



# Suppliers

We buy products and services - such as 21CN (Century Network) equipment, IT equipment, cable, marketing design and disposal services - from thousands of suppliers worldwide. In 2008, we spent over £8.64 billion on procurement. We have over 2,000 contracted suppliers.

Our supply chain is becoming increasingly global as we source skills, products and services from more countries worldwide. Known as global sourcing, this trend contributes to the economies of developing countries. However, environmental and labour regulations may be poorly enforced in these countries and there is a risk that standards are below acceptable norms.

In all our dealings with suppliers we are committed to behave according to our fair and ethical trading principles. Our expenditure enables us to influence suppliers' environmental and labour standards.

Global sourcing also affects our workforce. For more information see [employees](#).

Here we discuss:

- Fair treatment of suppliers - in selection, development and payment
- CSR and suppliers – how we apply our human rights and environmental standards in our supply chain
- Supplier diversity – sourcing from diverse suppliers
- Green initiatives – within our supply chain.

## Fair Treatment of suppliers

We aim to operate a fair procurement process and administer our tendering and contracting procedures in good faith.

[Our Purchasing Principles](#) provide a framework to ensure that we act in an ethically and commercially responsible way in our dealings. This is an integral part of our procurement process.

Only authorised procurement employees can form a contract with a supplier. They are trained to world-class standards and to apply our Purchasing Principles.

### Supplier development

We work with our suppliers to develop their knowledge and expertise. We assess our suppliers in a number of ways, including through basic desktop evaluations, detailed supplier capability assessments and partnership evaluation processes (PEM).

A PEM evaluation is only undertaken when both parties agree that it will be mutually beneficial. The evaluation increases the supplier's understanding of how to work in partnership with BT and we share knowledge and expertise on quality, the environment, diversity and ethical trading with our suppliers.

### Supplier payment

Our policy is to use our purchasing power fairly and to pay promptly and as agreed. BT has a variety of payment terms with its suppliers. Payment terms for major contracts are agreed with the supplier when negotiating the contract. For standard purchase orders, the payment terms are specified on our [Selling 2 BT website](#) under [general conditions](#). The normal payment term is 60 calendar days from the date of receipt of a due and valid invoice for contracted suppliers, and 42 days for purchase orders. BT makes payment on the next weekly payment run following expiry of this term.

In 2008, the average number of days between the invoice date and the date of the payment run for the invoice was 47 (2007: 44).

We have produced a UK and US [Better Payment Practices document](#) that explains to suppliers how BT's Accounts Payable processes work.

We are looking at ways to improve our supplier payment process. This year we joined an electronic invoicing network and aim to move the majority of paper invoices to the new system. This will reduce costs and save time for our suppliers and for BT.

### Assessing supplier satisfaction

In 2008, we asked 2,028 suppliers to complete a questionnaire on how they feel BT behaves as a customer. The findings have helped us assess the overall success of our relationships with suppliers – one of our key performance indicators. Of the suppliers who responded, 94% said they had an excellent, good or improving relationship with BT. We changed the wording of the question this year, which means that it is not possible to directly compare this to the figure of 89% when we last carried out the survey in 2006. Our next supplier survey will take place in the last quarter of 2009.

## CSR and suppliers

We expect our suppliers to meet high standards regarding human rights, the environment and employment issues. Embedding our values and CSR standards in our procurement practices helps us to protect our reputation and make a real difference to the communities where BT and our suppliers operate.

CSR is a key measure in our procurement scorecard. There are three strands to our CSR Procurement Strategy:

- Labour Standards in our global supply chain, including ethical trading: Our standard for Sourcing with Human Dignity ([GS18](#)) sets out the working conditions we expect suppliers to provide for their employees.
- Environment, including climate change: We seek to influence the environmental performance of our suppliers and contractors through our purchasing policy. Our supplier environmental standards ([GS13](#) and [GS19](#)) are included in our procurement contracts and cover issues such as environmental management systems and product stewardship. In 2007, we agreed additional procurement principles that support BT's climate change strategy. This year we have developed a set of questions which is helping us understand what our suppliers are doing to tackle climate change.
- Supplier Diversity: We aim to develop a diverse supply base that provides BT with innovative ideas and products. Potential suppliers can view our standards at <http://www.selling2bt.bt.com/>.

