

Business Case No. (3)



Business Case

**Marks & Spencer – Plan A,
Long-term CSR strategy with a strong focus
on developing communication channels
with suppliers and consumers**

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Document Version:	English – v01
Date:	September, 2012

INTRODUCTION

A business case has two primary objectives:

- To present decision-makers with key information about social initiatives in term of responsible supply-chain management in a consistent, balanced format that facilitates the evaluation, comparison and prioritization of competing initiatives.
- To guide a group of suppliers, buyers and managers in developing their vision and plans to prepare for responsible initiatives.

A RESPECT Business Case is designed to provide a common starting point for discussion and illustrations during the RESPECT training and coaching sessions. However, no two business cases are the same.

This case study shows a buyer's example of good CSR and sourcing practices by developing long-term partnerships and increasing effective communication with key stakeholders.

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The RESPECT project has been funded with support from the European Commission. This publication reflects the views only of the author, and the Commission cannot be held responsible for any use, which may be made of the information contained therein.

Programme: Leonardo da Vinci # CH2011-1-CH1-LEO05-00044

EXECUTIVE SUMMARY

In a world of globalization, economic crisis, growing population and climate change, the companies are more than ever exposed to rapidly changing trading conditions and legislation, and fierce competition. The brands and multinational companies with long and complex supply chains have yet more to be concerned about. Most such companies have their own sustainability activities. How their practices are reflected in their supply chain is a different matter.

The CSR¹ in Bulgaria made its first little steps only in year 2000. Even nowadays it is perceived as activity that can be pursued only by the big, wealthy companies. Another misperception in Bulgaria is that CSR is a PR² exercise. It is not even perceived yet as risk controlling exercise in terms of publicity and bad image. For the Bulgarian apparel factories it would be useful to be acquainted with good practices in any area of the responsible purchasing.

Bulgarian apparel factories are suppliers of many of the multinational and European brands. Yet so far the purchasing practices in Bulgarian textile sector are limited to compliance assessments. Little is done by the big brands in terms of communication and methodological help on different compliance topics. With view to the on-going crisis, sometimes it is difficult for the suppliers to cope with all corrective actions they should undertake. This is not always a matter of money, but a matter of systems, knowledge and commitment. Some of the most frequent issues in Bulgarian factories are related to health and safety, communication with and information to workers, overtime. These issues could be tackled with the help of the Buyers. Such help could be only delivered on the basis of regular communication between Buyers and Suppliers.

The current purchasing practices are designed to maximise profits and transfer the risk down the supply chain, thus they undermine the sustainability efforts:

1. Unstable relationships between buyers and suppliers (constant relocation, online auctions);
2. Falling prices: unit prices in the apparel and sportswear industry have been falling for over ten years (profit squeeze);
3. The way that lead times and delivery schedules are established: This includes ever shorter delivery lead times, rush orders, abrupt order cancellations, and fragmentary orders.

Purchasers' ability to deliver for their company depends on the continued viability and efficiency of their suppliers. However some purchasing practices may in fact be jeopardising those foundations by undermining suppliers' efficiency and capacity to

¹ Corporate Social Responsibility

² Public Relations

provide for workers' welfare. This can result in high worker turnover and lower productivity, which in turn can lead to **poor quality products, delayed delivery and additional costs for the company itself**. It also puts at risk the long-term supply of quality products from the same source in the future.

Consumers are increasingly concerned about who has made their products and how they were produced. Even in shrinking markets, the Fair Trade sector has grown by 40% per year in the UK and 20% per year in 18 other European countries. **There is significant reputational risk** to being associated with a supplier with a poor human rights record. Customers are unlikely to differentiate between the purchaser and the supplier – so influential purchasers, such as Nike, may be held accountable for the standards of their suppliers.

Marks and Spencer provides a business case for excellent sustainability action aiming at tackling all the present (and future) challenges to the multinational companies/purchasers. The practices concern climate change, waste, health, people, etc., but among other things also being a fair partner.

