



Stewardship 360: Impacting franchise value - Human rights & employment practices in the Apparel sector

This Investor Forum Stewardship 360 project is focusing on human rights and employment practices within apparel companies and their supply chains. The objective is for investors to gain insights into the:

- scale of any illegal behaviour and potential risk to companies;
- steps taken by companies to manage and protect their reputation and brands;
- standards and practices employed by companies; and
- culture and Board oversight that might give confidence that risks are understood and appropriately managed.

Notes from the Distribution Centre visits (28th & 29th June 2017)

This paper, for participants of the trip only, summarises the distribution centre visits of 28th/29th June, following an initial workshop on 28th April and a London-based research day on 12th June.

We include brief notes on the four apparel companies met (ASOS, boohoo, JD Sports and N Brown), together with company comments mapped to our framework for the project, and hyperlinks to company material for additional reading.

In Appendix 2, we have suggested some company-specific focus areas that might be included in a letter that the Forum sends the company, based on the feedback currently received from the group. We look forward to discussing these actions further with participants in due course.

The next steps will be to:

- Summarise the issues arising when investors consider the working practices of the companies in which they invest;
- Propose a check list for due diligence, and share with companies the framework that might be used to assess practice;
- Write to each company who participated in the project to provide a summary of investor thoughts and expectations;
- Publish investor expectations more widely.

ASOS distribution centre, Barnsley



Location: XPO Logistics Centre, Park Spring Road, Grimethorpe, Barnsley
Date: 28th June 2017
Meeting attendees:
Gary Beveridge - Director of Supply Chain Development
Ken Perritt - Supply Chain Account Director, XPOLogistics
Alexandra Starkey - IR Manager

Note this follows a company meeting on 12th June that focused on the supply chain.

Notes:

XPO took over the logistics contract at the Barnsley site from Unipart in 2013, and have recently renewed. ASOS and XPO both claim a strong alignment of values. Other sites (Ohio, Selby, Berlin, Poland and Sydney) are run by different third party logistics providers. The Berlin site was opened in 2017 to be closer to European customers.

Since 2014, the Barnsley site has been steadily automated, and they continue to add to this. With the automation, headcount hasn't grown, as the building has a physical capacity of people, but they are becoming more efficient. Much work has been done on process flows, which resulted in the pick walk being reduced from 10 miles to 4, and units picked per hour increasing from 60 to 160. There has recently been a £30m investment in facilities, including £80,000 in a staff restaurant.

In peak times, there can be 4,300 people employed, falling to 3,500 at normal times. 65% of warehouse employees are male, typically in the 25 – 35 year old range. ASOS aim to be the employer of choice in the region. There are three shifts, with equal numbers, as the UK team handles international dispatch. All employees have two consecutive days off, and are rewarded for working nights. There is 2% staff attrition per month.

RNP and Staffline are the preferred labour supply agencies. XPO used Transline, but what the agency have been criticised for elsewhere, they did not do at this site. 60% of senior appointments at the DC are promotions for internal candidates.

The split between agency and core staff is 30/70, but driven by volumes, and workers have pay parity. Neither ASOS or XPO use zero hour contracts ("not right for our business"), and have a programme to take on their temporary workers on full contracts after 12 weeks work.

Since Jan 17 the XPO workers are Community Union recognised, though there has been some [controversy](#) around this. With only 30,000 members Community is a relatively small union by comparison to the 630,000 strong GMB. XPO offers a graduate scheme

Global standards

- UN Global Compact signatories since 2012, and part of the industry ACT (Action, Collaboration, Transformation) initiative on Living wages.
- The company was very clear that some challenges require a sector level response.

Risk awareness

- Strategic priorities: Transparency, gender equality, modern slavery, child labour.

- Their biggest challenge is around their third party brands, of which there are over 850 on their site. A team has recently been set up to help these companies, as ASOS have leverage to increase the pace of change and share best practice. The team is currently developing and testing a methodology for brand assessment. Ultimately, if a brand cannot come on a journey to improvement, it would have to be removed from the platform.