### **Our Escalator plan**

We have developed an "Escalator" plan of sustainability actions and goals showing how our procurement activities help deliver our CSR and sustainability agenda.

This year we focused on climate change and our supply chain, including working to implement our climate change procurement principles and developing a supplier questionnaire relating to climate change. We have raised the score that we expect our services suppliers to achieve in our environmental impact questionnaire.

We have also planned activities for the next three years.

### **Our standards**

This section summarises our standards for the three elements of our CSR procurement strategy: environment, human rights and supplier diversity.

#### **Environment**

We are one of the largest purchasers in the UK, with an environmental influence that extends well beyond that of our own people and workplaces. We seek to influence the environmental performance of our suppliers and contractors through our purchasing policy. Our programme has three strands:

1. Assess suppliers' environmental policies and procedures. All major suppliers must complete our [environmental impact online questionnaire](#) (GS13) and agree to work towards continuous improvement, if required.
2. Manage the environmental impacts of electrical or electronic equipment (EEE). Our pre-contract [product stewardship online questionnaire](#) (GS19) is mandatory for all potential electronic and electrical equipment suppliers.
3. Audit waste management suppliers. All our waste contractors must provide a statement on their waste disposal procedures. Contractors are audited by us (using an external specialist) every year.

We have established procurement principles that support BT's [climate change strategy](#). These state that:

- We will harness the capability, diversity and innovation of our supply base to add value to our business and encourage suppliers to offer solutions which have a reduced environmental impact.
- The energy consumption and environmental impact of a product or service (from manufacture, through usage, to disposal) is a mandatory criterion in all tender adjudication.
- The energy consumption and environmental impact of any replacement product or service (from manufacture, through usage, to disposal) is less than its predecessor.

#### **Human rights**

We expect the working conditions under which the products and services we purchase are produced to meet the standards of the [Universal Declaration of Human Rights](#) (UNDHR) and the [International Labour Organisation](#) (ILO) Conventions.

Our Sourcing with Human Dignity (SWHD) initiative specifies the minimum standards we expect of our suppliers in the following areas:

- Child labour
- Cruel, harsh and inhuman treatment
- Forced labour
- Discrimination
- Freedom of association and collective bargaining
- Health and safety
- Wages
- Working hours
- Regular employment entitlements.

Find out more on [Sourcing with Human Dignity](#).

## Supplier diversity

The following questions on supplier diversity are included in our labour standards questionnaire GS18:

- How many employees are there in your company?
- How is your company owned?
- Do you consider yourself to be a Minority Business Enterprise (MBE)?
- Where is your company headquartered?
- Do you monitor the diversity of your workforce relating to ethnicity?
- Do you monitor the diversity of your workforce relating to disability?
- Do you monitor the diversity of your workforce relating to gender?
- Do you monitor the diversity of your workforce relating to age?
- Do you monitor the diversity of your workforce relating to sexual orientation?
- Do you monitor the diversity of your workforce relating to belief?
- Do you monitor the diversity of your supply chain?

## Supplier management

### Governance

Our chief procurement officer, Neil Rogers, has overall responsibility for our CSR supply chain programmes and reports to a member of the Board. Our CSR strategy and policy manager for procurement oversees implementation of our strategy and provides advice and direction on CSR issues.

Our buyers implement the programmes supported by our procurement CSR managers and a virtual CSR team. This team is made up from individuals representing different procurement areas, who each have a responsibility for CSR within their teams, such as communicating key messages.

We have set up three procurement delivery centres outside the UK to help us manage our increasingly global supply chain: one in New Delhi, India, one in Shanghai in China and one in Budapest in Hungary. One person in Shanghai has joined the CSR team.

### Risk based approach

We source from thousands of suppliers worldwide and it is not possible to engage in detail with all of these companies. We adopt a risk-based approach to help us focus our efforts. A supplier may present a higher risk to BT because of the product or service it provides or its location. In some countries labour and environmental regulations may be poorly enforced and suppliers may well operate to standards below UK norms.