Marks and Spencer can be singled out from among the large Buyers, because of their consistent efforts to integrate all these issues in their day-to-day business policies and practices. Their 100 (recently growing to 180) commitments encompass all the above topics. These topics are implemented in a systematic manner both in M&S and along their supply chain. Their "How we do business" report published every year since 2007 (before that named CSR report) describes their commitments, targets and deadlines, and achievements of each target throughout the reporting year. This is a transparent and systematic manner of implementing and reporting CSR efforts. It allows all stakeholders review and react to the issues reported.

One of the specific things M&S are implementing is also their communication with consumers. M&S provide information to the consumers about healthy lifestyles, but also about their CSR initiatives, such as being a Fair Partner (Fair trade products), their joint initiative with Oxfam about clothes recycling and others.

Their Supplier Exchange initiative provides for exchange of best practices along the supply chain, as well as gives opportunity to suppliers to voice their concerns and discuss controversial issues with the purchaser. During these exchanges the partners are addressing such issues and together look for a solution.

M&S has run conferences in seven key sourcing countries over the past year, designed to help suppliers network, share experiences and debate to reach common understanding. According to Louise Nicholls, head of responsible sourcing for food at M&S, the conferences are also an opportunity for the company to understand what the labour issues are in different countries and to showcase local leading companies and solutions to local issues. The business also holds a UK conference every year for over 1,000 attendees involving CEOs and senior representatives from buying teams as well as their suppliers, stakeholders and industry experts. The aim here is to highlight the business case for high standards in ethical trade and

environmental performance. Louise believes creating the 'buzz' and commercial recognition of the benefits of higher standards helps maintain momentum over the rest of the year³.

This two-way communication can be used both to reflect better the sustainability efforts of the Buyer in its supply chain, but also to use the knowledge and experiences of suppliers on issues concerning production, raw materials, worker welfare, etc.

³ www.ethicaltrade.org

1 BUSINESS NEED AND CURRENT SITUATION

BUSINESS NEED

In a world of globalization, economic crisis, growing population and climate change, the companies are more than ever exposed to rapidly changing trading conditions and legislation, and fierce competition. The brands and multinational companies with long and complex supply chains have yet more to be concerned about.

The businesses make decisions every day about what to buy and where to buy it. They purchase a variety of items, including: office supplies and furniture, electronics, raw materials to manufacture your product, and services like cleaning, financial / accounting and transportation. Cost and quality are important factors, but there are other things to consider when making purchasing decisions that will benefit the business and make a positive impact on society.

Sustainable purchasing addresses environmental and social factors, as well as the total costs associated with each purchase. It means looking at what products are made of, where they come from, how they were made and how they will be disposed. It is also about looking at whether a purchase needs to be made at all (e.g. Could it be leased or rented?). The intent of sustainable purchasing is to shift spending away from goods and services that negatively impact the environment and society towards products that are more environmentally sound and socially beneficial. It is part of a growing movement within government, industry and civil society toward more sustainable forms of production and consumption.

Sustainable businesses need good long-term suppliers

A successful supply base is the foundation of a successful company. Purchasers' ability to deliver for their company depends on the continued viability and efficiency of their suppliers. However some purchasing practices may in fact be jeopardising those foundations by undermining suppliers' efficiency and capacity to provide for workers' welfare. This can result in high worker turnover and lower productivity, which in turn can lead to poor quality products, delayed delivery and additional costs for the company itself. It also puts at risk the long-term supply of quality products from the same source in the future.

Unfair sourcing increases reputational risk

Consumers are increasingly concerned about who has made their products and how they were produced. Even in shrinking markets, the Fair Trade sector has grown by 40% per year in the UK and 20% per year in 18 other European countries.

There is significant reputational risk to being associated with a supplier with a poor human rights record. Customers are unlikely to differentiate between the purchaser and the supplier – so influential purchasers, such as Nike, may be held accountable for the standards of their suppliers.

A rising global population together with a growing consumption-based middle class will create new cost pressures as competition for finite resources grows.

