


A Broken Partnership:

How Clothing Brands Exploit Suppliers and Harm Workers —
And What Can Be Done About It

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Executive Summary and Introduction

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In the decade since the Rana Plaza disaster, safety in large export-focused factories in Bangladesh has improved. But the purchasing practices of global buyers have remained onerous and, in some ways, have grown worse in the wake of the pandemic.”

The global economic crisis caused by the Covid-19 pandemic hit apparel supply chains particularly hard. Beginning in spring 2020, Western clothing brands delayed or canceled orders from their suppliers in South and South-east Asia, resulting in layoffs of hundreds of thousands of workers.

Some brands refused to pay for clothes that were already made and, in some cases, for goods the brands had received. In Bangladesh—the world's second-largest apparel exporter after China—factory owners warned that they could face insolvency, forestalling the rehiring of furloughed employees, most of whom are poor women from rural parts of the country.

Economic conditions began to ease in 2021, and major clothing brands and retailers, whom we refer to collectively as “buyers,” rescinded some of their harshest measures. But some practices unfavorable to suppliers in Bangladesh and elsewhere persisted, often in subtler forms. These have included:

- **Pressuring suppliers for unreasonable price reductions:** Buyers have pushed for excessive discounts *after* order prices are confirmed or production has commenced. They have abused “open costing” methods, which require that supplier’s share a detailed cost accounting of their production process with buyers, and have encouraged such extreme competition among suppliers that some factory owners have accepted offers which have resulted in losses.
- **Delaying delivery and withholding payment:** Buyers have demanded that suppliers hold orders beyond planned shipping dates while with-

holding payment for finished goods. Meanwhile, payment timelines for shipped goods have been extended to 90 days and in some instances, to as long as six months, leading indirectly to reduced worker wages. Pre-pandemic payment timelines ranged from 30 to 60 days.

- **Canceling bookings and projections:** Buyers have canceled factory bookings as well as seasonal and annual projections in ways that leave manufacturers with unused capacity and raw materials.
- **Reliance on third-party sourcing intermediaries:** Many buyers rely on intermediaries to help them conduct business with suppliers. This arrangement can limit brand awareness of what goes on in their supplier factories, as well as placing undue pressure on suppliers to cut even further into their own revenue.

Other factors put additional economic pressure on suppliers, including expensive new environmental mandates to reduce water use and carbon emissions. Global brands typically decline to pay for or otherwise incentivize these “green” initiatives. The combination of unforgiving purchasing practices and other expectations has exacerbated pressures on suppliers that keep factory wages low and can lead to the mistreatment of workers. Garment workers with whom

the Center met in Dhaka in January 2023 reported that for a time early in the pandemic, they were not even paid the national minimum wage of 8,000 taka a month, the equivalent of 75 US dollars. (Factory owners generally deny paying less than the minimum.)

This report explains the latest permutations of buyer purchasing practices and the effects they have had on the more than four million garment workers in Bangladesh. It also recommends reforms that would lead to better pay and conditions for these workers, who are responsible for much of the nearly \$46 billion in revenue generated by the industry in 2022.¹

The NYU Stern Center for Business and Human Rights is publishing this work on the 10th anniversary of the collective tragedy that marked a turning point in global awareness of the human costs of outsourcing.² On April 24, 2013, the eight-story Rana Plaza commercial complex in Dhaka, the capital of Bangladesh, collapsed, killing more than 1,100 workers and injuring another 2,500 people. This horrific event drew the attention of consumers, activists, and governments to how major apparel brands and retailers had turned a blind eye to factory safety in Bangladesh and throughout Asia. In a broader sense, [Rana Plaza](#) underscored that well-known brands, such as Benetton, Mango, and The Children's Place, as well as retailers such as Walmart, did not exercise sufficient oversight of the operations that produce the goods they sell—and for the people who eke out a living within them.³

In the decade since the Rana Plaza disaster, safety in large export-focused factories in Bangladesh has improved. Major brands have participated in multi-stakeholder initiatives that paid for thorough inspections and then required factory owners to make upgrades as a condition of continuing to receive orders from large companies in North

America and Europe. Manufacturing facilities were structurally reinforced, impeded exits were made passable. Fire alarms, sprinklers, extinguishers, and fire doors were installed.

But as safety improved, the purchasing practices of global buyers have remained onerous and, in some ways, have grown worse in the wake of the pandemic. These practices understandably do not generate the media coverage or popular concern that attend an historic disaster. Drawing on recent on-the-ground reporting in Dhaka, the NYU Stern Center aims to draw attention to the persistent problem of apparel purchasing practices. We also propose practical steps that would reduce economic pressures on suppliers and result in better treatment of workers. In this way, we hope to usher in a new era of more collaborative relationships between corporate buyers and the companies that handle their outsourced manufacturing, one that ultimately could enhance the lives of garment workers and serve as a model for other industries.

To research this report, we participated in confidential, closed-door meetings and factory visits with representatives of 28 Bangladeshi manufacturers, as well as a number of video conferences. These sources requested anonymity because of their concern about relationships with the companies that buy their clothing. Separately, we met with a group of about 20 workers under the auspices of the [Awaj Foundation](#), a labor rights non-profit, based in Dhaka. The workers also asked for anonymity to protect their jobs.

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1. The Pandemic-Related Economic Crisis

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To understand the fallout from the pandemic, it’s necessary to recount how the severe slowdown that accompanied Covid-19 hurt participants in the Bangladeshi garment industry, with low-wage workers suffering far more, of course, than factory owners and managers.”

