

TRAINING FOOD BUYERS

Trading for Development

Summary

This paper is about the relationship between international development and the UK food business.

It outlines the case for supporting companies that wish to build awareness of international development issues.

By expanding the scope of current buyer training to cover more than just the safeguarding of reputational risk, retailers and manufacturers can move to the next level of corporate responsibility.

They will be able to acknowledge and address the effects of trading on international development.

It proposes a coalition of interested organisations.

This paper has been commissioned by IIED, an international policy research institute and non governmental body working for more sustainable and equitable global development. It is a part of the project "Small Scale Producers and Standards in Agrifood Supply Chains" that is funded by DFID and is jointly run by IIED with the National Resources Institute (NRI).

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1: Overview

Buyers must always do two things:

- ✓ Make a margin (the difference between what they pay and what they charge).
- ✓ Make a profit (what's left once operating costs have been paid)

Also, they are usually involved in driving growth through promotions, marketing, etc
Sometimes they are involved in quality, safety, legality, innovation etc

Companies need to protect their reputation. Their customers expect them to be responsible. As a result, they have a growing awareness of the profound influence that their buyers have on how their products are grown, processed, packed and sold.

The UK food business is now building on its current approach of setting and enforcing standards which seek to actively influence development goals. They are starting to expect buyer awareness and understanding of the key questions that must be answered to enable the delivery of 'responsible purchasing'.

For example: Where is the product made? How is it made? What about the ingredients? What are the social, environmental and reputational risks? How have trading practices affected workers and producers? Is all of this in line with my company policy?

Current buying models can have adverse effects on the poor in developing countries that are not intended or realised. The trend is for weaker economic players to be marginalised. In the food sector, this adversely affects rural economic development. A change in an order by a retailer may seem small but it can have extensive detrimental effects in a rural community.

A company that seeks to buy responsibly will need to have the following in place¹:

- A good understanding of legislation, both in the country of production and in the country where a product will be sold.
- A senior management 'champion' to review purchasing practices and develop a business case
- The development of policies
- The setting of targets and the collection of data to measure achievement
- A reward system for buyers and suppliers that have demonstrated improvements

Finally, the company will always put its own people at the heart of this work.

- There will be a training programme in place for its buyers that enable improved understanding of the impact of their purchasing decisions.

¹ Traidcraft Exchange "Buying Matters", October 2006

2: The market and its drivers

Price will remain the fundamental competitive issue for all food retailers. But there is a shift in consumer priorities that sees ethics beginning to match other competitive issues such as taste and quality. A survey by the Institute of Grocery Distribution (IGD) in 2007 found that 35% of consumers said they had stopped buying a product after learning more about how it is produced from a TV documentary. Also, more than 25% were put off by hearing or reading something about a company that made them question its values.

“Consumers are more aware than ever of the knock-on effects their consumption decisions make.”

James Walton, Chief Economist, IGD

Consumers do however recognise that food retailers and manufacturers are responding to the challenge. 60% of shoppers thought the food industry was the best UK industry on ethical issues, up from 35% in 2004.

<http://www.igd.com/CIR.asp>

Consumers also spend their money with due consideration. Research by the Department for International Development (DFID) in December 2007 shows that consumers in Great Britain rate purchasing power above occasional charitable giving as the best way to tackle world poverty.

<http://www.dfid.gov.uk/news/files/pressreleases/shopping-for-development.asp>

“We would like to see more shoppers holding retailers to account for the responsible sourcing of their products”

Douglas Alexander, Secretary of State for International Development at DFID, December 2007

The understanding by business of the ethical challenge continues to improve. Issues such as the environment, animal welfare and labour standards have been explored by working with both suppliers and competitors. Policies have been developed and implemented in supply chains. There has been a growth in ‘private standards’ that has defined good practice and set out compliance solutions to support policy implementation. The aim of this collaboration has been to enable simpler buying that achieves both legislative requirements and delivers customer expectations.

When it comes to International Development issues there has been little evidence of policy development amongst the retailers for their own private label products. The manufacturers, such as Cadburys, Diageo and Unilever, have made some progress for certain commodity items such as tea, coffee and chocolate. There are more Fairtrade products on the shelves but mainstream brands and the way they are purchased remain largely unaffected.

“The solution lies in mainstreaming the principles of fair trade across companies’ core business operations, in the form of ethical and transparent sourcing and procurement approaches across the full length of the value chain: supply, distribution and retail.”

Business Action for Africa, submission to the International Development Committee Fair Trade and Development Inquiry, 2006

3: Problems: A lack of understanding, selected key issues

3.1 Detachment

Development issues can appear detached from brand integrity. A brand owner is able to relate to workers' pay and conditions in a factory. However, the production of the raw materials that are used in the factory are considered somebody else's problem. Typically, that somebody else would be the relevant national government, the supplier, the manufacturer or the sub-contractor.

3.2 Lack of policy

Marks and Spencer's 'Plan A' was issued in 2007 establishing a new policy benchmark for the retailers. As a part of their pledge to be a 'Fair Partner', they talk about labour standards in their supply chain, increasing Fairtrade and communicating better. However, there is no mention of the poor involved in producing raw materials in their mainstream supply chains.

