

COMMITMENT TO LIVING WAGES

In May 2018 we became a proud member of Action Collaboration Transformation (ACT). ACT is a ground-breaking initiative, bringing together Global Brands and IndustriALL Global Union to develop innovative strategies needed to bring about the successful transition from minimum wages to living wages.

WHAT IS A LIVING WAGE?

A living wage is the minimum income necessary for a worker to meet the basic needs of himself/herself and his/her family, including some discretionary income. This should be earned during legal working hour limits (i.e. without overtime).

SO, WHAT'S THE DEFINITION OF 'MINIMUM WAGE'?

Minimum wages have been defined as “the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract”.

WHY CAN'T YOU JUST PAY MORE?

Unfortunately paying higher prices to suppliers for product will not guarantee that workers will receive a higher wage. We believe that meaningful and sustainable increases to wages for workers can only be achieved through collaborative agreements between employee representatives, employers and Government representatives.

We know we have a responsibility to be part of the solution however we need to collaborate with other brands, to work with employers, workers and governments who ultimately determine wages and conditions for factory workers. Negotiations that impact at an industry level will have a far-reaching effect on creating sustainable wage growth for workers. We're committed to working with fellow signatories of ACT, towards the establishment of industry-wide collective bargaining to create positive change to the way wages and working conditions are set.

The members of ACT are actively seeking to create long-term solutions to foster positive change to the way wages and working conditions are set. Importantly, we have committed to improving broad purchasing practices.

Purchasing Practices are the ways in which we interact with suppliers and factories when sourcing and buying products. For our suppliers and factories, responsible purchasing practices can increase stability, leading to productivity gains, sustainable growth and building strong relationships. They also can improve their ability to meet sustainability and ethical requirements. For workers in our supply chain, responsible purchasing practices can help create an environment that enables improvement in working conditions and wages.

ACT Global Purchasing Practices Commitments

- 1. Brands commit that purchasing prices include negotiated wages as itemised costs
 - 2. Brands commit to fair terms of payments
 - 3. Brands commit to better planning and forecasting
 - 4. Brands commit to undertake training on responsible sourcing and buying
 - 5. Brands commit to practice responsible exit Strategies
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HOW DOES COTTON ON GROUP ENSURE THAT GARMENT WORKERS ARE PAID AT LEAST THE MINIMUM WAGES AND BENEFITS THAT THEY ARE ENTITLED TO?

As outlined in our 14 Rules to Trade, suppliers and factories must ensure that wages paid for a working week must be at least the minimum national standard or collective bargaining agreement. Suppliers and factories must be on the journey towards payment of living wages, where wages are enough to meet an employee's basic needs and provide some discretionary income.

We set clear expectations through our 14 Rules to Trade that all workers in our supply chain must be paid as per the legal minimum wage requirements. As part of the Ethical Sourcing Audit process, a full assessment of the wages paid by the factory is conducted to ensure the factory is meeting its obligations to pay workers correctly.

Where we find an issue, we:

- Set clear corrective action plans with factory management to remediate
- Undertake training with management to ensure understanding of requirements
- Conduct training with workers to ensure rights and entitlements are understood
- Ensure factory managers implement management systems to uphold their legal obligations
- Set follow-up dates (for both training and re-audit)

We have set the incorrect payment of minimum wages as a Zero Tolerance finding and our program in place ensures that our suppliers are supported to make positive changes to close breaches. We will always work with a factory to resolve Zero Tolerance findings instead of ceasing relationships with our suppliers immediately, as this places the worker at risk of not having the wage breach rectified. At the heart of the program is a worker focussed program which aims to protect the worker. Whilst we have made decisions to cease relationships with non-compliant suppliers, this move is a last resort. Our approach is to collaborate with our suppliers by educating them on the need to ensure workers are paid correctly.

This is how we're tackling each of those commitments:

Itemised labour costs

Over the next 12 months, we will participate in the upcoming 2023 ACT Purchasing Practices Surveys to identify improvements in responsible purchasing and sourcing practices. We will partner with fellow ACT signatories and our suppliers to understand where the gaps between minimum wage and living wage levels are, and identify the requirements needed to implement changes to our current costing model to itemise labour costs.

Fair terms of payments

We operate a Supply Chain Finance Program in partnership with HSBC, which enables our suppliers access to invoiced amounts within 10 days of shipment. Today, 60% of our suppliers are registered in this program. To ensure it has maximum impact, we offer this program to our largest suppliers first and then filter down the list as availability is based on space. Other inventory purchases are based on fair terms of payment that range from 30 to 90 days which are agreed between both parties upon execution of the Supplier Agreement.

Planning and forecasting

We work together with our key suppliers to develop annual plans around production planning, capacity forecasting and scheduling. Engaging with our suppliers quarterly on these plans allows us to constantly improve our accuracy and make sure our suppliers can maximise their capacity and efficiencies. We have developed a scorecard system which allows us to grade suppliers based on the following key performance metrics: quality, on-time delivery, agility, product innovation, price, logistics and social and environmental sustainability. We hold annual scorecard workshops with our suppliers, providing the opportunity to share areas of improvement, develop action plans and align on growth strategies.

Training

In 2019, we conducted internal training of the ACT approach with more than 270 team members to assess our purchasing practices, benchmark to best practices and identify priorities for improved operations within our business. In March 2021, the ACT brand members successfully rolled out the ACT Purchasing Practices Surveys to their suppliers and their own employees. With responses from 1,831 brand employees and 1,338 individual suppliers, the ACT Purchasing Practices Surveys 2021 are the largest surveys ever undertaken of both suppliers and brand employees on purchasing practices. Our results show a pattern similar to the overall ACT results, with price quotations, forecasting and planning being given the most importance.

Responsible exit strategies

Our exit strategy is aligned with the ACT Responsible Exit Policy and Checklist. Ultimately, this program is worker-focused, puts their wellbeing front and centre, and ensures workers are paid correctly.

We have set the target for the end of 2023 to embed the ACT Purchasing Practices Commitments into our operations. Although there is currently no global solution to the challenge of realising living wages for all, we are working to develop the tools and support necessary for the successful transition from minimum wages to living wages. Delivering on this will create the conditions necessary to successfully support the negotiation of collective bargaining agreements and secure living wages.

Learn more about ACT here <https://actonlivingwages.com>
