



STRENGTHENING SUPPLIER RESILIENCE THROUGH SECONDARY BENEFITS PROGRAMS

A Look at Organic Cotton and Alpaca Textiles Supply Chains in Peru

APRIL 2016



I-DEV INTERNATIONAL
Unlocking Business Potential in Frontier Markets

EILEEN FISHER

Eileen Fisher is a leading global sustainable apparel brand with more than 50 retail stores across the US, Canada, and the UK. Dedicated to embracing simplicity, sustainability, and great design, Eileen Fisher has been investing in an alternative fair trade supply chain in Peru since 2007, and plans to source 100% organic cotton by 2020.



INDIGENOUS

ORGANIC + FAIR TRADE FASHION

Founded in 1994, Indigenous Designs (ID) is a leader in fair trade and organic clothing. ID has built a scalable supplier network that supports thousands of artisans in emerging markets and integrates fair labor practices in every step of the supply chain. ID uses all organic cotton and natural fibers, promoting a commitment to responsible actions by consumers and business alike.



I-DEV INTERNATIONAL

I-DEV International is a management strategy and investment advisory firm that specializes in helping to grow and scale businesses in emerging markets. Over the past decade, I-DEV has worked with 250+ small and medium businesses (SMEs) and helped raise over \$50M in financing for growth-stage companies across Sub-Saharan Africa, Latin America and Asia. Beyond textiles and apparel, I-DEV has advised the clean energy, agriculture, and consumer retail sectors on global connectivity, strategy, and investment.



About This Concept Note

In collaboration with Eileen Fisher and Indigenous Designs, I-DEV developed a framework for creating Secondary Benefit Programs (SBPs) to strengthen emerging market supply chains. The findings of this concept note were compiled based on conversations with key players in the sustainable fashion industry, from farmers, herders, and artisans on the ground to end retailers in the US.

SBPs can be a valuable tool to increase supplier resilience, loyalty and performance. This concept has been developed and refined by I-DEV in partnership with its clients over many years- and inspired by the breadth of challenges that corporations, cooperatives and small holders face operating in emerging markets.

Introduction

Seasonal demand. Black market intermediaries. Price volatility...

Local farmers, artisans and apparel businesses are exposed to significant risks operating in emerging markets. This threatens the sustainability of business partnerships and supply chains—from raw materials producers to brands.

3
2
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WHAT ARE SECONDARY BENEFITS PROGRAMS (SBPs)?

Apparel inputs suppliers and workers in emerging markets are critical to the industry's growth, but are also the most vulnerable parties in the supply chain to market shocks. Due to limited income, temporary uncertainty in sales can be enough to push them to sell to intermediaries or leave the industry.

Secondary Benefits Programs (SBPs) strengthen communities while helping businesses to incentivize the continuity and loyalty of their small suppliers in emerging markets. These programs offer customized value-added benefits that are 'triggered' based on agreed-upon performance targets, such as volume or quality standards. When suppliers consistently meet targets, benefits such as access to financial services, healthcare, and capacity development become available. Strong SBPs reduce small supplier risks and stabilize income, while also strengthening the partner corporation's supply chain.



Photo courtesy of Indigenous Designs

Executive Summary

The Issue (p. 6)

Farmers, herders, and factory workers at the base of the global supply chain face different challenges.

At the same time, corporations face many obstacles in trying to secure a sustainable supply chain.

The Opportunity (p. 8)

SBPs are customized corporate programs that offer incentives beyond price premiums or technical assistance to improve quality of life for suppliers, while also increasing supplier loyalty, and mitigating for market or supply shocks.