This is likely to be exacerbated by a number of other factors:

- the impact of climate change, reducing the availability of raw materials as extreme weather events disrupt supply chains⁴
- the ability to attract and motivate skilled labour into agriculture and food and clothing manufacturing will become even more challenging
- social media will increase the scrutiny and expectation of business behaviour
- the policy, regulatory and taxation framework around sustainability will tighten in an unpredictable way that makes it difficult for businesses to plan for
- new revenue streams will emerge as consumers search for options that help them become more sustainable in an easy, engaging and rewarding way

Unless we respond to the social, environmental and economic pressures of the future, not only will we struggle to compete, we may also struggle to survive as a business.

CURRENT SITUATION

Even if companies adopt codes of conduct that reflect good standards, the overall impact of this instrument on improving labour standards is often fairly limited. One important underlying reason is that the purchasing practices commonly found in the athletic footwear and apparel sectors have not been adequately amended to enable one to make the labour rights strategies effective.

These purchasing practices, designed to maximise profits and transfer the risk down the supply chain, have three structural characteristics that undermine code compliance:

1. Unstable relationships between buyers and suppliers (constant relocation, online auctions);
2. Falling prices: unit prices in the apparel and sportswear industry have been falling for over ten years (profit squeeze);
3. The way that lead times and delivery schedules are established: This includes ever shorter delivery lead times, rush orders, abrupt order cancellations, and fragmentary orders.

Together they have an important influence on the capacity of the supplier to comply with the labour standards and these factors should be addressed in order to make sustainable improvements. Pressure on suppliers to produce quickly and flexible against lower prices and other factors is easily translated into the widespread and well-documented precarious employment situation of women workers in particular⁵.

⁴ See Annex 1

⁵ Oxfam, 2004

Some companies try to make a business case for improving labour conditions. They argue that improving the productivity of the supplier might compensate for the costs of implementing ethical standards. In other words, it is assumed that implementation of ethical social practices will translate into business benefits associated with lower rates of absenteeism, more satisfied workers, or a lower labour turnover. Adidas, for example, claims that it is seeking to both improve factory performance and the wellbeing of workers.

Others have pointed out that existing purchasing practices might actually be inefficient. Research conducted for Insight Investment, a UK fund that managed £67.8 billion in 2003, concluded that

“while some corporations may be inadvertently pursuing a purchasing strategy that creates tension, or in some cases directly conflicts with their commitment to ethical sourcing. Ironically, it also indicates that pressures of these kinds are often placed needlessly. They result simply from bad purchasing practices – inefficiencies, indecision, badly designed incentives and a lack of trusting business relationships. Such failures are therefore double undesirable: they cost companies money and undermine their commitments to source responsibly⁶.”

This research suggests that better management systems might ‘marry the commercial with the ethical’. It suggests that companies might have an insufficient understanding of the possible benefits associated with ethical purchasing practices.

The pressures on buyers

Current purchasing practice includes three elements that can inadvertently work against product quality, suppliers’ incomes and good labour practices:

- The need to produce quickly.
- Flexibility to customer or business demand including meeting peak seasonal orders.
- The continual search for lower prices and better deals.

The pressures on suppliers

In responding to these pressures, buyers tend to pass risks back to their suppliers. Buyer-driven supply chains impose their own private standards on suppliers. Speed and flexibility can make it impossible for suppliers to plan:

- Few suppliers receive a deposit at the time of ordering, and payment can be long after the retailer receives the goods. Other purchases may be made on ‘sale or return’ terms.
- Many suppliers, especially in the food industry, have no written contract with their purchaser and have to rely on verbal agreements.

⁶ Acona Insight Investment, 2004

Suppliers have to be flexible enough to cope with orders being changed, cancelled, increased or decreased and delivery dates being altered – sometimes at the last minute.

How can responsible practices work along this very complex supply chain?

We think a prerequisite for that to happen is to establish a solid base for communication with suppliers and act as a fair partner, as shown in the following business case of Marks and Spencer.

2 COMPANY DESCRIPTION

M&S started life more than 125 years ago when the Jewish immigrant Michael Marks came to the north of England. He arrived with little money and spoke poor English. Beginning as a pedlar, he soon owned a market stall in Kirkgate Market in Leeds. He classified everything by price, but quickly stopped selling more expensive items when the penny section thrived.