3.3 Invisibility

Would business consider the needs of poor small farmers if they knew they were there? Without measurement or even agreed definitions there can be no understanding of impact or management of issues.

3.4 Marketing

Rural development issues and their relationship with procurement practice have not been entirely overlooked. However, the term 'ethical' has been redefined to equal 'labour standards' and 'fair' has been redefined to equal 'Fairtrade'. Thus, commitments in certain commodities under a 'Fairtrade' brand, combined with membership of the Ethical Trading Initiative (ETI) can become a proxy for an overall policy focus on rural development. However, generating real business in poor countries would provide companies with a strong defence against accusations of food miles or lack of consideration for rural development.

3.5 Prioritisation

The emergence of environmental issues in 2007 has shown business working to address a new agenda. The following may not be a report on the UK Food business, but it does demonstrate the rapidly changing priorities of business (2)

Geneva-based 'Covalence' published on January 2nd 2008 its third annual ethical reputation ranking, giving the best ranked companies as well as those companies which have made the most progress in 2007. An overview of emerging and decreasing topics is also given that identified the following emerging topics in 2007 (selected):

- Environmental Impact of Production,
- Eco Innovative Product,

The following criteria were seen to have lost importance during 2007

- Social Impact
- Labour Standards

² (http://www.covalence.ch/docs/CovalenceEthicalRanking2007_PressRelease_02.01.2008.doc):

4. History: Buyer training up to now

Before 2000 there was no formal training of Buyers on any aspect of 'responsible purchasing'. Seven years later it is now relatively widespread and the majority of UK retailers have got something in place.

The training is practical with lots of case studies and sector specific relevance. It compliments and supports the adoption and use of Codes of Practice for labour standards. As a direct result buyers are now aware of how their companies' commitment to better labour standards can be undermined by low prices, poor programming and harsh contract conditions.

Many European retailers are following suit and making use of buyer training, but in the US there has been almost none. Impactt Ltd, the leading provider of Buyer Training for labour standards in the UK, delivered their first courses in the US only in 2007. This was the first formal training for any of the experienced local buyers.

Buyer training has been conducted by a wide selection of organisations, offering varying levels of engagement and expertise; NGOs, consultancies, auditors and industry bodies have all offered training courses.

Existing training has tended to centre on the importance of buyers' awareness of their impact over labour standards in the supply chain. The focus has been on minimising a brand's reputational risk and mitigating against potentially negative stories in the press. Whilst this approach has been well received, the leaders in this field are now realising that the training should have a wider reach.

The Response of Buyers following Training

These are selected from actual comments made to Impactt:

- ✓ *"Very informative, clearly explained – ethical issues we should be aware of and how to deal with them"*
- ✓ *"Opened my mind to new questions to put to suppliers. Might lead to re-evaluation of cost price and a better understanding of commercial factors"*
- ✓ *"It was good to hear the company's ethical stance and see how important it is to our business. Also good to know what to look out for and how this information can help us build better relationships with our suppliers."*
- ✓ *"I had never previously experienced any ethical training. It has opened my eyes to what goes on in the factories and with the workers."*

5: Proposal

The project "Small Scale Producers and Standards in Agrifood Supply Chains" is funded by DFID and is jointly run by the IIED and the NRI. It will conclude in March 2008.

A new activity has been identified during the recent interim review with a view to improving the impact of the project. This will involve the development of a training programme for buyers to inform and build knowledge about international development issues and with a focus on Africa and primary producers rather than wage labour. A target of delivering a one hour Foundation Course on Trading for Development in partnership with a major retailer before the end of this project has been set. The outcomes will be reported to DFID as a part of the concluding project report.

Participants

A number of groups are interested in this issue. These include DFID, the ETI Responsible Purchasing Group, the Chartered Institute for Purchasing and Supply (CIPS), Insight Investment, the Morley Fund, Oxfam, Action Aid and Traidcraft as well as IIED and the NRI.

Major retailers and branded manufacturers are now actively engaged in buyer training for Labour Standards. The consultancy and training company, Impactt Ltd is the main training provider to the retailers. An agreement with Impactt has been made to fast track the concept to implementation; this will simplify the challenge of encouraging the retailers to participate.

All these groups will be invited to participate in a 'Coalition' to share knowledge and jointly support the development of Buyer Training.

Principles:

The Coalition will recognise the following key issues:

- ✓ We do not understand what consumers think of this issue
- ✓ We must all learn together, it is not only the Buyers who need to understand
- ✓ We must engage all interested stakeholders, including poor producers in developing countries
- ✓ The value and effect of standards, both formal and private, must be shown
- ✓ Best international practice must be identified and learnt from
- ✓ There will be open access to training material for competent organisations

6: Benefits

- ✓ A joint proposal for Buyer Training for the Food Industry would have a good chance of success due to the combined credibility of the participants.
- ✓ By expanding the scope of the current training to cover more than just the safeguarding of reputational risk, retailers and manufacturers can move to the next level of corporate responsibility. They will be able to acknowledge and address the wider international development effects of trading.
- ✓ The work would provide a 'bridge' for all participants to the recently announced Food Retailers Investment Challenge Fund (FRICH).
- ✓ Subsequent phases of sector specific, multi-stakeholder and globally available training can be conceived and described.