



blutsgeschwister

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www.blutsgeschwister.de



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1.

Summary: goals & achievements 2014

Since June 2013 we are a member of the Fair Wear Foundation (FWF). After the first 1,5 years we already learned a lot and also improved ourselves and our suppliers. Due to the various tools FWF provides, we get more transparency in our supply chain and keep on track of our own sourcing routines to work towards supporting and monitoring our suppliers in the FWF Code of Labour Practice.

After deciding to join Fair Wear Foundation, we got to know the aid program develoPPP.de of the Federal Ministry for Economic Cooperation and Development in cooperation with the Deutsche Investitions- und Entwicklungsgesellschaft (DEG). The program supports mid-sized companies to create a sustainable process in developing countries and emerging nations. We are very happy that we won this competition with our work plan and get supported by the DEG with our aim to develop a sustainable supply chain management for our brand under the guidelines of the FWF membership.

Related to our attendance at the the [develoPPP](http://develoPPP.de) program one of our Chinese focus suppliers got invited by the German Federal Ministry for Economic Cooperation and Development to join a round table discussion about working- /social and ecological standards in China on the 24.10.2014 in Shanghai. The supplier offers a high standard in working conditions and social standards in his factory. At the round table meeting he could share his experience and his daily challenges in the round of 80 several representatives, including the German Federal Minister of Economic Cooperation and Development, Mr. Gerd Müller and the Jiaxing Minister.

Based on our order volume, we have audited 84% of our A-Tier suppliers in China, India and Turkey by the end of 2014 and are working on the Corrective Action Plans with them.

We have created internal routines for our various departments to make sure every supplier can be integrated into our monitoring routines and the demands of the FWF membership is integrated widely into our internal processes.

Stephan Künz – CEO Blutsgeschwister: „This year we were working intensively with our suppliers. We have audited them and are now focusing on the selection of key-suppliers with whom we furthermore improve working conditions. The FWF process underlines the importance of long lasting, respectful relations with our suppliers and their staff which we have installed over the years.“



2. Sourcing Strategy

2.1. Sourcing strategy

Our collections are designed with our heart and our soul in Berlin, from the pattern print up to details like buttons and embroideries. We take time and care in selecting production partners all over the world. We take our commitments seriously, and focus on:

- ♥ A honest, cooperative and open relationship with suppliers
- ♥ Doing our part to resolve problems if they do occur
- ♥ Clearly defined working, quality and environmental standards
- ♥ A focus on producing high-quality products

We then select suitable suppliers boasting top expertise in a variety of different locations. We currently manufacture our Blutsgeschwister Ladies, Kids and Accessories lines in China, India and Turkey.

Our Blutsgeschwister Homewear line is mostly made in the Black Forest region of Germany. And our Blutsgeschwister wonderglasses are manufactured in Germany, Italy and South-Korea.

We focus on long term partners and our aim is to keep this partnership running through the whole year and guarantee them a consistent order amount per year, so that our suppliers have the opportunity to prepare a solid production planning.

Our styles have a unique workmanship as we often mix materials in our designs. The longer a supplier knows us and our quality demands, the easier and smoother our product development process becomes. We also believe that consistent cooperation is the only way to keep track of the working conditions abroad.

Several of our suppliers boast various certificates like e.g. the quality management certificate ISO 9001, the environment management certificate ISO 14001 and working conditions after the international standards SA 8000.

We are not aggressively sourcing for new suppliers. We try to find replacements for suppliers in case we have to stop cooperating with one of our partners, due to several problems that can't be fixed after we have given enough time to work on improvements. Or if we want to try new products that need another special expertise.

All contacts to new suppliers, received either through solicitation or recommendation, are kept in an internal database that we update regularly. If a new supplier is needed, our Director of Development and our Head of Buying evaluate a suitable partner from this database. Potential new suppliers get informed about our FWF membership and the Code of Labour Practice before we place the first order. If they are not willing to commit to the Code of Labour, we don't start a cooperation.

After discussions with our suppliers and customers, we decided to decrease the number of colourways in our collections. We have started this strategic change in the collection for the summer season 2016. The new collection-framework will consist of four colorways instead of five.

We expect this measure to give positive impact on the supplier as it simplifies the production effort without decreasing the volume.

