Module 6: From transactional relationships between global brands and suppliers to partnerships

Introduction
This module on partnership business models to improve labor rights issues in supply chains is a valuable resource for faculty and lecturers interested in enhancing their syllabi with this information. This module is useful for those at the Haas Business School.

Learning objective
To understand how a shift from a transactional business model to a partnership model between retailers and suppliers can improve labor rights issues in global supply chains.

Speaker video
(21.32 minutes video clip)

Speaker Bio: Dorothée Baumann-Pauly, Director of the Geneva Center for Business and Human Rights,

Dorothée Baumann-Pauly is the Director of the Geneva Center for Business and Human Rights, launched in 2019 by the (UniGE). Since 2013, she is also the Research Director at the NYU Stern Center for Business and Human Rights.

As a business ethics scholar with extensive practical experience working on the implementation of human rights in multi-stakeholder settings, Dorothée Baumann-Pauly has published widely on topics at the intersection of business ethics, corporate responsibility, private governance mechanisms and human rights. For the last ten years, she has been teaching business and human rights related classes at academic institutions in the US and Europe including the new semester course in Business and Human Rights, part of the Bachelor in Economics and Management programme in GSEM, UNIGE.

Readings
- Dorothée Baumann-Pauly, Lorenzo Massa, & Natasja Sheriff (2020), “Manufacturing in Ethiopia: Decathlon’s Partnership Model” (Teaching Case Study)

Possible assignments
- *(Class discussion- 20 minutes):* What are some of the advantages of a partnership model for corporations? For supplier? For workers? What are some of the disadvantages? What are the challenges for global retailers who are trying to making this shift?
Key teaching points

- **Transactional business model:** The most dominant business model is a transactional business model where brands put out a request for an order and sometimes, through an online auction, the order goes to the lowest bidder or an agent in New York who figures out where to place the order. The factory where the goods are produced, is not even considered to be a unit of analysis.
- For example, a company like Walmart operates like this, and only deals with a person in New York, but never deals with the hundreds of production sites around the world where the production of their goods actually takes place. This indirect sourcing model, of course, has less transparency and fewer opportunities for oversight from brands.
- This so called transactional business model, from which I think more and more brands are sort of moving away from because it’s really not beneficial in terms of oversight and not beneficial in terms of even the bottom line.

- **Advantages of strategic partnership model:** More and more companies are thinking about transitioning to the strategic partnership model, not because it's morally the right thing to do, but because there are also good business reasons for doing so.
- Good business reasons include a growing interest of investors and consumers in respect for human rights. Human rights has become one criteria, in addition price and lead time.
- Companies are rethinking the way they structure their supply chains again, not for human rights reasons alone, but they also learned during the pandemic that if you have good supplier relationships and they communicate frequently with their suppliers, they can weather the storm together and figure out how to adjust more flexibly.
- For the supplier, this model is hugely beneficial because longer term commitments come with better planning stability and the factories knows roughly what the brand will want in the next six months.
- They can better plan out their own production process, and that is hugely beneficial for reducing, for example, excessive over time.
- When workers have to work excessive overtime, the risk of accidents go up as does verbal and physical harassment and violence.
- Also, in order to meet production targets will be forced to use subcontractors. As you create additional layers in a supply chain, the margins get thinner and thinner and thinner with each layer and the one flexible cost component in the apparel supply chain, our workers.

- **Example of Decathlon:** this company is an example of a retailer where 80% of the products they are producing come from strategic partners and many of their suppliers have been their business partners for many years, some of them over 20 years, so they have really close ties to some of those suppliers
- Decathlon has from the outset made a long term commitment to sourcing from the few suppliers in Ethiopia who they work with and that longer term perspective has
made a huge difference. They created business plans with those suppliers that last that go on for at least five years.

• A problem in Ethiopia has been that workers leave after one year, which means that once you train them, you lose the investment you have put into training

• Decathlon managed to bring down the high turnover rates and to make the investment in training more worthwhile by understanding workers better and their incentive structures

• For example, they created a loyalty bonus, so if you stayed longer than six months, you earned a little bit more, and if you participated in trainings or extra trainings you earned a bit more

• Decathlon requested easier styles in the first three to five months and then slowly increased the skill level required for production so workers were really able to learn and develop their skills.

• There was an understanding that Decathlon and their suppliers want to grow together and it’s not like the old model where suppliers are simply told what to do and left to figure it out.

• Now they will build out their business together and that, of course, is a very different understanding of a business relationship versus sending an order and saying deliver on time, otherwise you'll be fined and here’s the price that we are willing to pay

• **Challenges of the partnership model:** Some suppliers don’t want to find themselves working closely with Decathlon for multiple years. Maybe they think they can make better business if they produce for 10 different brands, despite the insecurity that it brings

• If you engage in the strategic partnership model, typically more than 50 or 60% of your production capacities are sort of reserved for that buyer, so become the dominant buyer in the factory with Decathlon staff coming in and out of the factory

• Some suppliers just don’t want this intervention intrusion and the long-term commitment

• A relationship with a new supplier often takes two or three years of just talking to figure out if they fit together