All new suppliers are required to complete our [GS13](#) (environmental) and [GS18](#) (Sourcing with human dignity, also known as labour standards) questionnaires via our online procurement portal. This helps us to establish whether there is a high, medium or low risk of a particular supplier not meeting our CSR standards. These questionnaires also ask for information on companies' own suppliers which help us identify risks further down our supply chain.

We follow up with medium or high risk suppliers within three months. This ranges from a simple discussion with the supplier to clarify their responses to our questionnaires, to a full [on-site assessment](#).

All suppliers of electrical and electronic equipment are required to fill in our [GS19](#) questionnaire. This gives us vital information about the environmental impacts of products and helps us select environmentally preferable suppliers during the tender process.

### Activity in 2008

In the past year we began requesting suppliers to fill in our questionnaires pre-contract to help us further integrate CSR into our procurement decisions.

We also raised the minimum score required by our services suppliers, recognising that they can have a big environmental impact, for example distributors, recruitment specialists or consultants

We used our climate change procurement principles, developed in 2007, during several tendering exercises; including BT own use corporate credit cards and electrical wholesalers. This gave us information on what these suppliers are doing to tackle climate change, from nothing to having fully embedded processes and measurable targets.

To date 1,935 suppliers have completed our self assessment questionnaires and we are currently working with 244 suppliers on environmental standards, and 235 suppliers on labour standards.

## Training and awareness

We train our procurement teams using a number of channels to ensure they understand our CSR standards:

- 'Bite size' presentations covering specific topics. These are conducted via web-meeting to reduce the need for our employees to travel.
- Videoconferences
- Face to face sessions

- Bespoke induction training

In the 2008 financial year, we trained our India Procurement Delivery Centre team regarding the Climate Change Procurement Principles via two videoconferencing sessions.

Over 100 procurement people to date have been trained on our Climate Change Procurement Principles.

We also conduct initiatives to raise awareness of our standards among suppliers. For example, we launched our Climate Change Procurement Principles with 200 suppliers at our supplier conference in June 2007.

We engaged a third party to deliver some specialist Health and Safety training for BT and a Chinese supplier.

Our follow up calls with suppliers as a result of them filling in our questionnaires also helps raise awareness.

## Assessments

We carry out detailed assessments of suppliers, which we identify as high or medium risk, through our CSR questionnaires. We also have an ongoing programme of on-site assessments for a number of high risk suppliers.

Assessments help us to identify areas for improvement. We take a collaborative approach and work with suppliers to resolve issues identified during assessments. We recognise that the most effective way to bring lasting improvements is to empower our suppliers to manage risks in their own operations and supply chains.

Assessments also raise awareness of our standards and emphasise the importance of CSR to BT.

To date, we have carried out assessments in-house. However, during the past year we have engaged a third party so we can increase the number of on-site assessments we can complete, this also gives us greater resource flexibility.

When we assess a subcontractor, we are accompanied by our tier one suppliers (the company that supplies us directly). This joint approach increases our influence with the subcontractor.

Site assessments cover our Sourcing with Human Dignity standard and our environmental standards. A typical assessment includes:

- a review of documentation, such as payslips and personal records
- interviews with managers
- a walk around the premises, including canteen and accommodation facilities
- worker interviews.

Where possible, worker interviews are conducted by NGOs or independent assessors. Interviewers always speak the worker's language and, where possible, are of the same gender. Findings are reported back to supplier management anonymously to protect the workers.

We discuss assessment findings with suppliers and agree appropriate improvement plans. These are then followed up through reports, review meetings, or return visits to assess developments.

### Assessments in 2008 financial year

We completed 25 site assessments in India, China, Taiwan, the Philippines and Romania, compared to a total of 20 in the 2007 financial year. Suppliers assessed included:

- 20 existing or potential tier one suppliers
- Two existing tier two suppliers
- One potential tier three supplier

We visited the potential tier three supplier jointly with the tier one and tier two supplier in Taiwan. We stopped any consideration of the use of this particular tier three supplier in our supply chain because of concerns on labour standards and environmental impact.

The most common, significant issues found during assessments of medium and high CSR risk suppliers are around health and safety, and the welfare of employees.

We sponsored an external review of how we implement our Sourcing with Human Dignity standard. In the 2008 financial year, in line with our external target, we have reviewed the findings and developed an action plan. We will work on the action plan during the coming year.

