

RESEARCH REPORT



PennState
College of the Liberal Arts

**Center for Global Workers'
Rights (CGWR)**

October 16, 2020

Leveraging Desperation: Apparel Brands' Purchasing Practices during Covid-19

*Mark Aner, Ph.D., Director, Center for Global Workers' Rights
in Association with the Worker Rights Consortium*

Executive Summary

It has been seven months since the Covid-19 pandemic upended global garment supply chains, as buyers abruptly – and retroactively – canceled orders, and suppliers and workers' rights organizations called foul and demanded payment in full. In the ensuing months, many (but not all) buyers felt obligated to reinstate orders and honor other original contract obligations.

The questions explored in this report are related to the purchasing practices of brands and retailers as they place *new* orders with suppliers during the continued Covid-19 pandemic.

With many apparel suppliers facing sharply reduced sales and with many already reeling financially from the failure of some buyers to honor pre-pandemic contractual obligations, how are brands responding to their business partners' distressed circumstances? Are they treating suppliers fairly? Or are brands and retailers taking advantage of suppliers' desperation to extract price discounts and other concessions?

Also, how are current trends in order volume and pricing affecting the viability of suppliers? What will be the impact on the tens of millions of workers who sew apparel for their livelihood?

To answer these questions, this report examines the findings from a new survey of apparel suppliers conducted during July and August of 2020. It also draws on recent trade data, interviews with stakeholders, quarterly financial reports, and other sources.

The results are alarming. A large majority of suppliers surveyed reported that brands have demanded price discounts substantially *larger* than the year-over-year reductions they typically seek. As a result, over half reported that they are being forced to accept prices for orders that are below the cost of production. Suppliers also reported that many customers have imposed payment schedules that will require suppliers to wait additional weeks or months

to be paid for their work, in an industry where payment terms are already severely skewed in favor of buyers. In sum, the survey results indicated that many brands and retailers are treating their suppliers' increasing desperation as a source of bargaining leverage.

The survey also showed that these financial pressures threaten the viability of many apparel suppliers and are likely to cause, or have already caused, large-scale dismissals of workers.

Key Findings from the Supplier Survey

- ◆ 65% of suppliers reported that buyers have demanded price cuts on new orders that are bigger than the year-over-year reductions buyers usually ask for.
- ◆ On average, buyers have told suppliers they must cut prices by 12%, relative to last year's price for the same product.
- ◆ As a result, 56% of suppliers have been forced to accept some orders *below cost*, and the majority anticipate having to continue to do so.
- ◆ On average, suppliers surveyed will have to wait 77 days after they complete and ship customers' new orders, to receive payment. Before the pandemic, the average was 43 days.
- ◆ Pre-pandemic, only 34% of buyers took 60 days or longer, after shipment, to pay suppliers. Now, 66% are imposing 60-day or longer payment terms. Before the pandemic, payment terms of 120 days or longer were extremely rare. Now, one in four buyers has imposed such terms.
- ◆ A majority of suppliers said they have less than half the order volume now relative to the same period last year.
- ◆ As a result of lost volume and more onerous prices and payment terms, 57% of suppliers reported that, if current patterns continue, it is extremely likely or somewhat likely that they will be forced out of business.
- ◆ 75% of suppliers reported that they have had to cut workers' hours as a result of buyer purchasing practices during the pandemic, with approximately one quarter of suppliers cutting working time by over 25%.
- ◆ On average, suppliers have dismissed 10% of their workers. They anticipate dismissing another 35% of their workers if current trends (order volume and price reductions; delayed payments) continue. With an estimated 35 million workers in the global garment export sector at the start of the year, the potential implication of this finding could be enormous.
- ◆ 34% of suppliers reported that buyers have given them no shipment date flexibility to allow for needed social distancing adjustments within factories. Another 51% said buyers have showed some flexibility, but *not enough*.
- ◆ Suppliers reported that when the pandemic disruptions first hit earlier in the year, 77% had at least some of their orders canceled without payment from buyers. Currently, only 27% of these same suppliers say all or most of their orders have been paid in full.

Recommendations

The research findings outlined above show why it is imperative that brands and retailers improve their behavior in this crisis and act responsibly toward suppliers and workers.

