

Ethical Denim *Council*

2023

STATE OF THE DENIM SUPPLY CHAIN



EDC Ethical Denim *Council*

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INTRODUCTION

In 2020, the Transformers Foundation released a report on the unethical behavior of brands and retailers in the wake of the COVID-19 pandemic.

At the time, it was deemed essential for the industry's viability to establish a commercial compliance rider that outlined ethical supply chain practices and increased accountability for brands and retailers.

Three years later, we are exploring what has changed and what hasn't.

Some brands and retailers have taken steps towards greater transparency and accountability, however, there is still a long way to go in terms of addressing their relationships with suppliers and the link between payment terms and worker welfare. The survey shows that many of the unethical purchasing practices attributed to a few bad actors are, in fact, common and have become industry standard.

Our survey reveals that supplier demand for a compliance rider is significant. While 73% of respondents expressed that the absence of such a rider was unfair to suppliers in general, nearly 90% of participants emphasized the importance of having a compliance rider.



BACKGROUND

As consumers desire more transparent practices, brands are being forced to acknowledge their role in the supply chain. Unfortunately, this has led to a lot of "green-washing" as brands and retailers create departments to demonstrate their support and commitment to maintaining fair human labor practices within the supply chain.

However, there has been a disconnect. As one supplier noted,

"There is hardly a link between the buyer's sourcing team (asking for the cheapest price) and their compliance team asking for workers' benefits, etc. It's almost like hypocrisy and not partnership."

*Quote edited for clarity

Partnership is a word that has been used frequently by brands to promote the idea of shared interests and relationships, however, it is also this term that is used to exploit and undermine attempts at compliance. The partnership brands and retailers have alleged has not been mutual nor equitable.

The burden for fair wages and safe factories is placed solely on the supplier while the brands reap the benefits. The crux of the problem is that the brands are not paying the suppliers enough or in a timely manner to provide the safe and fair wage environment they are promoting to shoppers.

WHO WE ARE



The Ethical Denim Council (EDC) is a non-profit organization established in 2022 to address the power imbalance and unethical practices in the denim supply chain. Operating on the Eight Ethical Principles, the Council will pass judgment on the ethicality of brands, retailers, and importers' (BRIs) behavior towards suppliers only when arbitration is not possible.

The EDC is not an advocacy group but a resource for information and problem resolution within the denim industry.

THE SURVEY

RESEARCH DESIGN

The survey followed a cross-sectional design to capture a snapshot of the current behaviors and practices of brands, retailers, and importers towards their suppliers.

SAMPLING

The target population was professionals working in supplier relationships with BRIs within the denim industry. A convenience sampling approach was employed due to the accessibility of participants within professional networks and industry events.

The survey was sent to 123 suppliers. Seventy-four supplier representatives engaged with the survey by providing their feedback and insights.

The factories within the sampling account for over 233,000 employees across the industry. The average factory employs 3430 people.

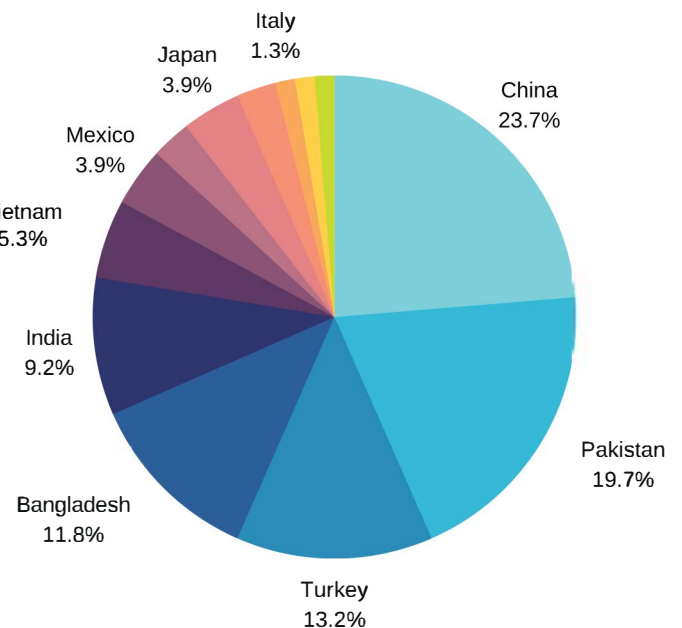
Ninety percent of respondents had factories within an Asian country.

