

Responsible Purchasing Practices Framework for Retail in the Banana Sector



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A. Responsible Purchasing Practice Framework Introduction

A.1 Why does it make sense to focus on responsible purchasing practices within the banana sector?

The banana market is currently experiencing various challenges, including high production costs, phytosanitary threats, over certification, food waste resulting from stringent product and quality requirements, new regulatory demands, and the threat of climate change. These issues are compounded by the declining purchase prices offered by European retailers over the past few decades, making it difficult for banana producers to address these challenges effectively.

Additionally, there is a growing commitment among European retailers to promote living wages for banana workers throughout their supply chains. The absence of living wages is considered a human rights risk, highlighted by its inclusion in the EU Corporate Sustainability Due Diligence Directive (CSDDD). In addition to their own corporate commitments and ambitions, such legislative changes have prompted retailers to identify and ultimately reduce the living wage gap at plantation level.

While many banana producers are already paying a living wage, and others are willing but not able to do so, they all face low market prices and a lack of clear, sustained financial commitments from retailers. This hinders their ability to ensure living wages for their workers and finance the closing of these wage gaps.

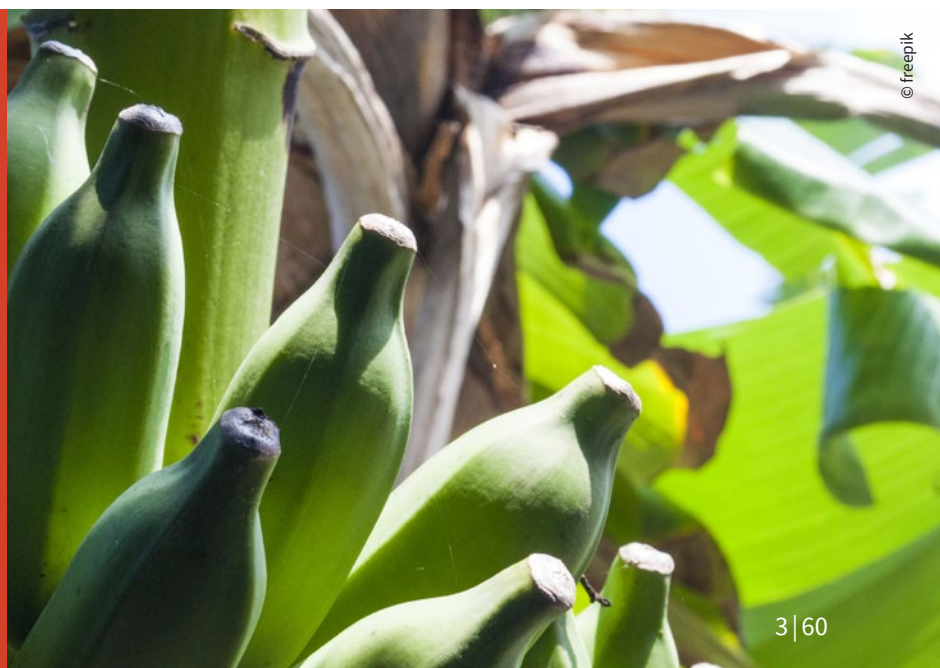
Because of this, banana producers are requesting an increase in the purchase price of bananas. **As Upstream stakeholders, particularly producers and growers, navigate increasingly complex environments, it is crucial for downstream actors to share a greater portion of these challenges. There is a need for a more balanced distribution of value and risk across the banana supply chain – from producers to customers.**

Responsible procurement practices can positively impact thousands of lives globally, especially if these practices are also adopted and by suppliers that are in direct contact with producers.

Despite the various practices contributing to responsible procurement, the core issue remains fair pricing. While supermarket banana prices have remained relatively stable in recent years, production costs have risen. Higher consumer prices can generate more value within the supply chain, enabling producers to meet increasing demands and costs. Adopting responsible procurement practices benefits retailers, traders, and producers by fostering trust, collaboration, and stable supply chains, ultimately enhancing product quality and sustainability.

Moreover, responsible procurement practices support the implementation of ethical trade as requested by producers and local governments. They also help meet the requirements of current and upcoming legislation, such as the EU Directive on Unfair Trading Practices, the EU CSDDD, and the EU Corporate Sustainability Reporting Directive (CSRD).

There is a need for a more balanced distribution of value and risk across the banana supply chain – from producers to customers.



A.II Purpose & Objectives of the framework and guidelines

Multiple major European retailers from the UK, Netherlands, Belgium, and Germany have committed to promoting living wages and reducing the existing living wage gap for workers in their banana supply chains. These retailers have committed to share the responsibility in achieving this goal, with responsible purchasing practices being identified as a key action towards this objective.

This document aims to assist retailers in taking initial steps towards more responsible procurement of bananas, particularly supporting the promotion of living wages in these supply chains. It does this by providing a framework of responsible purchasing practices and offering detailed guidelines for implementing these practices.

The responsible purchasing practice framework is a list of recommended responsible purchasing practices for retailers. It is not designed to promote one practice over another but to inspire retailers. Retailers should evaluate the value and relevance of each practice for their company and supply chain based on the realities of the countries they source from and in consultation with their commercial partners. However, addressing the pricing issue remains crucial.

For the framework to have a sustainable and substantial impact, it is essential to establish robust, trustworthy relationships and alignment between corporate social responsibility (CSR) and procurement teams within organizations.

A.III Approach

To support a consistent understanding and implementation of responsible purchasing practices this framework builds on existing resources. There are two widely recognized Common Frameworks for Responsible Purchasing Practices, one developed for food supply chains¹, and one for textile supply chains², which were developed based on a multi-stakeholder consultation process by the Ethical Trade Initiative (ETI). These frameworks were used as reference and modified to cater to the unique specifications and needs of banana supply chains.

The development of this framework and its related implementation guidelines involved various consultation formats with relevant stakeholders, including retailers, traders, producers, and producer associations. Methods included interviews, multi-stakeholder discussions and working groups to gather written feedback.

To create a list of recommended purchasing practices, the process followed a step-by-step prioritization. Initially, a longlist of potential practices was defined based on existing guidance and desk research. This list was then narrowed down to a shortlist with 16 prioritized purchasing practices through consultations with stakeholders in one-on-one interviews and working groups (see A.IV).

This collaborative approach ensures that the identified practices are comprehensive and balance different stakeholder perspectives and needs. Producers provided valuable insights on the relevance and impact of certain purchasing practices for securing living wages in the long run. Consulting with buying teams of retailers and traders ensures that implementation guidelines are understandable and practical.

The current framework is a first version that will require further elaboration and regular revisions in consultation with all parties involved in the banana sector to remain useful and relevant.

1 https://www.ethicaltrade.org/sites/default/files/shared_resources/ETI%2C%20Common%20Framework%20for%20Responsible%20Purchasing%20Practices%20in%20Food.pdf

2 <https://wp.fairwear.org/wp-content/uploads/2022/07/CFRPP-Full-Framework-Updated.-V1.-30.06.22.pdf>

A.IV Guiding Principles and short-list of recommended purchasing practices

To support a consistent understanding and implementation of responsible purchasing practices by retailers this framework builds on already available resources. The two Common Frameworks for Responsible Purchasing Practices mentioned above use five guiding principles to structure relevant purchasing practices. These principles were used as reference and put into context regarding their relevance for promoting living wages, a fair purchase price for bananas, and decent work in banana supply chains:



Internal integration: The implementation of responsible purchasing practices as a lever to promote living wages should be integrated into a company's core policies, operations as well as monitoring and reporting mechanisms.



Equal partnerships: Building respectful and long-lasting relationships between retailers and suppliers based on mutual accountability promotes resilience and security for long-term investments in living wages and improved working conditions. It involves clear communication and fair division of responsibilities, risks, and rewards.



Collaborative production planning and supplier management encourages enhanced cooperation between retailers and suppliers, facilitating better forecasting, planning, and risk management. It helps to predict workloads and supports an efficient allocation of workforce, reducing the risk of excessive overtime and promoting stable work contracts. It also increases production efficiency, allowing for more investments into living wages and decent working conditions.



Fair payment terms: Retailers and suppliers work together to establish fair and transparent payment terms that avoid unfairly burdening either party. This supports farm management in paying workers fairly and on time.



Sustainable costing: Fair pricing reflects the sustainable costs of production including not only but also costs related to paying living wages and securing decent working conditions. Pricing practices can include (extra) voluntary contributions to reduce prevailing wage gaps, but also open-costing approaches, (Fairtrade) premium use and living wage reference prices as a means to promote living wages in supply chains independent of prevailing wage gaps.

The five principles have been broken down into distinct purchasing practices that aim to guide buying teams in integrating the principles into the retailer's policies and operations. The selected practices can be used to build a step-by-step roadmap towards a responsible purchasing strategy, allowing for a prioritization and combination of practices fitting to the retailer and supply chain context. The following recommended practices are a result of the collaborative consultation. **They have been selected because they either have a direct or indirect impact on living wages.** An example of a practice with a direct impact includes the payment of voluntary contributions. Practices with an indirect impact are, for example, prompt payments or long-term sourcing contracts. These promote stable and trustful sourcing relationships, financial stability of supply chain partners, cost efficiency gains, or other enabling factors that can strengthen a producer's ability and will to promote and secure living wages for banana workers in the long run.

Although the current framework has been designed for retail buyers, most of the practices are also relevant for other supply chain partners like traders and exporters. In fact, the implementation of certain responsible procurement practices like promptly payments, and long-term contracts at the intermediate level in the supply chain and promoting living wages is essential to ensure that producers can truly benefit from these responsible procurement practices and implement long-term solutions towards living wages. Therefore, this framework can also indirectly benefit these supply chain actors.

Short list of recommended responsible purchasing practices

1. Internal integration

- 1.1 Integrated sustainable sourcing strategy
- 1.2 Living wage targets and monitoring
- 1.3 Buyer sustainability KPIs, roles & responsibilities & buyer sustainability incentives

2. Equal partnership

- 2.1 Long-term and responsible contracts / Agreements (≥ 3 Years)
- 2.2 Volume based off-take agreements
- 2.3 Compensation for marketing / information support

3. Cost management

- 3.1 Fairtrade minimum price + premium
- 3.2 Fairtrade Living Wage Reference Price
- 3.3 Open book costing approach
- 3.4 Voluntary contribution (temporary solution)

4. Fair payment terms

- 4.1 Prompt and timely payment (including factoring)
- 4.2 Long-term buyer investment

5. Supplier management

- 5.1 Optimized supplier base
- 5.2 Supplier / producer capacity building and training
- 5.3 Collaborative product specification and quality management
- 5.4 Collective supply chain planning and forecasting

A.V Potential step-by-step roadmap for retailers

To guide retail companies in selecting which practices to implement first, an indicative roadmap has been developed. The roadmap has been set up in 4 levels.

These levels can be considered as steps retail companies can follow to embed living wages in their responsible procurement and create long-term impact on living wages. **Adopting responsible procurement practices is a cyclical process that needs to be improved and further enhanced throughout implementation.** A retailer can start by choosing a couple of practices and incorporate more practices along the way. The more practices implemented under a level, the better. However full implementation of all practices under one level is not necessary to move to the next level. Retail companies are invited to pick and choose practices from the different levels based on their reality.

This roadmap is a theoretical recommendation. They are not the only options and companies are advised to first assess their own structure, supply chain set-up and context to determine which responsible purchasing practices (RPPs) make sense for them to implement and when. This roadmap is solely meant as an inspiration and suggestion.



Level 1: Internal integration level

These are strategic practices, usually related to setting policies and processes that are necessary as a base to implement other responsible purchasing practices or to monitor progress.

To start, each company should set at least: **Living Wage (LW) targets & monitoring (1.2)**

Other important practices that can be implemented along the practices listed under the other levels are:

- Integrated sustainable sourcing policy (1.1)
- Buyer sustainability KPI's, responsibilities and incentives (1.3)
- Collaborative product specification and quality management (5.3)



Level 2: Efficiency level

These are practices related to a sustainable costing mechanism. These practices are perceived to have the most efficient and direct impact on living wages since the sustainable costing enables producers to contribute to the payment of a living wage for their workers.

At least one of the sustainable costing mechanisms should be implemented under this level:

- Fairtrade minimum price and premium (3.1)
- Fairtrade Living Wage Reference Price (3.2)
- Open book costing approach (3.3)
- Voluntary contributions (3.4)



Level 3: Structural operation level

These are practices that create trust and a strong relationship between supply chain partners. They are usually practices that have an indirect impact on living wages. They enhance productivity, elevate business process efficiency, and enable producers to implement long-term and structural solutions related to living wages.