- ◆ Brands that have not paid for their orders that were in production at the outset of the pandemic must make their suppliers whole without further delay.¹
- ◆ Brands should not use suppliers' financial stress in the pandemic as bargaining leverage to further squeeze them on price. This will force some suppliers out of business and many more workers out of their jobs.
- ◆ Timely payment by brands for completed orders is paramount for the health of the industry and the well-being of workers who rely on the timely payment of their wages. Brands must cease using their supply chain power to further delay payment terms.
- ◆ While speed-to-market has long been a mantra of global garment supply chains, currently many suppliers need extra time to meet shipment deadlines as they make adjustments for social distancing and other pandemic-related workplace changes. The Covid-19 pandemic is not the time to strictly apply late shipment fees on suppliers. Worker health must be given priority over speed-to-market considerations.
- ◆ Brands have long boasted that outsourcing to developing countries creates jobs for low-income workers, especially young women. Many of these workers are now facing the prospect of economic destitution. Brands should ensure that all workers who were making goods in their supply chains at the outset of the pandemic receive their full regular income throughout the pandemic and that workers losing their jobs receive their full legally-mandated severance.²

¹ This recommendation follows our finding that only 27% of suppliers say all or most of their orders have been paid in full and prior research. See: Mark Anner and Worker Rights Consortium, "[Abandoned? The Impact of Covid-19 on Workers and Businesses at the Bottom of Global Garment Supply Chains](#)," March 27, 2020. Worker Rights Consortium, "[Who Will Bail out the Workers That Make Our Clothes?](#)," March 2020.

² See: Clean Clothes Campaign, "[COVID-19 wage assurance](#)," 2020.

Leveraging Desperation: Apparel Brands' Purchasing Practices during Covid-19

This report draws on a survey of garment suppliers conducted online between July 5 and August 21, 2020. The 75 suppliers who completed this survey were based in Bangladesh, Cambodia, Egypt, El Salvador, Ethiopia, Guatemala, India, Indonesia, Kenya, Mexico, Myanmar, Nicaragua, Pakistan, Peru, and Vietnam. The largest number of respondents were based in Bangladesh.

In terms of factory size, 9% of the respondents were owners of small factories (1–250 workers), 35% were owners of medium-sized factories (251–750 workers), and 56% had factories with more than 750 workers. 45% reported producing fashion basic apparel, 24% made fast fashion (high fashion content) apparel, 8% reported making personal protective equipment, and the remainder made a mix of goods, including sweaters.

The survey data provided insights on current trends and was complemented with insights from trade data, phone interviews with suppliers, reviews of quarterly reports of publicly traded companies, recent research reports, and news media publications.

Findings: Survey

The survey began by asking suppliers for an update on whether originally canceled orders had been paid in full. Only 27% of suppliers responded that all or most (more than 75%) of orders previously canceled orders were now paid in full. In contrast, 47% indicated that less than 25% of canceled orders have been paid in full. [See Figure 1.]

Order volume going forward was a major concern for suppliers. 52% of suppliers said they have less than 50% of the volume relative to this time last year. 33% indicated they are operating with between 51% and 75% of order volume. Only 1% of suppliers indicated that they have more orders now relative to last year. [See Figure 2.]

The problem going forward for many suppliers is not only a reduction in order volume, but also a reduction in prices relative to what buyers paid for the same products last year. 56% of suppliers indicated that buyers are imposing 'discounts' (price reductions) on new orders,

