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Business Driven Sustainability

Redefining an Effective Responsible Sourcing Program

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TRENDS IN ASIA FROM A BSCI PERSPECTIVE

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Foreign Trade Association (FTA)

About BSCI

- Membership association, founded in 2003 with the goal of harmonizing Social compliance auditing for European retailers
- In 2014 added Environmental aspects
- In 2015 harmonized Social and Environmental programs into a Sustainability programme

Trends from the BSCI Perspective

Solid Trends

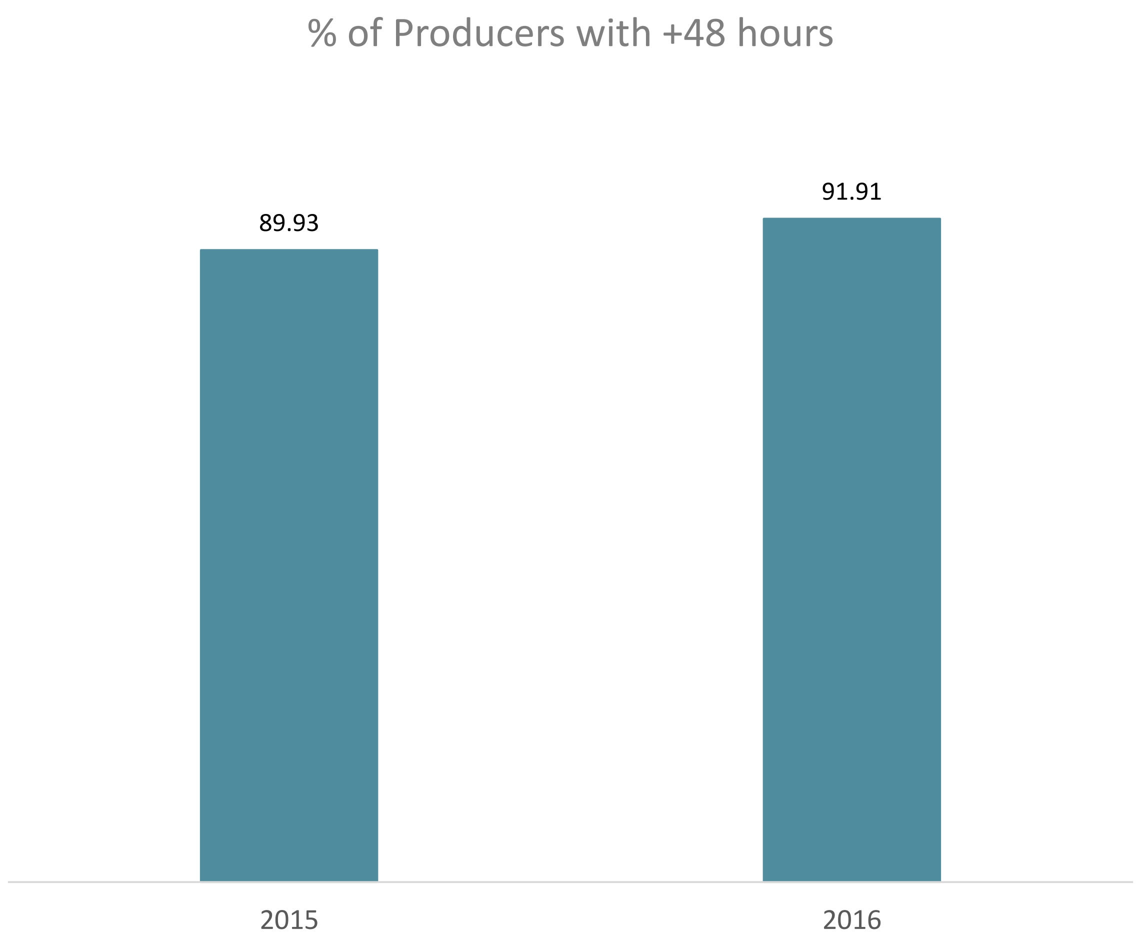
- Selected Audit Data
- Migration of Sourcing
- Seasonality
- Growth
- Capacity Building

Possible Trends

- Supplier Ownership
- “Big Data”
- Beyond Tier 1

Selected Audit Data – Working Hours

- Very little change in the underlying metric
- However - Factory progress may be hidden by new factories entering the system