Conditions have improved since the depths of the pandemic, but some economic pressures brought on by the crisis have persisted. That was the account we heard consistently from factory owners during a week-long research trip to Dhaka in October 2022. “EU and US customers are placing orders, but they try to find excuses for discounts, saying there is a problem with the order, even when goods are already in [the] store,” one supplier told us. “This is happening very often. It was not as common before Covid.”

The economics of the global apparel industry are complex. Bangladeshi suppliers pointed out that factors other than purchasing practices have hurt their revenue during the past year. Demand from Western Europe has declined as a result of inflation, the war in Ukraine, and other economic pressures on European consumers. But the persistence of unfair purchasing practices constitutes a through line in the story of clothing manufacturing in Bangladesh.

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panied Covid-19 hurt participants in the Bangladeshi garment industry, with low-wage workers suffering far more, of course, than factory owners and managers.

In March 2020, as economies around the world ground to a halt, apparel sales plummeted. [Major apparel brands and retailers](#) either cancelled orders placed with Asian manufacturers or refused to pay for goods that were in production. Some brands and retailers demanded extended payment terms or heavy discounts on orders that they had already agreed upon.⁴ In some cases, buyers even demanded rebates on

\$3.18 billion

Value of orders corporate clothing buyers canceled in Bangladesh during the onset of the pandemic in 2020.

orders that had already shipped.⁵ GUESS CEO Carlos E. Alberini told a supplier in Bangladesh in a March 2020 letter that became public: “Please immediately stop production and put on hold any and all orders placed with you by any Guess entity until further notice. In addition, we will not be able to honor any orders previously placed, including payments outstanding for orders already shipped, as originally scheduled.”⁶

GUESS, which did not respond to our request for comment, was not alone. Many brands and retailers took similar action, as documented by a “[Covid-19 Tracker](#)” maintained by the nonprofit Worker Rights Consortium. At the time of its last update, on April 21, 2021, more than 20 brands and retailers had not confirmed their commitment to pay in full for completed or in-production orders.⁷

In March 2020, Rubana Huq, a prominent Bangladeshi factory owner who at the time served as the president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), described the [impact](#) of billions of dollars of order cancellations or postponements in her country as “apocalyptic.” Huq told *The New York Times* that some of her fellow manufacturers could face financial ruin if Western brands failed to reinstate orders or pay for clothes that were already made.⁸ (Huq, a former nonresident fellow at the NYU Stern School of Business, facilitated some of our conversations with fellow Bangladeshi suppliers.)

By June 2020, Bangladeshi garment factories were running at only 55% of capacity, and by October, some 70,000 workers had [lost their jobs](#), according to the BGMEA.⁹ Other estimates of layoffs and furloughs in Bangladesh ran as high as one million.¹⁰ While some workers eventually were rehired, others struggled to find employment, and many families went

Seeking More Accountable Global Outsourcing

Bangladesh has benefited from the rapid rise in outsourced manufacturing that began in the 1970s. Since then, international apparel companies have increasingly relied on offshore suppliers in low-wage countries as a means of reducing costs and increasing flexibility. The Bangladeshi garment industry grew rapidly, with exports increasing from \$69,000 in 1978 to nearly \$46 billion in 2022. Apparel accounts for 86% of the country's exports and 9% of gross domestic product.¹

But the outsourcing model exacerbated certain existing problems and created new ones. The low-wage, low-cost production that brands and retailers sought was achieved, in part, thanks to the absence of strong labor regulations in sourcing countries. In the 1990s, it was revealed that children were working for Nike's supplier in Pakistan, and poor factory conditions and low pay were reported in Indonesia.² In this first phase of global outsourcing, companies like Nike rejected responsibility for abuses uncovered in their supply chains. As Todd McKean, Nike's director of labor practices for North Asia and Europe acknowledged in 2001, Nike's attitude was: “These aren't our factories; these aren't our issues.”³

The late 1990s saw the emergence of a second phase of outsourcing. Faced with public anger over the allegations of labor abuses, corporate buyers began acknowledging, at least for public relations purposes, that they bore some responsibility for how their products were made. Nike and the denim brand Levi Strauss were among the first to introduce codes of conduct that they expected supplier factories to meet on wages, working hours, health safety, and other issues.⁴

In the wake of Rana Plaza, two international initiatives—the Accord on Fire and Building Safety in Bangladesh and the Alliance for Bangladesh Worker Safety—have spurred significant improvement in the more than 2,300 export-focused factories they covered between 2013 and 2018. Several hundred corporate buyers—mostly European, some American—made an unprecedented commitment to factory safety when they came together to form the Accord. Signatories committed to maintaining order volumes with suppliers that agreed to fix structural and fire-related problems uncovered by safety inspectors paid by the initiatives. Manufacturers that did not comply would see their business relationships with international buyers terminated. Factory owners had to pay for the improvements themselves, without a direct financial contribution from the buyers.⁵

The Accord was extended in 2018 and has since been expanded to become the International Accord, with a new agreement on a Pakistan Accord announced in December 2022.⁶ A Bangladesh-led initiative

launched in May 2019, the Ready-Made Garment Sustainability Council, has taken up the mantle of the Accord in that country, conducting safety inspections of 1,823 factories previously covered by the Accord. While the Alliance and Accord did not address the many smaller subcontracting factories that produce garments for export, there is no doubt that overall, the industry in Bangladesh is safer today than in 2013.

In this report, we make the case for a third phase of global outsourcing, based on genuine collaboration between buyers and suppliers and a recalibration of the business models that fundamentally contradict brand and retailer commitments to human rights. Some buyers, such as the French company Decathlon, are building promising relationships with suppliers and the people who make their products. Seeking to forge long-term partnerships, Decathlon is helping suppliers with capacity building and workforce skills development.⁷ But the punitive policing model of phase two still dominates the outsourced apparel industry.