- Prompt and timely payments (4.1)
- Long term and responsible contracts (2.1)
- Collective supply chain planning and forecasting (5.2)
- Optimized supplier base (5.1)



Level 4: Structural support level

These are practices that retailers can implement to provide direct support to producers and suppliers to implement long-term solutions related to living wages like e.g. increase yields or investment in crucial systems.

- Long-term buyer Investment (4.2)
- Supplier / producer capacity building and training (5.4)

To ensure that these practices have a real impact at producer level, and more specifically for the workers, it is recommended that retail companies that are not in direct contact with producers discuss responsible procurement practices with their suppliers to promote the further adoption within their organizations. As indicated previously, the impact of most of these practices and the ability for producers to adopt sustainable solutions towards living wages, will only be effective if these are repeated all through the supply chain.



B. Responsible Purchasing Practice guidelines for retailers

Each principle along with their accompanying responsible purchasing practices are explained in the following guidelines. **These guidelines are meant to provide in-depth information on each of the practices and which steps to follow to implement them.** The guidelines are mainly meant for buyers at retail organizations, although the implementation of most practices will require collaboration between different departments like CSR, HR, legal, marketing, quality, and general management. For the internal integration practices, management will have a decisive role.

Although these guidelines are mostly meant for retail buyers, most of them are also relevant to intermediate players like exporters, traders and suppliers. Implementation of these practices throughout the whole supply chain will be necessary to fully express the impact of these practices on living wages and be effective at the producer level.

B.I Guidelines Structure

- **Definition:** Short explanation on what the practice is all about.
- **Business rationale:** reasons to implement this practice. Focusing more specifically on the impact on living wages. Highlighting the position of the retailer as the impact on producers.
- **Step-by-step guidelines:** Details the high-level steps the buyer and his colleagues could follow to implement this practice within their organization.
- **Practice combinations:** This overview provides insight into practice combinations that are either beneficial or required. Required combinations are practices that need to be implemented together to have an impact. Beneficial combinations are potential combinations of practices that are complementing each other and combined result in a greater impact on living wages. These combinations are beneficial to build a holistic and meaningful banana sourcing strategy.
- **Additional information and case studies:** under this section, we are sharing additional interesting information like e.g. links to websites, best practices or examples when available.

B.II Clarifications on definitions of producers and suppliers

Throughout the document, references are made to both producers and suppliers. To avoid any misinterpretation, it is necessary to distinguish between these two supply chain actors. Producers are entities like plantations who cultivate bananas. Producers are responsible for paying the workers who perform these tasks, and ensuring the bananas are grown and harvested under suitable conditions. Suppliers act as intermediaries between producers and retailers. They purchase bananas from producers and handle the logistics of packaging, transportation, and distribution. Suppliers ensure that bananas reach markets or retailers in a timely manner and in good condition. Their role includes managing the supply chain to meet demand, maintaining relationships with both producers and buyers, and often negotiating prices and terms.

B.III Recommended responsible purchasing practices



1. Internal integration



1.1. Integrated sustainable sourcing strategy

Definition



An integrated sustainable sourcing strategy is part of a retail overall sustainability strategy. It combines economic, environmental and social sustainability, including living wages. It encompasses sourcing practices that meet business requirements for quality, cost, and delivery, while adhering to environmental, social, and governance (ESG) objectives. This involves choosing suppliers committed to work towards sustainable practices including willingness to work towards paying their employees fair wages.

Practice combinations

Beneficial:

This is beneficial for all practices as it serves as a fundamental practice that enables the implementation of other practices.

Business rationale

The evolving legislative landscape and the introduction of new due diligence and sustainability reporting mandates, such as the EU CSDDD and CSRD, along with the UN Guiding Principles on Business and Human Rights and the OECD Guidelines on Responsible Business Conduct – all call for the integration of sustainability into business operations. Essentially, the integration of and commitment to sustainability can enhance brand reputation, customer loyalty, and product differentiation, leading to increased market share and sales. Although short-term costs may temporarily increase, the long-term benefits, including improved productivity through worker well-being, more conscious resource management, supply chain stability, and reduced non-compliance costs, significantly outweigh these initial expenses.

Step by step guidelines



1. Define Strategic Objectives

- Evaluate current banana sourcing practices, supplier relations, sustainability efforts, and sustainability targets, in light of retailers' corporate sustainability goals.
- Define strategic objectives for sustainable, socially responsible banana sourcing with clear, measurable goals, including living wage assurance. Take into consideration legal obligations and relevant labour and human rights conventions. Make sure to take into consideration the most vulnerable actors in the supply chain.

2. Stakeholder Engagement

- Identify Key Stakeholders to seek internal and external stakeholders who have a vested interest in banana sourcing, including NGOs, producers, suppliers, workers, trade unions advocacy groups, and customers.
- Engage Stakeholders and experts to foster open communication and collaboration with stakeholders to gather their insights- on the objectives, address concerns, and align objectives accordingly so that these are fair and inclusive.

3. Supplier Assessment and Engagement

- Evaluate existing banana suppliers for sustainability, considering environmental impact, labour practices, and commitment to Living Wage.
- Engage with suppliers to discuss requirements and set a sustainability roadmap, covering environmental practices, ethical labour, and living wage compliance. Discuss with them how you will support them in improving sustainability performance and meeting criteria.

4. Procurement Process Integration

- Incorporate sustainability criteria, including Living Wage requirements and support, into the procurement process for bananas.
- Develop procurement guidelines and criteria that prioritize sourcing from suppliers who are committed to meet sustainability standards Set out minimum ethical performance standards as part of a mutually agreed code of conduct.

5. Performance monitoring and continuous improvement

- Define KPI's for sustainable sourcing strategy, including environmental, social and living wage metrics at retail level.
- Regularly monitor performance against KPI's for progress tracking and identification of improvement areas.
- Use monitoring insights for continuous improvement in sourcing strategy, supplier relationships and sustainability practices.

Enabling conditions

Strategic

- Top management commitment, including a strategic vision that prioritizes sustainable practices.
- Resource allocation for implementing the strategy.
- Commitment from suppliers and producers to sustainability, market demand for sustainable products, and a collective willingness for transparency and traceability throughout the supply chain.

Tactical

- Revising procurement processes to include sustainability criteria, integrating long-term sustainable solutions, fostering supplier relationships, training on sustainable practices, and utilizing technology for performance tracking.

Operational

- Efficient data-reporting systems, a dedicated team overseeing sustainability performance, and strict non-compliance procedures.
- Transparency and ethical practices, adherence to fair labour conditions.
- Regular audits or other verification methods.
- Open dialogues to address potential non-compliance issues.



Additional information and case studies

Guide to buying responsibly: page 17:

https://www.ethicaltrade.org/sites/default/files/shared_resources/guide_to_buying_responsibly.pdf

Key Performance Indicators for Responsible Sourcing (BSR):

https://www.bsr.org/reports/BSR_Responsible_Sourcing__KPIs_Summary.pdf

Essentially, the integration of and commitment to sustainability can enhance brand reputation, customer loyalty, and product differentiation, leading to increased market share and sales.



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1.2. Living wage targets and monitoring

Definition



Living Wage Targets & Monitoring means setting up specific pay objectives and frequently evaluating them in the context of providing living wages to workers. It includes setting SMART targets within set time-lines to meet living wage conditions across the supply chain, followed by regular checks on the progress. Methods used for monitoring can involve audits, worker interviews, and payroll inspections to ascertain the successful implementation of the living wage commitments. Targets can cover topics like supplier living wage compliance, percentage wage increase, and transparent wage reporting.

Practice combinations

Beneficial:

This is beneficial for all practices as it serves as a fundamental practice that enables the implementation of other practices.

Business rationale

Setting living wage targets enhances retailers' reputation and helps meet the growing demand for ethical products. By incorporating living wage targets, organizations can bolster their reputation, strengthen customer loyalty, and distinguish their products in a competitive market, potentially increasing market share and sales. For producers, ensuring fair wages improves worker well-being, boosts morale, reduces turnover, and can increase productivity. It also enhances organizations' market positioning, positively affecting the banana supply chain's living wage standards. While preliminary costs and establishing monitoring mechanisms may be challenging, the long-term benefits include regulatory alignment with directives like EUDR and EU CSDDD, internal stability, and enhanced supplier engagement. Working on living wages has a direct impact on other human right risks like poverty and child labour.

Step by step guidelines



1. Establishing Living Wage Target

- Start with setting a target by analysing supply chains and products. Define Specific, Measurable, Achievable, Realistic, and Time-bound (SMART) targets, such as calculating living wage gaps for all banana volumes by a set date or reaching X% reduction of the living wage gap at X% of volumes.

2. Implementing Living Wage Target

- Discuss with suppliers the Living Wage target. Adapt if necessary and agree on a jointly accepted target.
- Collaborate with suppliers to evaluate current wage levels and formulate strategies and roadmaps for compliance with the Living Wage target.
- Support suppliers with resources for reaching a living wage (see e.g. the practices in this framework related to capacity building or long-term investments).

3. Monitoring and Evaluation

- Agree with suppliers and producers for a data collection system to collect data on wage levels and compliance with Living Wage requirements from suppliers.
- Carry out or request regular audits and verification assessments to confirm compliance with Living Wage conditions. Partner with independent third-party auditors or certification bodies to ascertain impartiality and credibility. Verification requirement could follow a risk-based approach and might differ based on the reality of a country (e.g. presence of national legislation).
- Discuss results and progress reports with suppliers and producers and agree on an action plan to reach improvement.
- Develop transparent reporting mechanisms to reveal progress towards achieving Living Wage targets. Communicate this information with stakeholders, including employees, customers, investors, and NGOs, to demonstrate commitment to ethical labour practices.

Enabling conditions

Strategic

- Strategic shift in both organizational and procurement policies
- Broad managerial support, and resource commitment

Tactical

- Sustainable procurement policies for the banana supply chain
- Stakeholder engagement

Operational

- Systems for monitoring and reporting on living wage throughout supply chains
- Compliance mechanisms and standards
- Worker knowledge about wages
- Training programs for buyers as well as suppliers and producers
- Accurate wage records
- Grievance redressal channels (grievance mechanisms)
- Payment methods that enable living wages
- Incentives for compliant suppliers
- The presence of unions or worker committees
- Transparent transactions

Additional information and case studies



Lidl: Living Wages in the Banana Supply Chain Project Report (April 16, 2024): https://corporate.lidl.nl/content/download/89171/fileupload/Living%20Wage%20on%20Bananas_Final%20Report.pdf

ALDI pilots living wage verification process on banana farms: <https://sustainability.aldisouthgroup.com/stories/aldi-pilots-living-wage-verification-process-on-banana-farms>

Fairphone's Guide to paying living wages in the supply chain: <https://www.fairphone.com/wp-content/uploads/2022/07/Fairphones-Guide-to-paying-living-wages-in-the-supply-chain.pdf>

Lessons Learned Report: Pilot Activities of the German Retailers Working Group 2023: https://www.nachhaltige-agrarlieferketten.org/fileadmin/INA/Erfolgsgeschichten/Arbeitsgruppe_EH/GIZ_Report_Lessons_Learned_Pilot_Activities_2023.pdf

Fairtrade – Living Wage: <https://www.fairtrade.net/issue/living-wage>

IDH Roadmap on Living Wages: A Platform to Secure Living Wages in Supply Chains: <https://www.idhsustainabletrade.com/living-wage-platform/#:~:text=IDH%20is%20working%20to%20secure,the%20worker%20and%20their%20family>

Roadmap On Living Wages: Recommended Key Performance Indicators: https://www.idhsustainabletrade.com/uploaded/2021/10/Roadmap-on-Living-Wages-Recommended-minimum-KPIs-for-tracking-progress_30Sep21-.pdf

Living Wage in the Banana Sector – GIZ : <https://www.nachhaltige-agrarlieferketten.org/en/in-practice/german-retailers-working-group/living-wage-banana>

Project Description and Roadmap Towards Living Wages in the Banana Sector – INA: https://www.nachhaltige-agrarlieferketten.org/fileadmin/INA/Erfolgsgeschichten/Arbeitsgruppe_EH/211206_INA_Roadmap_ENG.pdf

Lidl's experience with FLOCERT audits: <https://www.flocert.net/supporting-living-wages-interview-with-maximilian-iciok-lidl-stiftung/>

Defining SMART targets within set timelines to meet living wage conditions across the supply chain, drives action on living wages.