## Working with others

### GeSI

BT is a founder member of GeSI (the Global e Sustainability Initiative). We participate in its Supply Chain Working Group which is developing a common industry approach to improving labour and environmental issues across the global ICT supply chain. In the 2008 financial year we were involved in helping develop E-Tasc, a web based supply chain risk management tool developed under sponsorship of GeSI and EICC (Electronics Industry Code of Conduct).

### Environmental Resources Management (ERM)

This year we contracted with a supplier called ERM to enable us to carry out more on-site CSR assessments. They helped us with assessments in the Philippines and Taiwan.

See more on our broader approach to stakeholder engagement [here](#).

## Supplier diversity

We believe that doing business with diverse suppliers can help us reach more customers and contribute to innovation within our business.

We are committed to expanding procurement opportunities for minority businesses. This brings diverse ideas to our business and helps us create innovative new products and services.

There is growing interest in supplier diversity in the UK and we frequently receive enquiries on our approach to this issue from potential public sector and corporate customers.

BT procurement employees work closely with our diversity team to increase the diversity of our supply chain.

### Assessing the diversity of our supply chain

We use a questionnaire to help us understand the diversity of our global supply chain and to identify ways to help more small and minority owned businesses work with BT.

In 2008, 361 contracted suppliers completed the questionnaire (out of a total of 2,028 suppliers contacted). 9% of respondents identified themselves as a Minority Business Enterprise (MBE). An MBE is a company which is at least 51% owned, controlled or operated by people who are members of an ethnic minority group, are women, are disabled or are either lesbian, gay, bisexual or trans-gender.

### Working in partnership

We are working with others to improve our understanding of this issue and find ways to increase the diversity of our supply base. For example:

- We have joined Minority Supplier Development UK (MSDUK), an organisation that provides a link between UK businesses and diverse suppliers. The organisation hosts a website which lists diverse suppliers. BT hosted a workshop in 2007 where minority owned suppliers outlined the issues they face in growing their business and described their experiences of working with MSDUK. We also participate in the organisation's Supplier Development and Best Practice working groups.
- We became a member of the East London Business Place, an organisation that facilitates engagement between London corporates and local businesses in the east of the capital.
- We contributed to a Business in the Community – Business Action on Supplier Diversity Booklet, and hosted the launch in January 2007.
- We participated in two externally facilitated Meet the Buyer events for minority businesses. A number of diversity suppliers were introduced to BT procurement. We plan to take part in similar events during the 2009 financial year.

### Other activities

In November 2007, during BT Diversity week, we held a supplier diversity event to launch our new strategy. The event was attended by representatives from business (including minority owned companies) and the public sector as well as BT sales and procurement employees.

We want to make it easier for our procurement teams to buy from diverse suppliers. We are developing diversity sourcing tools for our buyers to use as part of their sourcing activities.

## Climate change

Our new climate strategy, launched in January 2007, includes a commitment to engage our suppliers to help us reduce the environmental impact of our products.

We have introduced three procurement principles, on how we engage with our suppliers on climate change:

1. We will harness the capability, diversity and innovation of our supply base to add value to our business and encourage suppliers to offer solutions which have a reduced environmental impact.
2. That the energy consumption and environmental impact of a product or service (from manufacture, through usage, to disposal) is a mandatory criterion in all tender adjudication.
3. That the energy consumption and environmental impact of any replacement product or service (from manufacture, through usage, to disposal) is less than its predecessor.

In June 2007 we held a strategy event to launch the principles to our top 200 suppliers. The reaction to the principles was very positive. Out of 130 entries to our Supplier Innovation Awards which ran over the summer, over a third involved innovation in energy efficiency and environmental improvements.

To date over 100 BT buyers around the world have participated in workshops on the principles.

How we implement these Climate Change Procurement Principles will depend on the product or service that we are buying. We have developed a set of supplier questions which help us understand what our suppliers are doing to tackle climate change. We have found to be particularly useful in differentiating our service suppliers at the tender adjudication stage as some suppliers are doing nothing, whilst others have had plans and targets in place for some time.