[Modern Slavery statement](#) - commended by ILO and BHRC. Signed by CEO.

Focus

- ASOS has a non-stock supplier integrity group, chaired by their CFO.
- They published a [Performance and Commitments](#) factsheet showing the areas of focus for the coming period.

Governance

- The strategic priorities are agreed at plc level, and the Board receives a report on progress.
- ASOS do have a whistleblowing process, but it is not global, and they are concerned that in some circumstances, using it can lead to the worker in a third party factory being sacked. ASOS prefer talking to trade unions to find a global framework. They also have 'We're Listening', a confidential, independent helpline for employees.

Communication

- The [statement](#) in response to allegations in the media was fairly detailed.
- Published a factory list for the first time ever at the end of March; now published every month. This shows gender split, including by factory. There is a commitment on deeper mapping through tier levels over time.
- In August 2016, ASOS was named the UK's most reputable fashion retailer, according to RepTrak.

Boohoo.com plc

Location: Heasandford Industrial Estate, Widow Hill Rd, Burnley BB10 2BQ
Date: 29th June 2017
Meeting attendees:
Peter Williams - Chairman
Neil Catto - CFO
Tony Burley - Logistics Director
Scott Carter - Operations Manager
Clara Melia - Equitory, Investor Relations

Notes:

50% of their suppliers are based in the UK (mainly Leicester), and this is likely to rise over time. Their Ethical Trade policy is based on ETI base code.

The existing warehouse was manual, and labour-heavy. They are currently building a "super site" which will be fully automated, plus a new warehouse on adjacent land to Burnley site, adding 1m sq ft. The new automation will reduce the need for labour, so will be better positioned, post Brexit. They are building a 24 hour subsidised canteen, gym and leisure facilities.

Boohoo have 1,000 styles on their website in any given week. They order shallow product quantities on a "test and repeat" basis, with styles living from 3mths to a few years. They do pay more for small volume orders, but don't have to mark down, so are able to keep margins higher. They have 400 suppliers, and can re-order in 8-14 days. 80% of their orders are for next day delivery, which usually incurs a £4.99 cost. Delivery is through a number of couriers.

They aim for a 70:30 permanent: temp ratio outside of peak times, and have pay parity between temp and full time, and also between ages. Staffline is the main agent, who brought some workers onto boohoo contracts when previous agency went out of business. Staffline recruit on their behalf in EU, and giving advances to bring people across. *[Have asked company for confirmation – Staffline say they give a £100 recruitment 'gift', but would not offer wage advances.]*

There are no zero hours contracts, and HR monitor the maximum hours worked. They pay 1.5x overtime at peak. Pickers walk is typically 7km in a 12 hour shift. Staff get a 40% discount, and, given the low value of the items sold, they do not have a problem with theft. Security, therefore, is lighter than many of their competitors.

An Employee Forum has been created to address concerns – they are focused on "keeping the unions away". This Forum helped redesign the pick trolleys to make them more user friendly.

Following the Dispatches programmes in January, they released a [prompt media statement](#), and invited the local MP and council in to inspect the conditions. Tailored Recruitment Services Ltd, the agency they say were responsible for the policies that were criticised, wound up in April 2017, and Staffline took on their contracts and people.

Regarding the supply chain issue raised in the Dispatches programme, boohoo say the garment was supplied by an approved audited supplier, and they had been told that all of the work on boohoo products was carried out in its own factory. Boohoo was

therefore unaware that United Creations had been used for any part of the manufacturing process.

The increase in automation will significantly increase the site's energy usage. They have considered putting solar panels on the roof of the new warehouse but this has not yet been approved by the board,

Global standards -

- Not UNGC signatories. Member of SEDEX, all suppliers undertake a SMETA audit.
- Ethical Trade policy based on ETI base code.