1.3. Buyer sustainability KPIs, roles & responsibility and buyer sustainability incentives

Definition



Buyer Sustainability Key Performance Indicators (KPIs), Roles & Responsibilities is about defining clear metrics and responsibilities to enhance buyer contribution to living wage in the supply chain. These specify buying bananas from suppliers who commit to sustainable farming and paying their workers a living wage. KPIs might feature sourcing targets, improvements in workers' wages, compliance rates or audit results, while buyer duties include prioritizing working with producers that are willing to pay fair wages, adhering to sustainability policies, and tracking and reporting on KPIs.

To further promote sustainable purchasing practices, buyer sustainability incentives, such as bonus programs, recognition awards, and professional development opportunities, should be implemented. These incentives financially motivate buyers to support these suppliers and producers who are committed to promoting ethical business practices and advancing social and environmental sustainability in the banana supply chain, or those that are already meeting these standards, thereby fostering social and environmental sustainability in the banana supply chain.

Practice combinations

Beneficial:

This is beneficial for all practices as it serves as a fundamental practice that enables the implementation of other practices.

Business rationale

Key Performance Indicators help a company track and drive progress toward integrating sustainability considerations, incentivizing buyers to act on sustainability and adhere to ethical and responsible practices. Implementing sustainability incentives through financial mechanisms, such as bonuses, may temporarily lead to higher operational costs. However, in the long-term, these actions support the company's sustainability targets, leading to benefits such as enhanced reputation, regulatory compliance, and the alignment of buyer actions with the organizational goals.

Key Performance Indicators help a company track and drive progress toward integrating sustainability considerations, incentivizing buyers to act on sustainability and adhere to ethical and responsible practices.



Step by step guidelines³



1. Translate Department Objectives to Banana Buyer Category Objectives

- Understand Departmental Objectives, ensure banana category buyers truly understand the living wage objectives of the overall procurement department.
- Set Category Specific Goals with the procurement department and create specific goals for banana procurement, such as for example sourcing bananas from fair-trade certified growers or increasing volume sourced from producers that are willing to work on living wages.
- Reassess team governance structures to align with sustainability strategies and buyer incentive initiatives. Establish sustainability roles and responsibilities within the procurement team to oversee and promote environmentally and socially conscious purchasing behaviours. Ensure objectives are integrated into the daily tasks of banana buyers; this may involve supplier meetings, monitoring suppliers' sustainability practices, discuss supply chain transparency and stability with suppliers, etc. This also means including this in job descriptions. Provide adequate training and other adequate support for buyers so that they can integrate these goals into their daily tasks.

2. Check Banana Sourcing process and protocols to Include These Objectives

- Review Current Banana Sourcing process. Critically appraise existing approach to sourcing bananas and identify areas where improvements can be made with regards to Living Wage e.g. include steps that relate to discussing supply chain stability or sustainability monitoring.
- Update Sourcing Protocols: Incorporate new objectives into the banana sourcing strategies, which could encompass moving towards more sustainable suppliers or setting objectives for Living Wage.

3. Set annual KPI target for Banana buyer in Personal Objectives

- Identify Key Performance Indicators (KPIs) that relate to sustainable sourcing or sustainability practices at supplier / producer level: such as percentage or number of suppliers adhering to fair-trade principles or paying a voluntary contribution, percentage of volumes for which a living wage is paid, number of producers paying a Living Wage, number of suppliers applying certain RPP and benchmark performance. KPI's related to sustainable sourcing practices include e.g. buyers have participated in a training on living wages, number of conversations with suppliers on social responsibility and action plans, etc.
- Set Individual Targets: Based on these KPIs, outline individual targets for each banana buyer.

4. Develop incentivization program.

- Determine type of incentive, how to assess the performance of key buying personnel on responsible sourcing and how to calculate the amount of the incentive and the frequency of distribution.
- Get management approval on the above.
- Establish roles and processes to evaluate buyer performance. For example, Integrate reviews of buyer incentives and sustainability Key Performance Indicators (KPIs) into leadership meetings.

5. Build KPI Measurement Solution

- Select or create KPI Tracking System (e.g., KPI dashboards), using existing procurement software or create a new system to track performance against the established KPIs.

6. Track and report results

- Deploy specific technologies such as blockchain and Artificial Intelligence (AI) to enhance transparency, traceability, and monitoring of sustainability practices and the effectiveness of buyer incentives.
- Utilize data analytics to continuously monitor and improve sustainability KPIs and the success rate of buyer incentives.
- Analyse the data gathered and generate regular reports outlining progress, areas of concern, and opportunities for further development.

7. Revise Procurement Management & Operations for Enhanced Buyer Sustainability Incentives

- Conduct meetings to review category strategy plans, KPIs, and operational efficiency.
- Incorporate discussions on buyer sustainability incentives and objectives into regular category strategy plan meetings.
- Regularly evaluate and monitor KPIs related to buyer sustainability incentives and procurement efficiency during operational review meetings.

8. Enhance Procurement Collaboration

- Establish transparent communication channels between business units and buyers to share performance on sustainability KPIs and buyer incentives.
- Encourage shared responsibility and cross-functional collaboration to achieve sustainability targets and successful buyer incentive programs.

Enabling conditions

Strategic

- Establish clear sustainability Key Performance Indicators (KPIs), which align with the organization's overall strategic objectives and serve as progress markers.
- Management commitment to sustainability targets, including living wage targets
- Sufficient resource availability
- Employee capabilities / training to manage sustainable procurement

Tactical

- Defining standardized roles and responsibilities and processes, including meeting sustainability KPIs such as living wage, ensures the alignment of tactical actions with strategic goals.

Operational

- Integration of sustainability into daily procurement decisions is essential, supported by an efficient monitoring system.
- Put the KPIs into action through responsible sourcing, supplier development, and reporting.
- Invest in training initiatives that equip procurement officers with the knowledge and skills for sustainability KPIs.
- Regular measurement and data collection support these KPIs, along with consistent performance review schedules for continuous improvement.



Additional information and case studies

UN Global Compact:

<https://sustainableprocurement.unglobalcompact.org/tool-3-part-2-buyer-kpis/>

ETI Guide to Buying sustainably: pg. 20

https://www.ethicaltrade.org/sites/default/files/shared_resources/guide_to_buying_responsibly.pdf



2. Equal partnership



2.1. Long-term and responsible contracts

Definition



Long-term and responsible contracts create binding relationships between various stakeholders for a long period and ideally throughout the entire supply chain. They guarantee set pricing mechanisms, minimum quantities, and estimated delivery times. Prices and exact volumes are to be negotiated over time. This stability helps producers earn a reliable revenue and ensures buyers always have a steady supply.

Different organizations invested in this supply chain can create contracts to support sustainable business methods. These joint commitments build trust and shared responsibility among stakeholders. It ensures sustainable practices in banana sourcing.

Practice combinations

Beneficial:

- Collective Supply Chain Planning & Forecasting
- Volume based off take agreements
- All practices under internal integration
- All sustainable costing practices



Business rationale

Long-term contracts establish fair and stable arrangements between stakeholders, ensuring a steady supply of bananas, consistent production and revenue, and reduced risk of supply disruptions. By mitigating supply chain uncertainty, long-term contracts facilitate more precise production and sales planning. Compared to transactional dealings, long-term contracts can also reduce costs by protecting companies against price fluctuations and lowering transaction expenses.

Even so, it is important to mention that ongoing contract management and monitoring are essential to address potential risks, such as declines in quality or supplier breaches.

These contracts also allow producers to implement long-term living wage solutions, such as wage increases for workers.

Step by step guidelines



1. Understanding Corporate Policies and Making Contract Decisions

- Identify the retailer corporate policies which determine the maximum length (years) and size (spend) and volume for contracts buyers are allowed to commit to. Evaluate the organization's capacity for long-term agreements (more than 3 years) and seek management approval to adapt contract length accordingly.
- Where the policies do not allow lengthy contracts, liaise with procurement to ensure necessary adjustments are made to policies or exceptions are sought with every contract else the guideline cannot be implemented.

2. Preparations and Establishing Standards for Long-term Contracts

- Collaboratively develop a common legal framework with suppliers, aligning your contract's terms and conditions with corporation policies and international standards. When drafting the contract consider the following factors: 1) scope & objectives 2) duration & termination 3) price and payment 4) risks and liabilities 5) communication and collaboration 6) compliance and governance. Make sure that the requirements set in the contracts are inclusive, two-way and respect due diligence legislation. The contracts should ideally follow the three R's of the responsible contracting⁴:
 - Responsible allocation of risks and responsibilities
 - Responsible purchasing practices should support effective HREDD
 - Remediation first and responsible exit
- Commit to regular volume purchases and stable pricing as per the guiding company principles and contract term conditions.
- Formulate clear criteria for allocating multiple suppliers, based on produce quality and adherence to ethical trading and living wage principles.
- [Click here to enter text.](#) Review and update the contract templates collaboratively to ensure they reflect changes in calculations and industry standards when contracts are about to be due for renewal.

3. Developing & Implementing Long-Term Contracts with an Integrated Approach

- Formulate negotiation spaces cooperatively, addressing pricing, forecasting, and planning.
- Emphasize partnership commitments within the contracts, focusing on integrity and responsible sourcing.
- (Optional) Incorporate living wage commitments and verification processes to foster mutual respect and trust.

4. Monitoring and Supplier Allocation in Long-Term Contracts

- Collaboratively establish an effective tracking system that oversees consumption against contract provisions.
- Implement product traceability adhering to standards and incorporate a supplier allocation tracker to maintain order continuity.

5. Contract Administration and Execution

- Create an accessible contract retrieval system and invest in continuous monitoring to ensure contractual compliance.
- (Optional) Ensure contracts include provisions for Living Wage verification collaboratively, for transparent administration.

⁴ Source: Responsible Contracting Project & ETI – Guide to Buying Responsibly

6. Renewal, Expiry, and Termination of Contracts

- Establish criteria for contract renewal or termination considering comprehensive supplier evaluation and market conditions. Take into consideration the concept of responsible exit. If an adverse impact happens, provide remedy and take measures to stop harm. Exit should only be a last resort, taking measures to remedy risk.
- Establish a mechanism for contract renewal allowing renegotiation during renewal.
- Ensure transparency in termination clauses and assess risk factors to be considered during contract renewal termination.
- Foster a communication channel promoting open discussions between buyer and supplier regarding contract status.

Enabling conditions

Strategic

- Understand the market dynamics of the banana industry, including predicting future pricing risks.

Tactical

- Assess suppliers' capacity to fulfil upcoming requirements.
- Managing supplier efficiency and mitigating risks is crucial to cope with uncertainties around supplier reliability, demand changes, and price fluctuations.
- Establish proper communication and collaboration with suppliers to maintain the quality of bananas and be prepared for changes in production conditions.

Operational

- Managing long-term contracts involves monitoring and evaluating the supplier's performance to ensure adherence to the contract terms.



Additional information and case studies

Responsible Contracting Project toolkit: <https://www.responsiblecontracting.org/toolkit>

ETI: guide to buying responsibly: page 42

https://www.ethicaltrade.org/sites/default/files/shared_resources/guide_to_buying_responsibly.pdf

2.2. Volume based off-take agreement

Definition



Volume-Based Off-Take Agreements are contracts between buyers and banana suppliers. Buyers agree to buy a set amount of bananas for a certain length of time. This gives suppliers and producers a steady buyer, lowers risk, and provides financial stability. It supports their ability to keep practices sustainable and pay fair wages. In turn, this shows the buyer's commitment to responsibly sourced products and ethical supply chains.

Practice combinations

Beneficial:

- Collective Supply Chain Planning & Forecasting
- Long term and responsible contracts
- All practices under internal integration
- All sustainable costing practices



Business rationale

Volume-based off-take agreements provide a reliable supply of bananas for buyers, promoting customer loyalty and market stability. They enable companies to negotiate lower prices due to the optimized production of larger volumes, overall increasing producer efficiency and profit margins. For suppliers and producers, these agreements ensure a steady revenue stream, which they can use for sustainability investments like higher wages for farmers and their improved well-being. In addition, such agreements facilitate efficient planning and cost control while fostering ethical and sustainable business practices, benefitting all parties involved.