Denim fabric and/or garments were manufactured by 84% of respondents. While others made yarn, piece-dyed garments, or other materials relevant to the industry.

DATA COLLECTION

An online survey was developed using Qualtrics. The survey questionnaire was reviewed to identify any ambiguities and refine questions. The survey was administered over a period of four weeks.

Figure 1. Countries represented by suppliers



THE SURVEY (CONT)

SURVEY DESIGN

The questionnaire consisted of both closed-ended and open-ended questions to gather both quantitative and qualitative data. Questions were structured to cover various aspects of supplier interactions, communication, payment practices, and ethical considerations. The Likert scale was used to assess agreement levels and subjective perspectives.

DATA ANALYSIS

Quantitative data from closed-ended questions were analyzed using descriptive statistics (frequencies, means, and percentages). Qualitative data from open-ended questions were subjected to thematic analysis to identify recurring patterns and themes.

ETHICAL CONSIDERATIONS

Participants in the survey are considered to have provided consent through their voluntary participation. The survey is completely anonymous, ensuring participant privacy and confidentiality.

LIMITATIONS

While efforts were made to diversify the sample, the study's reliance on convenience sampling might limit the generalizability of findings. For instance, reports indicate that 50% of denim is made in Asia, yet 90% of our respondents indicated their factories are based in an Asian country. Self-reported data may be subject to response bias and recall bias.

FURTHER RESEARCH

The findings from this survey can serve as a foundation for more in-depth studies exploring specific industries or cultural contexts.

RESULTS

The results overwhelmingly showed that brands, retailers, and importers are engaging in behaviors that could be deemed unethical while showcasing record profits and promoting fair labor practices.

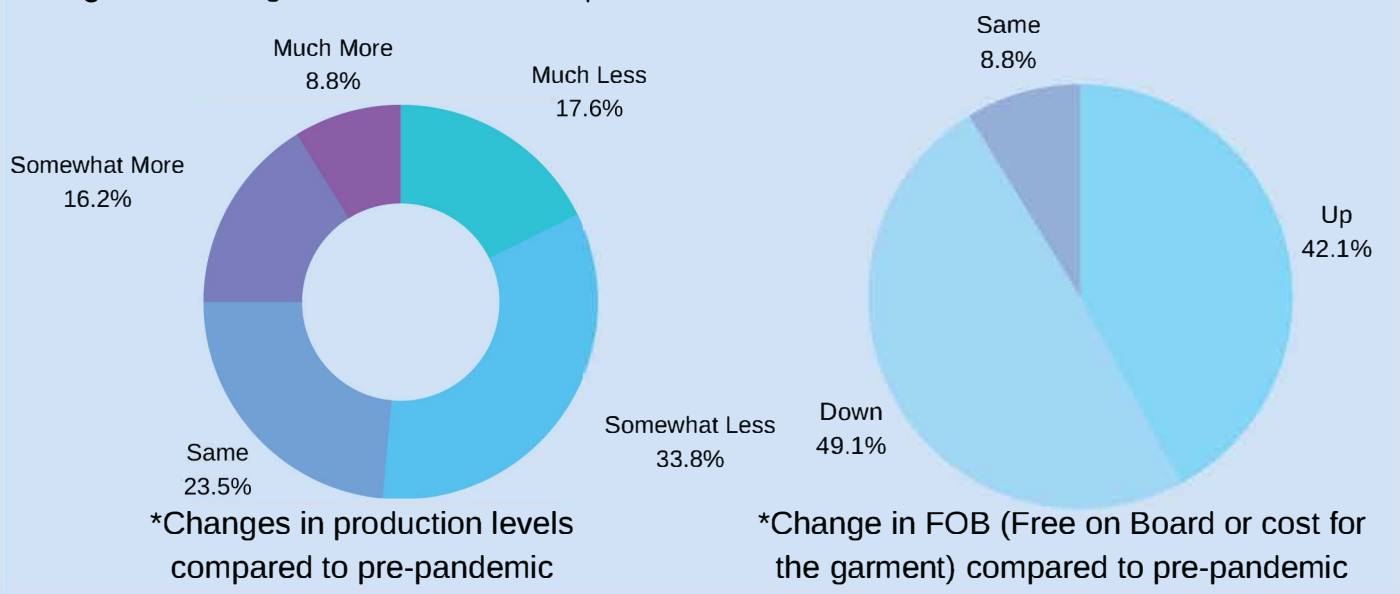
These practices would include delayed payments, canceled or deferred orders, and imposed discounts. While these practices may not have been explicit in contracts they have been implied or imposed by brand practices. Similar to the report from 2020, many in the denim industry fear repercussions from speaking out.