2.2. Pricing

We set great value to stipulate market-compliant and appropriate prices. Under this aspect we choose suitable suppliers with high expertise at different locations.

With the first sample, our suppliers must already name us an initial price. In case the price needs some discussion, we ask the supplier for a composition of the price to see where it can be decreased, or change the style so it can be done to the expected price.

To start on the most challenging code „Payment of a living wage“ our buying department started in 2014 to collect more detailed information in the price composition, to have a clear overview how the final price is build. Gaining information in how the price is build helps our suppliers and us to start working on the living wage step by step. Like already mentioned, this code is not easy to tackle as many different aspects have to be considered, but getting transparency in the wages of the workers is a mandatory fact to start approaching this Code.

2.3. Organisation of the sourcing department

Our sourcing department is a combination of our design department and our buying department. Our Head of Design, Director of product development and our Head of buying and product management are planning the production of our collections and choose the matching suppliers.






Each supplier has expertise in a certain type of production. So we consider which groups will be placed with which supplier. Additionally, we consider the volume of quantities to make sure the bulk production is manageable for our suppliers. We want to strengthen the business relations with our existing suppliers and increase their orders. But we experienced that increasing the volume needs to be done step by step so our suppliers can handle the increasion.

Since 2013 we are working with a supplier rating system where beside quality, deliveries, communication and pricing processes, the willingness for working on the traceability and improving on the working conditions in the factories is considered.

2.4. Production cycle

In total we have 7 collections per year. The lead times are as following:

Theme Description	T H E M E	A P R I L	M A Y	J U N E	J U L Y	A U G U S T	S E P T E M B E R	O C T O B E R	N O V E M B E R	D E C E M B E R	J A N U A R Y	F E B R U A R Y	M A R C H	A P R I L	M A Y	J U N E	J U L Y	A U G U S T	S E P T E M B E R	O C T O B E R	N O V E M B E R	D E C E M B E R	J A N U A R Y	F E B R U A R Y	M A R C H	
Pre-Fall	1																									
Fall	2																									
Winter	3																									
Christmas	4																									
Spring	1																									
Summer	2																									
Holiday	3																									

	Start Sampling
	delivery Date SMS (mid of month)
	order time (beginning of month)
	delivery Date Bulk ex works (beginning of month)
	delivery to customers (beginning of month)

2.5. Supplier relations

As already mentioned, we focus on long term business relations with our suppliers. We have been in cooperation with most of our suppliers for over 3 years. We require an open relationship to discuss topics like quality issues, delivery times, prices or problems that can occur during the production or sampling stage and we are always willing to cooperate with them and support them as best we can.

We issued new internal routines after our first FWF Brand Performance Check in July 2014 to define clearly how we can monitor and support our suppliers in every country in the best way. It is mandatory to look at the several countries in this routine as certain risks

at the supplier are related to the country industry routines like for example Sumangali Scheme in India, Migrant Workers in China and Syrian Refugee Workers in Turkey. Therefore every country needs a special focus on several issues.

As mentioned in 2.3., we are also working with a internal supplier rating system. The willingness to improve on Audit findings and in general on improving the working conditions is having a big impact on the final result of the suppliers rate.

If we see that one of our suppliers is not interested in improving and not cooperating with us on the Corrective Action Plan, we plan a exit strategy with this supplier. This exit strategy first leaves room to improve and states clearly to the supplier that we will stop the cooperation in case there is no improvement. The termination of the cooperation occurs with in a reasonable time frame for the supplier.

2.6. Integration of monitoring activities

Before joining FWF our contract already included important points about social standards that we request from our suppliers. We already calculated our order placement to make sure every supplier had a basic number of orders. We also visited most of our suppliers regularly to get a realistic impression of the factories and we monitored our supplier with our supplier rating system.

After joining FWF, every supplier received the Code of Labour practice and had to return a signed copy to us. Additional we request pictures of the hanging code at the supplier in the local language.

In 2014 we put 84% of our production quantity into our monitoring process through FWF conducted Audits. 9 of our A-tier suppliers were audited:

Country	Numer of A-Tier Suppliers	Number of audited A-Tier Suppliers
China	6	6
India	3	2
Turkey	3	1

Additionally we gained information about the relevant sub-contractors for most of our A-Tier suppliers and therefore more transparency in our supply chain

The willingness to work on the Code of Labour is just as relevant for us as a good performance on the Code itself. In case the outcome of an Audit for one of our suppliers shows a need of improvement, but he is showing real interest and efforts to improve these matters, he is as important for us like a supplier that already has a great performance on the Code of Labour Practice.