¹ Md Tahidur Rahman, Md Habibullah, and Md Abdullah-Ai-Masum (2017), "Readymade Garment Industry in Bangladesh: Growth, Contribution and Challenges," *IOSR Journal of Economics and Finance*, 08(03): 01–07; "Export Performance," Bangladesh Garment Manufacturers and Exporters Association (BGMEA). Bangladesh's Apparel Export to World, (https://www.bgmea.com.bd/page/Export_Performance). Accessed February 20, 2023; "Quarterly Review on Readymade Garment (RMG): Oct-Dec FY23," Bangladesh Bank Research Department.

² Richard M. Locke, "The Promise and Perils of Globalization: The Case of Nike," No. 02–007 MIT-IPC Working Paper Series; Seth Mydans, "For Indonesian Workers at Nike Plant: Just Do It," *The New York Times*, August 9, 1996, (<https://www.nytimes.com/1996/08/09/world/for-indonesian-workers-at-nike-plant-just-do-it.html>); Sydney Schanberg, "Six Cents an Hour," *Life Magazine*, June 1996.

³ Kate Abnett, "Just Fix It: How Nike Learned to Embrace Sustainability," *Business of Fashion*, November 1, 2016, (<https://www.businessoffashion.com/articles/sustainability/just-fix-it-hannah-jones-nike/>); Richard Wokutch (2001) "Nike and its Critics: Beginning a Dialogue," *Organization & Environment*, 14(2): 207–237, p214.

⁴ Richard M. Locke, "The Rise of Private Voluntary Regulation in a Global Economy," In *The Promise and Limits of Private Power: Promoting Labor Standards in a Global Economy* (pp. 1–23). Cambridge University Press; Rhys Jenkins, "Corporate Codes of Conduct Self-Regulation in a Global Economy," Technology, Business and Society, Programme Paper Number 2, United Nations Research Institute for Social Development, April 2001.

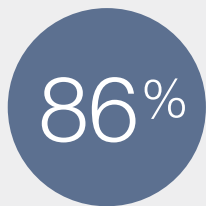
⁵ "Annual Report 2018," Accord on Fire and Building Safety in Bangladesh; "An Industry Transformed: Leaving a Legacy of Safety in Bangladesh's Garment Sector. Fifth Annual Report," Alliance for Bangladesh Worker Safety; Accord on Fire and Building Safety in Bangladesh, May 13, 2013, (<https://bangladesh.wpengine.com/wp-content/uploads/2018/08/2013-Accord.pdf>). Accessed December 18, 2022.

⁶ "Agreement on New, Expanded Accord," The Accord on Fire and Building Safety in Bangladesh, August 25, 2021, (<https://bangladeshaccord.org/>); International Accord, "New International Accord Workplace Safety Program in Pakistan," News Update, December 14, 2022, (<https://internationalaccord.org/new-pakistan-accord/>). Accessed March 6, 2023.

⁷ Dorothee Baumann-Pauly, Lorenzo Massa, and Natasja Sheriff, "Manufacturing in Ethiopia: Decathlon's Partnership Model," NYU Stern School of Business, November 3, 2020. Available at SSRN: <https://ssrn.com/abstract=3724583> or <http://dx.doi.org/10.2139/ssrn.3724583>.

hungry.¹¹ Order cancellations were not limited to Bangladesh. Describing "major layoffs" of workers in Myanmar, the ILO said in a report that in 2020, "garment factories were temporarily or permanently closed due to the government's stay-at-home orders, supply chain disruptions, order cancellations, and a decrease in orders from international buyers."¹² Cambodian manufacturers reported that [canceled orders](#) had a severe impact on 60% of its factories, with half-a-million workers affected.¹³ Tens of thousands of Cambodian garment workers reportedly were left without pay and slid into crippling debt.¹⁴

The economic fallout from corporate buyer responses to the pandemic had a swift and devastating impact on workers. Already surviving on subsistence wages and without a social safety net, many workers and their families sank further into poverty.¹⁵ In Bangladesh, many workers were laid off before they could benefit from a government [stimulus package](#) that provided low-interest loans to export-oriented garment factories to cover worker salaries.¹⁶ By mid-2020, more than three-quarters of garment workers who responded to a survey by BRAC (formerly the Bangladesh Rural Advancement Committee) and the University of California, Berkeley, reported that they were struggling to feed themselves and their families.¹⁷ A [separate survey](#) by ActionAid Australia of 100 garment workers in Dhaka found that a third were laid off during the pandemic, the majority of those without receiving any severance pay. Economic hardship meant that more than two-thirds of workers were unable to provide sufficient food to feed themselves and their families on a daily basis. Two-thirds of the workers surveyed could not meet rent payments, and more than a third were forced into debt just to get by.¹⁸ A year into the pandemic, a survey of 200 female Cambodian garment workers



The proportion of Bangladeshi exports generated by apparel manufacturing

found that more than half were experiencing food insecurity. By November 2021, a third reported that they still could not afford enough to eat.¹⁹

Under pressure as a result of global journalistic coverage and social media campaigns like [#PayUp](#), which was organized by the labor-justice group Remake,²⁰ major brands and retailers did eventually try to rectify the situation they had created. In Bangladesh, the BGMEA negotiated with brands such as Primark and BESTSELLER to reinstate orders.