## Encouraging innovation

Our suppliers are vital to the success of our business and our ability to meet our CSR objectives. In 2007, we launched the Supplier Innovation Awards, which challenges suppliers to come up with ideas that benefit BT, our customers and the environment.

We received 130 entries, over a third of which involved innovation in energy efficiency and environmental improvements. The six winning companies were:

- Computacenter won the Outstanding Innovation award for its efforts to solve data centre capacity problems, while reducing energy use and costs.
- Salmor received the award for an innovative idea to reduce costs, and speed up installation of their prefabricated joint box chamber which is made of recycled materials.
- Factair reduced fuel consumption of its lightweight compressor by 60% and exhaust emissions by over 50%.
- Motorola provided live encoding software to enable the delivery of football via BT Vision.
- StreamShield received the award for their collaborative work with BT to develop a system that tackles internet spam.
- 3M helped us simplify our operations with an idea that makes engineers' work safer and simpler.

## Suppliers - Key Performance Indicators

Indicator	Description	Measure	Target
Supplier Relationships	A measure of the overall success of BT's relationship with its suppliers.	78% achieved in 2008 (See Note 8).	To achieve a rating of 80% or more in 2009.
Ethical Trading	A measure of the application of BT's supply chain human rights standard (See Note 6)	During the 2008 financial year there were 213 risk assessments with 100% follow up.	To achieve 100% follow up within three months for all suppliers identified as high or medium risk during the 2008 financial year.

Note 8: A new measure was introduced during 2008. The question asked in 2008 was: - How would you describe your company's relationship with BT in terms of overall quality of relationship? 78% said the relationship was excellent or good. See archived reports for earlier measures.

Note 6: Risk assessments are based on completed questionnaires

## Suppliers Targets

Start Date	End Date	Description	Update	Target Status
April 2008	March 2009	80% of BT contracts placed will take energy consumption and / or environmental impact into consideration in the award of business		New
April 2008	March 2009	30% of BT 'product or service replacement contracts' awarded will be able to demonstrate an improvement in energy efficiency and/or reduced environmental impact (dependant on product or service type)		New
April 2008	March 2009	BT will achieve 100% follow up within three months for all suppliers identified as high or medium risk as a result of assessment using supplier procurement standards		New
April 2008	March 2009	BT will incorporate the Sourcing with Human Dignity (SWHD) action plan into the BT sustainability plan		New
April 2008	March 2009	BT will develop a coach approach on labour standards and engage with 3 global suppliers and their supply chains		New