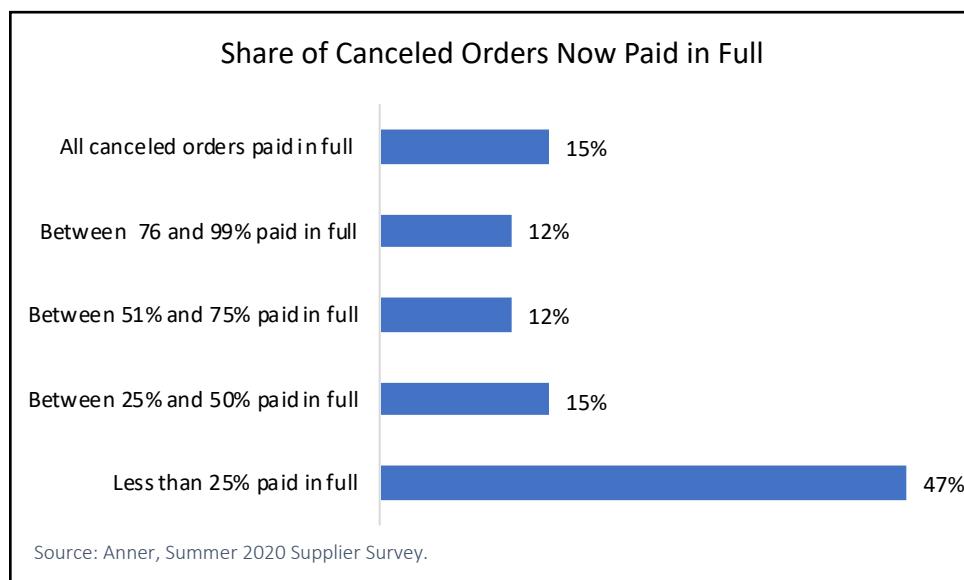


Figure 1

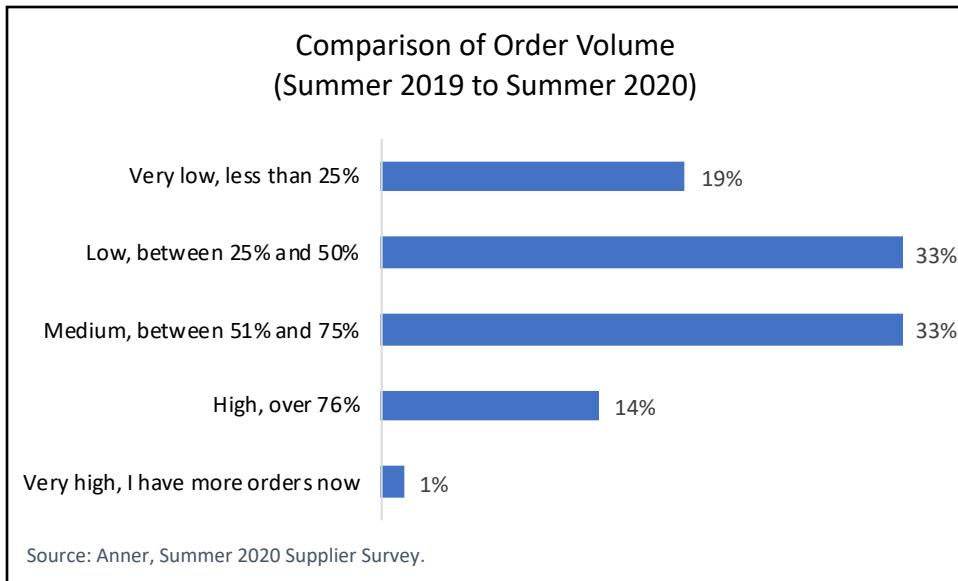


Figure 2

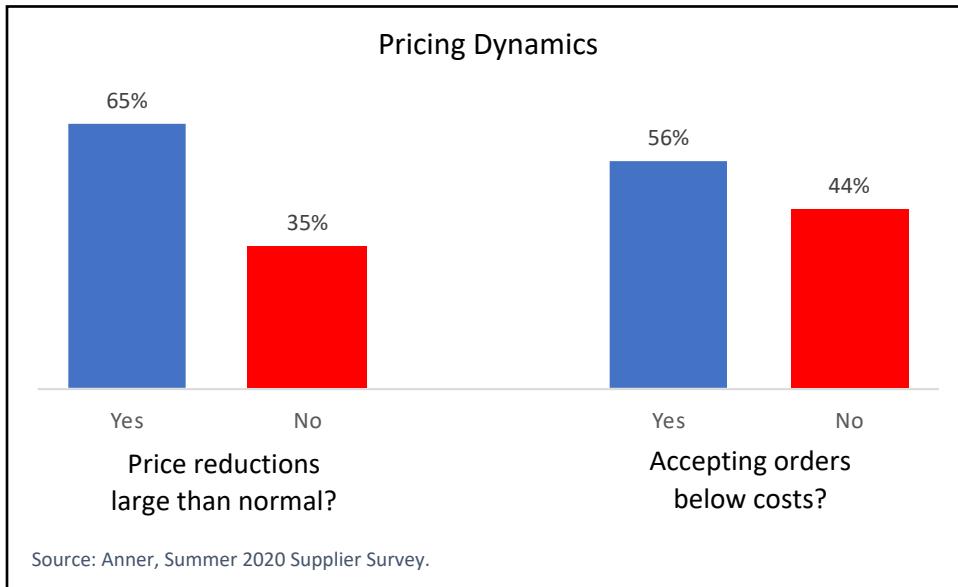


Figure 3

and 65% of suppliers noted that these price reductions are more significant than normal year-to-year reductions. The average price reductions for all suppliers was 12%.³ 56% of suppliers have been forced to accept at least some of their orders below cost.⁴ [See Figure 3.]

These survey findings were reinforced by supplier responses to open-ended questions.

One supplier noted:

On most items, certain buyers looked to get discounts without a costing rationale, stating they suffered a loss of sales. If discounts were not given, they also advised future business was at risk, all the while holding back current payments due.

³This average includes those reporting 0% reductions.

⁴A supplier will accept an order below cost rather than have no orders at all in order to cover fixed monthly expenses such as building rent and in order to have capital to purchase material for future orders.

Another supplier wrote:

There has been an overall drop of prices throughout the value chain. Buyers are demanding lowered prices throughout the value chain (i.e. fabric, print, stitch).