By July 2020, 80% of canceled orders in Bangladesh were reinstated, and withheld payments began to flow. But the relationship between corporate buyers and their suppliers had shifted. Reinstated and new orders often came with harsh [conditions](#) attached, such as the extension of payment periods or heavy discounts newly applied to earlier agreed-upon prices.²¹ In other instances, buyers delayed shipment of finished orders, leaving suppliers with unanticipated warehousing costs.²² By December 2021, many brands were paying the same prices for goods as they had paid in March 2020, failing to account for the higher cost of raw materials and other supplier inputs, according to researchers at the University of Aberdeen in the UK.²³ The [Aberdeen Survey](#) of 1,000 suppliers in Bangladesh found that a quarter of buyers were paying prices lower than those they paid in March 2020. This left a fifth of 1,000 suppliers struggling to pay their workers the minimum wage, the Aberdeen researchers reported.²⁴

In terms of overall economic performance, the Bangladesh garment industry began to recover in 2021. Although still below pre-pandemic levels, garment exports for the financial year ending in June 2021 hit \$31.5 billion.²⁵ By late 2021, the fortunes of many corporate buyers had [rebounded](#),²⁶ and by the end of 2022 garment exports from Bangladesh reached almost \$46 billion,²⁷ but versions of the punishing purchasing practices imposed during the initial stage of the pandemic have persisted. In the next section, we will examine these practices in detail.

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‘The cancellations and hold instructions coming in from Western fashion retailers are pushing us to the point of insolvency, with massive open capacity and raw materials liabilities.’
– Bangladeshi garment factory owner Rubana Huq in a March 2020 interview with *The New York Times*.

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2. How Exploitative Purchasing Practices Harm Workers

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Many of the purchasing practices widely reported in 2020 continued once public attention decreased. Some new practices became normalized, and other, more subtle ones were adopted with little public notice.
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Purchasing practices matter. The way that brands and retailers engage with their suppliers in global supply chains—on prices, management of orders, and payment schedules—affect the economic viability of manufacturers, and, in turn, the treatment of their workers.

While factory safety has improved during the decade since Rana Plaza (see sidebar on page 4), buyers' purchasing practices continue to create conditions that spur suppliers to short-change and overwork their employees. The practices that came under the spotlight during the pandemic were not completely new, but they were taken to new extremes, inflicting financial and physical hardship on garment workers. Brands and retailers have since rolled back the worst excesses of the early phase of the pandemic—such as nonpayment for completed orders and abrupt cancellation of orders on which work had already begun—but have continued or reformulated less overt measures that exert unreasonable pressure on suppliers and their workers.

Purchasing practices have drawn outside scrutiny for decades. In 2004, Oxfam called on international apparel brands and retailers to [integrate](#) their professed commitment to worker's rights into their sourcing practices. In interviews with suppliers in China and

Cambodia, Oxfam found that by frequently changing styles and reducing the size of orders, while also slashing prices, brands and retailers were putting suppliers at a disadvantage. Oxfam connected these practices with workers being faced with excessive overtime hours, declining wages, and reduced benefits. The authors concluded that “until companies acknowledge that their own sourcing and purchasing practices are one of the root causes of poor labor standards, they will not resolve the problems.”²⁸ An NYU Stern Center [report](#) published in 2014 linked practices such as cutting prices and lead times with supplier decisions to rely on what the brands characterized as unauthorized subcontracting factories. Subcontracting facilities often are less safe and may lack toilets and clean drinking water.²⁹

Apparel industry trends have exacerbated problems with purchasing practices. One such development has been the rise of “fast fashion” brands such as H&M, Zara, Forever 21, and, more recently, “super fast” brands



Legally required minimum monthly wage for Bangladeshi garment workers

like SHEIN, Boohoo, and Missguided. These companies [entice consumers](#) with extremely low retail prices and frequent style changes.³⁰ This strategy has heightened demands that suppliers produce at ever-lower prices and make quick, unpredictable adjustments in clothing design. Simultaneously, the rise of mega-retailers and e-commerce platforms like Walmart and Amazon, which each have thousands of suppliers, has made it all but impossible for these companies to have sufficient oversight of working conditions in their vast supply chains.

In 2017, the International Labor Organization published findings from a survey of more than 1,400 suppliers in a variety of manufacturing industries and agriculture. The research connected low prices, which leave no margin for suppliers, and worker wages. Suppliers told the ILO that low prices led to a risk that they would go out of business, which they dealt with by cutting wages or benefits. The study also found that more than half of the suppliers surveyed by the ILO said that inadequate lead times—the period between order placement and the agreed-upon delivery date of completed goods—increased production costs and put downward pressure on wages.³¹

Human Rights Watch noted in a [report](#) released in 2019 that “relentless, ever-mounting pressure” that corporate buyers put on suppliers is a constant in garment supply chains. Women factory workers bore the brunt of this pressure, the group observed. Supervisors often used verbal abuse

and sexual harassment to drive faster production, according to Human Rights Watch. “Underlying pressure is only increased when suppliers respond to brand purchasing practices by trying to push production forward at an unreasonable pace,” the report added.³²

A number of women workers we interviewed in Dhaka described a pattern of verbal and physical harassment in export garment factories. Some said that this was a daily occurrence. Several described male supervisors making sexual advances to younger female workers. If they did not comply, the supervisors threatened the women with losing their jobs.

The January 2023 [report](#) from the University of Aberdeen connected buyer purchasing practices with negative financial effects on factories and their workers. In their survey of 1,000 garment factories in Bangladesh, the researchers found that most suppliers were unable to pass along to buyers the rising cost of raw materials or the costs of mitigation measures to reduce the spread of Covid. The researchers noted that, when faced with fixed operating costs necessary to keep a factory running, suppliers often reduce spending on their variable operating costs—namely, worker wages and other employment costs.³³ This result can occur in response to any practice that diminishes profit margins and threatens the survival of a manufacturing business. As one supplier told us, “The biggest problem is paying workers on time. As we don’t operate at high margins, we have the problem of cash flow.”