SUPPLIER CHALLENGES

Seasonality

Limited Access to Capital

Poor Infrastructure

Climate Risk

Limited Skills & Yields



BRAND CHALLENGES

Client Order Cycles

Supplier Turnover

Supplier Consistency & Quality

High-Touch & Costly Impact Programs



SBP POTENTIAL BENEFITS TO BUSINESSES:



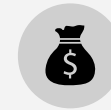
Secure higher volumes & quality for raw materials



Reduce absenteeism via improved supplier health



Incentivize investments & technology transfers



Enhance supplier cashflow & working capital



Increase technical skills, knowledge, & productivity



Attract impact investors & sustainable markets



Decrease risk in the supply chain



Improve supplier retention and loyalty

The Approach (p. 11)

SBPs are designed and co-developed with beneficiaries so that commitments, tiers, and benefits all cater to critical social needs, such as income security or lack of access to basic services (health, education, etc.), while helping to address specific supply chain bottlenecks, such as farmer side-selling, employee absenteeism, inadequate use of inputs, or insufficient quality.

The Model (p. 12)

SBPs are developed specifically to each business context. This section examines 2 cases along apparel and agriculture supply chains where SBPs can be created and applied for mutual corporate and supplier value creation.

Conclusion (p. 16)

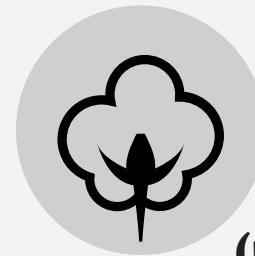
SBPs are a powerful emerging tool to create competitive advantage and strengthen supply chains in emerging markets.

While the SBP framework has been applied to organic cotton and alpaca products and manufacturing, this is replicable for raw materials suppliers to fabric manufacturers, garment producers, and other industries, e.g. manufacturing, mining, etc.

STEPS TO DEVELOPING SBPs:

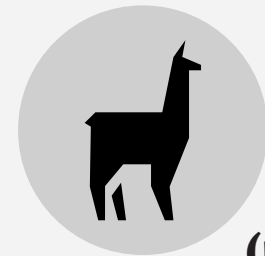


- 1 360° Review of Supply Chain & Operations
- 2 Supplier Needs Diagnostics
- 3 SBP Design
- 4 SBP Pilot
- 5 SBP Scale Up



(p. 12)

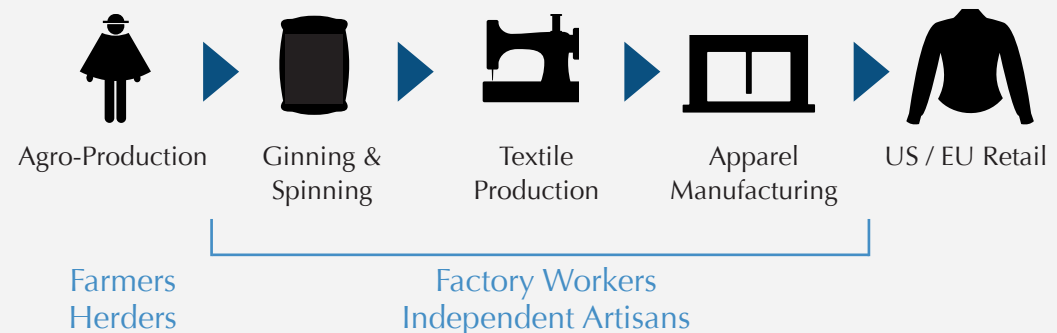
Case Study 1
Organic Cotton



(p. 14)

Case Study 2
Alpaca Knits & Wovens

EMERGING MARKET SUPPLY CHAIN



The Issue

With more than 80% of apparel inputs sourced from emerging markets, ensuring sustainable livelihoods for fiber and textile supplier communities remains a critical priority for the apparel industry.

Over the past decade, many textile and apparel corporations have made significant strides to increase the sustainability and transparency of their global supply chains, from tackling manufacturing risks to shifting towards more responsibly sourced fibers.

Despite these efforts, changes in consumption patterns in the fashion industry have heightened the need for collaboration between suppliers of raw materials, manufacturers and retailers to maintain adaptive and responsive supply chains.



SMALL-SCALE SUPPLIERS

Fiber and textile suppliers in emerging markets – from cotton farmers to herders and textile workshops – face a variety of challenges and threats to financial stability, which can push them out of the market.