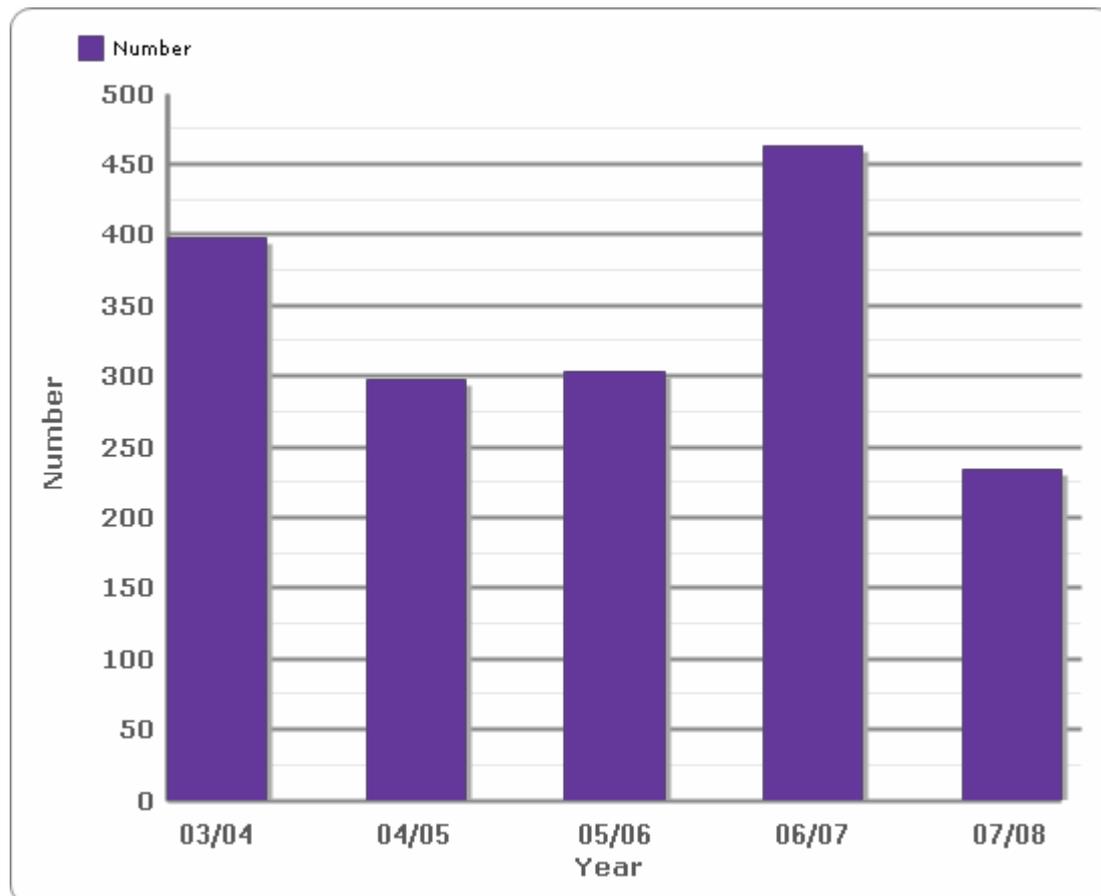
## Fair treatment of suppliers Targets

Start Date	End Date	Description	Update	Target Status
April 2008	March 2009	BT will survey its suppliers to determine the percentage that agree with the statement 'BT works with its suppliers to ensure its purchases are made, delivered, used and disposed of in a socially and environmentally responsible manner'		New