The pandemic exacerbated long-standing problems identified by multiple studies in the relationships between corporate buyers and suppliers. Many of the practices widely reported in 2020 continued once public attention decreased. Some new practices became normalized, and other, more subtle ones were adopted with little public notice. As a result, financially squeezed suppliers, often forced to borrow heavily to pay their own suppliers, are unable to adequately plan production and end up keeping a low ceiling on or even reducing worker wages and benefits. Some workers told us that their employers were still paying greatly reduced wages until 2022.

Our research shows that some buyers are taking advantage of their Bangladeshi business partners. Not only are they seeking to extract the greatest volume of products from suppliers at the lowest possible price, they are also looking to suppliers to offset their losses at a time of global economic instability.

Pressuring suppliers for ever-lower prices

Of all the practices that suppliers mentioned during our confidential interviews in Bangladesh, those related to pricing were the most pressing. Major brands and retailers regularly push for drastic discounts after an order price has been confirmed, at times even after production has commenced, factory owners told us. Buyers also use seasonal variation in orders, currency fluctuations, and global economic crises such as the instability associated with the Russian invasion of Ukraine, as reasons for discount demands. Each of these practices places a substantial financial burden on suppliers with knock-on effects on their workforce. Several of the workers we interviewed

in January 2023 expressed deep frustration with the low wages they are being paid. One said “it is almost impossible to live on 8,000 taka,” or about 75 US dollars a month, which is the legally required minimum wage in Bangladesh.

It's common for manufacturers to agree to a price with buyers at the time an order is booked only to have buyers return weeks later, after raw materials for the order have already been purchased, demanding a price reduction. In these situations, several suppliers told us that they felt obligated to agree to the cost reductions demanded by their buyers, fearful they would otherwise lose business with important customers.

We heard how, in 2022, buyers turned to suppliers for “help” when they felt the pinch of last year’s challenging economic climate. In one example cited by several suppliers, buyers asked for discounts because the euro had declined in value while the U.S. dollar had become stronger—developments that had hurt buyers’ businesses. As one supplier described it, “Because of the currency deflation in many places against the dollar, [buyers] came back to us and they were asking for help, [citing]...the reason that they are struggling with the currency exchange.”

Buyers are also passing costs on to suppliers that they would usually absorb. For example, when [shipping container costs hit record highs](#), peaking in September 2021, buyers asked for discounts to offset them.³⁴ Manufacturers had to take a 10% discount, according to one supplier we talked to. They had “no choice,” the supplier said. Suppliers rarely take legal action against buyers who engage in tactics like this, even when a contract is in place. In their study, researchers at the University of Aberdeen found that not a single factory among the 1,000 they surveyed had taken action

alleging that a buyer engaged in unfair practices. Most factory owners are afraid they would lose business if they went to court.³⁵

Buyers have also charged suppliers for “dead freight,” the term used for the penalty a shipper incurs for underutilized space in a shipping container. As one supplier explained, if an order delivery to a vessel is late, the buyer may claim “dead freight” and penalize its supplier, even if the vessel didn’t actually depart until after the goods arrived. This practice began during the pandemic in 2020, the supplier told us.

Another supplier described the impact of extreme price pressures on workers. When a buyer insisted that a repeat order of a basic item of clothing be produced at the same price as the previous year, without accounting for increased costs, the supplier said he had to halve the number of workers producing the order to meet the buyer’s demand.

One common business strategy that buyers have intensified since the pandemic takes advantage of seasonal fluctuations that are characteristic of the industry. Garment orders typically jump in the summer and the fall in anticipation of the Christmas season.³⁶ According to suppliers, buyers use seasonal slowdowns to take advantage of factories operating below capacity, demanding a “seasonal discount.” Instead of booking 100,000 pieces at the usual rate, they might book 200,000 pieces at a much lower price. “Buyers take advantage,” the supplier said, “and say we have to give them a discount.” This supplier explained that buyers started the practice unilaterally, without a discussion between buyers and suppliers. “Many of us have invested in huge factories and have added [production] lines,” the supplier said. “Therefore we can’t afford to have empty spaces

as we will have to pay salaries to our workers, accept all the utility bills, and shoulder the burden of bank liabilities.”

Another supplier described how a buyer used the time of year as a pretext to demand a price reduction after its order was completed. The supplier had finished an order ahead of schedule, during a period of the year when orders were low and it had idle capacity. The buyer demanded a retroactive seasonal discount, arguing that the order had been produced during the “lean season.”

High-pressure negotiation tactics can be further exacerbated by the methods buyers use to negotiate a price with suppliers, such as “open costing.” This approach entails suppliers providing an itemized description of their manufacturing process, including all materials, wages, overhead, and markup.³⁷ In theory, open costing has the potential to benefit both buyers and suppliers by encouraging better and longer-term relationships based on collaboration and information sharing. However, the suppliers we met said that, in practice, their experience was quite different. Open costing actually turned price negotiations into an auction. Buyers “are collecting open-costing from different factories,” one supplier said. “We don’t have any relationship. Many buyers are placing orders where convenient.” In other words, buyers are using open costing as a means to elicit information, which they then use to spur a race to the bottom in terms of suppliers’ prices. Some suppliers called it “blackmail.”