Step by step guidelines



1. Assess Current Situation

- Evaluate Current Supplier Relationships: Review existing contracts and relationships with banana suppliers to understand current terms and volumes.
- Understand Supplier Capabilities: Analyse supplier capabilities to deliver certain volumes, quality, and delivery criteria in the banana supply chain.

2. Strategic Decisions

- Explore New Opportunities: Conduct internal strategic decision-making processes within the retail organization to broaden potential opportunities, taking into consideration elements such as off-balance sheet obligations.
- Update Sourcing Strategies: Redefine or update sourcing strategies to reflect the new directions determined by the strategic decisions.

3. Define Objectives

- Define Volume Goals: Establish specific volume goals for the off-take agreement.
- Determine Volume Requirements: Determine the required volume of bananas to be sourced through the off-take agreement to meet demand jointly with suppliers. Experience from previous forecasting can be used as a source to determine current forecasting.

4. Implementation

- Execute Integrated Sustainable Sourcing Strategies: Create new agreements with suppliers that reflect the commitments determined by the revised sourcing strategies.
- Engage with Suppliers: Identify potential banana suppliers who have demonstrated reliable delivery and quality capacity and are capable of meeting volume requirements.
- Develop Contract Terms: Specify the volume of bananas to be purchased, delivery times, quality standards, and volume commitments in the off-take agreement.

5. Negotiate and Finalize Agreement

- Negotiate Terms: Negotiate contract terms with the selected supplier, focusing on volume commitments, pricing structures, and delivery and quality requirements.
- Finalize Agreement: Reach consensus on the terms of the off-take agreement, ensuring alignment with strategic objectives and volume commitments.

6. Implement and Monitor Performance

- Implement Off-take Agreement: Implement the volume-based off-take agreement with the selected supplier, ensuring adherence to contract terms and delivery and quality criteria.
- Build Risk Management Approach: Develop a risk management approach to address potential supply issues.
- Monitor and Adjust: Monitor supplier performance, conduct regular reviews, identify areas for improvement, and make necessary adjustments to adapt to changing business needs.

Enabling conditions

Strategic

- Solid business plan including constant demand predictions, the ability to manage large volumes and readiness for price risks
- Suppliers must be prepared for the agreed volumes and realistic risk assessments such as crop failures, with a plan to deal with these risks.

Tactical

- Effective negotiation skills
- Dependable forecasting systems
- Strong supplier relationships

Operational

- Sufficient infrastructure and processes to receive, handle, store, and distribute large volumes.
- Requires a strong system to manage contracts and monitor supplier performance.

2.3. Compensation for marketing / information support

Definition



Compensation for Marketing / Information Support refers to the practice where retail organizations provide financial or material support to suppliers for marketing activities or information dissemination (e.g. participation in audits or collection of environmental or social data). These can be for example compensation for the use of their images or stories, performing co-branding initiatives or providing (digital) marketing courses and support.

Practice combinations

Beneficial:

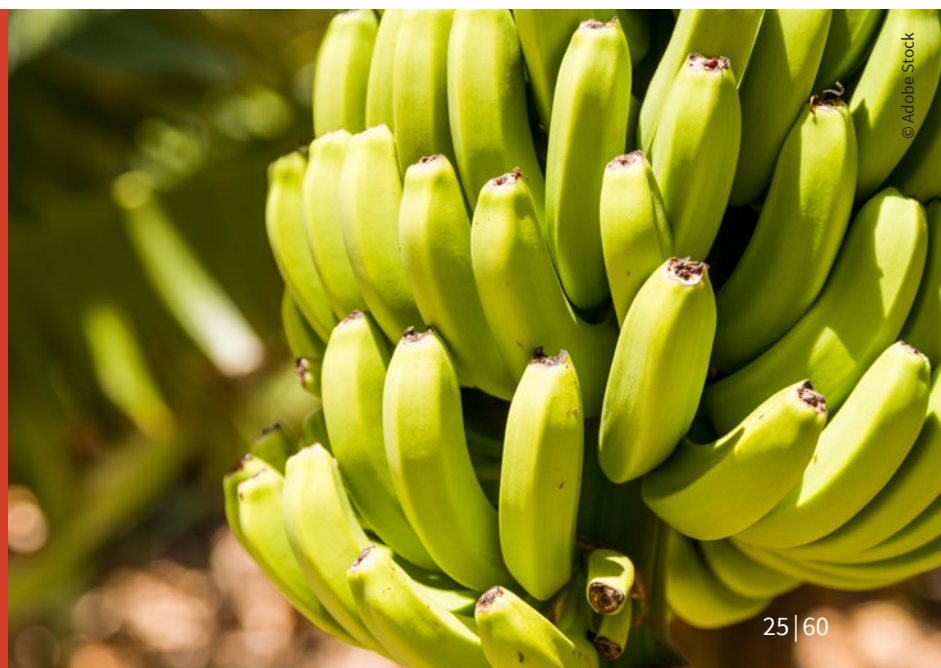
- Long term and responsible contracts
- All practices under internal integration
- All sustainable costing practices



Business rationale

By compensating suppliers and producers for a) marketing activities and b) information dissemination, retailers can a) inform consumers about their products, producers and initiatives and b) secure the necessary data for quality and sustainability audits, ensuring compliance with customer, NGO, and legislative requirements. This approach decreases market uncertainties and supply chain risks by providing important social, environmental, and operational information. This leads to the initial increase in operational costs being offset by long-term efficiency and increased profits, which can in turn be invested into wage increases and improving worker well-being. This type of compensation is particularly suited to long-term partnerships, fostering stability and mutual benefit.

This type of compensation is particularly suited to long-term partnerships, fostering stability and mutual benefit.



Step by step guidelines



1. Stakeholder Engagement

- Engage Internal and External Stakeholders: Collaborate with internal stakeholders such as procurement teams, marketing departments, and commercial (assortment) teams. Engage suppliers to understand and evaluate existing marketing and compensation practices, as well as their willingness to promote sustainable / living wage bananas and information.
- Understand your and stakeholder Information Needs: Identify necessary data sources, data points, and frequency to align with information needs. Model the value from this data gathering and align on the commercial value of this marketing initiative with stakeholders. Suppliers are encouraged to be included here as part of the stakeholders.

2. Policy Development

- Define Policy Objectives and Compensation Framework: Clearly outline the objectives of the compensation scheme, including incentivizing suppliers for their contribution to marketing and information initiatives. Agree on a fair share of the benefits with supply chain partners. Get approval from management.
- Develop a Comprehensive Framework: Outlining the principles, guidelines, and procedures, including gain share models for compensating suppliers for marketing and information activities. This framework should facilitate a transparent contract financial compensation with suppliers.

3. Compensation Components

- Specify Marketing Activities Compensation: Determine the compensation for marketing activities based on their impact and contribution to sales and promotion of sustainable / living wage bananas.
- Determine Information Sharing Compensation: Build a cost-share model and specify compensation for sharing insights, using tools like the Salary Matrix to obtain salary information, and other valuable data as agreed upon with suppliers.

4. Implementation and Monitoring

- Develop Roll-out Plan and Monitoring Mechanisms: Develop a detailed plan outlining roles, responsibilities, and timelines for implementing both the compensation and gain share schemes.
- Establish Monitoring Mechanisms: To evaluate the effectiveness of the compensation scheme, including supplier participation and assessing its impact on business outcomes. This could mean asking suppliers to share data on wages such as the Salary Matrix or through asking for certain sustainability audits / verifications that checks according to Living Wage criteria.

5. Integration into Supplier Relationship Management

- Incorporate into Supplier Collaboration: Integrate the gain share and compensation schemes into supplier collaboration efforts, aligning on marketing and information sharing activities.
- Align with Supplier Performance Evaluation: Incorporate supplier participation in marketing and information sharing initiatives as a part of supplier performance evaluation criteria.
- Enhance Supplier Engagement: Use the compensation and gain share schemes as a tool to strengthen the retailer- supplier relationship by recognizing and rewarding proactive supplier participation.

Enabling conditions

Strategic

- Develop consistent marketing strategies that define the scope, incorporate supplier support in the budget, and calculate the investment returns.
- Agree to provide marketing support.
- Form strategic partnerships.
- Increase brand visibility to strengthen market position.

Tactical

- Providing clear guidelines on the nature and extent of marketing support.
- Negotiating favourable terms with suppliers.
- Evaluating marketing efforts' effectiveness.
- Providing the right information to boost marketing initiatives, such as highlighting the product's unique selling points.

Operational

- Implement systems to manage and supervise marketing activities.
- Assigning resources, executing marketing strategies, and overseeing compensation given to suppliers for their aid.
- Fulfilling information responsibilities.
- Partaking in approved marketing activities.
- Monitoring performance, assessing these activities' impact on operations.
- Ensure that suppliers transfer contribution to producers by discussing this with them.



3. Cost management



3.1. Fairtrade minimum price and premium

Definition



Under the hired labour standard, the Fairtrade minimum price defines the lowest possible price that a buyer of Fairtrade products must pay the producer. The minimum price is set based on Fairtrade producers cost of production and in a consultative process with Fairtrade farmers, workers, and traders. The minimum price guarantees that producer groups receive a viable price which covers on average what it costs them to grow their crop and cover compliance costs. It is a mechanism that can be used when there is a living wage gap but also when there is none. On top of the Fairtrade minimum price buyers pay a premium that farmers and workers invest in social, environmental, and economic developmental projects. Under the Fairtrade system, 30% of the premium is mandatory paid in cash payment, if there is a living wage gap on the farm. Workers can choose to use 20% additionally for cash payments through a voting process (max. 50% in total).

Currently, the Fairtrade minimum price and premium is the most comprehensive benchmark on minimum pricing and premiums. If there are new developments on the market (e.g., other standard setting bodies generate other benchmarks or calculations), then these will be incorporated in the update of this framework.

Practice combinations

Required:

- LW targets and monitoring

Beneficial:

- Volume Based Off-Take Agreements
- Collaborative product Specification & Quality Management
- Prompt & Timely Payments
- LWRP
- Long-term and responsible contracts



Business rationale

Buyers offering Fairtrade prices and premiums can attract customers who are willing to pay more for responsibly sourced goods, leading to a potential growth in revenue. The commitment to fair trade strengthens buyer-supplier relationships and enhances supply consistency and quality, mitigating the reputational and financial risks stemming from unethical sourcing and market volatility. Provided that trade unions are involved in the process, paying a living wage to banana supply chain workers can lower labour dispute risks. Moreover, Fairtrade minimum prices are a safety net for the producers when market prices drop. Given existing and upcoming legislation on due diligence, this is an important consideration for retailers. Although procurement costs for supplier evaluation and premiums are higher, they are strategic investments for long-term sustainability that can reduce the hidden costs of social and environmental exploitation. The Fairtrade minimum price is freely available online and updated on a yearly basis. Buyers do not need to make their own calculations to determine the price.

Step by step guidelines



1. Assessing current situation and feasibility to implement minimum price and premium

- Analyse existing banana portfolio with category manager and decide for which bananas you can implement fairtrade minimum prices and premiums i.e. the fairtrade certification. Involve suppliers for their input in this consultation process.
- Calculate for the different banana categories the potential cost to switch to fairtrade certification.
- Present plans to management for sign off and budget approval.

2. Adapt Contracts and technical requirements

- Adapt technical requirement to include the fairtrade certification.
- Include payment values, mechanisms, schedule, distribution, reporting requirements and any other standard contractual clauses in the contracts.

3. Implementation

- Share technical requirements with suppliers when tendering and select suppliers accordingly.
- Communicate with suppliers about what is required from them, such as developing similar contracts with their producers, identifying trade unions in the workplace and discussing with them what their role can be during the implementation / distribution of the premium and how to avoid negative effects. Ensure that maximum of the premium will be used for living wage payment.
- Sign new contracts with suppliers.

4. Monitoring and verification

- Is managed through the fairtrade certification system.
- Fairtrade provides reports to customer on dashboard with results, insights and confirmation of contribution to paying living wages.

Enabling conditions

Strategic

- Purchasing departments should prioritize living wage requirements and long-term sustainability in its supply chain strategy.
- Incorporating Fairtrade pricing considerations into financial planning and risk management.
- Suppliers must also be prepared to adjust their business models to meet Fairtrade pricing specifications, which may require infrastructure alterations, compliance monitoring technology, and workforce training.

