view. The denim industry is estimated to be roughly 20% to 30% overcapacity, and every additional factory leads to lower prices and more exploitative hours for the workers. Follow the lead of government programs to measure and manage agricultural output, and explore an effort to similarly manage the output of fabrics, trims, and fashion products.

2

Create a multinational agreement to ban exploitative contractual terms.

We want supplier governments to explore an agreement forbidding certain exploitative contractual terms from being signed within their borders, such as overly broad force majeure clauses or a missing force majeure clause on the supplier side of the contract. Then, enforce contractual terms by revoking the export license within all signatory countries of any brand that has walked away from a contract without agreeing to arbitration.

“The countries that rely on the garment sector are also dependent on [brands]. And so they don’t make adequate demands of the brands and then when brands don’t automatically do the right thing, then you’ve got country governments saying the behavior of the brands is unacceptable. When they actually granted export licenses and allowed that business to take place.

- Jenny Holdcroft, *IndustriALL*

Denim Lovers.

Calls to Action.

1

Demand transparency from your favorite brands.

We ask a lot of our jeans in terms of style, fit, and performance.

And the people who create, innovate, and deliver that quality aren’t limited to the designers in New York, LA, and Amsterdam. They’re the ones you’ve heard from in this report, in Pakistan, Bangladesh, Vietnam, China, Spain, Italy, and more. You can be part of the denim industry’s transformation and show your appreciation for their work by asking your favorite brands about not just how your jeans were made, but also who made them. Here are some questions you can ask of your favorite denim brands at the store and online:

1. Where are these jeans made? Can you tell me about your suppliers and factories, and your relationship with them?
2. Do you support transparency and due diligence legislation?
3. Do you support purchasing practice reform? How?

2

Keep the pressure on.

Support nonprofits and organizations working on this issue, either through financial donations or by donating your time and platform to amplify their message. Some to consider: Remake, Worker Rights Consortium, Fashion Revolution, Clean Clothes Campaign, Labour Behind the Label, and the Asian University for Women.



3

Don't forget.

Fortunately, fashion and mainstream publications, along with the Worker Rights Consortium's Tracker for brands and Remake's #payup campaign, have been covering this issue. Subscribe to support their reporting. Sourcing Journal, EcoTextile News, and the [GoBlu newsletter](#) are excellent sources of information. Subscribe to Transformers Foundation and Kingpins for more reports like this one, articles, webinars, conferences, guidelines, and more.

Follow the hashtag
#ethicalizedenim

Conclusion.

We acknowledge that the denim industry is a microcosm of the fashion industry, which in turn is buffeted by the larger forces of globalization, politics, economics, climate change, and now a pandemic. But it's our microcosm, our world, our passion.

We are committed to creating a new, strong structure that will provide some protection and shelter to the denim industry, to prepare for the future global and regional shocks that are sure to come.

Different suppliers in different countries are not operating on a level playing field because of uneven legislation and government support. And not all suppliers have their priorities in the right place. Even so, we're confident that the jeans and denim suppliers represented by this report are some of the most ethical and forward-thinking people in the industry. Even so, an industry organization is only as trustworthy as its least ethical member. So we would like to emphasize that the Board of Trustees and Board of Directors for Transformers Foundation are expected to abide by the same ethical principles that we are asking brands, retailers, and importers to abide by. And if we find that they are not, they will no longer be a part of the organization.

We also acknowledge that we can't know everything. There is a lot of information out there, and we know that there are other players working behind the scenes to tackle these issues. We are willing and eager to explore collaboration with other groups working on this issue and are looking for feedback on our calls to action.

We are committed to communicate progress on these issues in the months and years ahead.

Our doors and ears are open.

Please get in touch with us at:
hello@transformersfoundation.org

#ETHICALIZEDENIM



TRANSFORMERS
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Appendix.

Key contacts and further information.

For further research on the fashion industry and the COVID-19 crisis, please see these resources:

[Better Buying™](#)

[Center for Global Workers' Rights at Penn State](#)

[Workers Rights Consortium](#)

[Remake](#)

[Clean Clothes Campaign](#)

[Fashion Revolution](#)

[Labour Behind the Label](#)

[EcoTextile News](#)

[Rivet by Sourcing Journal](#)

What the denim and fashion industry can learn from other industries.

Not wanting to duplicate work, we explored how COVID-19 has affected other industries, whether other industries also suffer from this power differential and destructive purchasing behavior, and what, if anything, they have been able to do to fix it.

We found that the fashion industry has (quite rightly) earned a reputation as the most ruthless, high risk, legal yet ungoverned business in the world.

Like the broader fashion industry, the denim industry is highly fractured, with no jeans or denim supplier dominating market share. The largest suppliers are privately-owned, but according to our internal research, the top five suppliers probably make up less than 5% of the industry market share. This exacerbates the power differential between BRIs and suppliers, as no supplier can demand better contract terms or push back against aggressive brand, retailer, and importer (BRI) behavior.