Most of the suppliers (73%) feel that not having commercial compliance is unfair and that it's time for brands to start putting together the link between how much (and when) they pay the supplier and how much workers are being paid.

While factories are expected to comply with sustainable and ethical policies, it is next to impossible to accomplish under current purchasing practices.

Pricing Changes

Figure 2. Changes before and after the pandemic



*There was no correlation between the size of the factory or the area it was located and the pricing or change in production levels changes

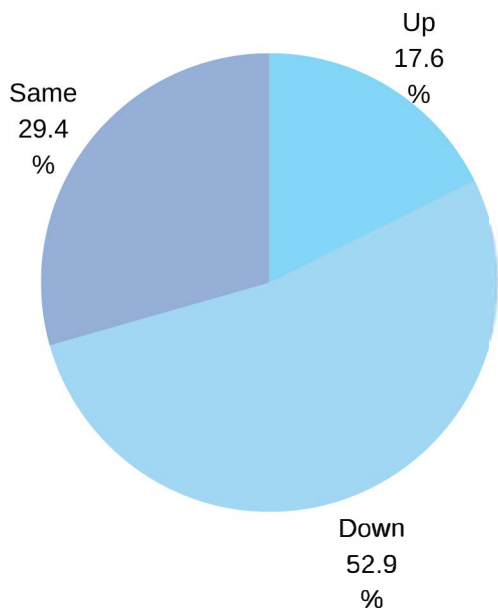


Figure 3. Change in CMT (Cut-Make-Trim or cost to manufacture garment) compared to pre-pandemic

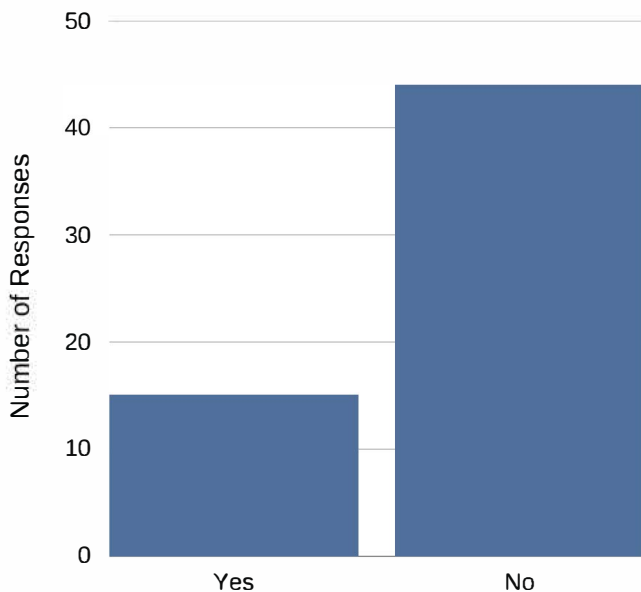
Designers will tell you the more product you have made, the less each piece will cost. However, post-pandemic, the data shows that CMTs and FOBs are decreasing instead of increasing with the lowered production levels.