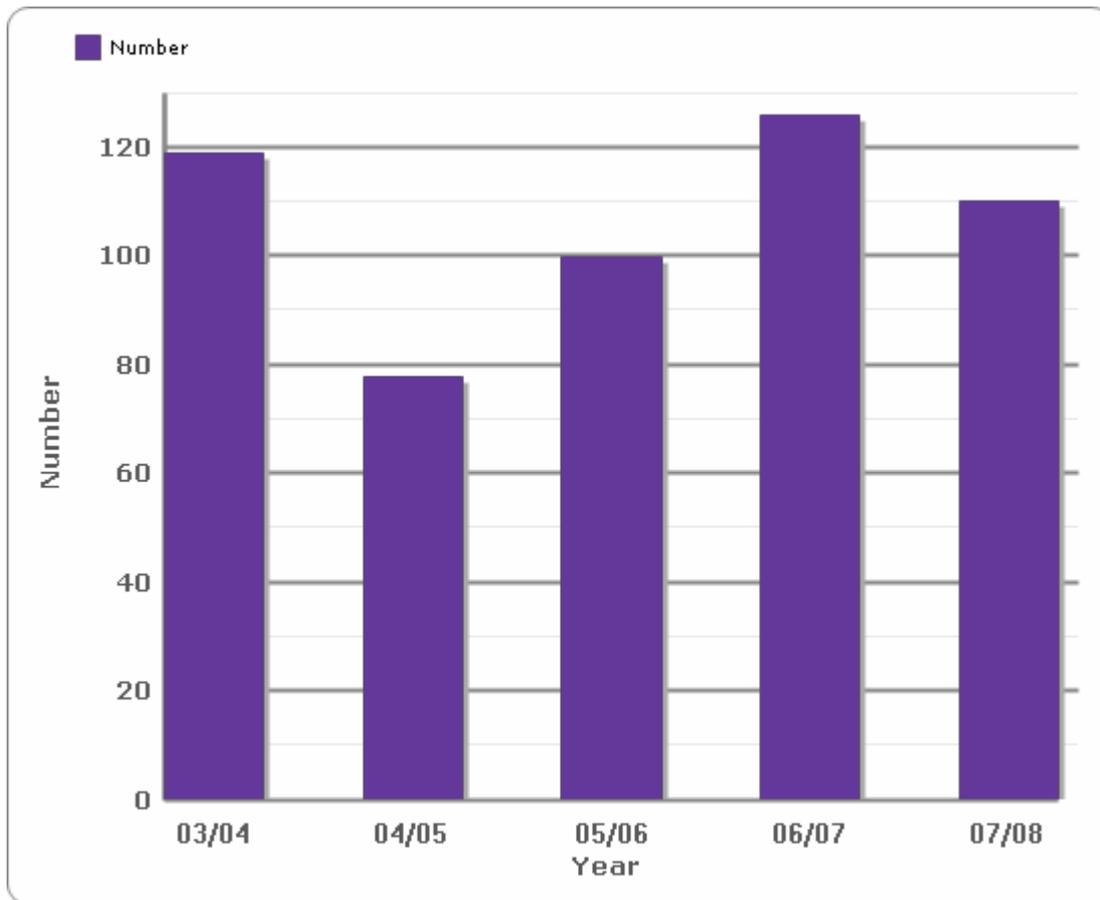
## Supplier assessment Targets

Start Date	End Date	Description	Update	Target Status
April 2008	March 2009	BT will achieve 100% follow up within three months for all suppliers identified as high or medium risk as a result of assessment using supplier procurement standards		New
April 2008	March 2009	BT will develop a coach approach on labour standards and engage with 3 global suppliers and their supply chains		New
April 2007	March 2008	There will be evidence of follow up action taken within 3 months relating to all suppliers who have been identified as requiring continuous improvement as a result of completing our CSR questionnaires	100% follow up was achieved with 234 assessments completed.	Completed

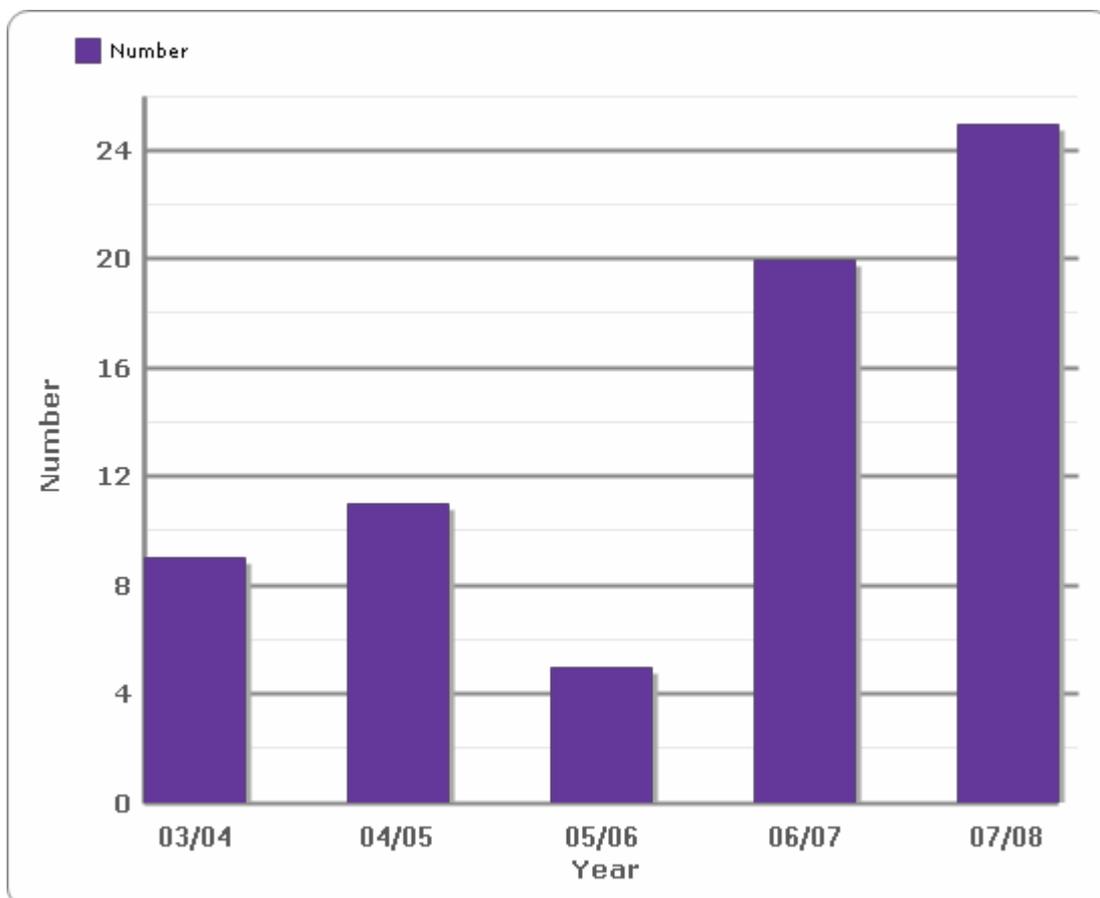
## Number of Environment assessment questionnaires (GS13) completed