Before terminating a contract with one of our suppliers, we try to solve the problems that can cause a termination in open discussions with him. However, sometimes it can happen that we have to end the cooperation. With our new system, we create a more replicable process for the cooperation with our supplier. Terminations will also be more replicable for third parties like Fair Wear Foundation.

2.7. Deliveries

As most of our deliveries are shipped by sea, the deliveries need a certain amount of planning time. After we have the final quantities, our head of buying and product management plans the delivery dates with our logistic department and the suppliers. In case the supplier already mentions concerns about the delivery schedule, we try to reschedule the delivery date or split the delivery to provide our supplier the necessary lead time. This is an important role that we can take in preventing the risk of excessive overtime at our suppliers. During the production, our production department is open to discuss production problems and support the suppliers in every way.



3.

Coherent system for monitoring and remediation

After the first Audit at our supplier, we shared the Audit report and the Corrective Action plan with our suppliers. For this start up meeting with our suppliers, our CEO Stephan Künz, CSR Manager Anja Heyckendorf and Head of Buying Department Friederike Kübler traveled to China and India to visit most of our suppliers. In China we visited 4 of our A-Tier suppliers in 2014 and in India all of our 3 A-Tier suppliers. Due to a low staff capacity in 2014 and the fact that the Audit at the Turkish supplier took place by the end of 2014, we didn't manage to visit our Turkish suppliers in 2014. But the visit at our Turkish supplier will take place in the beginning of 2015.

3.1. China

In total we have succeeded to place first audits at all our Chinese A-Tier suppliers, which were 6 partners in total.

One of the biggest challenges in China is the fact that many workers are migrant workers, who come from the country side to the agglomeration where the textile productions are based. The Chinese social insurance system is not supporting this fact for the migrant workers. The workforce turnover rate is higher than in other countries due to this fact.

3 suppliers joined the FWF Workplace Education program.

In China we are cooperating with all our supplier for minimum 4 years and longer.

We have made an evaluation to define focus suppliers. The basement of this evaluation were:

- Ordervolume in recent years
- Commitment to the FWF process
- Company structure like clear ownership structure
- Formal experience in the cooperation with BG
- Quality and price aspects in our cooperation.

Focus suppliers:

The cooperation with the two Chinese focus suppliers is existing for 6 and 7 years.

We offered those suppliers two assessment days with a Chinese CSR professional that we got recommended by FWF. You can find more about those assessment days under point 4.2.

At the focus suppliers we got a clear overview of the subcontractors and a proof that the FWF Code of Labour was handed over to them and hang up on in the production location.

Both focus suppliers have improved their internal transparency containing proper monitoring of the working hours, payslips and completed the worker information documents like working contracts and age proofs.

They have selected a workers committee democratically.

Additional they have set up an internal grievance committee and mechanism.

Focus supplier A has managed to keep Overtime under the FWF guideline in a high season due to changes at the internal production planning.

Already in the first audit it was clear to see that all of the workers have a medical and accident insurance. They have also managed to increase the other social insurances like pension (82% of workforce), unemployment insurance (53% of workforce) and maternity leave insurance (20% of workforce).

As stated above, the fact that the Chinese social insurance law is not very supportive for migrant workers. Due to this reason many workers are not interested to join especially the unemployment and maternity insurance.

Focus supplier B had transparency problems in the first Audit, through a second check up by an independent partner, we could see that this problem has been solved and all the necessary documentation like payslips, working hours and working contracts were in place.

He also worked on the overtime and managed to decrease the overtime for 17,33% in the high season due to changes in his internal production planning system. He is still working on this improvement to hopefully reach to be below the FWF guideline in the next year. At the moment he is underachieving the FWF guidelines hours with 16%.

This supplier is also working on his wage structure as it was not possible in the last Audit to issue a proper wage ladder which is necessary for working on the Code "payment of a living wage".

The supplier has also managed to enrol 29,5% more workers into the social insurance system, due to internal trainings based on the FWF Workplace Education program.