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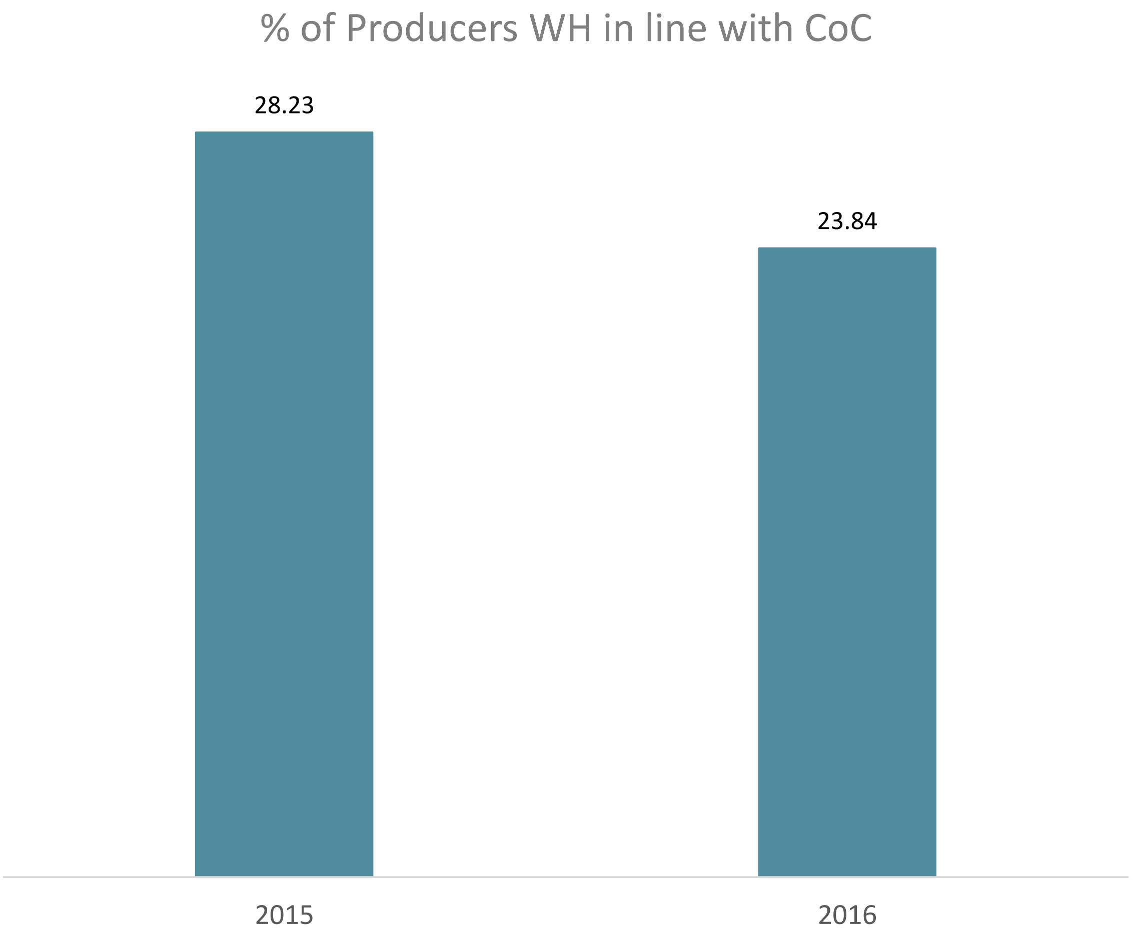
Selected Audit Data – Working Hours

- This is **not** a negative trend by Producers
- Rather it may be an indication of an increase in the sophistication of auditors



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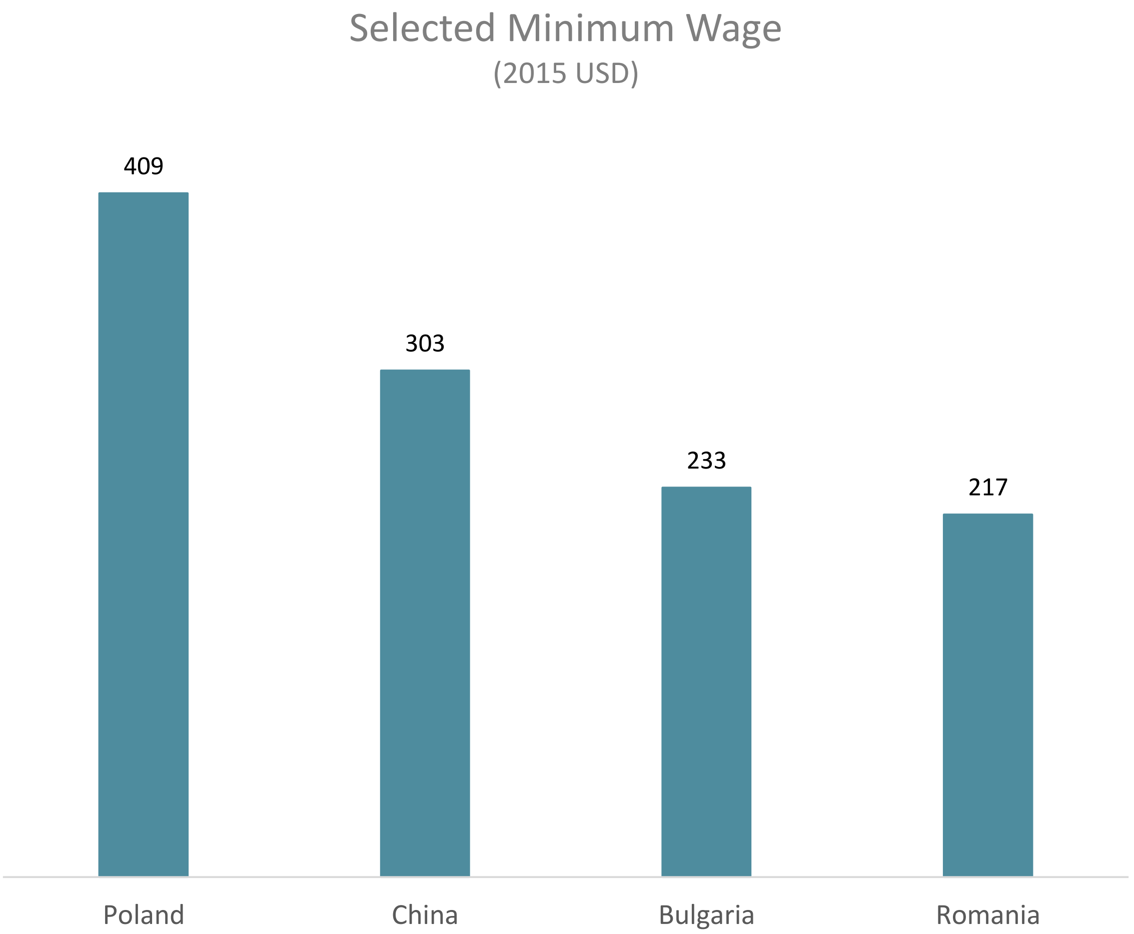
Migration of Sourcing