Going forward, suppliers reported that it is extremely likely (25%) or somewhat likely (28%) that they will be forced to accept orders below cost in the coming three months. In addition, 70% of suppliers indicated that buyers have also imposed longer payment terms. In 2019, most suppliers (65%) reported being paid by buyers 30 or 45 days after orders were shipped. Currently, most suppliers (61%) reported being paid 60, 90, or even 120 days after order shipment. On average, in 2019, buyers paid suppliers 43 days after shipment, whereas they have currently been paying suppliers 77 days after shipment. [See Figure 4.]

One supplier explained how they have sometimes been given the option of accepting greatly deferred

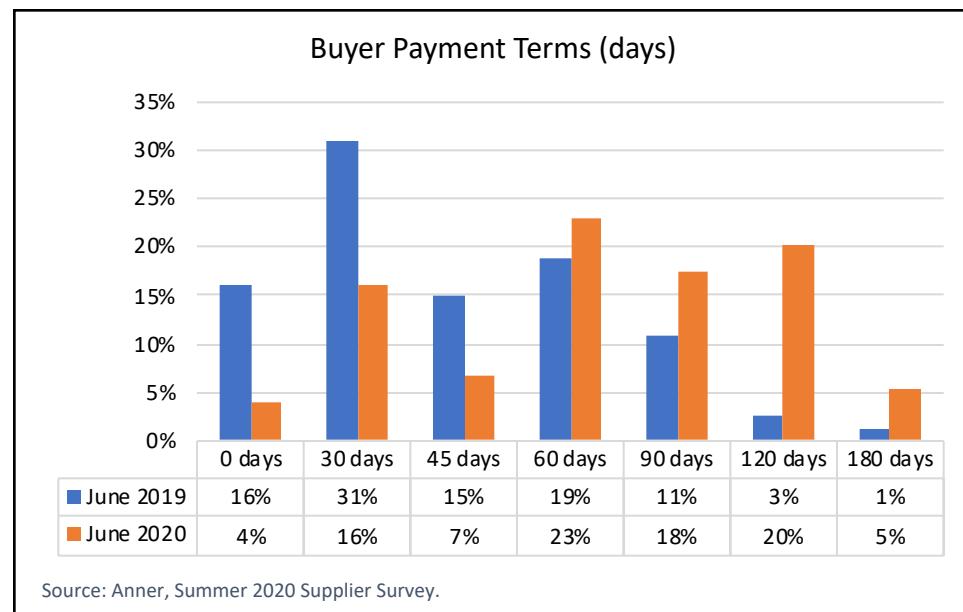


Figure 4

payments or getting paid sooner but then having to accept order discounts. They wrote:

Not all buyers [are demanding discounts], but mostly are offering 150 days to 180 days deferred payment terms. In that case, we have to take into account we might face 5% discount to get the payment promptly.

When asked if the continuation of adverse purchasing practices – smaller order volume, lower prices, and delayed payments – would increase the likelihood that

they would need to close their business, 32% responded that it was ‘somewhat likely’ and 25% indicated that it was ‘extremely likely’. [See Figure 5.]

