Improve procurement practices



Procurement practices include all decisions a company makes about sourcing and producing products and services, such as supplier selection, contracting, planning, paying and evaluation. Strong procurement practices are based on equality, transparency, trust and collaboration between buyers and suppliers. Through a set of strategic procurement practices, a balanced trade relationship can emerge that could allow for higher wages. This can consist of many different forms of improvements to procurement, trading, and pricing.

Requirements for strong procurement practices:

- A clear commitment from the top management to contributing to living wages
- Incentives for procurement departments to work along with the sustainability department with common goals and key performance indicators
- Incentives for the purchasing department to deepen the relations with suppliers and learn more about working conditions in the supply chain
- Willingness to listen to and dialogue with suppliers

ALERT! Various improvements can be made in the procurement process to directly or indirectly influence the wages of the workers. It starts with fair and ethical behavior. But it can also include more drastic choices, such as prioritizing shorter supply chains, committing to longer-term sourcing agreements, installing shorter payment terms, preferential sourcing and volume prioritization.

Challenges addressed by this intervention

Poor procurement practices

By improving procurement practices, including payment terms and prices, supply chain partners can facilitate the transition to living wages.

Precarious employment contracts

Procurement practices with a strong focus on long term relationships, predictability and transparency contribute to stable contracting agreements.

Lack of market transparency

Procurement practices with a strong focus on long term relationships, predictability and transparency, contribute to increased market transparency.

Low quality/value of in-kind benefits

Procurement practices with a strong focus on long term relationships, predictability and transparency, offer suppliers a safe context for investing

in their workers.



Low product quality

Procurement practices with a strong focus on long term relationships, predictability and transparency, provide a strong base for suppliers and buyers to jointly work on an improved quality.

Practical tips

Get inspired by the following tips to improve procurement practices

For Buyer

Translate commitments

Make sure the commitments in the area of living wages (and other sustainability topics) are translated into concrete targets.

Make it simple

Realize that the topic of living wages is one of many on the agenda of the procurement department so they may need clear milestones and training.

Use certification

Explore options to purchase via credible certification schemes that fully integrate the topic of living wages.

Dialogue with suppliers

Engage in dialogue with your suppliers to identify the obstacles limiting your suppliers from paying living wages and assess whether procurement can play a role in tackling these obstacles.

Involve suppliers

Involve the supplier in the definition of the product specifications and contracting terms.

Scale up impact

Inspire and motivate your suppliers to also open up the dialogue about responsible procurement practices and living wages with other buyers.

Share responsibilities and opportunities

Communicate the shared responsibility to improve wages and working conditions and pursue win-win outcomes by exploring joint new business opportunities.

Collaborate

Seek for cooperation with other companies to ensure more leverage and a level-playing field.

Respect all agreements

Honor the contractual obligations at all times, avoid last minute changes and be transparent about the payment procedures and pay in time.

Co-invest in better practices

Investigate the options to pay a bit more (see intervention page on stabilize higher prices) to allow the producer to pay higher wages.

Explore innovative pricing

Explore whether it is possible to work with different pricing systems (cost-plus pricing) to make sure prices reflect the production cost and a reasonable supplier profit margin.

For Supplier

Manage expectations

Clearly communicate what is and what is not possible in terms of planning, product specifications and pricing.

Show the impact

Communicate about the impact of (changing) contracting terms on your operation and on your workers.

Know your needs

Obtain a thorough understanding of the necessary price to cover all costs including at least living wages for your workers.

Select good partners

Identify the buyers that have proven to be trustworthy and explore options to work together on the topic of increasing wages over time.

Share information

Share information, such as the labor share of production costs, with the buyer so that the buyer understands the impact of increasing wages and supports possible strategies to increase those.

Explore innovative pricing

Explore whether it is possible to work with different pricing systems (for example fact-based costing) to make sure prices quoted to customers reflect all production costs and a reasonable profit margin.

Be transparent

Be aware that further-going cooperation may require a level of transparency that is new for yourself and your buyer.

Show progress

Realise that transparent communication about progress is crucial to maintain the trust of the buyers. You can use the Salary Matrix.

Case studies



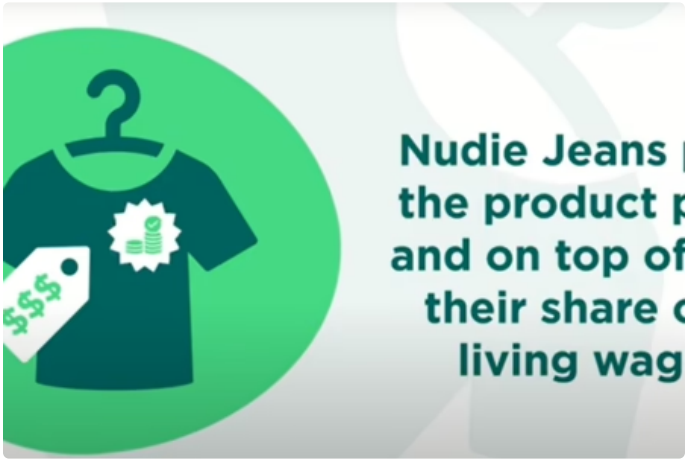
Coop narrows wage gaps for workers with the help of procurement practices

Retailer Coop and Fairtrade Max Havelaar collaborate to support workers on two banana plantations in the Dominican Republic to close living wage gaps.