- Shifting of sourcing is not a new trend
  - 1990s – China
  - 2000s – China +1
  - 2020s – China + x

Migration of Sourcing

- "Homeshoring"
- Asia Burden rate
  - Costs
  - Transport time
    - Romania – Berlin: 2 days
    - Shenzhen – Berlin: 6 weeks



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Migration of Sourcing – Different Directions

European Buyers:

- Eastern Europe
- Turkey
- Western Europe
- Morocco

Asian Buyers:

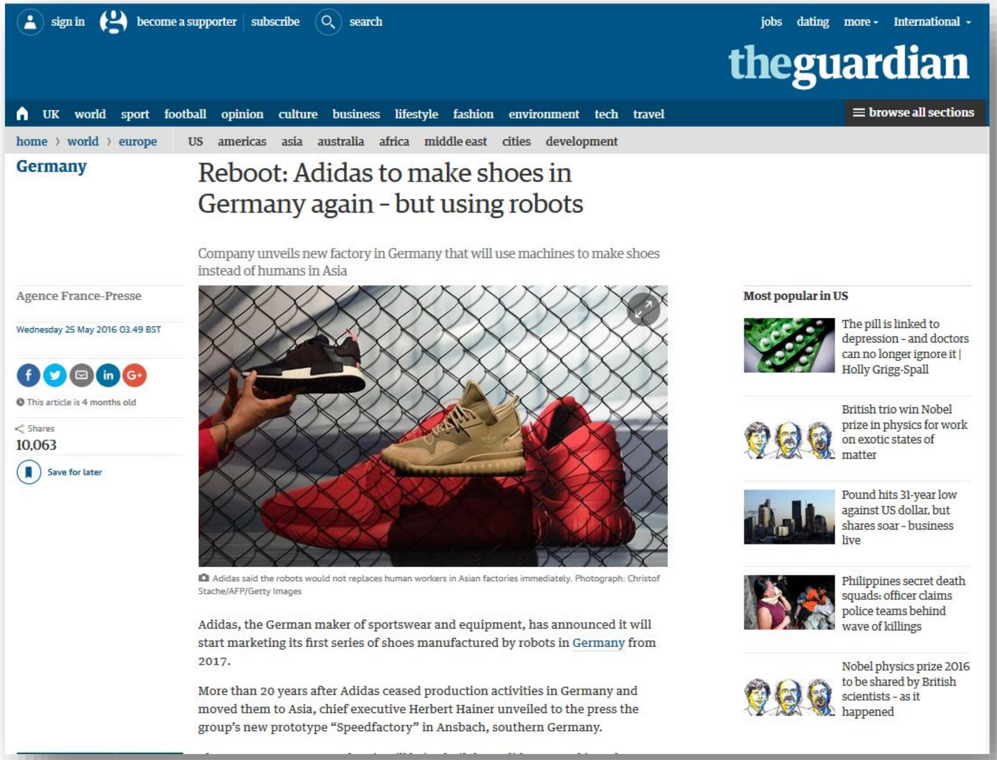
- Myanmar
- Bangladesh
- Cambodia
- Western China

Migration of Sourcing – Automation

- Manufacturing of selected commodities is becoming increasingly automated
- 3D printing, inexpensive robotics is accelerating this trend
- Problematic industries will find their sourcing disappearing

Migration of Sourcing – Automation

- New shoe sites in Germany, UK and France
  - Increase in margin
    - From 6.6% to +10%
  - Decrease in delivery time
    - From 6 weeks to 48 hours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Germany

Reboot: Adidas to make shoes in Germany again - but using robots

Company unveils new factory in Germany that will use machines to make shoes instead of humans in Asia

Agence France-Presse

Wednesday 25 May 2016 03.49 BST

This article is 4 months old

Shares 10,063

Save for later

Adidas said the robots would not replaces human workers in Asian factories immediately. Photograph: Christof Stache/AFP/Getty Images

Adidas, the German maker of sportswear and equipment, has announced it will start marketing its first series of shoes manufactured by robots in Germany from 2017.