“Every factory is hungry for orders,” we were told. As a result, factory owners acquiesce to buyer practices that threaten to erase profits. “If I’m not going to accept,” said one supplier, “some other factory is going to accept, and he will be desperate to fill his capacity.”

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Empowered to negotiate
on behalf of buyers,
some sourcing agents
use unscrupulous tactics,
including demands for price
cuts that reduce already-
slim margins, suppliers said.
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Some Bangladeshi factory owners conceded that they could do more to strengthen their bargaining position—and, in the process, shield their workers from the effects of onerous purchasing practices. “We need to invest in [research and development] and build greater capacity to produce higher-end products,” one owner told us. “We need to gather more information on consumer trends so that we can move towards value addition in the range of products we manufacture.” Buyers can take advantage of suppliers in part because “we lack strong design resources,” the owner added. “We also need to become better negotiators with the brands, which also will reduce our reliance on buying houses who we now are paying to negotiate for us. We also need to move more into the [consumer] market, selling our products directly to global customers.”

Delaying delivery and withholding payment

Before the pandemic, payment timelines set by buyers were already challenging for suppliers, averaging 43 days after shipment, according to one [study](#).³⁸ During the pandemic, timelines increased. If brands didn’t cancel orders altogether, they extended the payment deadline to 90 or even 180 days. We heard from suppliers that such terms have become normalized.

In 2022, buyers adopted “delivery deferral,” an approach to delay or withhold payment. Several suppliers told us that, after placing orders, buyers are now demanding that suppliers delay the shipment of finished goods beyond the agreed upon delivery schedule, with payment due only upon delivery. “It’s very costly for us to hold on to goods,” one supplier said via email.

Suppliers pay for raw materials long before they deliver finished goods. They assume financial risk if buyers delay or withhold payment. To pay their own suppliers, manufacturers typically have to take out high-interest loans. Repaying these loans limits suppliers’ ability to pay workers, several told us. “Without payments coming in from buyers, banks create forced loan accounts against us and pay our suppliers,” one factory owner said. “We incur an extra debt with sharp interest. That kills our [profit] margin.”

It is not unusual for buyers to defer delivery while increasing price pressure. Citing the poor market conditions in Europe due to the economic slowdown, one buyer asked to receive its order three weeks ahead of the scheduled delivery date, giving the supplier just one week to finish the order instead of the month that remained, according to the purchase order. When the supplier said that the sped-up production schedule was not possible, the buyer told the supplier to hold the goods for three months, at which time the market would presumably have picked up. Again, the supplier declined. In the end, the supplier delivered the goods on the date originally agreed to in the purchase order, but with a discount of 5% negotiated with the buyer.

Sometimes, a deferred delivery morphs into a cancellation, particularly when a manufacturer holds an item for so long at the request of a buyer that it’s no

longer in season or in style. This happened in 2021 to one supplier who held a shipment of shorts at the request of the buyer. As of March 2023, the shorts still have not shipped. The buyer has placed other orders in the meantime but has refused to accept the shorts, telling the supplier they were out of season. In any event, the buyer said, it already had too much inventory.

Canceling bookings and projections

Some buyer practices affect the informal planning agreements between buyers and suppliers, such as projections and bookings, which are negotiated before a formal purchase order is issued. Order projections are based on buyer demand forecasts and allow suppliers to make longer-term plans over a season or a year. Bookings of factory capacity are often placed weeks or even months ahead of a planned production start date and may be subject to some changes before a formal order is placed.

When buyers place orders that represent a reduction from their earlier projections, this hurts suppliers who have invested in raw materials or made factory-capacity assumptions based on projections. We heard from suppliers that buyers routinely book capacity that is up to 20% over or under their projected order. This discrepancy can result in a factory having unused or overbooked capacity.

Two suppliers told us about their recent experiences with buyers who cancelled bookings that would have provided months of employment for workers. In one case, the buyer had booked factory capacity for an order of several million pieces, but cancelled the booking when its business was not going well. In the second case, the supplier told us they met with one of

their major customers the day before our interview. “They had booked 400 people for the next six months, and suddenly they cancelled everything for four months.” Because these changes and cancellations took place before a formal purchase order was issued, there was no legally binding agreement in place, and suppliers had no recourse.

We heard from suppliers how buyers changed orders significantly after finalizing a price. One described how an order volume was cut by more than 75%, even as the buyer sought to maintain the original negotiated price. The supplier agreed, despite the negative cost implications for his business of producing smaller batches.

Reliance on Sourcing Intermediaries

Many corporate buyers do not have a physical presence in sourcing countries. Rather than establish expensive local offices, brands and retailers hire local “sourcing agents” who serve as intermediaries with suppliers.

Local and regional agents provide buyers with visibility into the production process and help buyers communicate across language and cultural barriers. They are often skilled negotiators. Larger “buying houses” also offer services such as warehousing capacity and financing to suppliers. They may also provide their own design and product development services. Roughly three-quarters of all international garment business in Bangladesh involves third-party agents, according to suppliers.

But as a practical matter, the intermediaries sometimes undermine more open and collaborative relationships between buyers and suppliers, we were told. Empowered to negotiate on behalf of buyers, some agents

90 to 180

Number of days of extended payment periods some corporate buyers have imposed beginning during the pandemic

use unscrupulous tactics, including demands for price cuts that reduce already-slim margins, suppliers said. “If we can minimize middlemen and if we can have a good relationship with brands, we can have a better price,” one supplier told us. Another blamed buying agents for exerting pressure to turn orders around more quickly.