While consumers are experiencing rising prices because of inflation, over half of the surveyed suppliers have seen a decrease of up to 30% in the price for their main product.

This shows a disconnect between the narrative presented by BRIs -- justifying price increases by rising supply costs -- and the reality of reduced production expenses.

Cancellations

Receiving Purchase Orders with Cancellation Clause



Brand behaviors experienced in the last 6 months

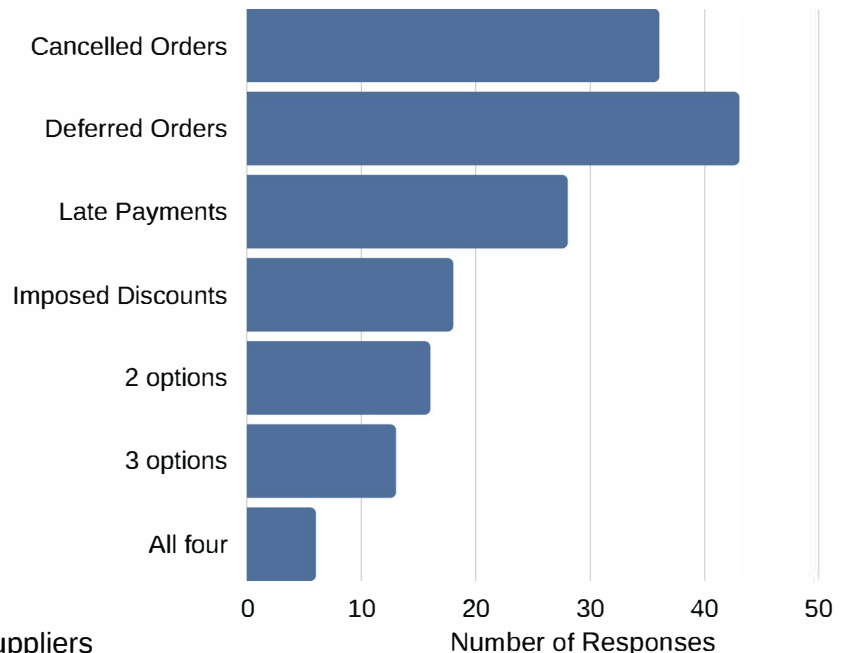


Figure 4. Unethical behaviors experienced by suppliers

The vast majority of respondents declared that they hadn't received purchase orders (POs) with cancellation clauses. Half of them also did not feel obligated to accept lower payments. However, 73% of suppliers had experienced delayed orders, and over 61% had orders canceled. Reflecting trends we had detected in our earlier research, 60% of responses showed they experienced 2 or more of these disruptive practices.

As indicated in Figure 4, 63% said that longer payment terms are being imposed on them. While a few payment terms are longer than 6 months (5%) the average payment term is 77.5 days. The industry standard is 30 days.

These deferred payments aren't just coming from one or two customers. They are coming from several of the supplier's clients. Most of which consist of 30 to 80% of a factory's clientele.

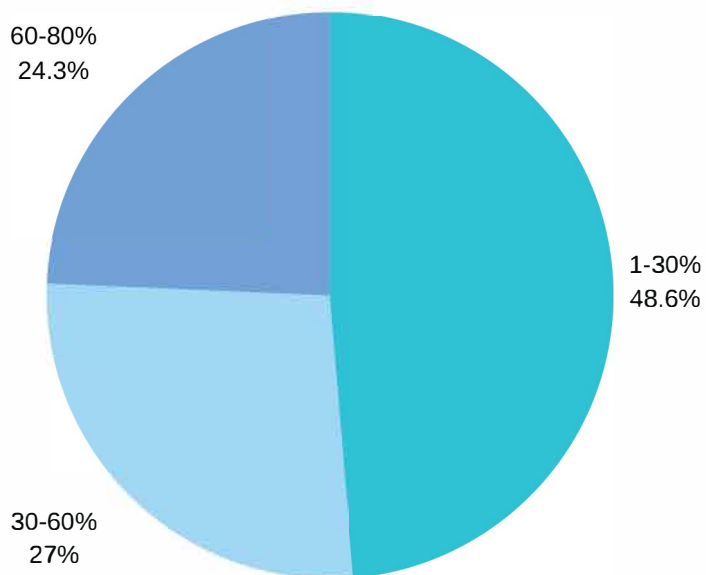


Figure 5. Percentage of customers that are deferring payments.