More than 20 years after Adidas ceased production activities in Germany and moved them to Asia, chief executive Herbert Hainer unveiled to the press the group's new prototype "Speedfactory" in Ansbach, southern Germany.

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https://www.theguardian.com/world/2016/may/25/adidas-to-sell-robot-made-shoes-from-2017
http://www.dailymail.co.uk/sciencetech/article-3118006/Robots-restore-Made-Germany-label-Adidas-shoes.html

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Migration of Sourcing – Government Enablers

- Western governments are encouraging businesses by providing clarity and legal frameworks
  - UK Modern Slavery
  - Partnership for Sustainable Textiles
  - Dutch Covenant

Migration of Sourcing - SUMMARY

- Pressure on factories in Asia will increase further
  - Emerging sourcing models
  - Increasing governmental support in Europe and USA

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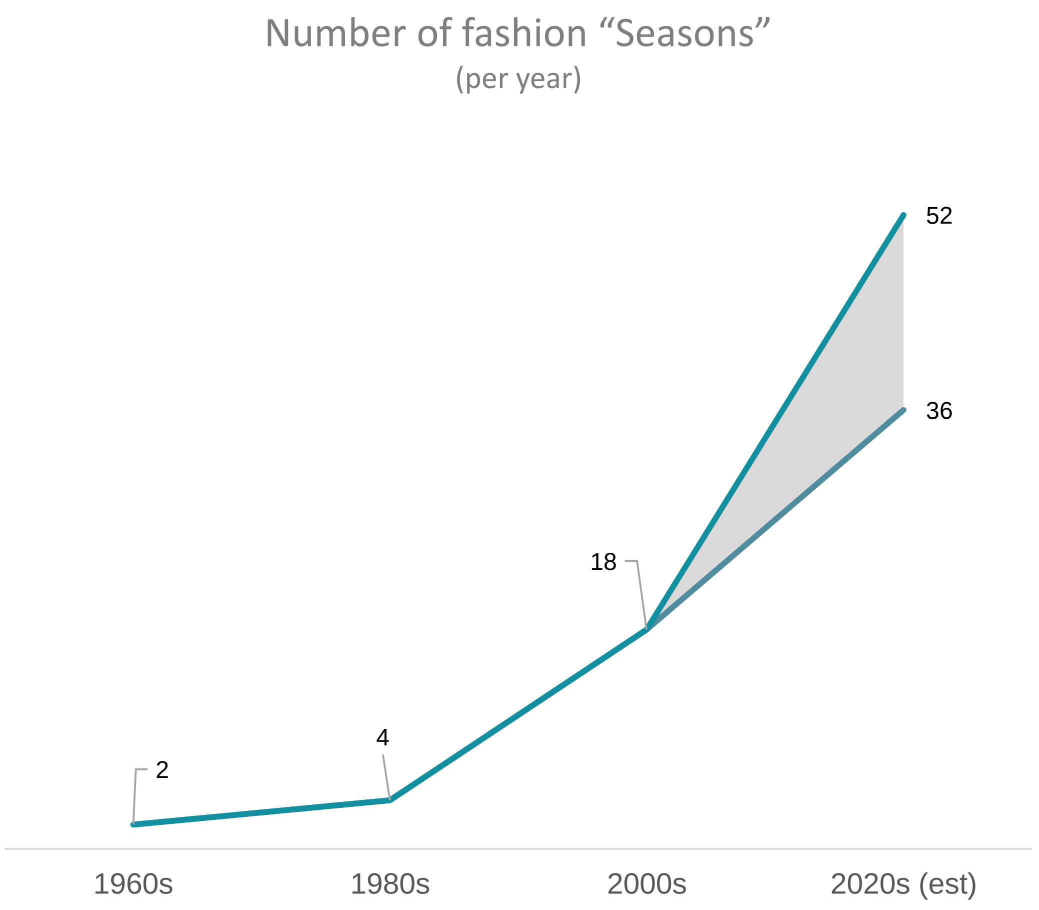
Seasonality

- In apparel the number of "seasons" per year is increasing
  - Order size = decreasing
  - Order speed = increasing




CHARLOTTE ESKILDSEN
Triumph
Pre-Fall 2016
'Love Story'
See more at 2. floor

Seasonality - IMPACT

- Increase in speed of sourcing may compromise factory compliance
- Manufacturers ability to deal with longer term sustainability issues may decrease
- Change in monitoring for buyer will require adjustments (prioritized CAP, Time-to-closure)

Growth – New companies

- BSCI is growing steadily
- Across 21 different industries
  - 2014: 8 Offices
  - 2016: 14 Offices