Risk awareness

- From the risk section of Annual report "Adverse customer experience through poor product quality, product recall due to faulty manufacture or use of illegal substances in manufacture, labour abuses or environmental damage by third party suppliers could lead to reputational damage and customer boycott of the brand."

Modern Slavery statement – None currently published. Deadline is August

Focus

- There is no statement regarding any CSR or ethical trade committee.

Governance

- There is no statement regarding any CSR or ethical trade committee.

Communication

- The company does not publish its list of suppliers.

JD Sports plc

Location: Kingsway Business Park, Rochdale, Lancashire, OL16 4FW
Date: 28th June 2017
Meeting attendees:
Brian Small - CFO
Pat Lee - Supply Chain Director

Notes:

JD's CFO claimed that the distribution centre meeting focusing on working practices was the first they had done in 13 years.

The company is 57% owned by Pentland, who ultimately oversee the CFO and practices, and encourages vigilance in the supply chain. Andy Rubin, son of the Pentland founder, is on their Board.

The Rochdale centre supports 1,000 stores. As a result of the range of equipment, there is a lot of non-standardised items coming through the system, which requires different planning to simple clothing companies. The inbound area is still very manual.

Internal infrastructure works commenced in January 2017 to expand the existing facility and install new mezzanine floors, whilst construction work on a 352,000 sqft. footprint extension commenced in March 2017. This facility will be available for full use in 2019, and will be the "warehouse of the future". Any physical changes happen in the first 9 months of any given year, to avoid having any impact on the peak period. Investment in automation typically pays back within 18 months. For example, the Rotapick machines reduce the cost per pick to 0.8p, compared to 6.8p. JD's supply chain director stated that it is now easier to justify the capex to the board due to the increase in the minimum wage and increase in costs associated with employing people.

The mix of required labour has moved to higher skilled supervisor/management or engineer roles, so they claim to be investing in up-skilling people.

Following the broadcast of the Channel Four program, they were "devastated and hurt". The non-execs insisted on an independent review, and appointed Deloitte. With more time, the CFO felt that a proper process could have been run around this to get a better outcome, but speed was of the essence. The conclusion of the review was that the programme did not show a balanced representation. However, some lessons were learnt, including the softening of the security features, balanced against the need to protect their high value and highly saleable stock. The head of security now reports to the Supply Chain Director, making them more part of the operational team, and less of a police force. Communication was also changed to be more consistent and effective, in an appropriate tone. The Supply Chain Director has started 15 minute site surgeries to hear concerns. In a recent survey, 90% of their workforce said that it is a good place to work, and were, management claims, equally aggrieved by what was portrayed on the programme.

They are the largest employer in Rochdale and have various programmes in place with local schools. There is no union on site, but they have an active staff forum. Local benchmarking resulted in a pay increase, which in turn resulted in an increase in staff satisfaction levels. The company is not living wage accredited. The company uses an ACAS whistleblowing helpline.

The labour agents now used are Single Resource and Assist Resource, given that TRS went bust. 30% of temporary workers become full time. They use Swedish Derogation to get round the working hours issue, but claim to never send staff home and to pay fairly.

The demographics of the DC workforce is 70% male, with the largest group being under 25 years old, and 7% Polish.

They are part of the Stronger Together programme, and believe that they have no problems with exploitation.

Kingsway is a nil waste to landfill site. As an example of meeting this, they changed the plastic wraps on delivery crates to be glued, rather than using metal tips, so could be recycled.

The first accounts of the JD Sports Foundation will be published shortly. It raised £1m in 2017 to support Mountain Rescue and youth charities.

Global standards -

- Endorses the UNUDHR and ILO Declaration. Not signed up to UN Global Compact, though Pentland is. Given 90% of what they sell is branded merchandise, they do rely on external pressure on these companies.
- Won't join ETI, as refuse to pay based on turnover, given above. However, has standards and code of conduct based on ETI principles.