Impact on Workers

A major disconnect with the brands is that they don't seem to acknowledge the impact their behaviors have on the workers within the supply chain (Fig. 7). However, suppliers say that each practice has a direct impact on factory employees.

Suppliers have real fears of having to temporarily or permanently lay off workers or the inability to increase wages. Though one respondent claimed they will always pay those working for them, this sentiment was not common. Moreover, it seemed this was simply not possible for others in the supply chain.

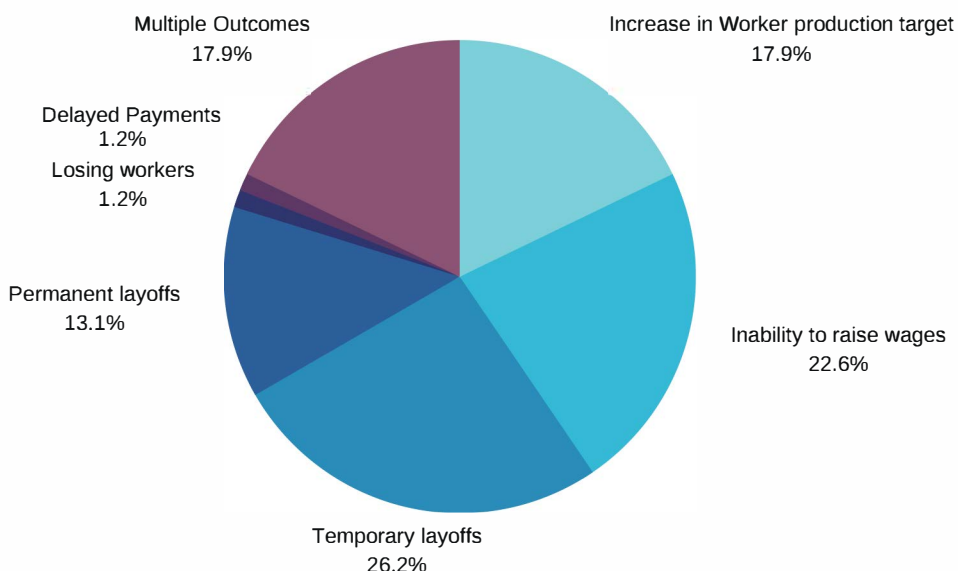


Figure 6. Possible Impacts of Brand Purchasing Behaviors on Workers

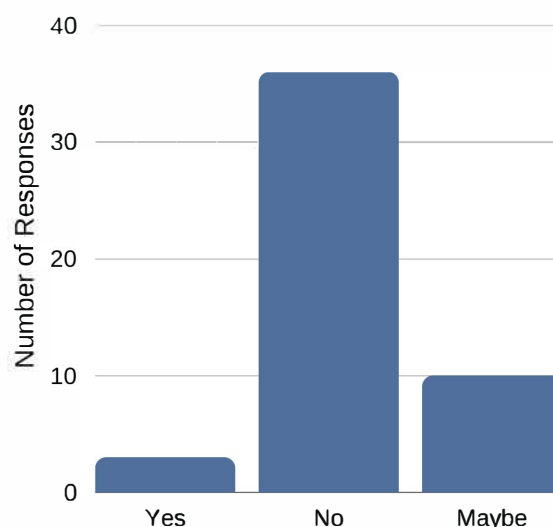
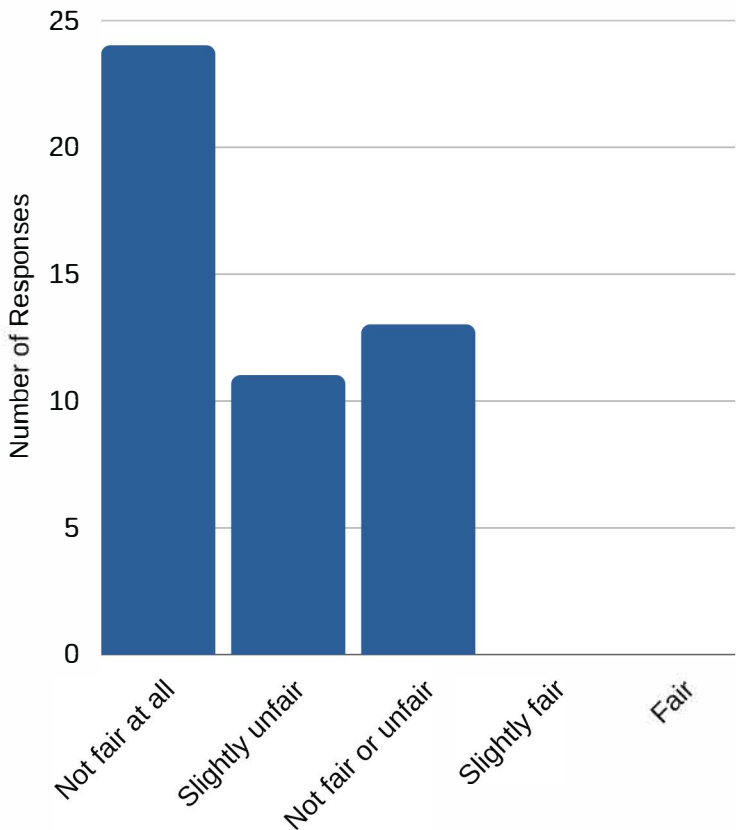


Figure 7. Response to being asked if brands see the link between canceled orders or reducing price and workers' welfare.

Compliance Rider

Figure 8. Responses to “Is it fair that there is no compliance rider?”



Twenty-seven percent of respondents chose the middle ground, stating that they found it neither fair nor unfair that there isn't a compliance rider protecting suppliers from unethical purchasing practices by brands and retailers. However, a significant majority, 73%, believe that it is unfair.

It's worth noting that not a single respondent selected "slightly fair" or "fair" as their response.

A key finding is the number of suppliers that believe a compliance rider is important. Nearly 90% of respondents believe a compliance rider would be a valuable addition to their contracts. Sixty-three percent stated the compliance rider was “extremely” or “very” important. Only 10% indicated that it was only slightly important or not at all important.