If current low order volume, price reductions, and late payments continue, the survey results showed that the critical point for most factories was three to four months. That was when many suppli-

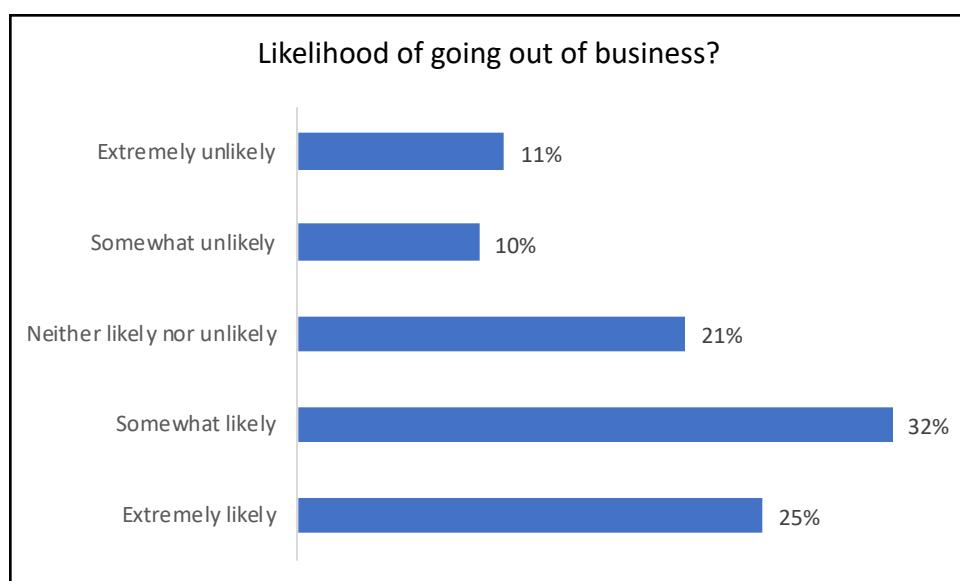
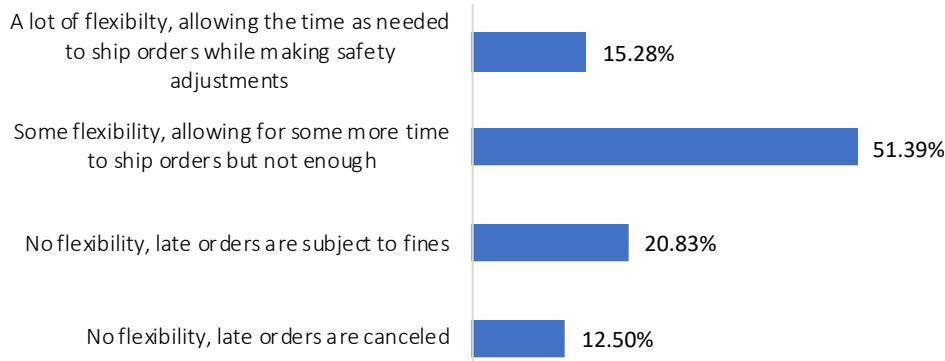


Figure 5

Are buyers allowing for flexibility in terms of shipment dates for Covid-related adjustments?



Source: Anner, Summer 2020 Supplier Survey.

Figure 6

adjustments for social distancing. A common adjustment, for example, would be to reduce the number of workers per shift in order to provide more space between workers. Such adjustments could be expected to impact order completion times. Suppliers responded that only 15% of buyers gave them the full flexibility they needed to make safety adjustments. 33% of buyers gave no flexibility. Rather, these buyers imposed fines or canceled orders for any delays. [See Figure 6.]

One Indian supplier expressed their frustrations on the overall situation in the following way:

Drop in prices, forced discounts, drop in order volume, delays in payments: all these are happening with all the buyers. In addition to this, all buyers want their goods on time. We had 55 days shutdown in India. After shutdown, all the buyers wanted their goods immediately or else they say they will cancel. It's difficult to fulfill the orders with Covid social norms.

