

COVID-19 AS THE TIPPING POINT? TRANSFORMING BUSINESS MODELS IN THE GLOBAL GARMENT INDUSTRY

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GLOBAL SUPPLY CHAINS: INHERENTLY DETRIMENTAL TO GOOD LABOR RIGHTS AND GOOD HUMAN RIGHTS



CHARACTERISTICS OF GLOBAL SUPPLY CHAINS

Lack of
information

Lack of
accountability

Lack of
transparency

Hyper-
flexibility

Unequal
power
relationships



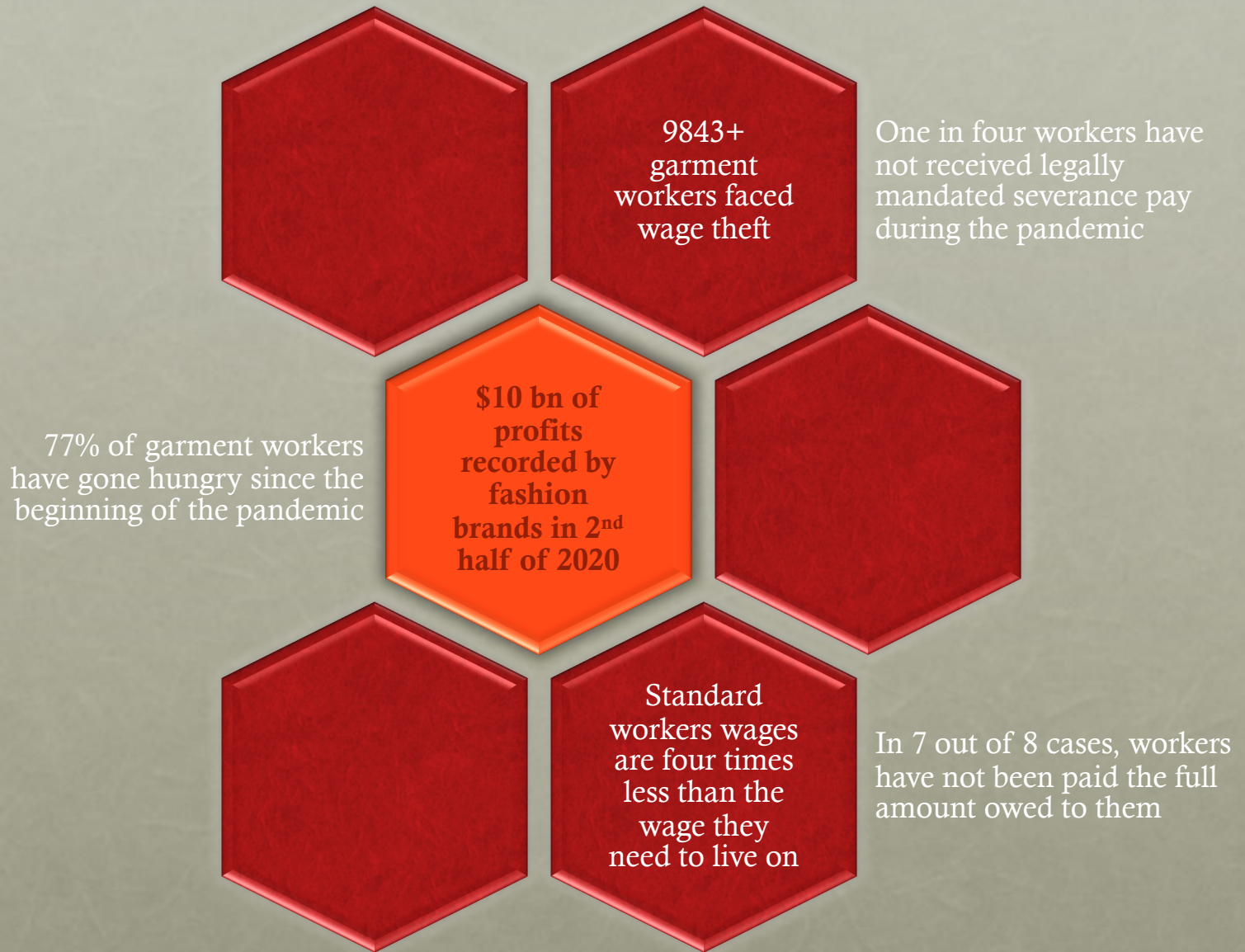
The Covid-19 pandemic put a spotlight on already unfair practices and heightened inequalities that were inherent in the system