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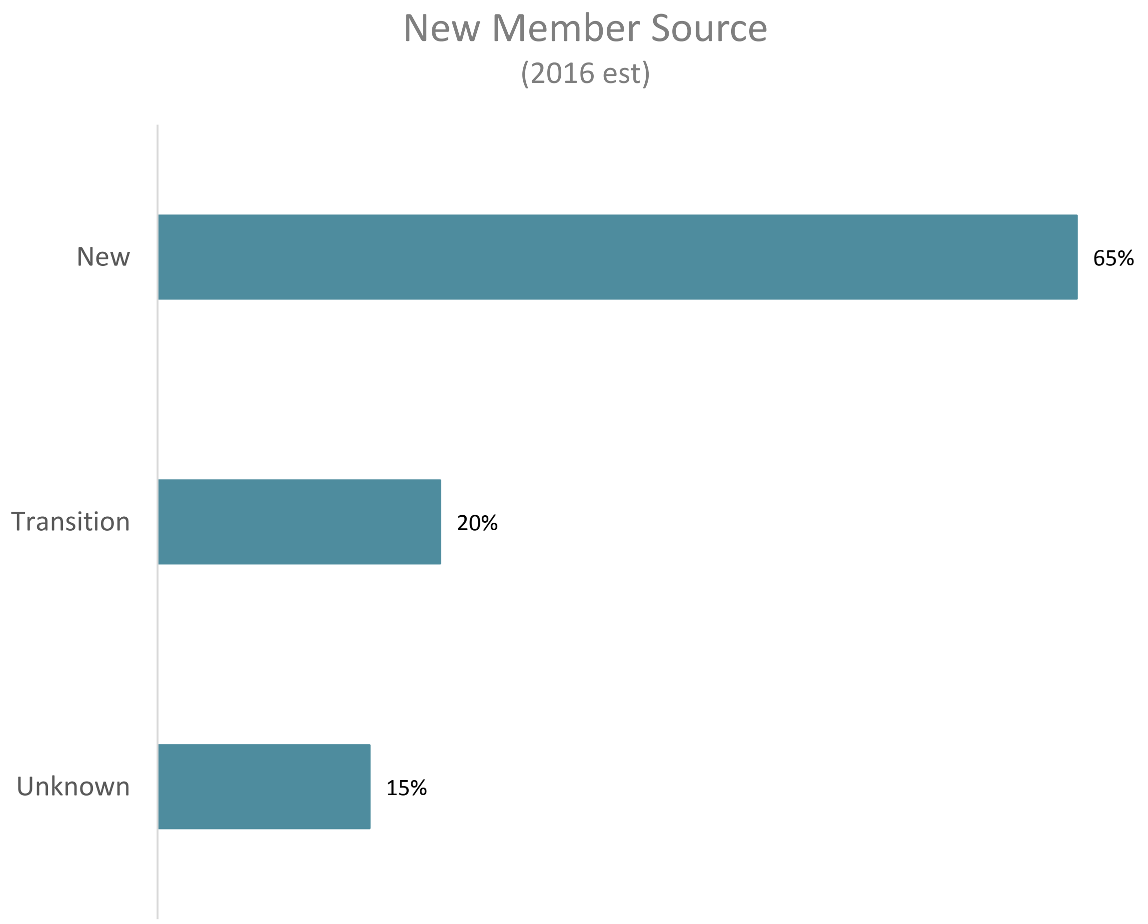
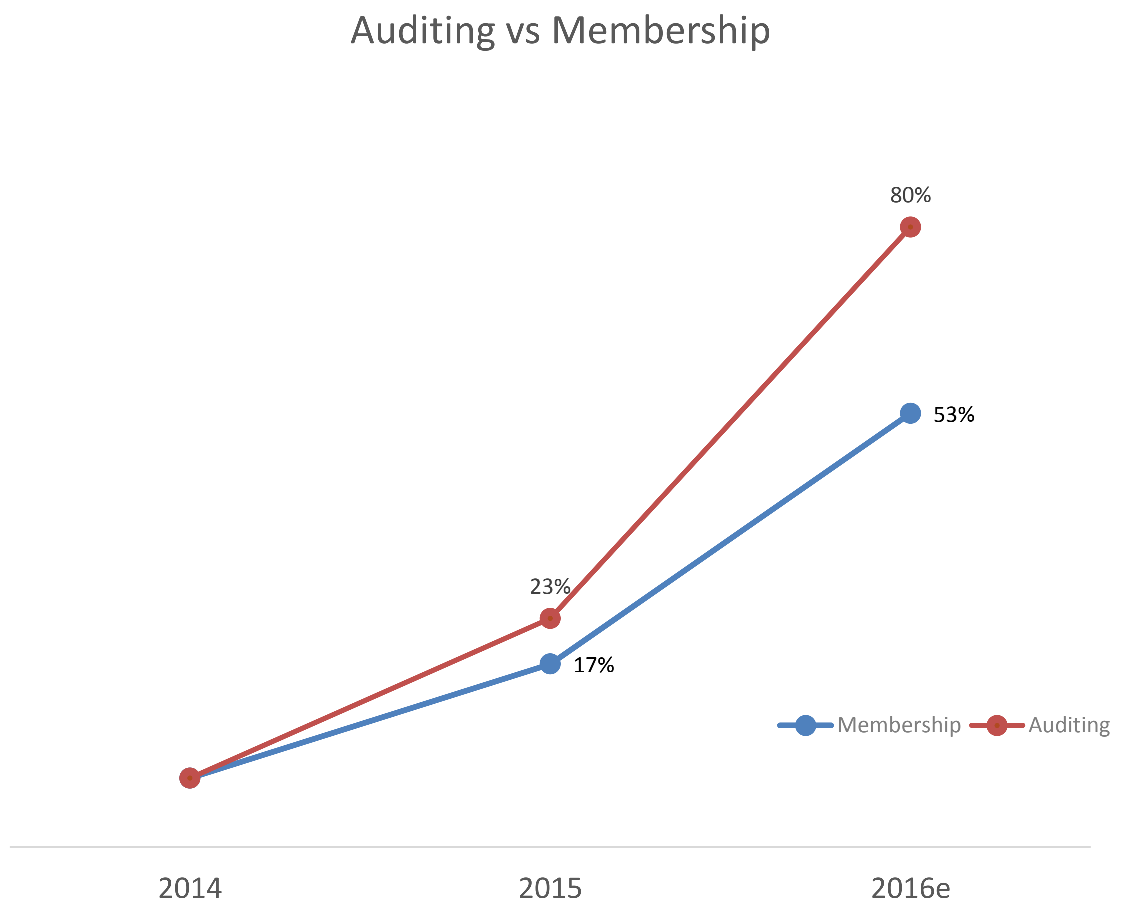
Growth – New companies