CHALLENGES FOR SUPPLIERS



Seasonality

The highs and lows of orders and payments in the fashion industry causes great financial strain on artisans and small suppliers, driving them to seek work in other sectors



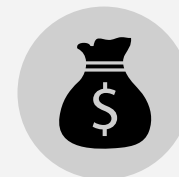
Poor Infrastructure

Rural and peri-urban communities are isolated from basic goods and services (i.e. access to safe drinking water, healthcare, transportation), further limiting their connection to markets



Limited Skills & Yields

With constrained resources, suppliers lack access to improved technologies and technical assistance to ensure higher yields and quality



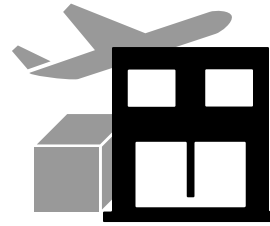
Limited Access to Capital

With insufficient collateral and credit history, low-income suppliers lack liquidity and access to working capital or loans to purchase equipment



Climate Risk

Smallholders are the first affected by changing climate, water scarcity, and the volatility of global markets, with few options to hedge against risk



BUYERS & BRANDS

Apparel manufacturers and exporters in emerging markets compete in a fast-paced environment where responsiveness to evolving trends and industry needs is a critical success factor to remain in the market.

CHALLENGES FOR BUYERS & BRANDS



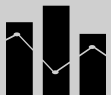
Client Order Cycles

As fashion trends are constantly evolving, lack of coordination with buyers ahead of the season can result in limitations on manufacturer capacity and squeezed production schedules; anticipated and consistent order cycles (e.g. “Early Fall/Spring”) would dramatically increase their ability to plan the supply chain and pass on the workload for the season more evenly to suppliers



Supplier Turnover

When intermediaries can offer higher returns on a single sale, suppliers often side-sell products or leave the market altogether in pursuit of more immediately profitable activities; recruiting and training new suppliers each year is a time and resource-consuming process that further constrains business’ abilities to meet deadlines and quality requirements



Supply Consistency & Quality

Sustainable apparel companies, like Eileen Fisher and Indigenous Designs, that prioritize responsible fibers and premium quality products must work with suppliers who are committed to organic, fair trade or other certifications



High-Touch & Costly Impact Programs

Impact programs that are not aligned with core business interests can fade over time and require significant time and resources to manage and redesign one-off projects; establishing a program would increase efficiency and return on investment over time

KEY FACTS

90% Of garments sold in the US are manufactured in emerging markets

\$1.9B Peru’s Textile & Apparel exports (2013)

70% Of Peru’s apparel exports go to the US

Source: ADEX, OTEXA

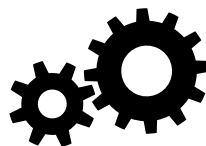
The Opportunity

Secondary Benefits Programs (SBPs) align high performance standards with core values for sustainable apparel businesses and address recurring threats to supplier livelihoods in emerging markets.

SECONDARY BENEFITS PROGRAMS (SBPs) EXPLAINED

Similar to employee benefits and loyalty programs which offer performance-based compensation and additional benefits to employees that roll out based on years of service, SBPs are tiered programs that offer specific social benefits and status rewards to suppliers as they demonstrate commitment over time and are tied to performance-based milestones.

SBPs are especially targeted towards low-income suppliers in emerging markets (farmers, artisans, workers, etc.) that are unable to diversify their income and often lack access to opportunities, in order to increase their financial stability and incentivize loyalty and compliance with production standards.



KEY FACTS

350,000 Direct jobs in Peru's textiles and apparel industry

94% Of workers in the industry claim to feel continuous job insecurity

\$300 Avg. monthly income for unskilled workers in the sector in Peru

Source: PromPerú, Fair Labor Association
Photo courtesy of Indigenous Designs



BUILDING STRONGER SUPPLY CHAINS

SBPs modify and apply incentives commonly used to attract and retain top corporate talent toward supply chain partners at the early stages of the value chain. As suppliers demonstrate their ability to meet target performance requirements, they receive increased access to tangential benefits, effectively adding to the total value of compensation they receive for their work. Because offered benefits are identified and verified by suppliers as valuable, suppliers will aspire to improve performance in order to unlock additional value.