The International Cotton Organization (ICA), a 175-year old international organization adjacent to the denim industry, helps arbitrate contractual disputes between different cotton's supply chain players, from the farmers to the mills. "It imposes discipline on those who produce cotton and imposes discipline on those who convert cotton into yarn," Tim North, a cotton trader and ICA arbiter, told us of ICA's system. "But there, the whole process stops, and I've just found it amazing over the years that spinners have agreed to hold themselves to account because merchants require them to do it. But then they haven't taken it further. And so they're just so exposed." Mills who have had their orders canceled by brands are still required to honor their contracts with merchants, but the question is whether they are financially able to honor those contracts. As of September, requests for arbitration to ICA were at 86, 2.7 times higher than by the same month in 2019.

Tomato Picking: Holding the Big Brands to Account.

In 2003, the Florida tomato industry was seen as "ground zero for modern slavery,"⁶¹ much like the global fashion industry is viewed now⁶². Local organizers at the Coalition of Immokalee Workers (CIW) protested against the growers who exploited farmworkers, but nothing changed until the CIW targeted large consumer-facing brands that bought the tomatoes. The activists organized college students — an important consumer market for fast food brands — to protest at and boycott their local Taco Bells, owned by Yum Brands, the world's largest fast-food company. Taco Bell eventually agreed to a groundbreaking agreement.

CIW's Fair Food Program has since negotiated legally-binding agreements with 14 fast-food and supermarket chains, including Burger King, McDonald's, Taco Bell, Trader Joe's, Walmart, and Whole Foods. The corporations agreed to pay one penny more per pound of tomatoes to be passed directly to the workers. Plus, the growers had to agree to a strict code of conduct written by the farmworkers or else lose the business of Fair Food Program signatories.⁶³

The program was remarkably effective at rooting out sexual harassment, wage theft, and forced labor from the tomato farms in Florida, and reducing poverty. It's now promoted by the Partners for Dignity and Rights (formerly the National Economic and Social Rights Initiative) in New York to address inequities and exploitation in other industries worldwide.

Learnings:

Target large brands, not local producers, to improve the industry for workers.

Use consumer action to get large brands to sign legally-binding agreements.

Agreements should include working conditions *and* a price increase directly to workers.

An Effective Model of Change.

If the above organizing model sounds familiar, that's because it served as the inspiration for the Bangladesh Fire and Safety Accord, a legally binding agreement signed by large fashion brands and international and local labor unions in the wake of the infamous Rana Plaza garment factory collapse in 2013, which killed more than 1,100 garment workers.

The Accord transformed garment factory safety in Bangladesh over the six years it was in effect, reducing garment worker deaths from an average of 71 every year⁶⁴ due to fire and collapse to 17.

The Accord worked because — even though it was voluntary to join initially — consumer pressure on brands to take meaningful action to save lives was intense. Once brands signed, they were legally required to uphold their side of the deal to help fund inspections and safety improvements and to pull orders from any factory deemed chronically unsafe by inspecting engineers trained by the Accord. Garment workers also had an anonymous tip line to call where they could report safety concerns.

The independent inspection program had offices in both Bangladesh and Amsterdam and employed both Bangladeshi and Westerners. As an independent program with checks and balances between local labor, international NGOs, and corporate brands, it managed to avoid corruption issues that had plagued government-run factory inspections.

One of the lessons the ICW learned that did not make it into the Accord agreement was the role prices play in exploitation: When powerful brands force down the prices paid to producers, the producers in turn exploit and abuse laborers⁶⁵. During the Accord's six years, expenses paid to garment factories fell 13%, even while factories got safer.

This points to the need for a wider legally-binding agreement in the Fair Food Program model, but for prices paid and purchasing practices.

There's been nothing else like the Accord or the Fair Food Program, in structure and efficacy, that we have found in our research.

Learnings:

Legally binding agreements so far have been the most effective.

Future agreements should include price increases that go directly to workers.

The Furniture Industry Suffers Cancellations.

The denim industry is similar to the furniture industry in a few ways, including using similar textiles and materials and having a global supply chain severely impacted by COVID-19. However, while some U.S. and European furniture brands still own the supply chain from factory to store, with manufacturing in the U.S. and Europe, that is not true for jeans and denim. The last large, vertically-integrated jeans brand, Levi Strauss, outsourced and offshored its production in the 1990s.

The home furnishings sector's sales were down 24.6% in March compared to the same month last year, half of the decline of clothing and accessories retailers, whose sales dropped by 51%⁶⁶. Online furniture and home goods sales picked back up quickly as consumers started redecorating during the quarantine. Furniture was back-ordered online, even though in-store sales remained depressed.