- Growth is concentrated with companies that are new into the Sustainability area



Growth – Auditing

- Auditing growth is faster than membership
  - Changing supply base
  - New suppliers
  - Increase in SKUs
  - Seasonality



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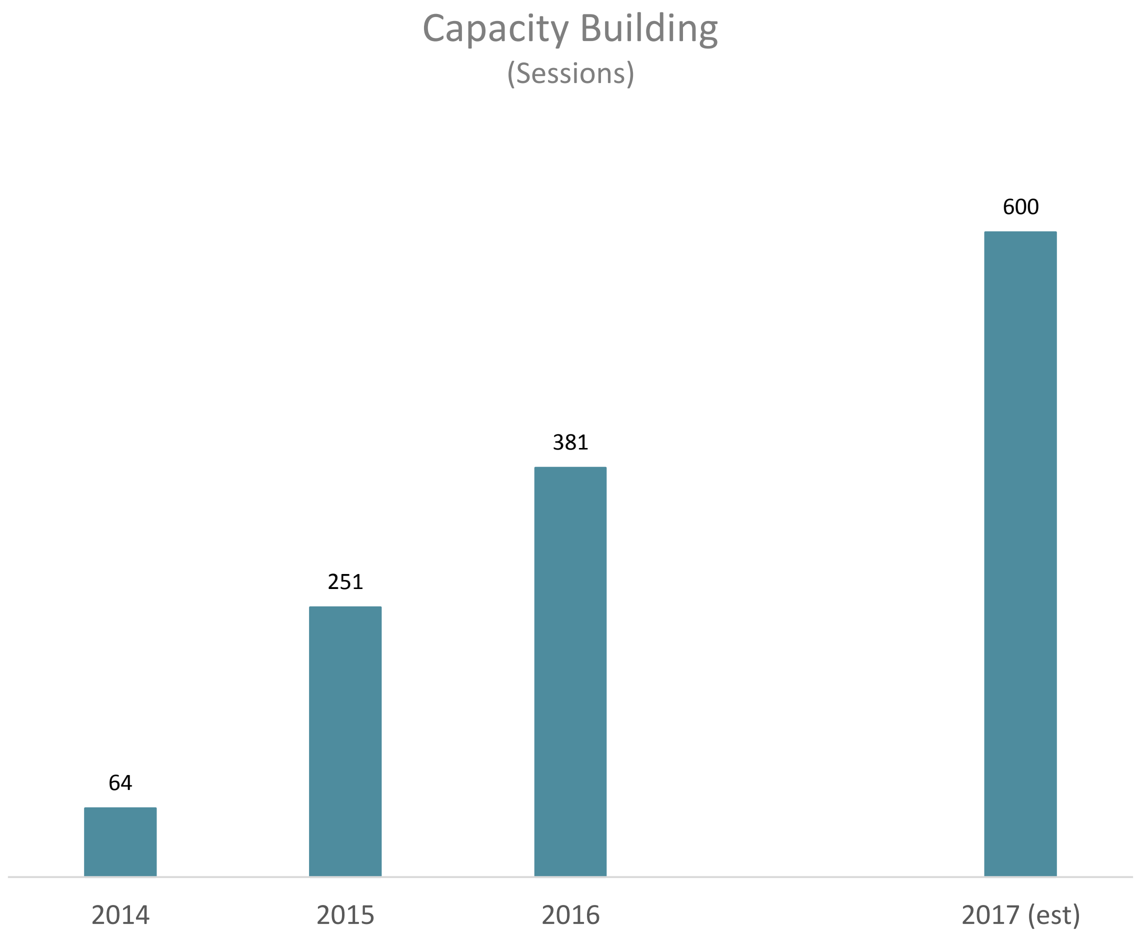
Growth – IMPACT