TRANSITIONING FROM CSR TO STRATEGIC IMPACT

As Corporate Social Impact (CSR) is increasingly shaping the policies of brands and retailers in the textiles and apparel industry, SBPs allow companies to achieve greater impact for suppliers at the base of the pyramid than through isolated, one-off CSR projects. SBPs reduce the costs of frequent project re-design and management, and create ongoing value tied to the year-over-year performance of top suppliers, thus generating a positive return on investment. Through lower risk of supplier drop-out, reduced sourcing cycles and time to market, as well as enhanced company reputation, the distribution of benefits can become strategic not only for public brand image, but also supply chain efficiency and productivity.

BENEFIT TIERS

Suppliers and workers unlock new levels of benefits as they demonstrate commitment and performance over time





TARGET OUTCOMES OF AN SBP

SBPs create a win-win situation for both suppliers and buyers

SUPPLIERS & WORKERS

Improved Financial Stability & Quality of Life

- Access to opportunities to upgrade quality of production and general productivity
- Reduced losses
- Long-term buyer relationship and guaranteed access to fair markets
- Improved access to needed resources and services
- Savings on production costs and daily expenses
- All-around improvements in personal and family well-being



Supplier

BUYERS & BRANDS

A More Competitive Supply Chain

- Stronger incentive for suppliers to stay in industry and meet production standards
- Better control over sourcing, quality, timing, and traceability
- Improved supply chain planning and adaptability to sourcing cycles
- Increased supplier loyalty
- Enhanced operational efficiency and reduced procurement costs
- Increased collaboration & alignment between operations and CSR divisions
- Easy replication of social impact and stronger corporate image & community