Beside the focus suppliers, we have 4 more suppliers in China. With all those suppliers we are cooperating minimum 4 years and we also enrol them in the Fair Wear process. But due to the ownership structure and our order volume at those suppliers, we don't have that much impact like on the focus suppliers and of course that can make it difficult for us to reach the same goals.

Two of those suppliers are working with us on the Cap but the progress is slow. We are still working with those suppliers on transparency and getting the various committees democratically elected. At the Audit there were minor health & safety issues found like e.g. providing an eye washing facility for the workers that have to deal with chemicals and upgrading machines with safety devices. Those health & safety issues have been improved in the last year.

Unfortunately, we also had to end the cooperation with the last two Chinese suppliers. One of the suppliers had to close down his business due to internal problems and therefore he ended the cooperation with us.

With the other supplier we had several problems in the past in our cooperation like quality and communication matters. We also saw that after one year of the Audit no improvement has been made in the Corrective Action plans. This fact had underlined the decision that we stop the cooperation with this supplier.

3.2. India

One of the biggest industry problems in India is the Sumangali scheme. Sumangali is a program that leads to forced labour for young women. You can read more about Sumangali on

<http://www.fairwear.org/sumangalischeme>

We were very relieved to see that no evidence, leading to Sumangali scheme, was found in the Audits at our suppliers.

In India we have also evaluated focus suppliers with the conclusion that both of the audited suppliers are focus suppliers for us.

2 out of our 3 A-Tier suppliers have been audited. The last supplier will be audited in May 2015.

Both of them have settled the dates for the FWF workplace education program which will

take place beginning of 2015.

We are very happy with the progress they have made in quite a short time.

They gave us a clear overview about their subcontractors, passed the FWF Code of Labour to them and provided us a proof that the Code is hang up at the subcontractor's facilities.

Focus Supplier A: minor issues on the transparency were found in the Audit. For some workers there was proper workers documentation missing. The supplier has worked on the internal transparency to reach the FWF Code requests, having all workers documentation in place like contracts, age proof, working hours and wage payments.

He has elected a Health & Safety committee and a sexual harassment committee. A grievance mechanism has been set and introduced to the workers. He has issued an internal routine to make sure every new worker will be informed about the FWF Code of Labour and the Complaint procedure and a policy of Freedom of Association.

Furthermore this supplier has worked on the payment of overtime. Overtime was paid per year and stated as a bonus on the payslips. Now the overtime payment is paid on a weekly basis with a payslip.

Minor health & safety issues were found in the audit like missing hand rails on some steps, Anti Fatigue rubber mats and a broken needle register. All those remarks have been improved by the supplier.

Focus Supplier B: also at this supplier minor issues on the transparency were found in the Audit. For some workers there was proper workers documentation missing. The supplier has worked on the internal transparency to reach the FWF Code requests having all workers documentation in place like contracts, age proof, working hours and wage payments.

He has elected a workers committee, a complaint committee and set up the necessary policies, for example the collective bargaining Agreement or a health & safety guideline.

Workers are trained in a 3 month routine on various topics on the Code of Labour practice.

Minor issues on health & safety have been found like some emergency lights were missing, the first aid boxes were not fully equipped or some floor marks on the parking area were missing. All those remarks have been improved by the supplier immediately.

3.3. Turkey

Due to the Syrian civil war, Turkey has many Syrian refugees at the moment. The refugees are not enrolled in proper refugee programs and are often searching for work. This fact has a huge impact on the textile industry. Many factories hire the Syrian Refugees under unclear working conditions. This situation was first clear by the end of 2014 and will be extremely focused on our sourcing strategy in 2015.

For 2014 we were cooperating with 3 suppliers in Turkey, but already decided during the year that we want to cut down on one supplier as every of the 3 suppliers were manufacturing the same product types with the result, that we had a small order amount at every supplier and no chance to increase their orders over a long term.

FWF planned a verification audit at one of our Turkish suppliers. The Audit appointment was rescheduled a few times. By the time the Audit finally took place, we already decided to stop the cooperation with this supplier.

The Audit findings underlined our decision to stop the cooperation with this supplier, as FWF found out that the supplier had unauthorized subcontracting in place. Unauthorized subcontracting provides a high risk concerning working conditions as it takes the possibility of transparency which is mandatory for any kind of improvement. When we don't know the production places and usually also don't have any impact at this locations, we have no chance in enrolling them into the FWF process. Therefore so called illegal subcontracting is an absolutely no go for us.