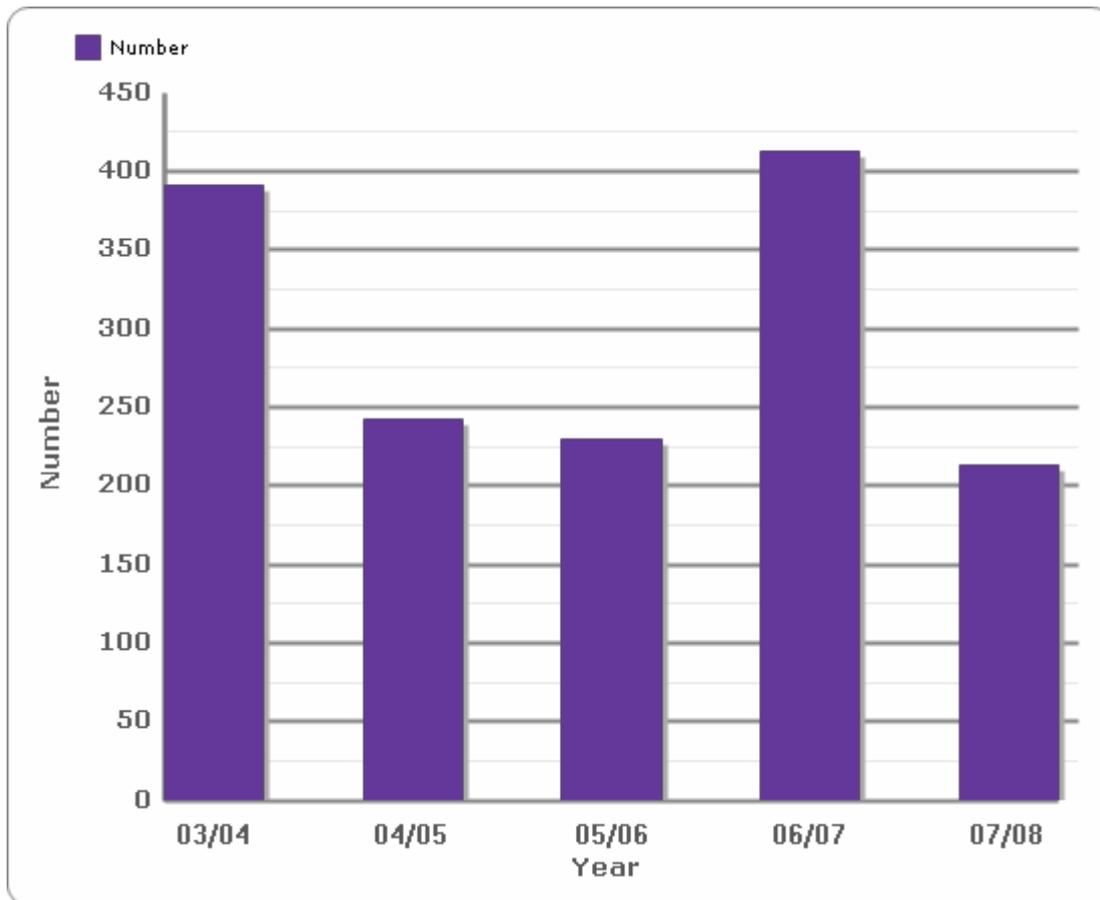
**Number of Environment questionnaires (GS13) where continuous improvement was required**



**Number of SWHD on-site assessments**



**Number of SWHD risk assessment questionnaires (GS18) completed**



**Number of SWHD questionnaires (GS18) where further action was required**