Michael decided to look for a partner to help manage his growing business. He initially approached Isaac Dewhirst, who had loaned money towards his original start up costs. Isaac declined but recommended Tom Spencer – his senior cashier. Tom agreed, and on 28 September 1894 M&S was born.

Tom Spencer invested £300 and brought considerable skills in administration and accounts, which complemented Michael Marks' flair for merchandise, selling and dealing with people extremely well.

M&S called their new stores "Penny Bazaars", keeping the penny price slogan and adding the words "Admission Free". This was a successful marketing ploy, encouraging customers to browse without any obligation to buy. Whilst this is the norm now, it was unheard of then.

By 1900, M&S had expanded to include 36 Penny Bazaars and 12 high street stores.

Today M&S are one of the UK's leading retailers, with over 21 million people visiting their stores each week. M&S offers stylish, high quality, great value clothing and home products, as well as outstanding quality foods, responsibly sourced from around 2,000 suppliers globally. They employ over 78,000 people in the UK and abroad, and have over 700 UK stores, plus an expanding international business.

M&S are the number one provider of women's wear and lingerie in the UK, and are rapidly growing their market share in menswear, kidswear and home, due in part to the growing online business. Overall, the clothing and homeware sales account for 49% of their business. The other 51% of the business is in food, where they sell everything from fresh produce and groceries, to partly prepared meals and ready meals.

Now more than ever, M&S are also known for their green credentials as a result of their five-year eco plan, Plan A, which will see them, amongst other things, become carbon neutral and send no waste to landfill by 2012.

3 HISTORICAL BACKGROUND

Plan A was developed in late 2006 to help M&S shift from a largely compliance-based approach to corporate social responsibility (CSR), which focused on maintaining the business status quo, to a new mind-set that embraced the broader sustainability challenge and the need to radically improve the environmental and social aspects of their retail business model.

One of the defining factors that make Plan A very different from their previous approach is its sheer breadth. Plan A covers all the social and environmental issues relevant to their business, and commits them to achieve performance improvements across our operations (1,000+ stores, offices and warehouses globally) and the thousands of factories, farms and raw material sources in their supply chain. It even encompasses the use and disposal of the three billion individual items we sell each year to 21 million customers. It was, and remains, an ambitious programme; one that requires fundamental and far reaching changes in the behaviour of millions of people worldwide.

Although M&S worked at speed to develop Plan A in just three months, they found time to estimate its implementation costs. At the heart of their costing exercise was a presumption that mainstream consumers would not pay more for sustainability. On this basis they estimated that the social and environmental improvements they had in mind represented a potential £40m per annum investment cost for M&S, with no on-cost for the consumer. M&S were not able to calculate potential benefits at that stage.

In 2007, M&S briefed their top ten shareholders about their Plan A investment plans. None of them were critical (they recognised that a high profile business such as M&S had to have a position on these emerging issues) but none of them were particularly engaged by Plan A; they could not see how it would generate an immediate financial return.

In 2008, recognising the scale of Plan A, M&S put in place very tight project management controls to ensure we delivered some highly publicised targets and to maintain tight control over costs. With 100 work streams across our business, there was a significant risk that costs would run out of control without this discipline.

In developing a methodology and means of calculating the true costs and benefits of Plan A, M&S soon realised that there was a compelling business case for sustainability. It saved them money, inspired their employees, opened up new revenue streams, drove innovation in anticipation of disruption in the sector, made their supply chains more resilient and strengthened their brand.

Over the last 3 years, the business case for Plan A has become clearer and more compelling: a cost in its first year, cost-neutral in its second, and by 2011/12, delivering a net benefit of £105m. The substantive part of this benefit comes from improved resource efficiency, although M&S are now deriving extra benefits from initiatives that drive their existing business and from new revenue streams.