Tactical

- Good understanding of supply chain, market, consumer base, amount of Fairtrade volumes sold in a market and potential financial as well as marketing benefits you obtain from selling Fairtrade bananas.
- Transparent communication channels

Operational

- The whole supply chain needs to be fairtrade certified, implying that supply chain actors should have mechanisms in place to handle the Fairtrade Minimum Price + Premium model, accept likely increased costs, and maintain transparency in reporting responsibly sourced benefits.



Additional information and case studies

Fairtrade Banana Dashboard: <https://www.fairtrade.net/banana-dashboard>

Fairtrade Minimum Price and Premium Information: <https://www.fairtrade.net/standard/minimum-price-info>

Under the Fairtrade system, part of the premium can be used to close the living wage gap on a farm.



3.2. Fairtrade Living Wage Reference Price

Definition



The Fairtrade Living Wage Reference Price is the price of a packed box of 18.14 kg fresh bananas set for a specific banana producing country, that if paid for each sold box, would ensure that all workers on a banana plantation earn at least a gross Living Wage. This also depends on a grower's total production being sold at Fairtrade Living Wage Reference Price. The Fairtrade Living Wage Reference Price considers the average production and labour costs of a particular country. The Fairtrade Living Wage Reference Price consists of the fairtrade minimum price (FMP) and a living wage differential (LWD). The FMP cover existing costs of production and all salaries paid. The LWD represent the sum of the gap of those workers that are not earning a living wage and the related labour cost, when salaries are levelled up to the level of the living wage benchmark as set by the Ankers. Fairtrade Living Wage Reference Price are available for some countries but can also be calculated against a service fee for a specific supply chain by Fairtrade. It is a voluntary contribution paid as a bonus to workers that can be used under the fairtrade system but also as a stand-alone by buyers. It can be used when there is a living wage gap but also when there is none since it is a mechanism to support producers with all their costs (also those unrelated to labour). To date, the Fairtrade Living Wage Reference Price is the only available living wage pricing mechanism on the market.

Practice combinations

Beneficial:

- Volume Based Off-Take Agreements
- Collective Supply Chain Planning & Forecasting
- Compensation for Marketing & Information Support
- Prompt & Timely Payments
- Long-term and responsible contracts
- All practices under internal integration



Business rationale

Compliance with the Living Wage Reference Price (LWRP) can enhance brand image among consumers who value ethical sourcing practices, potentially boosting sales. Implementing fair wages improves producer productivity and ensures a steady revenue stream. Additionally, the LWRP, set by Fairtrade at country level for free or calculated at the supply chain level against a fee, minimizes social and operational risks by providing workers with financial stability. Provided that trade unions in the workplace are involved in the process through social dialogue, this method consequently reduces the probability of supply disruption due to labour disputes.

Fairtrade prices are a safety net for producers when market prices drop. The Fairtrade Living Wage Reference Price is welcomed by the producers and producer associations as the most suitable solution. Given existing and upcoming legislation on due diligence, this is an important consideration for retailers.

The LWRP, updated yearly and readily available online, builds on the Fairtrade minimum price and premium, meaning combining the two RPPs can simplify implementation.

Step by step guidelines



1. Evaluate Feasibility of Fairtrade Living Wage Reference Prices

- Analyse the current banana product range to identify which products can incorporate a Fairtrade Living Wage (FTLW) reference price. Consider applying this to both Fairtrade and non-Fairtrade products. For existing Fairtrade products, part of the premium can be used to cover the living wage. Analyse whether it is beneficial to switch more products to fairtrade certification. Involve suppliers and producers at this stage to get a better understanding on possibilities.
- Calculate the potential costs based on type of product (Fairtrade or non-Fairtrade) and the method of calculation (either country average or specific supply chain). In case of a supply chain specific cost, contact fairtrade to help you with the calculations.
- Involve key stakeholders, such as category managers, in developing a cost-benefit analysis and a strategic implementation plan.
- Submit the plan to management for budget approval and official sign off.

2. Adapt contracts and technical requirements

- Update contracts with payment details, methods, schedules, distribution plans, reporting obligations, and any standard contractual clauses relevant to the agreement.

3. Implementation

- Inform suppliers of the planned changes.
- Communicate with suppliers about what is required from them, such as developing similar contracts with their producers, identifying trade unions in the workplace and discussing with them what their role can be during the implementation and how to avoid negative effects.
- Sign new contracts with suppliers.

4. Monitoring and verification

- Establish a comprehensive verification plan, in agreement with all supply chain participants, to ensure payments reach the intended recipients. Fairtrade can help in this step if needed. Buyers should bear in mind to not create additional verification burden for producers.
- Engage the services of a third party, such as FLO-cert, for independent verification on the ground. If products are already Fairtrade certified, verification is included.

Enabling conditions

Strategic

- Strong commitment to social responsibility and sustainability.
- Clear strategy for adopting ethical trade practices and promoting transparency in supply chain operations.

Tactical

- Understand your consumer base, amount of FT volumes sold in a market and potential financial as well as marketing benefits you.



Additional information and case studies

Anker Research Institute's standards

Sainsbury's example

Fairtrade Living Wage Reference Price

Fairtrade banana dashboard: <https://www.fairtrade.net/banana-dashboard>

Fairtrade Minimum Price and Premium Information: <https://www.fairtrade.net/standard/minimum-price-info>

The Fairtrade Living Wage Reference Price is the preferred responsible purchasing practice of producers and producer associations.



3.3. Open book costing approach

Definition



Open costing approaches refer to a cost-based pricing scheme that is informed by a two-way, partnership and fact-based discussion between supply chain partners about cost structures in the supply chain including production level. This increased transparency ensures that negotiated prices reflect the real costs. In the context of promoting living wages an open costing approach can be combined with ringfencing labour costs to make sure that costs linked to the payment of living wages are adequately reflected in the purchasing price. An open book costing approach can be used when there is a living wage gap at a producer but also when there is none since it is a mechanism to support producers with all their costs (also those unrelated to labour).

The success of this approach depends on mutual partnerships and disclosure. If this practice is implemented in a one-sided way, it could be perceived as powerplay to help push prices down. Therefore, the aim should be to ensure that value is created for both parties⁵. Negotiations should result in an agreed mutually beneficial price that allows the suppliers and producers to cover production costs, improved labour conditions and living wages

Practice combinations

Required:

- Living Wage (LW) target and monitoring
- Long term and responsible contracts

Beneficial:

- All other practices under internal integration
- Volume off take agreements
- Optimized supplier base
- Collective supply chain planning and forecasting
- Supplier / producer capacity building and training



Business rationale

The open book costing approach promotes pricing transparency and fairness, ensuring suppliers receive fair compensation and fostering stable, long-term relationships in the supply chain. It helps retailers comply with production cost legislation and mitigates risks associated with under-pricing or sales losses by basing prices on actual production costs. Risks include potential overpricing if costs are poorly managed or market prices decline, and it doesn't consider external factors like market competition or customer perceptions of value. These risks should be discussed with all supply chain partners when they occur and a joint risk management plan should be set up. Despite these risks, the approach guarantees that all production costs are covered, ensuring each sale contributes positively to overheads and profits. Implementing this model requires robust cost tracking systems, which may involve initial investments but in return ensures comprehensive cost absorption.

⁵ Source: ETI- Guide to Buying Responsibly – page 39

Step by step guidelines



1. Evaluate feasibility Open Book Costing Approach in the Banana Supply Chain

- Assess maturity of the supply relationships between the retailer and its suppliers. Assess the existing relationship with producers to determine the level of trust and willingness to share financial information. The success of this approach largely depends on the level of trust between the parties. As such, it is suggested that any discussions on this approach should be done through a collaborative and open-minded process with the supplier / producer.
- Determine the need for capacity building (i.e., training on Open Book Costing Approach) for both producers and buyers.

2. Establish Long-Term Relationship or Trustful Partnership

- Initiate efforts to establish a long-term relationship with banana suppliers and producers, emphasizing trust and collaboration.
- Aim to formalize the relationship through a contractual agreement outlining commitments and expectations, ensuring transparency and accountability. See practice on long term and responsible contracts.

3. Develop Category and Sourcing Strategy for Open Book Costing Approach

- Develop a comprehensive category and sourcing strategy tailored to the unique needs and goals of implementing an Open Book Costing Approach for bananas.
- Collaborate with supply chain partners to identify the diverse costs at all stages of the supply chain including retail level, which includes factors such as transport, pesticide use, as well as the payment of a living wage for workers rather than considering them as ‘additional’ costs. To calculate the living wage contribution needed to bridge the gap for workers, utilize tools like the GIZ costing tool to ensure sustainable production practices. The negotiated price should be mutually beneficial for all parties, allowing suppliers and producers to cover their costs.
- Anticipate potential fluctuations in banana pricing and incorporate strategies to mitigate risks associated with market volatility.

4. Obtain Leadership Signoff and Budget Approvals

- Present the proposed strategy for implementing the Open Book Costing Approach to organizational leadership.
- Seek signoff from key stakeholders, including executives and budget holders, to ensure alignment with organizational objectives and financial resources.
- Obtain budget approvals for additional costs associated with fair wages and price volatility mitigation measures.

5. Execute Sourcing with Open Book Costing Approach

- Implement the sourcing strategy according to the approved Open Book Costing Approach for bananas.
- Collaborate closely with banana suppliers and producers to ensure transparency and alignment with the agreed-upon pricing methodology.

6. Implementing the Open Book Costing Approach into Agreements

- Incorporate the Open Book Costing Approach into contractual agreements with banana suppliers, specifying pricing terms and conditions.
- Ensure clarity regarding the calculation of prices based on the Open Book Costing Approach and any adjustments required to reflect changes in costs or market conditions.

7. Executing Price Mechanism into Orders and Payment Schedules

- Integrate the Open Book Costing Approach into order placements and payment schedules for bananas.
- Establish clear protocols for issuing orders and processing payments in accordance with the agreed-upon pricing terms. Volume off-take agreements will boost the impact.

8. Setting Up Monitoring System to measure effect on LW

- Implement a detailed monitoring system, such as conducting a financial audit or employing third-party verification, to explicitly track the additional payment from the retailer to the supplier, from the supplier to the producer and the subsequent distribution of additional premiums to the workers resulting from the Open Book Costing Approach.
- Ensure that the premium intended for fair wages and worker benefits reaches the intended recipients effectively.

9. Monitoring Total Premium Cost Pay-out and Budget

- Monitor the total premium cost pay-out associated with the Open Book Costing Approach, comparing actual expenses against budgeted allocations.
- Evaluate the pricing strategy's effectiveness in providing fair worker compensation, maintaining cost stability, and achieving objectives. This involves, auditing supplier wage compliance, and regularly monitoring various costs.
- Adjust strategies and budgets as needed based on monitoring outcomes and performance insights.

Enabling conditions

Strategic

- Understanding, supporting, and managing potential risks like cost price fluctuations.
- Robust strategic alignment with supplier relations and long-term commitments.
- Generating trust between parties by ensuring retailers are transparent about their price structure.
- All supply chain actors, including retailers, should agree on fair profit margins.
- Discussions on this approach should be done through a collaborative and open-minded process, communicated ahead of time to the supplier / producer.
- In a partnership-based price negotiation, the aim should be to ensure that value is created for both parties.

Tactical

- Ensure relevant teams have a good understanding of the entire cost structure, including tracking changes in cost determinants.
- Suppliers should have efficient cost accounting systems to be able to share cost details with the buyers.

Operational

- Effective contract management and cost monitoring systems to apply and manage the Open Book Costing Approach contracts.
- System to examine cost changes and adjust payments correctly.
- For banana supply chain suppliers, this means managing operational costs within agreed limits.
- Regular transparent discussions on cost between commercial partners.



Additional information and case studies

Aldi South case study: <https://sustainability.aldisouthgroup.com/stories/banana-purchasing-model>

ETI guide to buying responsibly: 'Hold balanced partnership-based negotiation': page 39:
https://www.ethicaltrade.org/sites/default/files/shared_resources/guide_to_buying_responsibly.pdf

The open book costing approach promotes pricing transparency and fairness but should be built on mutual partnership and disclosure.



3.4. Voluntary contributions

Definition



The voluntary contribution is a pricing strategy that is only applicable in the context of prevailing living wage gaps. On top of the (negotiated) base price per banana box an optional additional price markup is paid to bridge prevailing gaps respective to volumes sourced. This additional payment is often interpreted as premium or living wage differential and channelled through the supply chain up to producer level. Producer can use various mechanisms to distribute the voluntary contribution to raise the workers' remuneration to a living wage.