Corporate uniforms made better: Schijvens

Uniforms from apparel maker, Schijvens, are found on employees at well-known companies, including McDonalds, Albert Heijn and the drugstore-chain Kruidvat. The company's mission is to make their production as sustainable as possible, with a special focus on living wages.



Nudie Jeans

Nudie Jeans is a Swedish denim brand that stands out for more than style. Their commitment to transparent production and their ambitious repair and reuse-program sets them apart, but the company also has living wages high on the agenda.



Dutch retail: Closing the living wage gap in the banana sector

All major Dutch retailers have joined forces to improve payment in the banana supply chain. By signaling a clear commitment towards living wages, practices in the banana supply chain can change for the better



Aldi: Changing banana purchasing

Aldi South Group has announced in August 2022, that it will radically change its banana purchasing strategy. The company commits to pricing that covers the costs of sustainable production for producers and their employees and allows for investment in constant social, labor and environmental improvements.



Malawi Tea 2020; A new model for sustainable procurement

The Malawi Tea procurement model is the first of its kind in the tea industry and provides insights into the role of commercial relationships and sustainable procurement in closing the living wage gap. It facilitates the tea contracting process to link buyer tea pricing to worker remuneration without falling foul of competition law, which forbids competitors to discuss prices.

Sector considerations

Direct trade relations and good procurement practices are important in all sectors. However, the distribution of power in the supply chain strongly affects whether procurement practices can easily be improved.

Manufacturing and textile industry

The manufacturing and textile industry are characterized by short product life cycles and unpredictable consumer demand. Fast moving fashion trends lead to short-term planning, last minute changes in order specification or size, inaccurate forecasting and late payments. These procurement practices have negative effects on workers in factories. Within the manufacturing and textile industry it is therefore of utmost importance to collaborate on planning and forecasting with your supplier, ensure mutual agreement on changes and to provide detailed product specifications. Learn more about procurement practices in the manufacturing and textile industry via the Common Framework for Responsible Purchasing Practices (CFRPP).

Products sold via tendering procedures (Banana, nuts etc.)

Retailers often issue online annual tenders for products such as bananas, focusing mainly on price. Resulting in a fierce competition between banana suppliers and little incentive to improve wages or other sustainability matters in the supply chain. To improve this situation, both buyers and suppliers should take action. Buyers need to integrate social and environmental performance requirements in their procurement practices and consider this when negotiating prices. Suppliers should continuously raise awareness on the impact current tendering procedures have on their ability to pay higher wages.

Products sold via auctions (flower, bulk coffee/tea)

In some sectors, auctions serve as the market-place matching demand and supply. With flowers as the best-known example. The determining factors in an auction are price, quality and quantity. Social and environmental information is not disclosed in the trade process. Since the supplier and buyer do not know each other, this marketplace does not allow supply chain actors to jointly work on living wages. Retailers are challenged to explore options to engage in direct relations with suppliers and auctions are challenged to include sustainability information in their trade processes.

Supporting materials

ACT Purchasing Practices Self-Assessment: A tool for engagement

Based on existing research, ACT has created the Purchasing Practices Self-Assessment tool (PPSA), an online questionnaire for brands to assess their purchasing practices, pioneer change and support the move towards living wages on an industry level.

Better Buying

Better Buying is a unique system for suppliers to communicate with their buyers about purchasing practices that are working well and those that need improvement, without risking their business relationship.

Common framework for responsible purchasing practices

The Framework is a reference point for companies working to improve their purchasing practices and for Multi-Stakeholder Initiatives wanting to support their member companies to implement practical improvements in purchasing.

Sustainable Procurement Kit by IDH

The Sustainable Procurement Kit helps companies to get transparency about the impact of your procurement on living wage. Companies can use the Kit to assess the degree to which the price paid for a particular product enables the payment of a living wage at the supplier level.

Fair Price: tool that facilitates fact-based costing

Fair Price app is a tool by Fair Wear that facilitates fact-based costing and shared responsibility between buyers and suppliers to ensure prices sufficiently cover all labour expenses, including when wages are raised.

Supporting partners

Buyer | Supplier | Government | Supporting organisation

Related interventions

Stabilize higher prices | Enhance price & supply chain transparency | Improve policies in producer countries | Improve policies in consumer countries

Inspiration and guidance

If you need more inspiration or guidance for the implementation of 'procurement practices', or if you want to add a tip, sector consideration or case study send **an email** to the IDH living wage experts!

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