Costing a Living Wage in the Global Apparel Industry: Some evidence from UK Fashion Retail
'In all buying, consider first, what condition of existence you cause in the production of what you buy; secondly, whether the sum you have paid is just to the producer, and in due proportion lodged in his hand'

John Ruskin *

*1860 Unto This Last, Essays from the Cornhill Magazine 1862
Overview

• The structural problem in wage determination in apparel

• Buyer strategies for delivering a living wage

• A costing model

• Next steps
Wage determination in Apparel

Buyer A

Buyer B

Buyer C

Buyer D

Buyer E

Fob

Fob

Fob

Fob

Fob

Employers Association

Factory

Minimum Wage

Govt

TUs

Northumbria Research Conference
Structural downward pressure on minimum wages and take home pay

- Employers’/Govt. position international competitiveness in NMW determination

- ‘Slowest ship in convoy’ – ability to pay

- ‘Shoddy’ to non-existent labour costing

- Shareholder value means that there is always pressure on ‘CMT’ element
CMT Cut Make and Trim Cost

A ball park figure

- Labour cost
- Over head
- Factory Profit

Northumbria Research Conference
Figure 1: Import Price Trends on selected garments from Non EU countries into the UK 2000-2009

Source: Clothesource[1]

Northumbria Research Conference
Minimum Wage in Bangladesh

• 1985 Taka 627

• 1994 (9 years) Taka 930

• 2006 (12 years) Taka 1,662.50

• 2010 (4 years) Taka 3,000 (Euro 40)

Average year on year inflation of 7% 1985 -2010  Source IMF

Northumbria Research Conference
Definition of a Living Wage

Wages should always be enough to meet basic needs and to provide some discretionary income.
### How far does 3000 per month BDT go?

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>House rent:</td>
<td>1 000/1 500</td>
</tr>
<tr>
<td>Transport:</td>
<td>300</td>
</tr>
<tr>
<td>Children (education):</td>
<td>700</td>
</tr>
<tr>
<td>Food:</td>
<td>1700 (700 for rice, 350 Vegetables 450 fish/meat 3 x a week (oil) 300)</td>
</tr>
<tr>
<td>Cosmetics/soap:</td>
<td>250</td>
</tr>
<tr>
<td>Clothing:</td>
<td>200</td>
</tr>
<tr>
<td>Medical:</td>
<td>100/150...usually avoid</td>
</tr>
<tr>
<td>Mobile:</td>
<td>250</td>
</tr>
</tbody>
</table>

*Courtesy: Fairwear Foundation*
5 Possible buyer options for improving wages

- Pay more, reduced margin
- Pass on to consumer (Fairtrade model)
- Make savings through GVC efficiencies (logistics?)
- Seek productivity gains (process upgrading)
- Pay no more - supplier takes a hit on their margin
A BREAKTHROUGH?
Plan A Commitment 2010-2015

Implement a process to ensure our clothing suppliers are able to pay workers a fair living wage in the least developed countries we source from, starting with Bangladesh, India and Sri Lanka by 2015. We will achieve this by ensuring that the cost prices we pay to our suppliers are adequate to pay a fair living wage and by rolling out our ethical model factory programme to ensure the cost price benefits are paid to workers.
Key Research Question

How do we ensure that the cost prices we pay to our suppliers are adequate to pay a living wage?
Costing labour using standard minute values

• These are calculations of time taken to make a particular garment

• Predictive costing = use of predetermined time standards or

• Historic times

• In plant work study
## Style Report - Costing

<table>
<thead>
<tr>
<th>Style File Number</th>
<th>QMTS001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Style Number / Title</td>
<td>Mens T Shirt</td>
</tr>
</tbody>
</table>
| Style Description | Includes Cutting Room operations  
Tacked sleeve seam ends |