4 ENVIRONMENT AND THE CONTEXT

Under Plan A, by 2012, M&S will aim to become carbon neutral, send no waste to landfill, extend sustainable sourcing, set new standards in ethical trading and help customers and employees lead healthier lifestyles. It is an ambitious agenda which will change the way M&S operate forever, supported by 100 commitments under five headings: Climate change, Waste, Sustainable raw materials, Fair partner and Health.

M&S are determined to deliver on their promises but realise that many of their commitments will be extremely challenging, requiring new technology, new collaborations and new ways of working. M&S also committed to complete Plan A without passing on any extra costs to their customers.

M&S has always set itself high quality, social, environmental and ethical standards but they have not always communicated these values and achievements effectively. This may have been less important in the past but today they know that their customers want more information about how they do business and increasingly they want M&S to help them take action themselves. These considerations are now an important part of how customers judge the quality of the goods they buy. This was why M&S launched our 'Look behind the label' marketing campaign in January 2006. The campaign talked about the lengths M&S go to on issues such as sustainable fishing, animal welfare, healthy eating and 'Fairtrade'. The response to the campaign was encouraging, but customers let M&S know that they wanted to understand the overall approach and for M&S to take action and lead on the key issues.

It was clear that M&S needed to move from their traditional approach of addressing responsibility issues steadily, year by year, to a point where they could set out a more ambitious long-term strategy. M&S therefore launched Plan A in January 2007. It was clear that the changes they are planning will only succeed if Plan A is fully integrated into the way they do business. It was therefore important to create the right governance structures to implement Plan A. M&S started by replacing their Corporate Social Responsibility Committee to create a new 'How we do business' Committee. This Committee meets monthly and comprises the senior management responsible for implementing Plan A.

As their new 100 commitments build on many of the 22 targets M&S set in their 2006 Corporate Social Responsibility Report, they have grouped all information under the Plan A headings: Climate change, Waste, Sustainable raw materials, Fair partner and Health. M&S will use their Plan A 100 commitments to report future progress.

At M&S, they have a phrase that 'doing nothing is not an option'. Plan A is their plan of action to meet the new environmental and ethical challenges that all face, and respond to the changing demands of their customers, employees and shareholders.

M&S know that they don't have all the answers but are committed to driving the business forward in a way that benefits everyone, now and in the future.

5 BEST PRACTICES PRESENTATION

M&S know Plan A activities in their supply chain are delivering financial benefits to their suppliers, primarily through resource efficiencies and increased productivity – M&S inevitably benefit from this, although in many cases it is often hard to quantify. Consequently, they haven't assigned monetary savings from Plan A activity in their supply chain to their Plan A business case.

As M&S suppliers implement Plan A it helps them to contain price inflation despite increases in raw material, energy and labour costs and to improve product quality, for example, with food life extensions, which in turn reduces waste.

This is a complex area and further work and analysis is currently underway to ensure M&S can capture and report on future performance and progress in a robust way. Despite the difficulty of "monetizing" Plan A benefits in the supply chain M&S are seeing benefits emerge for them and their suppliers:

1. M&S are seeing the same attitude shift in their relationships with suppliers as they've seen internally (lesson 3). Plan A allows suppliers to safely challenge "sacred cows" arising from M&S' procedures and standards. They're also spotting new sustainability opportunities themselves.
2. M&S ambitious commitments force them to look end-to-end along their product supply chains rather than just its individual bits – in the process they're uncovering opportunities for improvement around raw material specifications, the network of suppliers that make up a supply chain, factory and product quality standards and the impact of their own buying processes.
3. M&S are identifying win/win opportunities: improvements to product availability and quality that make good business sense for M&S, their supply base and their customers - as packaging improvements have demonstrated.

All this has been made possible as M&S have scaled up support to suppliers. Their Plan A Supplier Exchange programme concentrates the efforts and provides a format for suppliers to learn from one another and accelerate progress. M&S have been working with suppliers to raise awareness and build capacity in supply chains through our Plan A Supplier Exchange Programme. They believe this has been vital in convincing suppliers that they're serious about Plan A. It's also proven more efficient to create one central hub for all suppliers on all aspects of Plan A rather than interact with them in an ad hoc fashion.