Suppliers acknowledged that agents vary in how they operate, and some said that they enjoyed good relationships with certain agents they had worked with for many years. Yet some suppliers raised concerns about agents. One supplier said that some agents are soliciting price quotes from several factories and offering only the lowest option to buyers that may be unaware of the source of the quotations or the final buying price offered to suppliers. Another described how buyers often communicate their order specifications via their agents, who sometimes introduce errors. The same supplier told us that when this occurs, suppliers are subject to penalties and discounts, but the agents tend not to be penalized. The third and most significant issue we heard about concerned price: Some suppliers charged that it is agents who are responsible for exerting the greatest downward price pressure on suppliers. Others said that agents seek to reduce prices as a way of boosting the fees they earn from buyers.

But in a separate interview, an experienced buying agent at a large international sourcing agency challenged the

suppliers’ negative characterization of the agent’s role. This agent told us that the buyer typically pays agents a percentage of the confirmed final price. As a result, it is not in the agents’ pecuniary interest to push prices down below what their employers, the corporate buyers, wish. “We cannot take anything extra as a part of the agency agreement with the customer,” he told us, explaining that the agent has nothing to gain from squeezing suppliers on price.

Adding further complication, some brands hire other variations of intermediaries known as importers and trading offices, both of which take their cuts from the buying price. As suppliers told us, the price a buyer agrees to pay for a shipment is transferred directly to the importer’s bank. Having received payment directly from the buyer, the importer and trading office can carve out a larger cut if they convince suppliers to accept lower prices. As one supplier explained it, “The trading office will take three, four or five factories and bargain with them...If manufacturing cost is \$1 and another supplier says they will agree to 90 cents, then the order will go to their factory.” While challenging for suppliers, these tactics can be most keenly felt by garment workers, whose wages may suffer when suppliers agree to prices that reduce the profitability of their business.³⁹

Clothing Brands Respond

We asked 10 apparel brands and retailers that do significant business in Bangladesh about the practices discussed in this report. Only four provided comment, which we present in condensed form below. The companies mentioned here are not necessarily ones that suppliers criticized in our interviews, as the suppliers generally did not name specific buyers.



C&A

Headquarters: Belgium and Germany

C&A told us it is currently reviewing its supplier code of conduct with the goal of creating a “two-way” document that includes “best practices for our suppliers and C&A....

“C&A does not request from its suppliers retroactive discounts after orders have been placed or production has been placed. Any required price adjustments after orders have been placed—either from a supplier or C&A perspective due to volume or product changes—are discussed and agreed on a mutual basis....

“Payment terms are standard payment terms by region and are agreed with our suppliers prior to the start of our relationship....As part of providing our suppliers (especially in Bangladesh) with the ability to access favorable financing for our orders, we provide them with the option to take part in our Supply Chain Financing Program,” which typically allows suppliers to gain access to payment funds “within 15 days of shipment....

“In some very rare cases, we had to phase delivery of orders due to commercial trading challenges. However, every phasing is discussed upfront with the supplier and only implemented after mutual agreement.”

C&A uses “open costing,” a process that entails disclosure of suppliers’ costs but which some suppliers allege is used to pit them against each other on pricing. C&A says that “open-costing models help us to understand the costs of manufacturing steps better and can support us in finding alternative solutions whenever necessary together with the supplier.” Open costing “actually helps us to not touch worker wages but learn which workmanships or production steps might drive costs....

“It is not a common practice at C&A to cancel orders, and this happens only very rarely.”



KiK

Headquarters: Germany

“For KiK, strong relationships with suppliers are a key factor in the company’s success....In all of our collaborations with suppliers we deem trust, common understanding and fairness crucial characteristics.... With 50% of our suppliers we have been working together for more than five years.

KiK told us that its CSR unit “is very well connected to the other departments and has the direct backing of and reports directly to KiK’s CEO. Moreover, the CSR team is an independent unit, not controlled by the purchasing department, and has a veto right.”

“After having negotiated specific conditions, unforeseen challenges can always occur, changing the context of the deal. These challenges may include delivery time issues or problems with the products’ quality. Especially during peak times of the Covid pandemic, a great level of flexibility was required from companies and suppliers....

“Any details of those compromises including payment terms and deadlines are agreed upon mutually....In single cases we may choose to engage with [third party] importers in addition to our trusted supplier network in order to acquire certain branded items or licensed products that are only available through those channels....

“We are proud that despite the major challenges posed by the pandemic, the heavily affected global supply chains, and of course the Russian war against Ukraine, we have managed to maintain strong partnerships with our suppliers.”



PVH

PVH

Headquarters: New York

“PVH does not and has never in the past, pressured suppliers for price reductions after the orders have been issued. The price negotiation is concluded well ahead of production, and the supplier always has option to accept or reject the orders that are placed by PVH, at agreed prices. Moreover, once orders are issued, PVH is 100% committed to taking responsibility for goods ordered and will not withhold payment for any reason whatsoever.”

PVH pointed to a [statement](#) by Scott Nova of the NGO Worker Rights Consortium early on during the pandemic: “PVH and H&M are doing the right thing, in contrast to the long list of brands refusing to pay for goods workers have already made for them.”

The company added: “PVH does not extend payment timelines, which may cause supplier distress. PVH is currently at 90 days payment term that is in alignment with industry standards. Once orders are issued, PVH is 100% committed to taking responsibility for goods ordered and will not cancel bookings causing strain on the supplier, subject to the supplier complying with the conditions of the order....

“PVH being a wholesaler, provides projections to suppliers for planning purpose, and this is always stated upfront and clearly to suppliers that projections are subject to change based on market demand conditions.”

“PVH does not rely on third-party intermediaries.”