Practice combinations

Required:

- Living wage targets and monitoring
- Long-term contracts

Beneficial:

- All other practices under internal integration
- Prompt and timely payments
- Compensation for marketing and information support



Business rationale

Voluntary contributions support retailers in tailoring their pricing strategies to close living wage gaps in their supply chains, ensuring worker well-being and therefore leading to increased productivity. This can be an interim solution and first step before revisiting the overall pricing strategy that should eventually account for all cost items. Engaging with voluntary contributions can increase supply chain partners' trust in the retailer's commitment to shared responsibility and can directly support producers in bridging the living wage gap for their workers. Despite potential financial risks caused by market volatility, voluntary contributions are a strategic investment that boost brand reputation and foster stable supply chain relationships. It is important to mention that retailers should consider other incentives besides voluntary contributions for producers that do not demonstrate a living wage gap.

Step by step guidelines



1. Building internal Strategy and Education

- Explore existing guidance on the payment of voluntary contributions in the context of Living wages (see section on additional information and case studies).
- Create a strategy for paying voluntary contribution including volume-based and time bound targets. This can also include the provision of in-kind benefits (e.g., vouchers for local supermarkets) as a partial payment.
- Educate internal stakeholders about the strategy.

2. Engage with suppliers

- Communicate the strategy to direct and indirect suppliers.
- Assess supply chain partners' readiness for the scheme and generate ideas together with direct suppliers and producers on mechanisms for calculating, channelling, distributing, and verifying voluntary contributions. Ensure that the plan is practical, feasible and desirable by suppliers and producers.
- Agree with suppliers, producers and other relevant actors (e.g. certification schemes) on concrete implementation steps and clear roles & responsibilities for calculating, channelling, distributing and verifying voluntary contributions. It is considered good practices to involve workers and / or worker representatives in determining the best way to distribute the voluntary contribution to the workers and to channel the distribution of the voluntary contribution through an independent body like a fairtrade premium committee.

3. Pricing Structure Establishment, Gap Definition, and Buyer Communication

- Collaborate with supply chain partners to measure (potential) living wage gaps using tools like the Salary Matrix.
- Ensure validity and robustness of the collected wage data (e.g. through onsite verification or financial audits).
- Calculate the voluntary contribution using the GIZ Costing Tool. Ideally, the calculation is done at producer-level to target the farm-specific gap, account for prevailing wage structures and additional costs for implementation (like taxes, levies and overhead costs).
- If you commit to paying a voluntary contribution to multiple farms, collaborate with supply chain partners to aggregate the calculated farm-specific voluntary contribution to determine the average price markups that you need to pay to your direct supplier.

4. Contract Implementation, Execution and Monitoring

- Incorporate the voluntary contributions in sourcing agreements and agree on payment terms (e.g. frequency, invoicing).
- Execute orders including the payment of the (aggregated) voluntary contribution in line with the agreed terms.
- Collaborate with suppliers and producers to monitor receipt and distribution of payments. Tools like the Salary Matrix support producers to capture and monitor the received voluntary contributions.
- Monitor pay out and budget implications for your company. For example, by including in the annual financial audit of the company (payment from retailer to supplier) or by including it in the on-site audits (payment from producer to worker).

5. Evaluation, adjustment and challenges addressing

- Monitor the effectiveness of the contribution through regular analysis and verification of wage data as well as impact analysis to measure how the voluntary contribution affects working conditions and livelihoods of workers.
- Address challenges during its implementation.
- Regularly review and adjust the mechanisms for calculating, channelling, distributing and verifying voluntary contributions based on lessons learnt and in close collaboration with supply chain partners.

Enabling conditions

Strategic

- Recognizing the significance of supporting the supply chain.
- Suppliers and producers should align strategically with this approach, discussing how extra contributions can improve their operations, living conditions, or environmental practices.

Tactical

- Mechanisms to calculate the voluntary additional contribution should be part of standard procurement processes.
- A constructive dialogue with suppliers and producers about the funds' distribution is necessary.

Operational

- Establishing efficient systems and procedures to manage the voluntary additional contribution, track its use, and evaluate its impact is crucial.
- Suppliers and producers should manage these extra resources, incorporate them into their daily operations and pay roll and reporting system.



Additional information and case studies

LIDL Case study: <https://www.idhsustainabletrade.com/publication/persistence-is-key-lidl-germany-and-its-banana-supply-chain/> and https://corporate.lidl.nl/content/download/89171/fileupload/Living%20Wage%20on%20Bananas_Final%20Report.pdf

German Retailers Working Group Lessons learnt from pilot activities in 2023: <https://www.nachhaltige-agrarlieferketten.org/en/news/report-on-lessons-learnt-from-pilot-activities-in-2023-published>

Buyer guidelines on voluntary contributions (IDH): <https://www.idhsustainabletrade.com/publication/buyers-guidelines-voluntary-contributions-to-close-living-wage-gaps/> **Which in-kind benefits can be included in the Salary Matrix?** (IDH): <https://www.idhsustainabletrade.com/uploaded/2021/06/Which-in-kind-benefits-can-be-provided-in-SM.pdf>

In-kind benefits as partial payment of a living wage: <https://www.elgaronline.com/monochap-0a/9781786431455/chapter16.xhtml>

4. Fair payment terms

4.1. Prompt and timely payments (including factoring as mechanism for prompt payment)

Definition



Prompt payment, ideally within a maximum of 30 days, ensures buyers pay suppliers and suppliers pay their producers promptly, enabling therefore that healthy cash flows are maintained and that suppliers and producers can meet financial obligations on time. Guaranteeing timely payments throughout the entire supply chain ensures that producers have enough resources to pay a living wage.

Factoring is a mechanism that helps suppliers and producers achieve prompt payment by selling invoices to a third-party for instant cash, usually at a discount. Retailers can support suppliers in offering factoring services to producers, converting credit sales into immediate cash to manage short-term finances and pay living wages. Access to factoring services improves producers' financial stability, enabling them to better support their business and workers.

Practice combinations

Required:

- Living wage targets and monitoring

Beneficial:

- All other practices under internal integration
- Long term and responsible contracts
- Volume based off take agreement
- All practices under cost management
- Collective supply chain planning and forecasting



Business rationale

Paying suppliers on time builds trust, ensures consistent supply, and supports their financial stability, leading to better performance and cost efficiencies. It ensures compliance with regulations like the EU Directive on Unfair Trading Practices and maintaining a company's reputation. While requiring careful cash flow management, this practice reduces administrative burdens and overdue invoice issues. This practice will only have a direct effect on producers and their ability to cover their costs (including labour costs) if suppliers are also paying their producers on time.

Factoring allows suppliers to pay producers quicker, enhances liquidity, and provides financial flexibility and steady cash flow. Though it may bring dependency risks for the producer, factoring enables timely payments to workers if benefits are passed on from suppliers to producers.

Step by step guidelines on prompt and timely payments



1. Review and Discuss Corporate Payment Policies

- **Assess Current Payment Policies:** Review existing corporate payment policies and procedures to understand the current payment terms and practices with suppliers in the banana supply chain.
- **Identify any inefficiencies or delays** in the payment process that may hinder timely payments to suppliers and producers. Assess the impact of your payment terms on the producers (either directly or indirectly – if working with suppliers) when considering the length of time it will take for payment to reach the producer. Check if suppliers have effective systems in place to pay the producers on time. Identify root causes for delays.
- **Discuss potential changes at retail and supplier level.** Engage relevant stakeholders, including internal stakeholders like procurement, finance, and senior management and external stakeholders like suppliers, in discussions about potential changes to payment policies and develop a mutually acceptable improvement plan.

2. Assess Financial Impact and Working Capital

- **Analyse Financial Impact:** Assess the financial implications of transitioning to shorter payment terms on working capital, cash flow, and overall financial performance.
- **Evaluate the potential benefits of improved supplier relationships and enhanced supply chain resilience** against the costs associated with accelerated payments.
- **Obtain Finance Approval:** Present findings from the financial impact analysis to the finance department and seek approval for the proposed changes to payment terms.
- **Collaborate with finance to develop strategies for managing working capital effectively** under the new payment terms, ensuring continued financial stability.

3. Senior Leadership Approval for Changes

- **Obtain Finance and CFO Approval:** Present proposed changes to payment policies, highlighting the rationale and expected benefits of transitioning to shorter payment terms.
- **Seek approval from senior leadership, particularly finance and the Chief Financial Officer (CFO),** for the implementation of new payment terms or any exceptions to the standard process.

4. Check Ongoing Agreements

- **Review Existing Agreements:** Evaluate all ongoing agreements with suppliers to ensure alignment with the proposed changes to payment policies.
- **Identify any contractual obligations or clauses related to payment terms** and assess the need for renegotiation or amendment to accommodate shorter payment cycles.
- **Engage with suppliers to discuss benefits and risks associated with adjusted payment terms.**
- **Discuss with suppliers the implementation of prompt payment to producers.** Discuss with them their payment terms and systems and how to potentially improve those. Discuss the potential implementation of mechanisms such as factoring. The below step by step guidance on factoring can be used for this. Investigate whether you as a retailer can support suppliers and producers in implementing factoring (e.g. by covering the fee of factoring that producers would need to pay).

5. Implement New Payment Terms into Agreements

- Update Supplier Agreements: Communicate the approved changes to payment terms to relevant suppliers and initiate the process of updating contractual agreements accordingly.
- Ensure clear documentation of the revised payment terms, including payment schedules, invoicing procedures, and any applicable discounts or incentives.
- Monitor Implementation: Monitor the implementation of new payment terms with suppliers to ensure adherence to agreed-upon timelines and processes.
- Address any issues or concerns raised by suppliers promptly and work collaboratively to resolve disputes or challenges related to payment processing.

6. Monitor implementation

- Monitor implementation and impact of new payment terms in collaboration with suppliers and producers.
- Establish feedback and complaint mechanisms to address potential concerns promptly.
- Review payment terms on a regular basis and agree with suppliers on potential adjustments over time.

Step by step guidelines on implementing factoring (for suppliers)



1. Establishing Efficient Payment Service for Suppliers

- Investigate Need for Payment Service: assess the current payment processes with producers.
- Understand whether producers would find it beneficial to work with factoring and discuss whether they would be willing to pay a small fee in return for these benefits. Discuss the optional payment service method with producers, highlighting the potential benefits.

2. Partnering with Financial Institution

- Formulate a Business Case: Develop a business case outlining the benefits and potential cost savings associated with implementing a payment service for suppliers.
- Collaborate with financial experts within the organization to assess the financial viability and feasibility of the proposed payment service.
- Engage Financial Institutions: Identify and partner with suitable financial institutions capable of providing the desired payment service to producers.
- Negotiate terms and conditions with selected financial institutions, ensuring alignment with your targets and producer needs.

3. Communicating Method and Approach with Suppliers

- Communicate the optional payment service method with the producers.
- Address any concerns or questions from producers regarding the new payment service and provide necessary support and guidance throughout the transition process.
- Signing Up producers: Establish agreements with producers who express interest in utilizing the payment service, outlining the terms, fees, and procedures involved.
- Ensure transparency and clarity in contractual agreements to foster trust and cooperation between the retailer and suppliers.

4. Setting Up Accounts and Infrastructure

- Establishing Financial Infrastructure: Coordinate with the selected financial institution to set up accounts and infrastructure necessary for implementing the payment service.
- Ensure seamless integration between the suppliers accounting systems, the financial institution's platform, and producer accounts for efficient transaction processing.

5. Implementing Payment Process

- Producer Invoicing: Producers submit invoices directly to the financial institution for processing, detailing the products or services provided and the corresponding payment terms.
- Both supplier & producer need to verify the accuracy and validity of invoices to prevent discrepancies or errors in payment processing.
- Payment Processing: Upon receipt of invoices, the financial institution initiates payments to producers according to the agreed-upon terms and schedules.
- Monitor payment transactions to ensure timely and accurate disbursement of funds to producers, minimizing any potential delays or disruptions in the supply chain.

6. Monitoring and Evaluation

- Performance Monitoring: Establish metrics and KPIs to monitor the effectiveness and efficiency of the payment service.
- Regularly evaluate payment processing times, transaction costs, and producer satisfaction to identify areas for optimization.
- Collaborate with producer to assess impact on payments.