M&S know that their supply chain will increasingly be the focal point for their sustainability journey. It's where much of their social and environmental footprint is created, but it's also the rich source of knowledge that will help M&S deliver innovative ways of working, improved products and ultimately make the company a

truly 'closed-loop' sustainable business. That's why M&S want to nurture, rather than impose, ownership and understanding of sustainability in their supply chain.

A 'demand-direct' approach would have helped M&S make some initial social and environmental improvements and probably also delivered commercial benefits in their supply chain. However it's clear that true commercial breakthrough only comes when our supply chain owns sustainability and is as excited by the potential future business case as M&S are.

CASE STUDY 1

Supply chain labour standards

The aim was to enable suppliers to address difficult issues such as 'living' wage and working hours through collaborative networking, conferences and the launch of an Ethical Exchange website. Setting-up best practice projects including at least six Ethical Model Factories and a worker's rights training programme which can be extended across M&S supply chains by 2012.

M&S provided over 80,000 hours (last year 21,000) of supplier training, including ethical trade conferences in China, South Africa, Vietnam, Spain, Bangladesh, Egypt and Indonesia. These covered difficult issues including 'living' wage and working hours. Three factories producing clothing in Bangladesh and one UK food manufacturer have completed Ethical Model Factory trials and results showing increased efficiencies, improved quality and less workforce turnover have been shared with M&S suppliers across the world and other companies operating in Bangladesh. As a result, a further six Ethical Model Factories in Bangladesh were set up. M&S used these achievements to launch their revised ethical trading commitments in March 2010.

After angry protests by workers across the Bangladeshi garment industry about pay and conditions throughout 2006, ETI member companies including Gap Inc, Inditex (owners of Zara), M&S, Next, Tesco and Asda took the advice of the ETI Board and in September that year supported local calls to increase the monthly minimum wage in Bangladesh from its 1994 level of 900 taka (around £8) to 1662 taka (£13).

As ETI member company sourcing from Bangladesh, M&S have been working to raise standards in their supplier factories over several years. Most recently M&S have embarked on pilot projects with selected factories to achieve incremental wage rises through efficiency gains.

Among MSIs, the new 2011 Fair Labor Association (FLA) Code, has moved on from a minimum wage standard and now requires employers 'to take appropriate actions that seek to progressively realize a level of compensation that meets basic needs and provides some discretionary income' while Social Accountability International (SAI) has developed further guidance on its basic needs wage approach. The

Ethical Trading Initiative (ETI) too recently held a well-attended roundtable seminar to explore new wage initiatives.

Standing out from among a group of companies focused on wage challenges, the UK retailer M&S has committed itself to 'Implement a process to ensure our clothing suppliers are able to pay workers a fair living wage in the least developed countries we source from, starting with Bangladesh, India and Sri Lanka by 2015' and is looking to do this by:

- ensuring prices paid to suppliers are adequate and
- helping suppliers to implement productivity improvements to fund improved wages - an approach also being adopted by several other major brands⁷.

CASE STUDY 2

Plan A Supplier Exchange: Building closer relationships and ways of working with suppliers

Soon after launching Plan A, M&S implemented a programme to help them engage with their supply base on sustainability issues. They ran face to face events and created a website to share lessons learnt with their suppliers globally, this allowed them to work together to resolve challenges.

Supplier Exchange has provided a safe forum for their suppliers to highlight ways in which M&S could change the way we operate to reduce social and environmental impacts while saving money.

M&S supplier exchanges are forums that encourage peer-to-peer learning among suppliers. M&S has introduced a balanced scorecard in foods where equal weight is given to commercial, technical and ethical and environmental issues. Working with suppliers, it has developed an ethical framework with clear stepping stones based on sites' practical experience, to help suppliers move from legal compliance to creating self-sustaining 'great places to work'. The supplier exchange meetings focus on where sites have identified blocks to making progress on the framework and help develop solutions. For example, many sites didn't survey their staff, so together they developed a cost-effective, easy to use staff survey using money from the M&S innovation fund.