In Italy, nine furniture manufacturers banded together to press the government to reopen factories, warning that 20% to 30% of Italy's industrial heritage could be lost.⁶⁷

The difference between a vertically integrated furniture brand's approach to the pandemic and a retailer's approach was stark. The former took well-considered action to regroup and limit losses. Some permanently downsized staff and closed certain manufacturing locations.⁶⁸

Ethan Allen temporarily furloughed 70% of its staff worldwide and continued to provide employment benefits. Other furniture makers said wholesale orders were down 80%, but used the lockdown time to upgrade their factories and digital ordering technology⁶⁹ before resuming operations in May.

In contrast, the large home furnishing retailers who outsource to Asia resorted to canceling and delaying orders. One Singapore-headquartered furniture manufacturer with 5,000 employees worldwide, which was previously publicly listed, declared bankruptcy because of delayed retailer payments and supply chain disruption.⁷⁰

In Vietnam, which has a large furniture manufacturing sector, one factory estimated that 40% of orders on the books were canceled or delayed. "I understand some are considering shut downs of 30 to 60 days if their customers do not require orders shipped," the factory owner told Furniture Today⁷¹. "Unfortunately, we are in an industry in which the consumer can delay their purchase." This factory asked some employees to work on reduced salary for a few months and implemented stricter just in time (JIT) requirements on materials and components purchasing.

Meanwhile, a luxury furniture manufacturer, Jonathan Charles Fine Furniture, echoed the experience of the denim and jeans suppliers we interviewed. "Luckily, our efforts over the past few years to focus on spreading our eggs into different baskets finally has paid off," CEO Jonathan Sowter told Furniture Today. "While we do work with some of the Top 100s, they are not the core of our business," he said. "Small retailers, designers, and project work are our core, and these represent most of our sold orders going through the factory right now.

Learnings:

Given the fashion and denim industries' shared retail customers and challenges with the furniture industry, there is an opportunity to band together to support reform in purchasing practices.

If retailers and brands have to own their liabilities and share the risk, they will take more more considerate action to protect both the business and the workers.

Across industries, independent brands are more collaborative than corporate retailers.

Toy Manufacturers Suffer From Market Consolidation.

Anecdotally, one mill owner told us he has a friend in the toy industry, and when this toy brand hired buyers from the fashion world, he was shocked by how they treated suppliers. "He had to spend so much time telling them, 'Can you please try to be fair to our suppliers?'" the mill owner says.

Toy sales have surged during the pandemic⁷², but mom-and-pop stores have shuttered during the lockdown, so toy suppliers have come to rely on retailers deemed essential. Walmart, Amazon, Target, and other large retailers are consolidating power, which is already starting to manifest in unfair payment terms.

Walmart Canada will impose an "infrastructure development fee" of 1.25% of the cost of goods purchased by Walmart and sold through Walmart Canada's website, plus an additional 5% "e-commerce development fee" on all products purchased by Walmart Canada. These are non-negotiable fees on top of finalized vendor prices that went into effect on September 18. The Toy Association, which reported on the change in August, said it was "precluded by antitrust restrictions to organize a response by our members," and could only express alarm over the fees.

We will also be closely following the court case brought by a group of toy suppliers against the former CEO and the directors of the private equity firms running Toys R' Us before it declared bankruptcy. In a situation depressingly familiar to denim and jeans suppliers, the CEO and private equity directors lied to toy suppliers about Toys R' Us's financial health for the three months preceding its bankruptcy in March 2018, to convince them to ship the retailer toys on credit. The toymakers collectively lost over \$600 million.⁷³



Learnings:

All consumer manufacturing industries are suffering from retailer power consolidation.

There is a possibility that apparel manufacturers can fight back in court against unethical retailer behavior.