BANGLADESHI SUPPLIER

“We had some orders that we were doing already for customers, so some of them cancelled. They [the global brand] just wrote and said, ‘Cancel, there's no conversation here, it's just cancelled.’ And those goods had already been produced.”

- Interview with the authors





Wage theft and pandemic profits: The Right to a Living Wage for Garment Workers, Business and Human Rights Resource Center, March 2021

THIS IS BEHAVIOR WAS NOT SPECTACULAR

“It's an open secret, frankly, that cancellations, I think, are more common than people think...If a shipment arrives and it doesn't meet any of our quality standards, or if the vendor says okay, well, the shipment is going to be three months late, we, and any other company out there, retain the right to, for specifically prescribed reasons, to cancel the orders. And that is just how the apparel business works...”- Head of Labor and Human Rights at a major retailer



WHAT TYPES OF STRUCTURAL CHANGES ARE NEEDED?



Business
model
changes



Legislative
changes



Contractual
changes





Sourcing practices of retailers

Sourcing beneath the cost of production

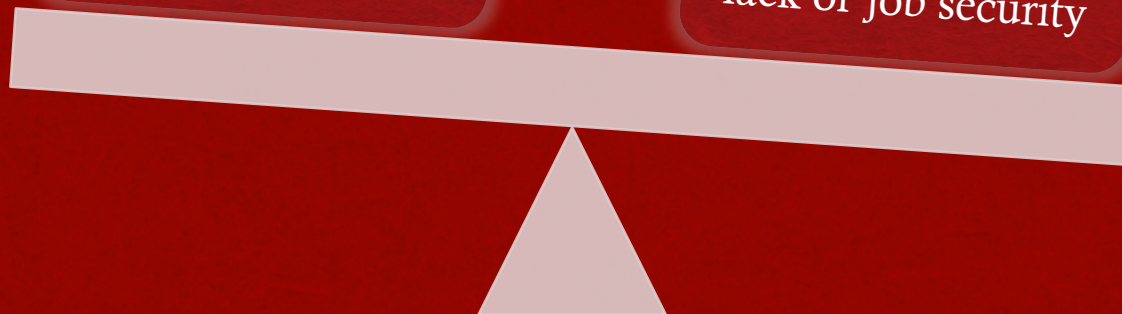
Unpredictable ordering patterns

Late payments to suppliers

Impact on workers

Health impacts- mental and physical, everyday violence

Livelihoods- low wages, overtime, lack of job security



THE GARMENT INDUSTRY – COMPARISON BETWEEN TYPICAL TRANSACTIONAL SOURCING AND THE PARTNERSHIP MODEL

Source: Adapted from a case study with Decathlon, (Baumann-Pauly and Trabelsi, 2021)	Typical Transactional Sourcing	Partnership Model
Time horizon	Short term business transactions with suppliers	Longer term business relationships
Interaction with suppliers	Little communication beyond the contractual terms	Frequent communication and presence at supplier factories
Joint planning	No joint business planning	Order forecasting to improve planning for suppliers and joint five-year business plans
Pricing	Price negotiations or tenders that go to the lowest bidder	Open costing, no price negotiations
Workforce	No engagement with workforce other than maybe a social audit according to Code of Conduct	Skill development of workforce through training and the provision of increasingly complicated styles
Wage levels	Low wage levels	Relatively high wage levels that increase over time as workers become more skilled
Productivity	Productivity levels vary and depend on the facility	Rising productivity levels thanks to the brand's support of local management
Footnote	Footnote	Footnote

WILL COVID-19 BE A TURNING POINT FOR COMPANIES TO MOVE FROM A TRANSACTIONAL MODEL TO A PARTNERSHIP MODEL WITH THEIR SUPPLIERS?