Enabling conditions

Strategic

- Establish clear policies on payment terms.
- Implement a strong financial strategy and reliable cash flow management, paying special attention to consistently meeting payment obligations on time.
- Retailers and suppliers should weigh the immediate cash flow benefits of timely payment and mechanisms like factoring against its costs, possible financial impacts, and effects on customer relationships.
- For timely payments to have a real impact on the producer's ability to pay cost and bridge living wage gaps, it is essential that timely payments are performed by all players in the supply chain.

Tactical

- Proper management of supplier contracts.
- Maintaining good relationships with suppliers.
- Clear communication with suppliers about payment schedules.
- Efficient invoice management system to guarantee timely payments.
- When it comes to factoring, it's key for suppliers to choose a reliable factoring firm, agree on suitable terms, and maintain steady communication among the company, factoring firm, and producers. Tactics involve comparing factoring possibilities, comprehending agreement terms, and transparent dialogue with the factoring company and customers.

Operational

- Use automated or digital tools for timely invoice creation, approval, and payment processing, which result in fewer errors and less administrative workload.

4.2. Long term buyer investment

Definition



Long-term buyer investment refers to buyers strategically funding tangible improvements to support their suppliers and producers, typically ranging from 5 to 10 years. This is not about voluntary financial contributions that are paid on top of purchasing prices, but concrete funding of investments that will have a sustainable impact on the environment or the labour conditions like e.g. upgrading facilities for workers or investing in better farm equipment or sustainable farming practices.

Practice combinations

Required:

- Living wage target and monitoring
- Long term and responsible contracts
- Optimized supplier base

Beneficial:

- All other practices under internal integration
- Volume based off take agreement
- All practices under cost management
- Collective supply chain planning and forecasting



Business rationale

Long-term buyer investments foster stable relationships and enhance production efficiency and product quality through improved worker well-being and sustainable practices. While they limit buyers' ability to switch suppliers based on changing market conditions, such investments can decrease future operational costs through improved labour productivity and working conditions at the producer level, aligning with the evolving due diligence legislative landscape.

Step by step guidelines



1. Assessing Supplier Portfolio for Strategic Development

- Evaluate Supplier and producer Relationships: Assess supplier and producer portfolio for strategic development, considering reliability, responsiveness, and sustainability alignment.
- Review Sustainability Performance: Evaluate producer adherence to environmental and labour standards, focusing on sustainable practices and collaboration potential.
- Identify Strategic Suppliers and producers: Prioritize suppliers and producers based on performance, capabilities, and alignment with retailer's values.
- Engage with strategic suppliers and producers to understand their long-term plans and needs to further improve sustainability.

2. Aligning with Commercial Assortment

- Analyse Commercial Assortment: Evaluate how supply chain investment, align with product strategies, sustainability goals, and living wage targets for workers.

3. Creating Producer-Specific Investment Plan

- Develop Investment Plan with suppliers and producers: Tailor investment plans for each producer based on their needs, gap assessment and long-term plans, detailing costs, and benefits.
- Potentially identify local partners like NGO's to support with the implementation of this plan.
- Include Financial Components: Identify financial impact of investments.

4. Presenting Investment Case to Leadership

- Prepare Investment Proposal: Compile a compelling case with financial projections and risk assessments.
- Engage Senior Leadership: Present to finance executives for budgetary approvals.
- Address Concerns: Respond to questions and provide clarification as needed.

5. Establish Agreements with Suppliers, producers and / or local partners

- Establish Financial Commitments: Collaborate on agreements detailing investment terms and metrics.
- Define Clear Parameters: Set investment amounts, payment schedules, and performance metrics.
- Include Exit Strategy: Incorporate clear conditions for modifying investments if necessary.
- Ensure Transparency: Clarify the exit strategy to mitigate risks and maintain supply chain integrity.
- Define how investment plan will be managed. Define roles and responsibilities and follow-up processes.

6. Implementing Monitoring System

- Develop Monitoring System: Design a system to track investment impact.
- Define Key Metrics: Establish benchmarks for measuring effectiveness.
- Monitor Investment Performance: Assess impact on supply chain efficiency and sustainability.
- Analyse Data for Improvement: Identify areas for optimization and future investment decisions.

Enabling conditions

Strategic

- A clear strategic vision focused on long-term investments, such as supply chain security, sustainability, and innovation.
- Strong financial planning and risk management strategies.
- Ensure investments are aligned with the suppliers' growth and sustainability objectives.

Tactical

- Ensure relevant teams have a deep understanding of the supply chain's opportunities and difficulties for focused investments.
- Robust supplier relationship management and investment management.
- Ability to monitor and evaluate supplier performance.

Operational

- Develop systems to track and measure the impact of long-term investments, and the capacity to adjust these investments in response to market shifts and company requirements.

5. Supplier management



5.1. Optimized supplier base

Definition



Optimizing the supplier base is the process of strategically selecting and managing suppliers and / or producers based on certain criteria. In the context of promoting living wages the selection can prioritize those suppliers and / or producers with clear commitment to fair labour practices and with the will and ability to collaborate on living wage goals.

Practice combinations

Required:

- Living wage target and monitoring
- Long term and responsible contracts

Beneficial:

- All other practices under internal integration
- Volume based off take agreement
- All practices under cost management
- Collective supply chain planning and forecasting
- Long term buyer investment



Business rationale

Optimizing the supplier base by selecting those willing to collaborate on sustainability goals like living wages reduces complexity, collaboration efforts, and unit costs. These benefits are leveraged if larger volumes are purchased from the selected strategic suppliers, leading to economies of scale. While it demands careful management and initial investment, it fosters stable, trustful sourcing relationships and supply stability. Agreeing on regular price updates can address potential risks of such long-term strategic partnerships related to competitiveness. Aiming at a diverse supplier base composed of different types and sizes of suppliers helps to build resilient supply chains as well as to mitigate diverse risks.

Step by step guidelines



1. Code of conduct

- Develop a mutually agreed code of conduct with clear obligations for retailers, suppliers, and producers. The code of conduct should clearly define how buyers will support suppliers and producers and how suppliers and producers can promote good working conditions⁶.
- Include the code of conduct in the contractual terms.

2. Supplier Accreditation

- Assess new suppliers on their performance on labour rights and progressive attitude towards labour rights. Make sure to explain the company code of conduct and how you will support them.
- Evaluate existing suppliers through a questionnaire using criteria and metrics linked to the code of conduct product quality, delivered volumes, sustainability, risks and how well the supplier is organized (with criteria like the ability of the supplier to make timely payments to producers).
- Ascertain the capacity of suppliers to consistently supply bananas in the required quantity and quality, and rate them against competing suppliers.
- Stabilize supplier count, increase order size and explain these changes to the chosen suppliers.

3. Supplier qualification and onboarding

- Develop a supplier onboarding program that includes training on retail system usage, compliance norms, and banana quality prerequisites.

4. Supplier Risk Management

- Discuss potential risks, including crop diseases, natural calamity, or geopolitical tensions that could disrupt the banana supply chain with the suppliers. Develop a mutual risk mitigation plan where the risks are shared through the supply chain.
- Monitor suppliers' resilience and risk management capability in regards of banana farming and supply and support towards improvement if needed.

5. Supplier Performance Management and incentivization for good performance

- Encourage suppliers to meet performance targets centred around quality management, sustainable delivery efficiency, and labour rights conformity in line with your buyer-supplier code of conduct.
- Discuss suppliers and producers' performance on a regular basis. Set-up corrective action plans if needed with supplier and producers.
- Consider how to incentivize suppliers and producers that are performing well. This can be done by showing them loyalty through long-term contracts, by providing them supplier awards or compensations, by giving them preferred supplier status or by increasing their order volumes⁷.
- Help suppliers and producers to share the benefit of these awards with the workers.

6. Responsible Exit Strategy

- Only in extreme cases (e.g. failing to meet corrective action plan) an exit plan should be set-up and considered. Adopt a clear and moral method for phasing out suppliers who fail in meeting the standards of the banana supply chain.

⁶ Source: ETI Guide to Buying Responsibly

⁷ Source: ETI Guide to Buying Responsibly

Enabling conditions

Strategic

- Corporate alignment, supplier categorization and prioritization, and emphasis on partnerships with defined long-term goals to foster mutually beneficial relationships.
- Suppliers themselves need to strategically evaluate their producer base, similarly, categorizing their producers.

Tactical

- Supplier relationship management processes, and the ability to assess supplier performance for continuous improvement.
- For the banana supply chain, tactical aspects include suppliers' willingness to cooperate, and their ability to enhance the relationship by providing value beyond the product itself.

Operational

- Consistent communication, problem-solving abilities, and a collaborative and respectful culture.
- For the banana supply chain, this might require reliable operational processes fitting the client's needs, effective communication, adherence to schedules, compliance with standards, and swift problem resolution.

Additional information and case studies



Buyer-supplier code of conduct example: ETI guide to buying responsibly page 30 – 31:

https://www.ethicaltrade.org/sites/default/files/shared_resources/guide_to_buying_responsibly.pdf

This approach fosters stable, trustful sourcing relationships and supply stability.



5.2. Supplier / producer capacity building and training

Definition



Supplier / producer capacity building and training is all about equipping suppliers with the necessary skills and resources to meet quality, efficiency, and sustainability standards. In the context of promoting living wages, capacity building & training for suppliers can target increased understanding and practical application skills related to the living wage concept in general, benchmark methodologies, tools to measure wage gaps, as well as mechanisms to calculate, channel and distribute financial (voluntary) contributions. Training-of-Trainers concepts help to disseminate knowledge to upstream suppliers.

Practice combinations

Required:

- Living wage target and monitoring

Beneficial:

- All other practices under internal integration
- Long term and responsible contracts
- All practices under cost management
- Collective supply chain planning and forecasting
- Long term buyer investment



Business rationale

Investments in supplier or producer capacity building facilitates delivery on living wages targets. Well trained suppliers and producers on the topic of living wage or the use of living wage tools will lead to efficiencies like e.g. correct living wage gap calculations, which in the end benefit the implementation of other responsible procurement practices like e.g. the calculation of a fair price that takes into consideration the labour costs.

Despite initial training costs and decreased flexibility to switch suppliers, investments in supplier and producer capacity building can strengthen buyer relations, increase supply stability and help reaching living wage targets.

Step by step guidelines



1. Assessing capacity building needs

- Evaluate suppliers and producers' knowledge, skills and engagement level related sustainability targets such as living wages, e.g. as part of general supplier evaluation or through additional questionnaire.
- Engage with suppliers to discuss potential needs and benefits related to capacity building and trainings related to living wage for suppliers and producers.

2. Securing Funding and Resources

- Build a business case for investment in supplier and producer capacity building.
- Secure funding to support investment.
- Allocate training budget.

3. Develop Capacity Building and implementation

- Agree with suppliers on capacity building priorities based on needs assessment.
- Agree with suppliers on potential strategies to disseminate knowledge and skills to upstream producers, such as Training-of-Trainers concepts.
- Regarding living wages, check whether the IDH e-learning site can support suppliers and producers with their needs. Engage with internal or external training experts to develop training curriculum. IDH solutions can provide specific training services on living wages. Suppliers should be involved to ensure that content and training methods are practical and meet identified needs.
- Align with suppliers and producers on a clear action plan for the implementation of trainings with roles, responsibilities, timelines and targets / metrics to monitor effectiveness. In case suppliers are being trained as super users, discuss with them how they will disseminate the knowledge to producers.

4. Monitoring and evaluation of supplier and producer capacity building and training impact

- Monitor development of supplier's and producer knowledge and skills using questionnaires and interviews.
- Adapt capacity building strategies for continuous improvement.

Enabling conditions

Strategic

- Identifying suppliers and producers' development areas, allocating budgets, and communicating the benefits to the organization, which include supplier growth, risk reduction, and improved performance.
- In the banana supply chain, suppliers and producers should acknowledge the direct benefits of capacity building and training, like better labour conditions, better understanding of payroll and strengthened trade unions.
- Commitment of time, effort, and resources.

Tactical

- Clear framework for assessing suppliers, tracking their performance, customizing training modules, and collecting supplier feedback to monitor the training program's progress.
- In the banana supply chain, this tactical approach also requires the suppliers to effectively communicate their specific training needs to the procurement organization and cooperate during training implementation.

Operational

- Provide supplier and producer training, either via in- house or external resources, with the ability to transfer knowledge and guide suppliers through necessary operational changes effectively.
- In the banana supply chain, suppliers should not only be willing and able to incorporate new skills into daily operations, but they should also establish feedback mechanisms to the procurement organization.