4. Training and capacity building

4.1. Workplace Education Program

In 2014, 3 of our Chinese suppliers joined the Workplace Education program.

The Workplace Education program is a training package for management, supervisors, and workers. The training aims to raise awareness about workplace standards and effective methods for communicating about problems in the workplace. It introduces the FWF complaint hotline and explains the need of a grievance mechanism or various committees to promote the dialogue in between management and workers. Additionally it raises awareness of the benefits of social insurances.

The training usually takes two days, one day for the management and one day for the workers training.

4.2. Assessment days China

For our two Chinese focus suppliers, we provided an assessment day with a CSR professional who was recommended to us by FWF.

This professional has long experience in the Chinese CSR work and knows the challenges that the supplier might face during improving the working conditions.

This assessment day had different priorities for every supplier as their status on the Code of Labour is different as well.

For focus supplier A the improvement of a production planning system was discussed, as well as the change of the payment system of the wages. The supplier is still working with the input of this assessment day and had a follow up meeting with the assessment partner at the end of 2014 to discuss small changes and impacts they already made. We are considering to provide another follow up meeting in 2015 for this supplier.

For focus supplier B the assessment day also included a little check up on the improvements that have been made after the first audit which were related to a lack of transparency. The assessment partner helped to conduct a democratic election for a workers committee and gave helpful input to change the internal production planning system. Also with this supplier, the assessment partner introduced tools to compare a piece rate to the local minimum hourly wage, so the supplier can check his wages during the year. We are also considering for this supplier to offer a follow up meeting in 2015.

4.3. Activities to inform staff members and sales agents.

Our staff is updated regularly once a year on the FWF work. Due to the start in June 2013, we had the first briefing with the headquarter Germany and the production department Berlin by the end of 2013. The next update was planned by the end of 2014. Due to appointment problems referring to so many participants, the FWF update for 2014 could first take place in January 2015 for the staff of our headquarter in Stuttgart, the sales agents and our distributors. The update for the Berlin department will follow in spring 2015.

In 2014 all of our own flagshipstore staff got informed in a workshop at every location about the FWF membership and how to communicate it to our customers.

Staff that is in touch with the supplier is updated on a monthly basis about the FWF progress.



5. Complaints procedure

FWF offers a complaint hotline in all our sourcing countries. This hotline is hosted by a local partner, who speaks the local language and takes the complaints of the workers. On the Code of Labour information sheet that needs to be published at the factory, the number of the complaint hotline is also noted. In case a complaint is issued, FWF forwards this complaint to the FWF member, so we can get in touch with our supplier and check how the complaint can be solved. This also contains to look into our internal processes to check if the complaint is a final result of a wrong planning from our side or is based on facts that are within the supplier responsibility.

In case the complaint is related to our wrong planning, we have to change the process immediately and solve the issue with the supplier.

If the complaint is under the responsibility of our supplier, it is our duty to encourage the supplier to solve the problem immediately.

We forwarded the Code of Labour Practise in the applicable language to all our suppliers and advised them to post the Code of Labour in a good visible way on a place where the workers can read this Code in peace and note the number of the complaint hotline. We advised all our suppliers, to forward pictures of this posted Code to us and we check the phone number every time we get a picture or when we are at the factory ourselves. Despite the fact that the Code was hang up, we experienced in the Audits that many workers were not that aware of the complaint procedure. So we suggested our suppliers to join the FWF Workplace Education Program to raise the attention of the workers for the complaint procedure.

6. Transparency & communication

Complementary to our small CSR leaflet "Our Responsibility" which can be downloaded on our website and is provided in our shops and for our wholesale partners, we have now issued a more detailed CSR version that is available on our website. The extended CSR version contains more detailed information about our work and our goals.

We attend the german stakeholder meeting of FWF as well as the annual conference in Amsterdam.

We answer questions we get by the press, students and customers concerning our CSR work and we help to provide input for surveys of students or other organisations related to our CSR work or experience.



7. Stakeholder Engagement

We are in continuous contact with FWF to gain knowledge in our membership process. As a member of the German Fashion Verband, we are also receiving information about CSR matters and are open to provide them with information about our work.