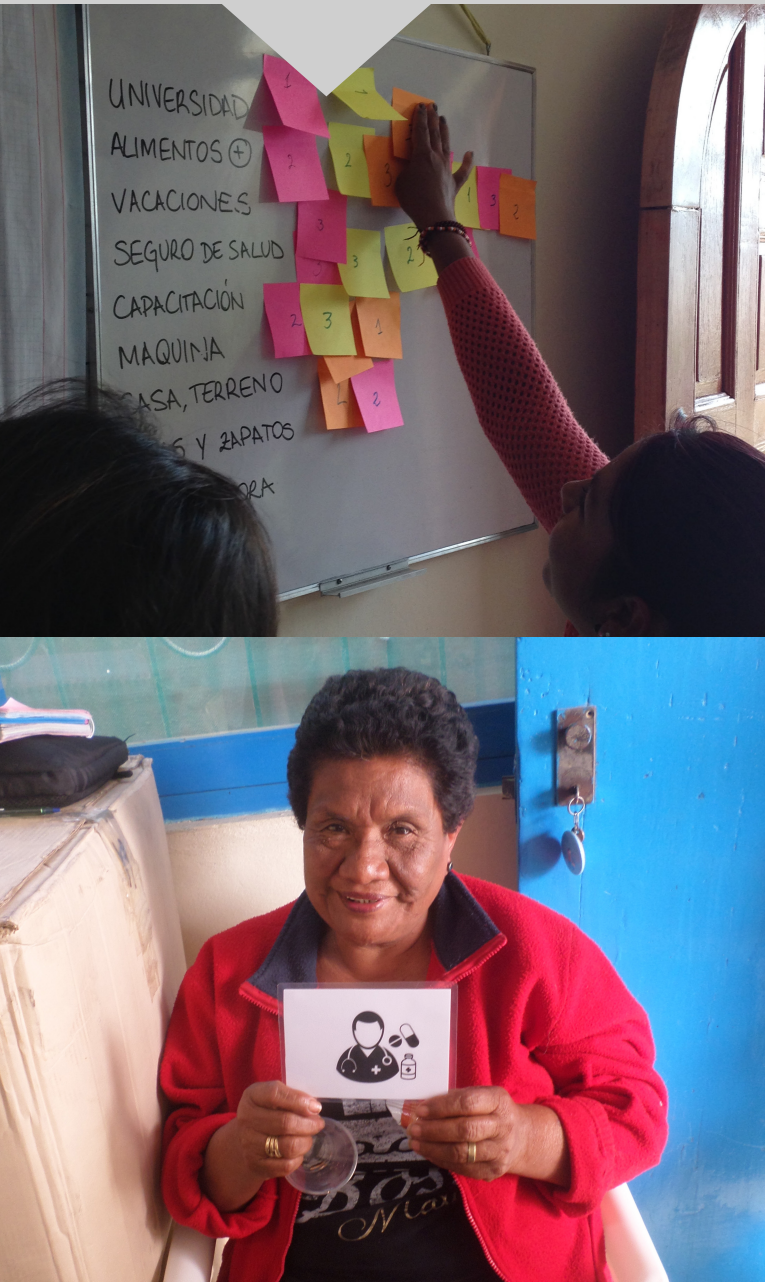


Buyer



The Approach

From gauging the key challenges to address to assessing how to scale programs throughout the supply chain, the following outlines the key steps for designing and rolling out an SBP.



1 360° Review of Supply Chain & Operations

Define priority areas for SBP interventions:

- Map supply chain to understand weaknesses and gaps
- Analyze trends in sourcing and procurement costs
- Interview key supply chain and operations actors to uncover current or future opportunities for improvement and increase buy-in

2 Supplier Needs Diagnostics

Identify issues affecting beneficiary performance and quality of life:

- Segment target beneficiary groups, e.g. farmers, artisans, employees, etc.
- Assess demographic, economic, and social characteristics, i.e. household income, family structure, cultural practices, aspirations, etc.

3 SBP Program Design

Set program components (i.e. benefits, commitments, and tier structure):

- Involve beneficiaries for feedback
- Consult external partners, i.e. input suppliers, financial institutions, NGOs, farmer extension services, etc.
- Plan and analyze costs of program

4 SBP Pilot

Test out program on select group of beneficiaries:

- Monitor defined social, operational, and financial KPIs to track success
- Fine-tune program structure and benefits
- Compile lessons learned for larger scale implementation

5 SBP Scale Up

Scale and replicate the SBP throughout the entire supply chain:

- Repeat participatory approach to roll out in specific locations
- Ensure adequate training of local teams
- Evaluate lessons learned for continued success

The Model: Case Study 1

Organic Cotton

Despite strong growth in demand and production for Peruvian organic cotton since 2014, for small producers the transition to organic remains risky: certification can take years to complete, and farmers often see lower yields without receiving any additional value during that period.

ID's main cotton supplier in Peru, a pioneer in the local organic apparel industry since 1986, works with 120 farmers to source a range of organic cotton varieties and produces yarn, fabric, and garments in its G.O.T.S certified facilities. While the company works closely with its farmers to provide them with in-depth training and inputs to help them better manage their pre-harvest costs, the lack of proper incentives for transitional cotton continues to push high-quality suppliers out of the market and puts constant stress on the supply chain. Furthermore, even certified farmers are easily lured by black market intermediaries who offer higher immediate returns with lower regard for quality.

ID's organic cotton partner has also funded schools and compost facilities to improve living conditions in farming communities and build loyalty, but resources to manage CSR projects are spread thin. The company sees value in building out a standardized program that will improve the financial sustainability of growing organic cotton for its farmers while creating long-term supplier consistency.