- Possible shifting of the role of leader from the Buyer to the Factory
- Soft-skills and cross cultural communication become critical for Factory staff

Capacity Building

- Training volume increasing
  - Mix of eLearning, Face-to-Face, seminars
  - Data management allows for linkage to Audit Results, CAP performance



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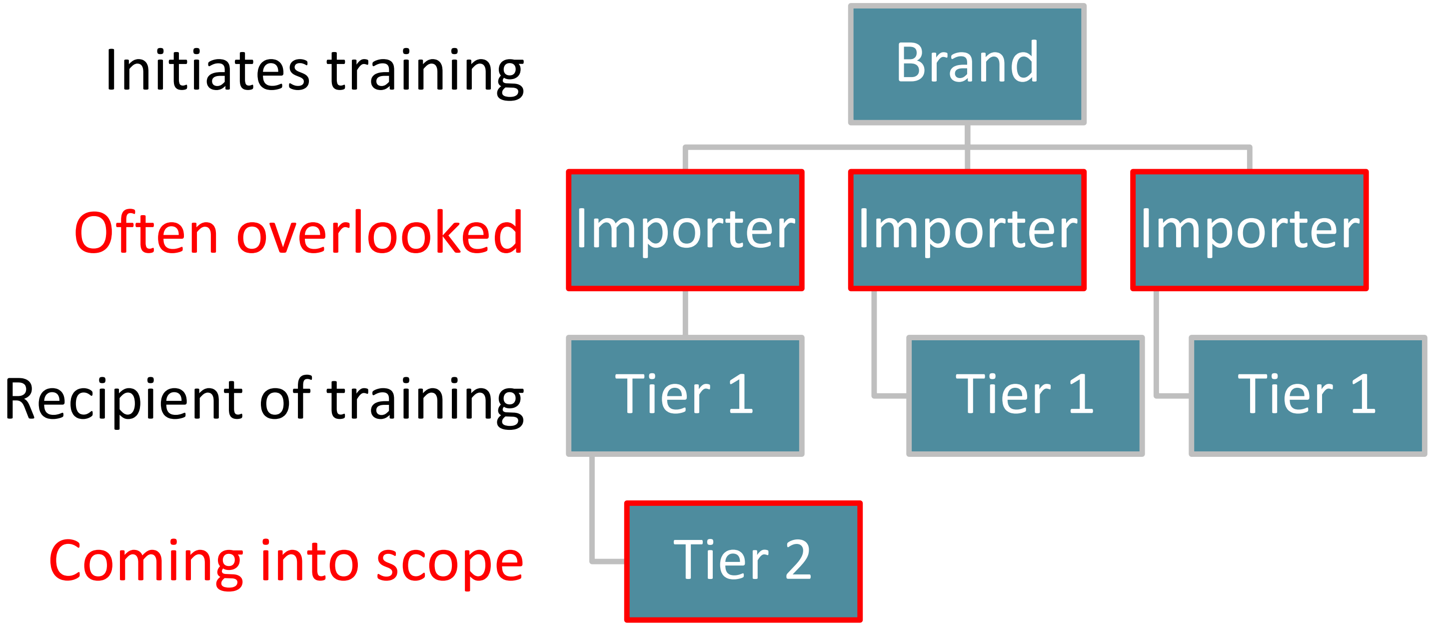
Capacity Building