According to one of the M&S managers: "Freeloading is not an option - if suppliers want to be involved, they also have to contribute." This is key to getting buy-in. Concrete outputs have emerged from the supplier exchange, including a workbook for UK growers. There are two M&S supplier exchanges in the UK - one for food and one for general merchandise, and one in Egypt which M&S and Co-op run together.

⁷ www.ethicaltrade.org

For example, one of their flower suppliers had been asked to significantly reduce their water usage. At a supplier exchange session they presented data highlighting their efforts over two years to reduce water use in farms and transport operations.

However, because of a recent change in M&S Head office instructions to stores calling for more water buckets in store, their water savings had been negated. In the past this issue would never have been raised – now, armed with data showing the impact on our targets, M&S were able to challenge the flower category to see if the requested increase was really necessary.

As another example, M&S food suppliers pay a lot of money to obtain water and to discharge effluent. In many regions of the UK, water is in scarce supply and Plan A encourages improved water efficiency. M&S suppliers' site engineers knew there were opportunities to recycle grey water on site and use it for non-critical uses such as vehicle washing and raw material cleaning. However, because their quality managers were concerned about breaching M&S strict food hygiene standards this was never sanctioned at supplier site. A number of suppliers raised this issue and consequently M&S clarified their policy by issuing a formal statement from the M&S technical team, giving suppliers the confidence to adopt these techniques and save money and water on site without compromising product quality.

These examples show how advancing from compliance towards communication with stakeholders can improve relationship with suppliers, give voice to suppliers to address controversial issues and act through joint efforts to resolve such issues.

In order to improve exchange of information and experience between M&S and the suppliers and among suppliers, some of the other M&S initiatives include⁸:

A dedicated website and quarterly newsletter. One of the difficulties of communicating down the supply chain is how to get the message to the right people - for example, suppliers' human resources managers. Buyers do not usually communicate directly with HR managers, even if they are first tier suppliers. The supplier intranet and newsletter have therefore been set up to reach these important audiences. The focus is on sharing learning and celebrating success among a wide audience.

Supplier conferences. M&S has run conferences in seven key sourcing countries over the past year, designed to help suppliers network, share experiences and debate to reach common understanding. According to Louise Nicholls, head of responsible sourcing for food at M&S, the conferences are also an opportunity for the company to understand what the labour issues are in different countries and to showcase local leading companies and solutions to local issues. The business also holds a UK conference every year for over 1000 attendees involving CEOs and senior representatives from buying teams as well as their suppliers, stakeholders

⁸ <http://www.ethicaltrade.org>

and industry experts. The aim here is to highlight the business case for high standards in ethical trade and environmental performance. Louise believes creating the 'buzz' and commercial recognition of the benefits of higher standards helps maintain momentum over the rest of the year.

Product Attributes. Under Plan A, every product sold in M&S stores must have a sustainability attribute, and the business is incentivising its buying teams to increase the number of products with attributes year on year. This is linked to buyers' individual bonuses. One of the ways to get a Plan A attribute is for the site manufacturing the products to be graded an 'ethical model factory'. This means all products produced at that site can have a plan A attribute. Incentivising the businesses buying teams has helped build the business case for sites to invest in labour standards and created momentum for higher performance.

Funding and developing new pilots. Working with their suppliers and stakeholders to understand the root causes of worker exploitation, the company is supporting the development of a range of new training courses and pilot initiatives - for example, how to calculate living wage, M&S' ethical model factory programme, and so on. The learning from these is shared through all communication channels and embedded back into M&S' ethical trade programme.

DVDs. M&S has produced a DVD which helps explain ethical trade to suppliers in a quick, simple and interactive manner. The DVD is shown to suppliers at visits to worksites and explains why ethical trade is important, how suppliers can benefit as a business from improving labour standards, and what they can do.

One of the M&S managers shared, "it's not about swooping in and preaching to your suppliers, it's about us enabling our suppliers to solve problems themselves by learning from each other."