Additional information and case studies

IDH e-learning site: <https://livingwagematrix.gitbook.io/salary-matrix-help-page>

Living wage course overview from SAI: <https://sa-intl.org/services/training/living-wage-training/>

Living Wage and Living Income training from Impact Buying:
<https://impactbuying.com/academy/living-wage-living-income-training/>

Investments in supplier or producer capacity building facilitates delivery on living wages targets. Well trained suppliers and producers on the topic of living wage or the use of living wage tools will lead to efficiencies like correct living wage calculations.



5.3. Collaborative product specification and quality management

Definition



Collaborative product specification and quality management related to the sourcing of bananas cover aspects such as size, ripeness, taste, appearance, packaging, and sustainability standards. This could potentially result in less waste and increased profit if a reliable volume forecast for special packaging is given or the fruit is purchased in a standardized way to allow for re-allocation in the market, which can in turn allow for fair wages.

Practice combinations

Required:

- Living wage target and monitoring

Beneficial:

- All other practices under internal integration
- Long term and responsible contracts
- Volume based off take agreements
- All practices under cost management
- Collective supply chain planning and forecasting
- Long term buyer investment



Business rationale

Collaborative product specifications and quality management ensure bananas meet required quality levels, consumer preferences, and regulatory standards. Consistent quality fosters customer loyalty, leading to repeat purchases and stable revenue. Clear specifications ensure consistency, reliability, and safety, benefiting both buyers and suppliers by setting clear expectations. Additionally, clear specifications reduce risks of recalls, returns, and negative customer feedback. More harmonized specifications throughout the sector especially related to packaging increase suppliers' flexibility and capability to distribute bananas according to the required ripening stage and customer preferences.

Step by step guidelines



1. Needs Assessment and Requirement Identification

- Conduct a thorough analysis of customer preferences, market trends, and regulatory requirements to identify product specifications and quality standards.
- Collaborate with cross-functional teams including marketing, sales, and operations to understand specific requirements and expectations for required banana categories.

2. Supplier Engagement and co-creation of Product Specifications

- Initiate dialogue with key suppliers through joint workshops or meetings to discuss product specifications based on agreed-upon parameters (such as size, colour, ripeness, and packaging) and quality management processes. Jointly explore barriers and opportunities of current product specifications to support sustainable farming practices including LW.
- Encourage open communication and collaboration with suppliers to share expertise, align on mutual objectives, and gather input to ensure specifications are feasible, realistic, and aligned with suppliers' capabilities and resources.
- Establish clear channels for ongoing communication and feedback exchange to facilitate continuous improvement and problem-solving.
- Document finalized product specifications in a comprehensive format accessible to both parties, ensuring clarity and consistency.

3. Quality Management Process Development

- Collaboratively design a quality management process outlining procedures for product inspection, testing, and evaluation.
- Define quality criteria and performance metrics to assess product freshness, appearance, taste, and safety.
- Define living wage criteria with a focus on transparency / traceability and living wage gap.
- Incorporate supplier input to establish checkpoints and corrective action protocols to address deviations from quality standards.

4. Implementation and Training

- Roll out the finalized product specifications and quality management process across relevant departments and supplier networks.
- To assess living wage criteria, calculate the living wage gap through tools like theSlary Matrix, and share the resulting report with information on the closure of the gap. Data should be audited.
- Provide training sessions or materials to suppliers and internal stakeholders to ensure understanding and compliance with the established protocols.
- Monitor the implementation progress and address any challenges or gaps through ongoing communication and support.

5. Performance Evaluation and Continuous Improvement

- Regularly review supplier performance on product specs and quality.
- Gather feedback from internal teams and suppliers for improvement.
- Collaborate on action plans to enhance product quality and customer satisfaction.

Enabling conditions

Strategic

- Clear long-term goals based on product specifications and quality.
- Understanding supplier capabilities and market norms.

Tactical

- Processes for setting and reviewing product specifications and quality measure are in place, including assessing supplier's ability to meet these criteria. Working towards more harmonized product specifications throughout the sector helps to increase flexibility in distributing bananas to various customers, thereby leveraging efficiencies with a positive impact on the payment of living wages.
- This requires robust coordination and communication within the supply chain to maintain consistent quality.

Operational

- Regular audits and verification for quality checks, contractual quality provision Implementation, problem resolution for non-compliant incidents, and providing feedback for continuous improvement.
- Compile and sharing tools like the Salary Matrix report to provide an understanding of the living wage gap is crucial. This should be accompanied by information on what actions have been taken to close the gap.



5.4. Collective supply chain planning and forecasting

Definition



Collective supply chain planning and forecasting in the banana industry is where farmers, exporters, importers, ripeners, and retailers work together to plan demand, coordinate production, and optimize distribution. They jointly plan for banana production changes due to weather, variations in market demand, and alterations in labour costs to safeguard workers' wages. Thus, whether labour costs increase, or market demand reduces, plans can be adjusted to ensure workers' fair wage. This not only stabilizes supply and secures living wage but also builds trust within the supply chain.

Practice combinations

Required:

- Living wage target and monitoring
- Long term and responsible contracts
- Volume based off take agreements

Beneficial:

- All practices under internal integration
- All practices under cost management



Business rationale

Initial investments in collective supply chain planning can result in long-term savings through waste reduction, optimized inventory, and increased efficiency. While it introduces risks related to data accuracy and information security, efficient management can mitigate these issues. This practice benefits businesses and suppliers and producers by enabling proactive problem-solving and fostering an agile response to change.

Step by step guidelines



1. Check, Build, Connect to Sales Annual Assortment Plans and Sales Forecast

Assess Sales Annual Assortment Plans:

- Review current and projected sales assortment plans specific to bananas to gauge consumer demand and market trends.
- Identify any disparities between sales forecasts for bananas and the available and forecasted inventory to guide procurement decisions effectively.
- Collaborate closely with sales and marketing teams to validate assumptions regarding banana sales projections and refine assortment plans accordingly.

Build Connection to Sales Forecast:

- Integrate banana sales forecasts seamlessly into the sourcing and procurement process to ensure alignment between purchasing decisions and anticipated demand.
- Establish robust communication channels with sales teams to receive regular updates on forecasted banana sales volumes and any specific product requirements.
- Leverage historical banana sales data and market insights to validate sales forecasts and tailor procurement strategies accordingly.

2. Integration of Long-Term (LT) and Annual Sales Plans into Category Sourcing Strategy

- Incorporate LT and Annual Sales Plans - Analyse long-term and annual sales plans for bananas to identify sourcing opportunities and challenges within the banana category.
- Align category sourcing strategies for bananas with sales objectives, taking into account factors such as banana lifecycle, seasonal demand fluctuations, and market dynamics.
- Develop sourcing strategies for bananas that support sales growth targets while prioritizing cost-efficiency and nurturing positive supplier relationships, with a commitment to upholding living wage principles.

3. Inclusion of Volume Plans into Agreements with Suppliers

- Discuss volume Plans with Suppliers - Collaborate closely with banana suppliers to establish volume commitments based on sales forecasts and inventory requirements.
- Incorporate volume plans into supplier agreements for bananas, detailing quantities, delivery schedules, pricing terms, and adherence to living wage requirements.
- Create a mutual understanding between the retailer and banana suppliers regarding volume expectations and contractual obligations, with a shared commitment to social responsibility.

4. Gathering of Mid and Short-Term Forecasts from Sales

- Collect Mid and Short-Term Forecasts - Engage sales teams to provide mid and short-term sales forecasts for bananas, considering factors such as promotions, seasonal variations, and market trends.
- Utilize advanced forecasting tools and methodologies to aggregate and analyse mid and short-term sales projections for bananas across various time horizons.
- Regularly update procurement plans based on the latest mid and short-term sales forecasts for bananas to optimize inventory management and enhance collaboration with suppliers.

5. Informing Suppliers: Annual, Quarterly, and Monthly Orders

- Communicate Order Information to Suppliers - Establish clear and efficient communication protocols for transmitting annual, quarterly, monthly and weekly (as most applicable) purchase orders for bananas to suppliers, facilitating smooth and timely fulfilment.
- Provide banana suppliers with detailed order specifications, including quantities, delivery dates, and shipping instructions, to minimize disruptions in the banana supply chain.
- Confirm receipt of orders promptly and address any discrepancies or changes in banana orders proactively to maintain strong relationships with suppliers.

6. Implementation of Feedback Loop from Suppliers

- Establish Feedback Mechanisms - Actively seek feedback from banana suppliers on an annual, quarterly, monthly and weekly basis regarding order accuracy, lead times, and inventory levels, fostering a culture of continuous improvement and collaboration.
- Integrate valuable supplier feedback into procurement planning processes for bananas to enhance forecasting accuracy, optimize supply chain efficiency.
- Maintain open and transparent communication channels with banana suppliers, facilitating constructive dialogue and mutual support in addressing challenges.

7. Building and Monitoring Combined Dashboards

- Develop Combined Dashboards - Consolidate key performance indicators (KPIs) related to banana sales forecasts, purchasing plans, supplier performance, and inventory levels into unified dashboards, promoting transparency and data-driven decision-making.
- Customize dashboards to provide actionable insights and facilitate collaboration between internal stakeholders and external partners in optimizing banana supply chain operations.
- Ensure accessibility and usability of dashboards across relevant departments and functions, empowering stakeholders to monitor performance effectively and drive continuous improvement initiatives in the banana supply chain.

8. Making Dashboards Available to Buyers and Sellers

- Distribute Dashboards to Stakeholders – Provide buyers and sellers involved in the banana supply chain with access to dashboards containing relevant information and analytics to support their respective roles and responsibilities effectively.
- Conduct comprehensive training sessions or workshops to familiarize stakeholders with dashboard functionalities and enable them to interpret key metrics accurately, fostering informed decision-making and collaboration.
- Encourage regular usage of dashboards as a decision support tool among buyers and sellers to optimize banana supply chain performance, enhance transparency.

Enabling conditions

Strategic

- Efficient forecast review protocols.

Tactical

- Effective supplier collaboration, strong partnerships, trust.
- A robust planning, and forecasting infrastructure and system that can swiftly respond to forecast changes and provide supply conditions updates.
- Ability to conduct quick adjustments to supply-demand shifts.
- Advanced data analysis capabilities.

Operational

- Efficient supply chain management, which requires real-time data exchange, quick adjustments to supply-demand changes.
- Quick communication of supply changes, and efficient operations to uphold product quality and meet projected volumes.
- Suppliers should ensure efficient operations to maintain quality while adhering to projected volumes, ensuring a smooth flow in the supply chain.

C. Annex

1. List of practices indicated as important by stakeholder group following the consultations:

Purchasing practice	Producer Association	Producer	Exporter	Retailer	EY
Long-term contracts	X	X	X	X	X
Volume based off-take agreements		X	X	X	
2-way code of conduct					
Inclusive supplier selection and qualification methodology					X
Consultation with growers and producers	X	X		X	X
Compensation for marketing support	X	X			
Consult and actively include trade unions	X	X		X	
Open / transparent costing approach		X	X	X	X
Adopting voluntary contributions				X	
Ring-fencing labour costs	X	X			X
Year on year living wage increase integrating in price					
LW certification schemes (FT)	X	X	X	X	X
Partial Payment & milestones payment					X
Direct cash incentives		X		X	
Pre-finance purchases		X	X		X
Short and timely payments	X	X	X	X	X
Limited number of suppliers				X	X
Demand and specification management	X	X	X		
Collective volume forecasting & planning		X	X	X	X
Third party grievance mechanisms					
Create consortium per supply chain					X
Backward integration					X
Integrated sustainable sourcing strategy		X	X	X	X
Living wage targets and monitoring	X	X	X	X	X
Buyer sustainability incentives	X	X	X	X	X
Buyer sustainability KPI's, roles & responsibility		X		X	X
Supplier sustainability and living wage audits (contribution)		X		X	X
Sustainability sourcing policies		X		X	X

Green: integrated in final list as separate practice **Yellow:** integrated in other practices **Red:** not integrated

2. Number of stakeholders consulted:

Type of stakeholder	Number
Retailer	6
Exporter / trader	3
Trader / producer	2
Producer	3
Producer association	3
Other organization (standard, NGO)	2

Next to individual consultations, two retailer workshops were organized as well as two World Banana Meetings.



On behalf of



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