Risk awareness

- JD has mapped and monitored all of its first tier suppliers during 2015 and 2016 to ensure full visibility of its supply base. JD takes steps to ensure the due diligence of its suppliers and to avoid subcontracting to unauthorised units. Un-disclosed subcontracting is expressly prohibited and would be considered a breach of their Code of Conduct and Terms and Conditions of Supply.
- Supply chain compliance is managed centrally and training of this team and those working in the procurement of orders are involved in an established sourcing strategy to maintain and manage control of a diverse supply base.
- 90% of second tier suppliers have been defined and mapped during the first part of 2017. 68% of the group's suppliers have been audited by a third party.

[Modern Slavery statement](#) – Draft shared with group. Published July 2017. Signed by CFO.

Focus

- No working group specifically looking at Modern Slavery.
- Have a "sourcing quality and ethics" team with operational responsibility for implementing it.

Governance

- The CFO is on site in Rochdale at least once per month, and other Board members annually (if that).

Communication

- The company gave us a copy of its Corporate and Social Responsibility statement, and Code of Conducts but these are not currently available on its website.

N Brown plc

Location: Lilac & Briar Mills - Beal Lane, Shaw, Oldham, OL2 8PJ

Date: 28th June 2017

Meeting attendees:

- Angela Spindler – CEO
- Craig Lovelace - CFO
- Anne Iceton - Interim HR Director
- Theresa Casey - Company Secretary
- Ian Carr - Logistics Director

Notes:

The DC is on a 120-year-old mill site. They are constructing the Alliance building to give them a step up in capacity and support the growth, modernising and making the company fit for the future.

The transformation from catalogue to online is now complete. The percent of the marketing budget spent on paper has fallen from 70% to 30%; 450 people have left, and 300 differently skilled people joined. The change programme has been inspired by the “Our iceberg is melting” book. The company has also undergone a lot of change and refreshment in the plc and operating board. The financial services business is now FCA approved and regulated.

The new sourcing function has meant that they can get items reordered and delivered within 7 days, compared to 16 weeks previously. 30% of their orders are for next day delivery.

The supply chain has been reduced, and a new ethical trading team in place, which looks at compliance with international standards. They have an office in Bangladesh, and are Accord signatories. They are looking at innovation in the supply chain, including 3D technology to look at fit, which will cut the cost of sampling. They are looking to increase the 10% currently sourced from the UK and source closer to home to address customer demand. As with all fashion companies, they have moved to 6 mini-seasons. Customer satisfaction rating is second only to Amazon in the UK.

Given the close proximity to competitors in Shaw, they seek to be the “employer of choice” in the area. They have a pension scheme and good benefits, and have committed to pay the living wage. They have had apprenticeships for 10 years, but the new levy opens up more opportunity. They have 7.7% staff turnover, with an average tenure of 7 years. The logistics director had worked at the company for 32 years. Their heritage, culture and long history are significant advantages. As a result of focusing on continual improvement, N Brown’s process consistently benchmark amongst the best of all the local DCs.

Staffline have been their long-term labour supply partner. They don’t need to have zero hour contracts. They allow staff to be part of Usdaw (Union of Shop, Distributive and Allied Workers), the UK’s fourth biggest trade union with nearly 430,000 members, and have had no union trouble for many years, and view it as a good working relationship.

NBrown is a zero waste to landfill organisation, and purchase 100% green electricity for UK sites, supporting renewable sources. They voluntarily report to both the CDP and the Forestry Disclosure Project (FDP), where their score is A-, in the 'leadership' category.

The company have a Gatekeeper process which seeks to eliminate any risk factories prior to working with them when setting up new suppliers. In cases where they have already opened an account and the annual audit has failed, they work through the issues with the factory and support the remediation of the corrective action plan, which includes visiting where possible and gathering the evidence required to close the actions.