One supplier emphasized their positive experiences with buyers. They wrote:

In my work of line, by the grace of Allah, we have been able to manage our progress as it was prior to Covid-19. In fact, this has pushed us to come stronger with some new product additions in our product range. Our customers have also been extremely cooperative about it, and we are looking for even a better time ahead.

But most suppliers detailed their frustrations with buyers. One wrote:

There is no accountability of the brand on what they order. If they wish, they can cancel. This needs to change. Suppliers are forced to air [freight] goods if shipment deadlines are missed or subject to discount. But there is no law that prevails where the buyer is mandated to buy whatever they have ordered. Also, buyers do a due diligence on factory's compliance, but there is no due diligence on buyers' activities.

Impact on Workers

The impact on workers as a result of the purchasing practices outlined above has already been devastating.⁵ The survey results showed that, as factories re-opened following lockdowns, most were not at full capacity; almost half of suppliers reported that they have had to cut working hours 'a moderate amount', 'significant amount', or 'a lot'.⁶ [See Figure 7.]

A second step many suppliers take prior to closure is to reduce employment levels. By comparing employment levels in January 2020 to June 2020, the data showed that 62% of suppliers reduced employment levels, 26% maintained employment levels, and 12% increased employment levels. [See Figure 8.]

Survey data indicated that there has already been a 10.1% decline in employment levels from January 2020 to June 2020. Going forward, suppliers indicated that *if current trends of order reductions continue*, they anticipate cutting their workforce by 35% relative to their current employment levels. If this figure holds true for the entire industry globally, millions of garment workers could be out of work.

One supplier stated:

[Buyer] executives handling sourcing are merciless, and everything about welfare of workers etc. is forgotten when they make demands.

The Clean Clothes Campaign estimates that during the months of March, April, and May 2020 garment workers already lost between USD 3.19 billion and USD 5.79 billion in wages.⁷ The survey results indicated that the potential loss of wages going forward could be far greater.