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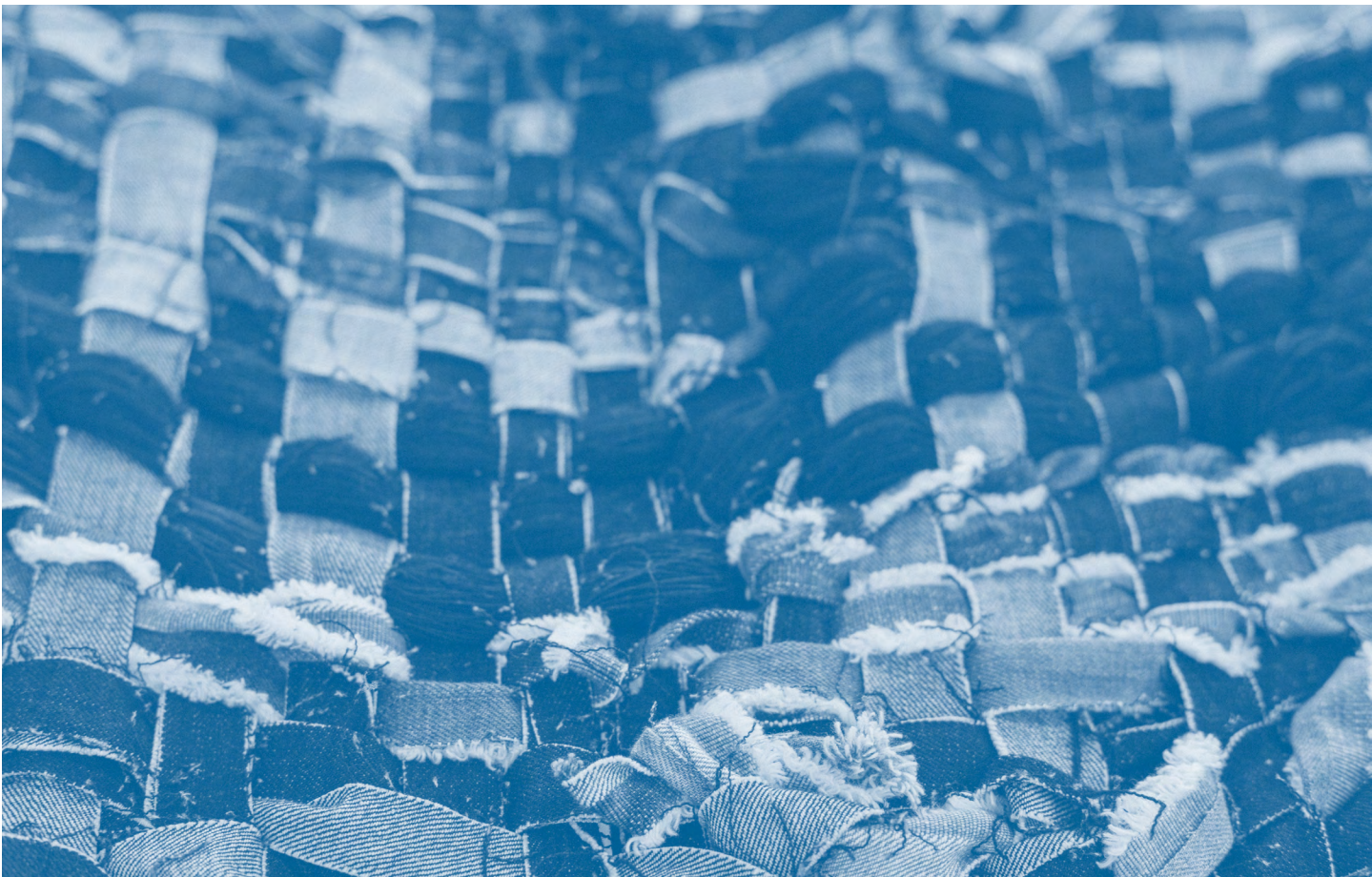
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Eight Ethical Principles for Purchasing of Jeans & Denim.

We believe that buyers and their employing companies should embody the following principles, which together comprise the values that affirm ethical and sustainable relationships with their suppliers, advance a positive reputation in the marketplace, and support positive internal company culture and morale:

1

HONESTY & TRANSPARENCY.

Transparency of intent and action in business dealings. Never mislead or deceive suppliers by misrepresentations, overstatements, partial truths, selective omissions, or any other means.

2

EMPATHY.

Care, compassion, and kindness. Seek to accomplish business objectives and financial results in a manner that causes the least harm and the greatest positive good for all parties. Treat suppliers as they wish to be treated themselves.

3

PROMISE-KEEPING & TRUSTWORTHINESS.

Behave in a trustworthy manner by providing relevant information and correcting misinformation with forthrightness. Make every reasonable effort to fulfill the letter and spirit of contracts and other commitments, and resist technocratic or legalistic interpretations of agreements as an effort to justify non-compliance or abdication of responsibility.

4

LOYALTY.

Fidelity and friendship to suppliers and related parties. Make every reasonable effort to resolve issues and continue long-term relationships even through adverse conditions.

5

FAIRNESS.

A commitment to equitability in all dealings. Never exercise power arbitrarily, employ indecent means to gain advantage, or take undue advantage of others' mistakes or hardships.

6

REPUTATION & MORALE.

Protect and build the company's good reputation and the morale of its employees by not engaging in conduct that might undermine respect. Take whatever actions necessary to correct or prevent inappropriate conduct within their company.

7

ACCOUNTABILITY.

Willingness to admit and correct unjust behavior or positions. Accept responsibility for ethical lapses in business dealings with suppliers, and the negative ramifications of these decisions for all involved stakeholders.

8

RESPECT.

Understand and value the efforts suppliers make to meet fixed, commercial, and technical requirements.