They currently have an example with an Indian supplier who is suspended (no orders placed). Case study received from company:

"Steps taken were:

- Compliance manager visited February 2017 and was unhappy with the conditions - clear guidance and deadlines were given to improve. This include: clearing blocked fire exits, removing bolts from fire doors, improving electrical wiring especially on the band saw where there was risk of serious injury, and action to resolve the conditions for outworkers who were found working on the floor with no space for safe exit and did not appear to have sufficient space.
- We received some evidence and allowed a further order with the proviso that business would again be suspended unless:
 - A new 3rd party audit was received (booked 9th May)
 - Above audit was satisfactory.
- We did not receive the audit despite chasing a number of times therefore on 2nd June we advised the supplier that no further business would be placed until the report was received and reviewed by CSR team. To date (6th July 17) nothing has been received."

Global standards -

- UN Global Compact signatories since 2014. Founding members of ACT. Founding member of Accord, and have own compliance manager in Dhaka. Members of ETI.

Risk awareness

- By the end of the year, they intend to have conducted a root and branch review of the existing supply chain ensuring compliance at 100% of direct supply sites and 80% of sites contracted with via third parties including agents and importers.

[Modern Slavery statement](#) - Signed by CEO.

Focus

- Responsibility for Modern Slavery statement implementation lies with CEO.

Governance

- Has a CSR committee headed by Fiona Laird. Recently commenced new three year strategy focusing on people, planet, product.
- Recently instigated a new ethical trading team.

Communication

- NBrown is not covered in any external benchmarks.
- The company does not publish its list of suppliers.

Appendix 1
DRAFT Summary of project metrics



THE INVESTOR FORUM

Does the company...	ASOS	boohoo	JD Sports	N Brown	Marks & Spencer
Use zero hour contracts?	No	No	No	No	?
Offer pay parity between agency and directly employed staff?	Yes	Yes	?	?	Yes
Disclose the ratio of agency and directly employed staff at normal times?	30:70	30:70	20:80	?	?
Disclose staff turnover at the DC?	24%	?	?	7.7%	?
Offer pay parity between all age groups?	?	Yes	?	?	?
Has active unions on its DCs?	Yes - Community Union	No	No	Yes - USDAW	No
Use zero hour contracts?	No	No	No	No	?
Take part of the Fast Forward initiative?	Yes	No	No	?	Yes
Committed to be a UK Living Wage employer?	Yes	No	No	No	No
Disclose its suppliers?	Yes	No	No	No	Yes
Sign the UN Global Compact?	Yes	No	Yes (through Pentland)	Yes	Yes
Participate in "ACT"?	Yes	No	Yes (through Pentland)	Yes	No
Support the Accord in Bangladesh?	No	No	No	Yes	Yes

1. Follow-up actions

The objective of the trip was to get practical insights into the working practices at UK distribution centres of a number of listed companies, and allows investors to consider any risks to their investment thesis.

Company-specific follow up action are suggested below, based on feedback received from participants to date.

ASOS

- More transparency into the division of responsibilities between ASOS and XPO in terms of human resource management.

Boohoo

- Highlight best practice Modern Slavery Statement to the company as they approach the deadline to sign off their own.
- Clarify agency behaviour in the recruitment of Eastern European workers with regard to paying an advance of wages.
- Encourage company to join Fast Forward initiative, given importance to UK supply chain.
- Encourage increased disclosure in supply chain.

JD Sports

- Encourage company to develop own policies independent from Pentland umbrella.

N Brown

- No immediate company-specific actions identified, given positive meeting.

2. Industry wide initiatives

Industry-wide actions, such as encouraging supplier transparency, increasing oversight of labour agencies within overseas supply chains, and setting minimum disclosure standards, will be considered in due course.

We would aim to compliment and build on the work done through existing initiatives in this area, such as the Fashion Transparency Index, the Shareaction Workforce Disclosure Initiative, and anything coming out of the Taylor Review into the modern workforce.