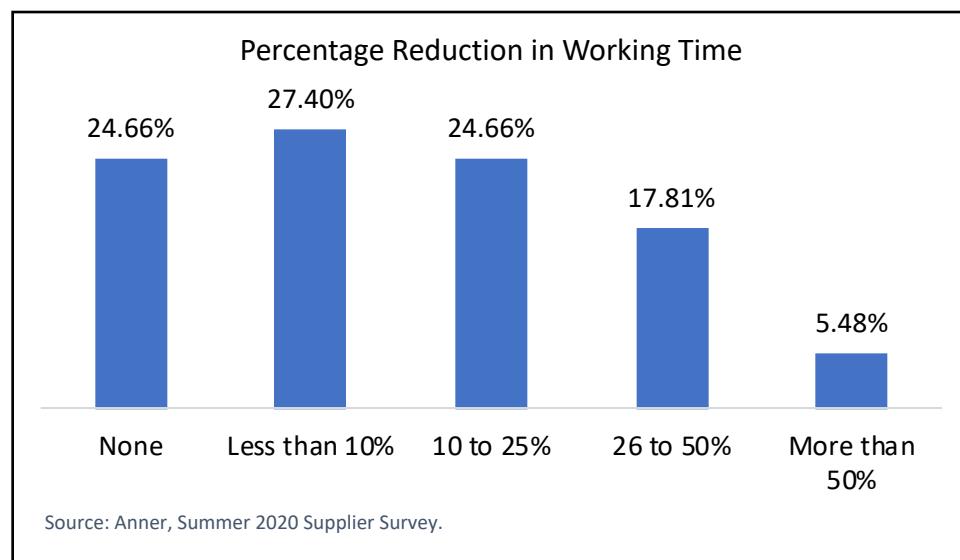


Figure 7

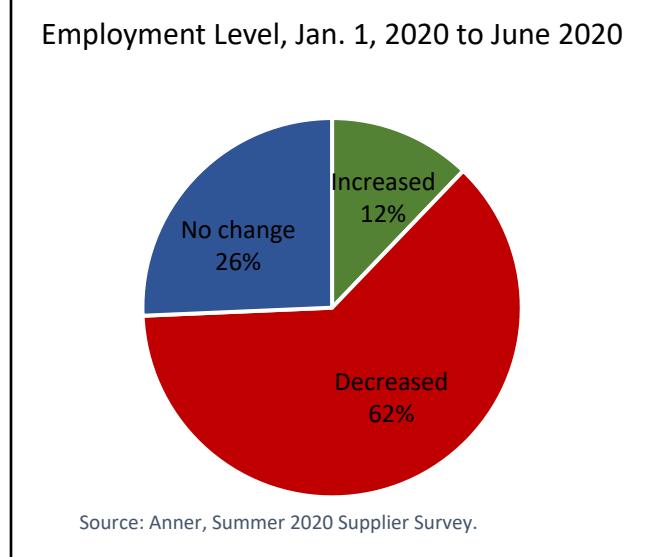


Figure 8

⁵ See: Annie Kelly and Redwan Ahmed, "[Surviving on a bag of rice: plight of Bangladeshi garment makers](#)," *The Guardian*, June 20, 2020. Clean Clothes Campaign, "[Un\(der\)paid in the pandemic. An estimate of what the garment industry owes its workers](#)," 2020. Business & Human Rights Resource Centre, "[Union busting and unfair dismissals: Garment workers during COVID-19](#)," August 2020. Jasmin Malik Chua, "[Risk of Forced Labor in Asia's Manufacturing Hubs 'Higher Than Ever'](#)," *Sourcing Journal*, September 10, 2020.

⁶ A little was defined as a 'less than 10% reduction' relative to pre-pandemic working time; a moderate amount referenced a 10–25% reduction, a significant amount was for 26–50%, and a lot was for more than 50%.

⁷ Clean Clothes Campaign, "[Un\(der\) Paid in the Pandemic: An estimate of what the garment industry owes its workers](#)," 2020.

Findings: Trade Data, Press Reports, and SEC Filings

Using trade data to understand new order dynamics was difficult at this point in time because – due to long lead and shipping times – current import data to the US and EU markets reflected order cancellations and partial order reinstatements for orders placed in March or earlier, not new order dynamics. However, July shipments can be expected to include some new orders, and the most recently available data for the US showed July imports indicated a decline of 22% relative to July last year. The full trend for new order volume will not be clear in the trade data until later this fall, after all the old orders are finished, shipped, and received.

What the trade data also showed was a continued and dramatic squeeze down on price. Comparing July 2020 to July 2019, the average price per unit of imported apparel to the US was 13% lower in July 2020 [See Figure 9.] While it was hard at this point to know with precision what share of this price drop was linked to retroactive discounting imposed by buyers on suppliers for old orders and what share was due to the price point of new orders, the latter phenomenon was at least a substantial contributor. It is notable that the decline in

prices evident in the trade data (13%) was very close to the price decline on new orders reported by suppliers in the survey (12%).

Supplier statements in the press indicated a concern about a growing price squeeze. For example, a representative of the Guatemalan suppliers' association expressed the following concern: "while U.S. orders are gradually recovering, trademarks demanding fashionable short runs are seeking bigger price cuts to satisfy recession-hit consumers."⁸

The executive director of the Nicaraguan Association of the Textile and Clothing Industry (Anitec), Dean García, expressed similar concerns, stating, "the crisis being experienced with the coronavirus, where the whole region [of Central America] has been affected, is much harder than the one experienced in 2009 ... companies are working to survive only, the pandemic has caused a global imbalance."⁹

Succinctly stated by the CEO of the retail company Serai, Vivek Ramachandran: "We've evolved into this really unhealthy equilibrium where the manufacturer carries all the risk."¹⁰