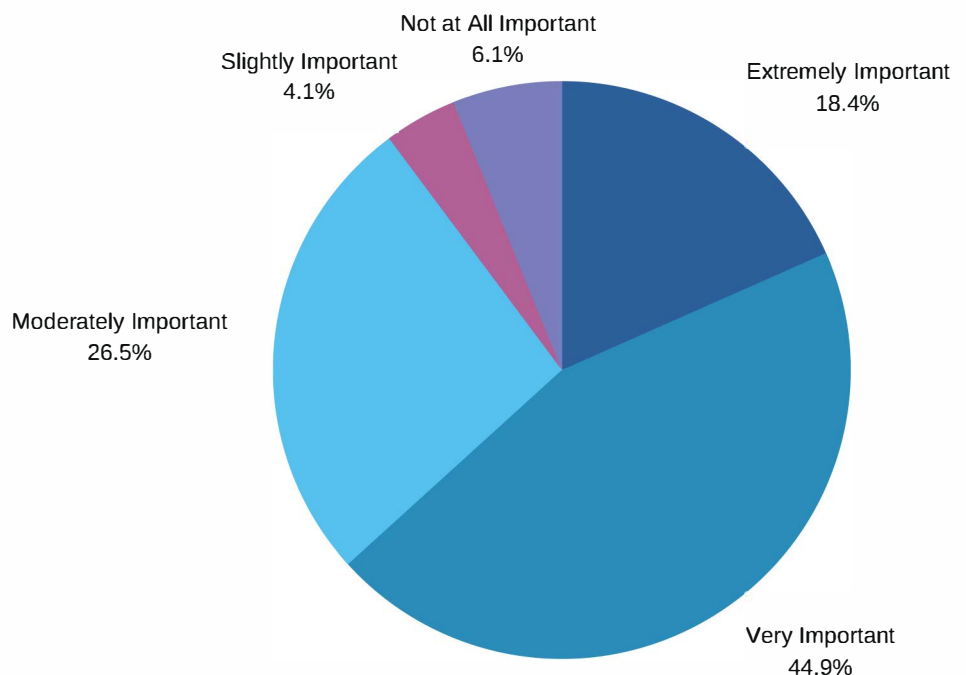


Figure 9. Responses to “How important would it be for you to have your customers agree to a commercial compliance rider in all contracts?”

Brand Involvement

Over 20 brands were specifically named that have been exhibiting the named unethical behaviors. Other responses included "all major brands" and "all of them" indicating that this is becoming the industry standard.

It is concerning to see that so many brands are engaging in unethical behaviors without linking these practices to the welfare and wages of laborers. With growing awareness and demand for ethical and sustainable practices, it is important for brands to take responsibility and make positive changes toward a more conscious and responsible industry.



**For the moment the brands mentioned in the poll are not named. However, the data in the poll is clear and has been shared with various universities, NGOs, industry associations, and other concerned parties.*

NEXT STEPS

The global denim industry was said to be worth between \$65 billion and \$75 billion in 2022. These numbers and the industry's anticipated growth present an intriguing picture in light of our survey.

BRIs are citing overstock and low sales as reasons for canceled orders, delayed payments, and other unethical practices, yet the industry's value continues to rise.

In response to these challenges and inherent inequities, the Ethical Denim Council is proposing two initiatives.



1 Commercial Compliance

We suggest including a commercial compliance rider as part of the contracts between a brand/retailer/importer and the supplier. Based on [The Eight Ethical Principles](#), the rider would confirm a brand's commitment to fair and just practices. Additionally, it would acknowledge their understanding that payment practices have a direct impact on the workers they claim to protect.

A commercial compliance rider is a critical part of contracts in the denim industry. Its main purpose is to shield suppliers from unfair treatment by BRIs. Given how supply chains stretch across the globe and how consumers are increasingly concerned about social and environmental issues, it's crucial to make sure that ethical and sustainable practices are followed. Without a compliance rider, suppliers have been subjected to unfair demands like cutting costs, meeting impossible deadlines, or dealing with delayed payments.

Having this in place not only keeps the supply chain honest but also encourages a more ethical and sustainable denim industry that benefits everyone involved.

2 The Ethical Denim Council

While independent arbitration and mutual agreement between a brand and its supplier is the ultimate goal, we see a need for an autonomous panel to oversee possible ethical violations within the denim supply chain.

The Council will be composed of members of Civil Society not related to the denim industry including individuals from academia, NGOs, business, governance, etc. This is intended to maintain impartiality.

We believe this council will aid in shifting the power imbalance and creating a fair and just supply chain.

How The Council Works

Step 1: Complaint



Suppliers who perceive unfair actions by a brand, retailer, or importer can submit claims to the EDC for resolution.

Step 2: Consideration



Not every complaint will be engaged. EDC will evaluate the merits of each case to determine credibility.

Step 3: Arbitration



If the case is deemed credible, EDC will "request" both parties (brand/retailer/importer and supplier) to engage in arbitration.

Step 4: Council Hearing



If issues cannot be resolved through arbitration, parties will meet with a council that will determine if unethical behavior has occurred based on the eight principles. Judgements will be posted on the EDC website.