<table>
<thead>
<tr>
<th>Customer</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Season</td>
<td></td>
</tr>
<tr>
<td>Product Ref.</td>
<td></td>
</tr>
<tr>
<td>Order Quantity</td>
<td></td>
</tr>
<tr>
<td>Comments</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>S.M.V.</th>
<th>@ Eff.</th>
<th>Act. Local Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cutting</td>
<td>0.996</td>
<td>1.327</td>
<td>0.113</td>
</tr>
<tr>
<td>Machining</td>
<td>6.537</td>
<td>8.717</td>
<td>0.618</td>
</tr>
<tr>
<td>Examination</td>
<td>1.111</td>
<td>1.481</td>
<td>0.098</td>
</tr>
<tr>
<td>Pressing</td>
<td>0.563</td>
<td>1.150</td>
<td>0.076</td>
</tr>
<tr>
<td>Packing</td>
<td>1.056</td>
<td>1.411</td>
<td>0.093</td>
</tr>
<tr>
<td>Outwork</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10.565</strong></td>
<td><strong>14.086</strong></td>
<td><strong>0.999</strong></td>
</tr>
</tbody>
</table>

| Factory Overheads | % | 0.000 | 0.000 |
| Fabric Range Variance | % | 0.000 | 0.000 |
| Learning Curve Allowance | % | 0.000 | 0.000 |

| Contract Washing Minutes | 0.000 |
| Contract Decorative Mins | 0.000 |

| **Total Production Cost** | **0.999** |

| Fusible | 0.000 |
| Lining | 0.000 |
| Fabric | 0.000 |
| Thread | 0.000 |
| Trimmings | 0.000 |

| **Total Material Cost** | **0.000** |

| Prime Cost | 1.00 |
| Social & Employment Costs | % | 0.00 |
| Sales and Admin Overhead | % | 0.00 |
| Contingencies | % | 0.00 |
| Quote |  |
| Transport |  |
| Freight Insurance |  |

| **Total Local Cost** | **1.00** |
| Costing in | @ |
| **Total Cost** | **0.00** |
| Margin | % | 0.00 |
| Costed Selling Price | 0.00 |
| Price Point/ Actual Margin | 0.00 % |

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**Created By**: GSD  
**Amended By**: GSD  
**09/02/2010**  
**10/03/2010**
T Shirt SMV = 10.565

- Available Minutes in a month
- 26 days x 8 hours x 60 minutes

= 12480

Next we need to know monthly labour cost
<table>
<thead>
<tr>
<th>Grade</th>
<th>New Amount</th>
<th>Rise in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade-I</td>
<td>Tk 9,300</td>
<td>81</td>
</tr>
<tr>
<td>Grade-II</td>
<td>Tk 7,200</td>
<td>87</td>
</tr>
<tr>
<td>Grade-III</td>
<td>Tk 4,120</td>
<td>68</td>
</tr>
<tr>
<td>Grade-IV</td>
<td>Tk 3,763</td>
<td>67</td>
</tr>
<tr>
<td>Grade-V</td>
<td>Tk 3,455</td>
<td>69</td>
</tr>
<tr>
<td>Grade-VI</td>
<td>Tk 3,210</td>
<td>77</td>
</tr>
<tr>
<td>Grade-VII</td>
<td>Tk 3,000</td>
<td>80</td>
</tr>
<tr>
<td>Apprentice</td>
<td>Tk 2,500</td>
<td>108</td>
</tr>
</tbody>
</table>

How much is 3,210 Taka?
T Shirt SMV = 10.565

- Available Minutes In A Month = 12480

- 1 Minute Currently = 3,210 Taka*/12480 = .0036 US Cents

- T Shirt Labour Cost = 10.565 X .004 = 3.6 Cents = 2.2 Pence

- But At 33% Efficiency The Labour Cost = 10.8 Cents Or 6.6 Pence
But a minimum wage ≠ a living wage

- Current living wage figure in Bangladesh is 5000 Taka

- New Asia Floor Wage figure adjusted for inflation has been calculated for Bangladesh at 12248 BDT!
Paying a Living Wage

• Available Minutes in a month = 12480

• 1 minute = $5000/12480 = .4 Taka = .0056 US cents

• T-shirt labour cost = @ 100% efficiency = 10.565 x .0056 cents = 5.9 cents = 3.7 pence

• At 33% efficiency the labour cost = 17.7 cents or 11p
IMPLICATIONS FOR BUYERS AND SUPPLIERS AND FUTURE RESEARCH
Key actions

• **Disclose** – 4.4. pence more x units ordered

• **Empower** – workers permitted to organise themselves to access this via collective bargaining

• **Enlighten** – Training on pay and productivity required

• **Rotate** – dealing with the pay equity issue in a multi buyer environment
Next steps in Bangladesh....

• Determining whether ‘lean manufacturing’ leads to wage increases/social upgrading.

• Examining the impact of an increase in the minimum wage on this process?

• Testing a labour costing model to deliver on a buyer’s living wage commitments