

BUYER BEHAVIOUR INCENTIVES

Guide on how to internalise incentives that promote behaviours around social responsibility and supplier engagement

Opportunity:

Incentivise the shift of day-to-day decisions we make as part of our responsibilities, towards responsible purchasing practices

Current Drivers:

In most companies, incentives are financially driven and determined only by **Margin & Sales**.

Exclusion of other drivers, results in behaviours (such as **Time & Price**) that can put undue commercial pressures on suppliers.

TIME ==> *Outsourcing and/or use of Temporary Workers, Excessive Overtime, and Harassment; where time refers to bookings, production orders and lead-time, calendar dates, etc.*

PRICE ==> *Worker Health and Safety, and Wages; where price refer to associated costs/FOB*

Solution:

Balance KPIs with others more in line with CSR targets, goals, and responsible purchasing practices (RPP), so buyers see the personal benefit in incorporating those considerations

Actions:

- 1 Determine your own business goals and targets: What is the big picture of what are you aiming for as a company in terms of responsible purchasing practices?
- 2 Create departmental goals that align those KPIs within your organisation and determine individual targets in the day-to-day (outlined in steps 3 and 4)
- 3 Distill and break down further by categories – i.e. knits, wovens, sweaters, denim – even tailored versus casual – to avoid averages that might distort the realities of some category development ratios and their impacts
- 4 Build in what those rewards/incentives/ bonus percentage levels are for each deliverable
- 5 Defining ownership, strategies, and targets across departments, to ensure they are aligned, is vital to the success of this incentive initiative

Important Notes:

***Different companies have different business models, and different methods of working. At larger companies, responsibilities might be siloed with different departments where smaller companies might have less people making more decisions. You want to create alignment across departments and down to the individual level that helps to promote your big picture goals.*

***KPIs/reward mechanisms look different in different businesses and financial bonuses are not appropriate at every company. This document represents some ideas on possible approaches.*

**Caution: ensure KPIs do not result in unintended negative consequences for suppliers*

Example KPIs

Conversion Rates

Development Ratio – # of styles sampled compared to # of styles purchased

WHY THIS MATTERS

Excess sampling can cause unnecessary pressure on suppliers in terms of cost as they are often covering the costs of samples themselves.

- **KPI:** Development ratio
- **Data:** # of styles developed/sampled compared to the # of styles bought/ordered
- **Stakeholders/Departments:** Design – Product Development – Merchandising – Production – and even Sales departments (All with roles/responsibilities that include development and/or the buy)
- **Incentive:** smaller the ratio = greater opportunity to maximise your bonus compensation

Example: Development ratio is 1:1 (develop 1 sample/ buy that 1 sample) = maximum reward/ bonus opportunity. Development ratio 3:1 gives lower reward (bonus opportunity as determined by your company).

Calendar Adherence

Adhering to critical path/internal calendar deadlines

WHY THIS MATTERS

If you miss calendar deadlines yourself but expect suppliers to deliver based on what you agreed, it puts pressure- time pressure - on suppliers which can result in more temporary workers, excessive overtime, subcontracting, and stress and harassment.

- **KPI:** Meeting Calendar Deadlines
- **Data:** Confirmed dates of deliverables – issue POs/OTB confirmation, Development Tech Pack sent date and/or Fit Sample comments sent date
- **Stakeholders/Departments:** Dependent on deliverable (Example: Design – Merchandising – Tech for tech pack due dates)
- **Incentive:** Greater the # of on-time deliverables = Greater opportunity to maximise your reward/bonus compensation. Deliverable targets could even be weighted

Additional Recommendations:

- Talk to your suppliers about potential negative consequences of any KPI that would be implemented
- Speak to suppliers about what potential changes they believe are needed to improve existing purchasing practices as guidance for KPI development
- Consider KPIs around developing long-term relationships: 1. Order consistency with a supplier – measured over a number of years, 2. Cost consistency – incentivise moving away from pushing costs down
- Review practices internally, look at available data, and ideate on data that might be needed to help further define such KPIs