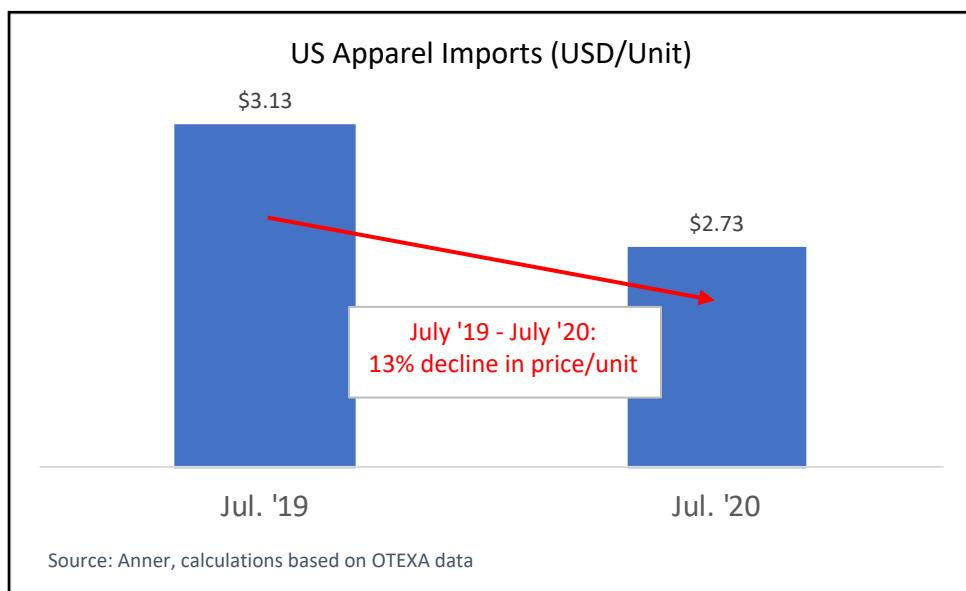


Figure 9

⁸ See: Ivan Castano, "[Modas Garment Factory Shuts in Guatemala, Cascading Effect Feared](#)," *Sourcing Journal*, September 1, 2020.

⁹ See: CentralAmericaData, "[Textile Industry with Subsistence Income](#)," August 13, 2020.

¹⁰ See: Sarah Jones, "[How Garment Factories Are Vetting Customers During COVID-19](#)," *Sourcing Journal*, July 24, 2020.

Michael D. Casey, Chairman & Chief Executive Officer of Carter's, provided insightful comments when reporting on the company's second quarter Security and Exchange Commission (SEC) filing. He noted:

Thankfully, given a more favorable environment for input costs and excess manufacturing capacity in Asia, we are forecasting lower product costs for spring 2021. [...]

Our expectation is that product costs will be lower; we will have no plan to lower prices in the spring. [...]

We expect gross margin expansion.¹¹

In other words, with so many suppliers in Asia facing lost orders, there is now even greater excess capacity in the region. The expectation is that suppliers will have to compete with each other to get more limited new orders, which will allow buyers to drive down the price they pay suppliers even more. At the same time, the company has no intention of passing this cost savings on to consumers. Rather, by lowering the prices that it is paying suppliers while also maintaining the prices it charges consumers, it expects its gross margins to grow in the spring of 2021. In all likelihood, other buyers have the same or similar strategies.

Conclusions

Covid-19 has had a devastating impact on economies and worker well-being across the world. The United Nations estimated that 71 million people could fall back into poverty.¹² This included an increase in 'working poverty', the number of workers with salaries so low that they cannot cover their basic household expenditures, with women being disproportionately affected.¹³

What is happening in global garment manufacturing is a crucial part of this story. In many developing countries, garment exports provide the main source

Thankfully, given a more favorable environment for input costs and excess manufacturing capacity in Asia, we are forecasting lower product costs for spring 2021. [...]

Our expectation is that product costs will be lower; we will have no plan to lower prices in the spring. [...]

We expect gross margin expansion.

-Michael Casey, CEO of Carter's

of manufacturing jobs. However, most garment workers did not earn wages that were high enough to cover their living expenses *prior* to the pandemic. The impact of current sourcing dynamics pushes them deeper into poverty.

This report highlights the corrosive combination of emerging pandemic sourcing practices: using suppliers' desperation, born of depressed order volume, to extract lower prices and longer payment schedules. Lower prices mean low margins and, all too often, prices that do not cover the costs of production. And delayed payments rob suppliers of the cash flow they need to produce new orders. If the current sourcing squeeze does not end, it will gravely exacerbate a crisis in which we are already seeing large-scale factory closures and the loss of millions of garment jobs.

For all these reasons, it is of vital importance the brands rethink and revise such adverse pandemic purchasing practices. Otherwise, the current short-term gains for brands of such practices will turn to long-term costs. This is because the supply chains needed to sustain the industry will face such exorbitant stress that they may never fully recover. ■

¹¹ See: Carter's Inc., "[Q2 2020 Carter's, Inc. Earnings Conference Call](#)," July 24, 2020.

¹² See: United Nations, "[The Sustainable Development Goals Report](#)," 2020.

¹³ Ibid.