KEY FACTS

\$15.7 B Global market for organic cotton (2014)

\$1.1 B US annual sales of organic cotton

25% Growth in use of organic cotton by the 10 leading industry brands

56% Growth rate of organic cotton production in Peru (2014)

Source: Textile Exchange (2014)
Photo courtesy of Indigenous Designs



FARMER CHALLENGES:

- Drop in income during transition to organic cotton
- Recurring threat to crop yields due to El Niño
- Irregular access to running water, leading to higher production costs and limited complementary crops
- Limited access to basic services (i.e. public transport, wastewater treatment, health clinics, financial services)



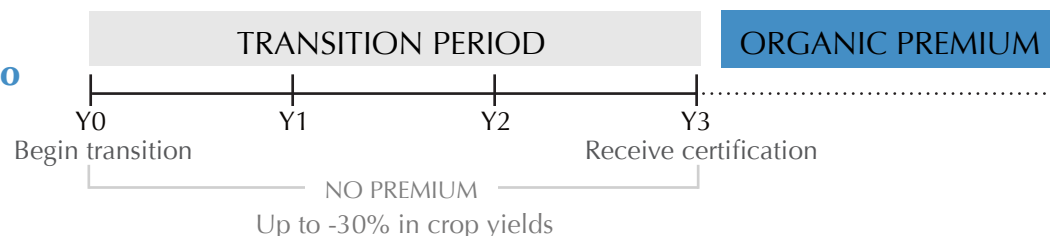
COTTON BUYER CHALLENGES:

- Competition from informal ginneries who offer higher prices to farmers for lower quality
- High farmer drop-out rates during transition period
- Risk of improper use of inputs and cross-contamination
- Lack of time and resources available to dedicate to managing company social impact projects



KEY BOTTLENECK:

Insufficient Incentives to Go Organic



An SBP designed to stabilize farmer income and financial security during the transition to organic will foster greater transparency and commitment to the company, while also reducing risk of cross-contamination or producer side-selling. SBP should include:

- *Higher baseline price over conventional non-organic cotton prices, during conversion*
- *Affordable access to inputs and machinery*
- *Increased access to savings and financing for inputs, transition to organic, and other related investments*

FARMER COMMITMENTS



- ☒ Strict compliance with organic farming standards
- ☒ Attend at minimum 70% of all meetings and trainings
- ☒ Respect exclusivity sales agreement with company

BENEFITS & TIERS

	Transition (1-3 yrs)	Junior (3-7 yrs)	Senior (7-10 yrs)	Master (10+ yrs)
Inputs, Technical Assistance	●	●	●	●
"Pre-Organic" Price Premium	●			
Bulk Discounts on Inputs	●	●	●	●
Full Organic Price Premium		●	●	●
Savings/Micro-insurance		●	●	●
Low-Interest Loans			●	●
Professional Skills Scholarship				●

The Model: Case Study 2

Alpaca Knits & Wovens

In Peru's Highlands, alpaca yarn and textile production has been essential to the livelihoods of traditional Quechua families for centuries. Today, however, low income and highly seasonal production has pushed many skilled artisans to abandon this activity, threatening the sustainability of the industry.

Since 2000, ID has been working with a best-in-class alpaca garments supplier based in Arequipa, Peru, a highly socially-driven enterprise that works with more than 500 local knitters - mainly women - and small artisan workshops. With its state-of-art production facility, the company focuses on natural, locally-sourced fibers, such as organic cotton and sheep's and alpaca wools, to produce top quality garments for both export and domestic markets.

Despite the clear benefits that artisans receive when they integrate the supply chain such as continuous technical training and fair trade prices, seasonality remains a strong issue. In response to the shortfall of orders from November to May, many suppliers decide to seek work in other industries, resulting in a high rate of supplier turnover. The goal of a SBP framework, in this case, is to cushion the effects of seasonality on the most vulnerable links of the supply chain and ensure that the company has a reliable pool of trained artisans to carry out orders and continually meet changes in downstream demand.