- Companies are looking deeper into their supply chains to build capacity



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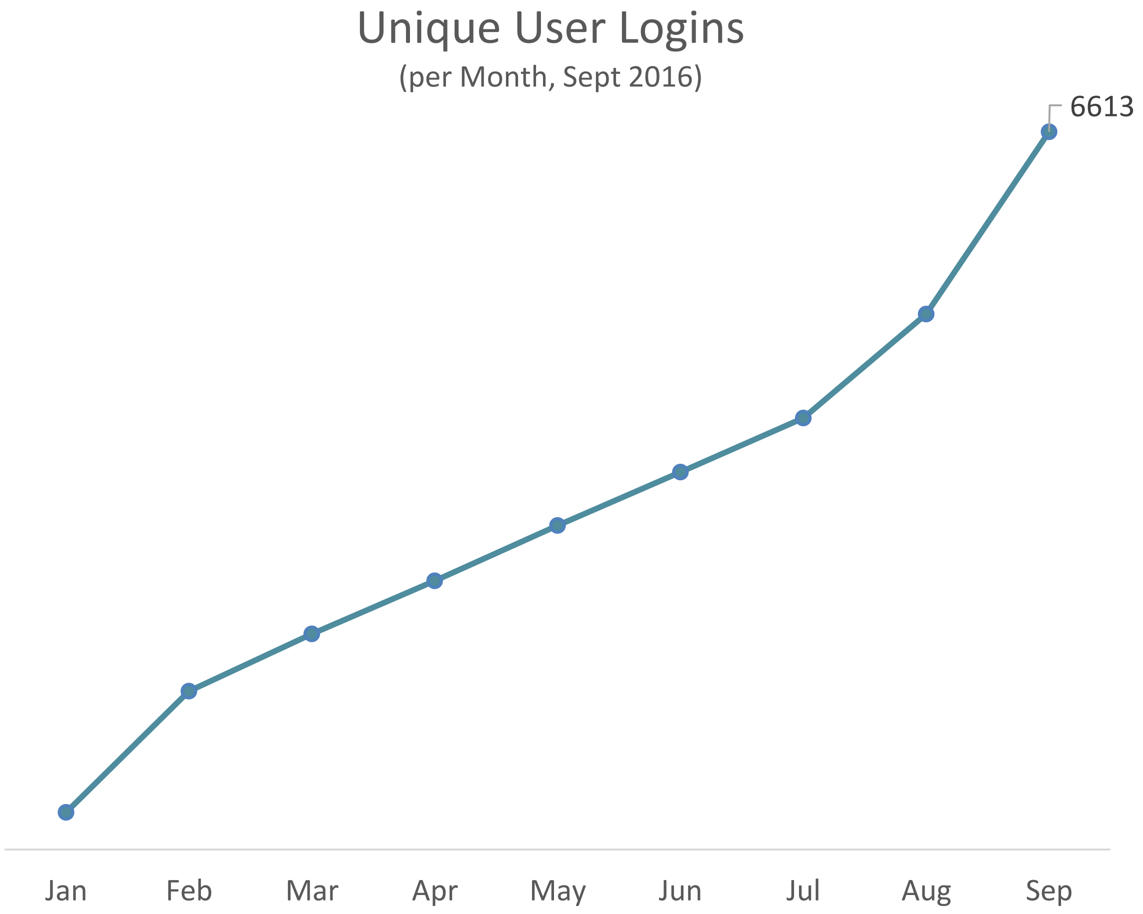
Capacity Building

- Advanced tracking of participants
- Possible end to the trend of sending secretaries to training (?)



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Capacity Building – IMPACT

- All tiers of the supply chain now in scope for Capacity Building
- Tier 1 suppliers responsibility for their supply chains
- Capacity Building being linked to overall performance

Possible Trends

- Supplier Ownership
  - Often talked about
  - Very few examples in the marketplace to-date

Impact

Required skill sets in factories may have to change

Possible Trends

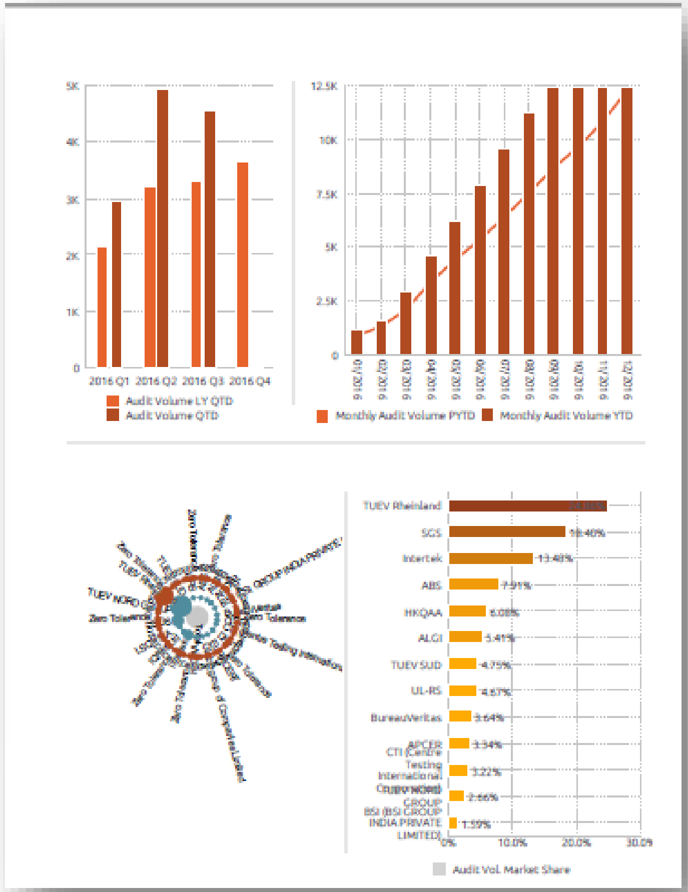
- “Big Data”
  - No agreed-upon definition
  - Starting to live up to the marketing

Impact

Increased pressure on specific elements – less on general trends

Possible Trends

- BSCI Example:
  - Detailed information on audit firm performance in real time



Possible Trends

- Beyond Tier 1
  - Extremely complex operating environment for brands
  - Consumers no longer differentiating between T1 and Sub-tier

Impact in Asia

High level of complexity for all parties. Disclosure concerns and changes to the competitive landscape

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