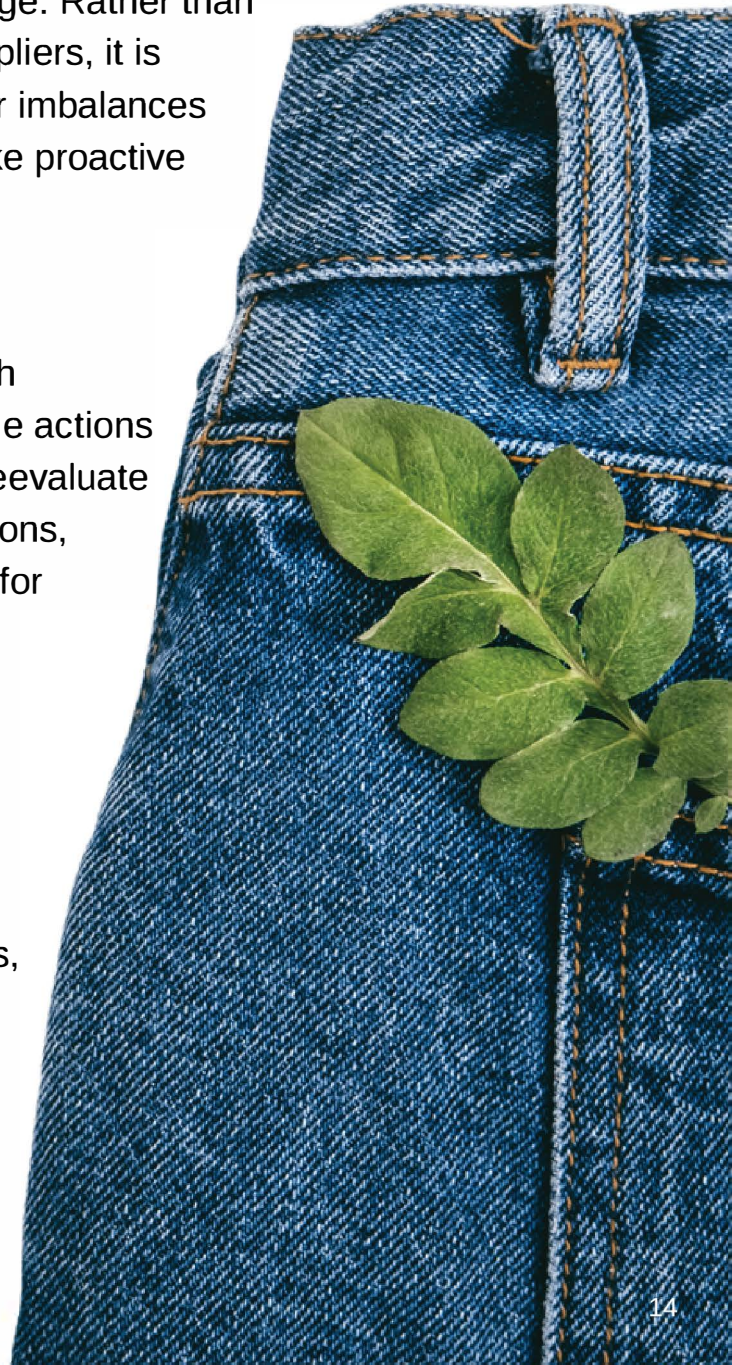
CONCLUSION

This industry analysis reveals a need to establish the link between the desire for fair labor practices and their practical implementation. Along with this, it is essential to recognize the complex power dynamics at play in this industry, which often place suppliers in vulnerable positions.

Brands, as influential players in the denim industry, bear a significant responsibility in driving ethical change. Rather than assigning blame and sole responsibility to suppliers, it is imperative that brands acknowledge the power imbalances within their relationships with suppliers and take proactive steps to rectify them.

Brands must lead by example, not only through statements of commitment but, through tangible actions that embrace ethical principles. They should reevaluate their sourcing practices, ensuring fair negotiations, reasonable lead times, and fair compensation for suppliers.

Suppliers, on their part, should be encouraged and supported in their efforts to uphold ethical standards. This approach fosters a more equitable relationship between all stakeholders, mitigating existing power imbalances and enabling a collective effort toward ethical transformation.



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