KEY FACTS

80%

Of the world's alpaca fleece is produced in Peru

\$175M

Exports of alpaca products from Peru

30%

Avg. growth rate of the national industry

\$600-800

Avg. annual income of an alpaca herding family

Source: PromPerú, I-DEV Field Research
Photo courtesy of Indigenous Designs

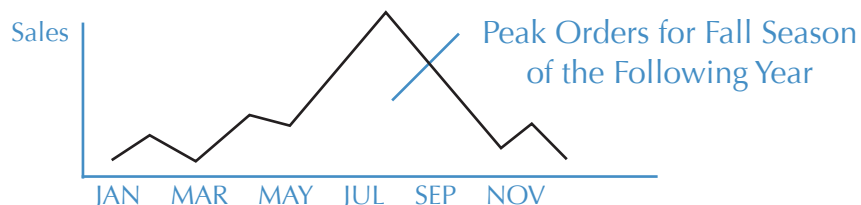


KNITTER & ARTISAN CHALLENGES:

- High income volatility during the low season, forcing workers to look for remote work in the informal sector
- Poor public health services and costly private insurance
- High cost of school supplies (up to \$300 per child), incurred during low season when income is tightest
- Over-reliance on buyer as primary income source and lack of entrepreneurial skills to diversify client base
- Limited access to capital/loans to invest in production



KEY BOTTLENECK: Seasonality of Income for Knitters & Artisans



GARMENT BUYER CHALLENGES:

- Seasonality of orders, causing production to drop below break-even from Nov-May
- Workshops forced to cut skilled staff during low season
- Significant capital investment required from business and workshops to keep up with new fashion trends
- Business operating in highly competitive and price-sensitive industry segment with persistently thin margins
- 180-day working capital cycle via high-interest loan

SBP RECOMMENDATIONS

An SBP can help to reduce the vulnerability of artisans and knitters to the peaks and valleys of the apparel industry and ensure they are financially better prepared to weather the low season, while driving the quality and efficiency of their work. SBP should include:

- *Shared company savings given as bonuses*
- *Support to create savings accounts & save accordingly*
- *Access to skills training to diversify capabilities and generate alternative income*
- *Access to family benefits, e.g. scholarships, healthcare*

ARTISAN COMMITMENTS



- ☒ Meet quality standard metrics (<10% rejection rate)
- ☒ Attend at minimum 70% of meetings and trainings
- ☒ Timely repayment of outstanding loans

BENEFITS & TIERS

- Technical Training
- Women's Mentoring
- School Supplies
- Savings Program
- Private Health Insurance
- Low-Interest Loans
- Educational Scholarships

Entry (1-3 yrs)	Bronze (3-7 yrs)	Silver (7-10 yrs)	Gold (10+ yrs)
●	●	●	●
●	●	●	●
●	●	●	●
	●	●	●
	●	●	●
		●	●
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Conclusion

SBPs are a powerful opportunity to strengthen sustainable supply chains across diverse industries by improving the opportunities for local suppliers and artisans.

A GLOBAL OPPORTUNITY

This analysis provides a clear framework for assessing the needs and drivers of supply chain actors, in order to guide companies toward greater sustainability and impact. It includes 2 examples of the SBP framework in action, and demonstrates how Indigenous Designs and Eileen Fisher can drive supplier loyalty, performance, and adaptability to changing demand, as well as competitive advantage in the global apparel industry. More broadly, it demonstrates how buyers in general can better engage with their suppliers to maximize business value and create more systemic and scalable impact. Moving forward, the objective is to continue building upon these foundations to pilot and refine these 2 SBP examples, in order to better inform other global brands on best practices to address their own supply chain challenges.

BEYOND TEXTILES & APPAREL

While the cases focus on the apparel industry, SBPs have broad-reaching potential for any sector that relies on low-income, BoP suppliers– from agricultural goods to manufacturing and extractive industries. SBPs represent a unique opportunity for companies to sustain growth and strengthen supplier communities through strategic supply chain investments.

KEY TAKEAWAYS

In emerging market supply chains, SBPs can:



Provide a systematic approach to address specific social challenges



Align CSR and supply chain goals, saving on overheads and generating a greater return on investment



Increase efficiency and operations, while improving transparency



Increase ability to pivot toward demand trends without compromising on quality or time



The presented framework provides global brands a model to assess their emerging market supply chain and develop customized SBPs to address their own unique challenges.



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