6 RESULTS AND RECOMMENDATIONS

Clear, timely communications

Aim

Suppliers know the terms of trade, which govern the relationship, receive clear communications about the buyer's expectations and are able to feedback on their own needs in a two-way relationship.

Business case

- Poor communication jeopardises the arrival of supplies and product quality.
- Well-informed suppliers will feel valued by the company and invest in improving the relationship and product.

Social concerns addressed

Suppliers are able to plan ahead if they receive feedback on their products and know how much they are likely to sell in future months.

Suggested indicators

- Percentage of suppliers issued with terms of trade explaining the buyer's policy on ordering, poor quality products, promotions, and complaints.
- Is there a complaints mechanism? What percentage of suppliers knows about it?
- How many times per year is there two way exchange of information with suppliers on all aspects of products including social or environmental improvements at production sites?

Good relationship with suppliers

Aim

Buyers aim for long-term, stable, trusting, and risk sharing relationships. Buyers assessed on loyalty between them and their suppliers.

Business case

- Stable, mutually beneficial supplier relationships are not only essential to product delivery but can also bring continuous improvement, efficiency, and new product innovation.
- Frequent supplier turnover costs time and money.

Social concerns addressed

Increasing numbers of workers are on temporary contracts and investments (e.g. training or technology) are not made for fear that business will stop after the current order. With ongoing and more predictable relationships the local community will benefit from the 'multiplier' effect of supplier's investments and reliable jobs created.

Suggested indicators

- Are there transparent criteria for selecting suppliers?
- Percentage of first-tier supplier locations known.
- Percentage of products bought in a fixed-term or on-going relationship compared with percentage of spot purchases.
- Differential in value purchased per supplier year on year.
- Percentage annual turnover of first-tier suppliers ('churn').

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For further information please consult:

- The RESPECT website www.responsible-practices.eu
- The case studies: www.responsible-practices.eu/index.php/m-r-factory/m-cases

7 ANNEX 1

Population Growth⁹

The number of people on our planet is predicted to increase to 8.4 billion by 2032 in a moderate growth scenario: a rise of some 20 percent from 2011. The populations of developing countries are expected to grow the most while those of more developed regions, including North America and Europe, are expected to hold roughly steady. In 2032, almost two thirds (58 percent) of people will live in Asia and around one fifth (19 percent) in Africa. Businesses can expect significant supply challenges and price volatility as a result of such a rapid growth in the number of people coupled with an increased use of resources. Population Growth will place intense pressures on ecosystems and the supply of natural resources such as food, water, energy and materials.

Climate change puts further pressure on water availability and quality. More frequent extreme weather events caused by climate change, such as droughts and floods, are predicted to accelerate the deterioration of local freshwater supplies. Lack of clean water in rural areas could reduce the amount of viable agricultural land, which would add to the pressure for people to migrate to cities. Companies that use water more efficiently or eliminate water use entirely through closed-loop processes and water recycling can save money and resources and reduce business risks.

Water-intensive sectors at the greatest risk from water scarcity include clothing, automobile, food and beverage, biotech/pharmaceutical, chemical, forest products, electronics, mining, refining and electric utilities.

⁹ KPMG: *“Expect the Unexpected: Building business value in a changing world”*

8 ANNEX 2

Apparel supply chain characteristics: Long, difficult-to-trace supply chain.

Production context: Key sector for several developing countries' economies. Provides employment for millions of farmers in Africa alone. But most are unable to make a living due to oversupply, subsidies and dumping by developed countries. Garments exports made up more than 50% total export earnings for Cambodia, Bangladesh, Dominican Republic and Sri Lanka in 2001. Cut-make-trim stage of garment production is labour intensive. Supply base is mobile as investors (mainly from Asia) move to new low wage economies with competitive locations.

Sector characteristics: Globally €800 billion spent on clothes in 2000, of which one third were bought in Western Europe. At the end of 1990s 70% of clothing sales in Western Europe were through multiple retailers. Agents play a key role in sourcing garments for retailers and brands.

Impact on developing countries: For example, cotton farmers in West and Central Africa are struggling to survive. Majority of garment workers are women who rarely receive a living wage.