This paper is based on ten in-depth interviews with senior executives of major American and European global retailers and with four Bangladeshi manufacturers. All the executives we interviewed held senior positions within their organizations, and had at least five and sometimes more than 10 years' experience. Their portfolios included responsibility for sustainability, supply chain, labor rights, or human rights. These interviews were conducted between October 2020 and February 2021 on a virtual platform.

This paper also draws upon additional research including relevant literature, reports, cases and other publicly accessible information

WHAT DID THE PANDEMIC DO?

- Exposed the costs of efficiency-based global business practices as ‘Just-in time’ sourcing broke down
- Exposed the general public to the existence and nature of the interconnected global supply chain and how it affects our daily lives.
- Exposed meaningless CSR programs/ “freewashing” / “greenwashing” initiatives that did not change the power dynamics inherent in the system

Re: Structure Lab, New Models for an Equitable Economy, December 2021



(mmh.com)

OPPORTUNITIES

- The global nature of the crisis and the fragility of the global supply chain structure heightened the necessity of strong relationships in order for brands and suppliers to be able to “weather the storm” together.
- After this crisis, consumers will spend less, but they will spend more consciously and they will expect that the products that they do buy are a part of sustainable and ethical supply chains.
- Other factors
 - Emergence of human rights due diligence legislation in several European countries
 - interest in ESG (environment, social, governance) data from investors.



Direct and closer relationships will be necessary for handling the current crisis and dealing with its immediate impacts

“You need to keep those long-term partnerships in order to improve working conditions and environmental conditions. Otherwise those investments are lost... we are partnering very closely with our vendors in Bangladesh. I mean, at the end of the crisis, we need to ensure that they are there, and they don't go away, or they go into bankruptcy... we talked to every single vendor [after the onset of Covid]. We picked up the phone and we said, ‘look, this is what is happening; this is where we are; tell us where you are,’ because we share vendors with other brands. ‘So, what is happening, and how we can help, and how we can get out of this?’”- Major global retailer

LONG TERM

“[Sustainability] is very expensive, and it takes a lot of time to build up sustainability capabilities in a given supply around the world. We need to invest in wastewater treatment plants and invest in green chemistry; we need to invest in the workers’ well-being; we need to invest in climate change and solar panels or renewable energy. For us, shifting from one supplier to another could impact our long-term goals.”

- Major global retailer

A partnership model gives brands more leverage with their suppliers to make concrete changes both with respect to labor and environmental issues.



THEORETICALLY ...

BENEFITS

- Change the incentives of suppliers from continually cutting costs to investing in their factories and workers
 - Technology
 - Management training
 - Worker benefits
 - Skills training
- Set realistic expectations about what suppliers and their workers are able to produce
- Reduces unauthorized subcontracting

CHALLENGES

- For the buyer, fewer suppliers means that they can no longer distribute risks so widely.
- The supplier depends on the success and support of this one buyer.
- The businesses can grow together but they can also fail together
- The dominant buyer has great leverage over how business is done and suppliers must be willing to allow for the full integration of the buyer in most aspects of their business

GOING FORWARD

Initial experiences from brands show that the partnership model makes good business sense for both, suppliers and brands.

Covid-19 may be the “tipping point” for changes in this relationship

Careful longer-term analysis is still needed to track benefits for workers as well as the impacts for the socio-economic development of communities around apparel production sites.

Systematic empirical research is needed (currently anecdotal with some case studies) on which aspects of the partnership are most relevant to support advancing basic labor rights.