BESTSELLER

BESTSELLER

Headquarters: Denmark

“In each region we source from, we have an established BESTSELLER office and colleagues.... The function of these colleagues is to foster the close relationship with our suppliers, ensure a smooth operation of our business and manage the risks and due-diligence expectations on our company....

“Our payment terms and the expectations in our Supplier Agreement are fully transparent to our suppliers, and they have full knowledge and understanding of this prior to agreeing to a price. We also give continuous and regular updates to our suppliers from all our brands as well as our sourcing offices, on the business status, the sales figures, the projections we have for growth, or potential challenges in the market....”

The company added that it does not pressure suppliers for price reductions after production has begun. “We do not do this. We always agree on prices before production,” the company said. On order deliveries, the company said, “We are in close dialog with our suppliers about deliveries every day. Sometimes we agree to send orders earlier than planned, sometimes later depending on the situation. However, we are never demanding this from our suppliers, and it is always a close dialogue.”

“BESTSELLER has equal payment terms as most brands in the fashion industry,” it said. “For our biggest and closest partners, we have special agreements on payment terms. And during Covid, we introduced immediately releasing payments on current orders to our suppliers, as well as implementing early payments to ensure our suppliers' cash flow.” The company said that it makes “a big effort” to use factory capacity it has booked and that it works directly with manufacturers in Bangladesh, with no intermediaries.

3. Conclusion and Recommendations

There is an urgent need for a third phase of global outsourcing, one characterized by genuine collaboration between buyers and suppliers.

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The global outsourcing of low-skill, low-paid apparel production has important consequences for millions of workers.

While manufacturers in Bangladesh and other countries bear significant responsibility for any exploitative treatment of factory employees, our research and that of others has shown that the behavior of corporate buyers plays an influential role in worker wellbeing. Extreme downward price pressure, withheld payments, and the other practices we have described can lead to cuts in worker pay, excessive overtime, or worker layoffs.

A decade after the Rana Plaza disaster and three years after the widespread condemnation of corporate buyer behavior during the onset of the pandemic, exploitative purchasing practices continue and in some cases have grown more extreme. The pandemic revealed how apparel brands and retailers respond to economic pressure, passing on financial pain to suppliers and ultimately to the workers whose

toil has helped build their industry. The damaging practices that buyers employed during the pandemic did not end as the industry began to recover in 2021. Instead, they continued in more subtle but nonetheless harmful ways.

There is an urgent need for a third phase of global outsourcing, one characterized by genuine collaboration between buyers and suppliers. To build this collaboration, buyers can immediately begin to reform purchasing practices such as those we have analyzed. Brands and retailers bear responsibility for the workers in their supply chain just as they are responsible for assuring factory safety. They have the capacity to make the needed changes to their practices and take steps to improve workers' lives. The recommendations that follow constitute practical steps these companies can take right now.

- 1 End unreasonable price reductions and excessive discounting practices.**

Price negotiations between corporate buyers and their suppliers are routine and necessary. But when buyers take advantage of their greater overall economic strength to pressure suppliers, this can lead to suppliers accepting orders under which they are likely to suffer financial losses or reduce worker pay to avoid such losses. Such outcomes are fundamentally at odds with buyers' public commitments to protect human rights.
- 2 Buyers should use open costing in a fair and transparent way.**

Open costing can helpfully allow buyers to understand the costs incurred by suppliers and ensure that contract prices are sufficient to cover worker wages, as well as facility maintenance and any needed safety improvements. But buyers should not use open costing to pit suppliers against one another in search of the lowest price possible.
- 3 Cease the practice of delaying order delivery and commit to payment timelines that take raw material purchases into account.**

Buyers should honor agreements made with suppliers at the time of order confirmation. When buyers engage in practices that delay payment to suppliers by delaying delivery and withholding payment beyond the agreed-upon timeline, suppliers are unable to meet financial commitments to their own suppliers. Buyers should be aware of manufacturers' commitments to their own mill and fabric suppliers and adhere to mutually agreed-upon payment deadlines. Buyers need to recognize the negative impact on workers when suppliers are forced into debt as a result of late payment.
- 4 Corporate buyers should recognize that a projection or booking is as good as a contract for many suppliers, who prepare for production well in advance of the issuance of a formal purchase order.**

Buyers need to share the risk involved in raw material purchases by defraying some of the cost or compensating suppliers if projections change and purchased raw materials are no longer needed. Ideally, buyers should pay a deposit when booking to reduce liability risk for suppliers in the case of an order cancellation or change.
- 5 Buyers should increase transparency and communication with third-party sourcing agents.**

Buyers need to ensure that agents engage in practices that support worker wellbeing and are consistent with company policies on responsible purchasing practices. Buyer pricing models should incorporate the cost associated with using third-party agents and ensure that this cost is not passed on to suppliers. Price negotiations and final buying price should be transparent to all parties with sufficient oversight from corporate buyers to ensure suppliers receive a fair price that covers production costs and worker wages.
- 6 Reconcile commitments to factory safety and worker wellbeing with the commercial terms negotiated with manufacturers.**

The industry has made great strides in terms of safety and working conditions, thanks in large part to the safety initiatives established after the Rana Plaza disaster. Apparel brands and retailers should ensure that they do not undermine this achievement by employing purchasing practices that put unreasonable economic pressure on suppliers in a way that risks exposing workers to unsafe conditions and denying them fair wages and benefits. Brands and retailers should introduce cross-department communications to ensure alignment between corporate social responsibility and sustainability departments, as well as the design, merchandising, production and procurement departments. They should implement uniform company-wide commitments and align staff performance targets with their human rights and sustainability goals.

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