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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'*

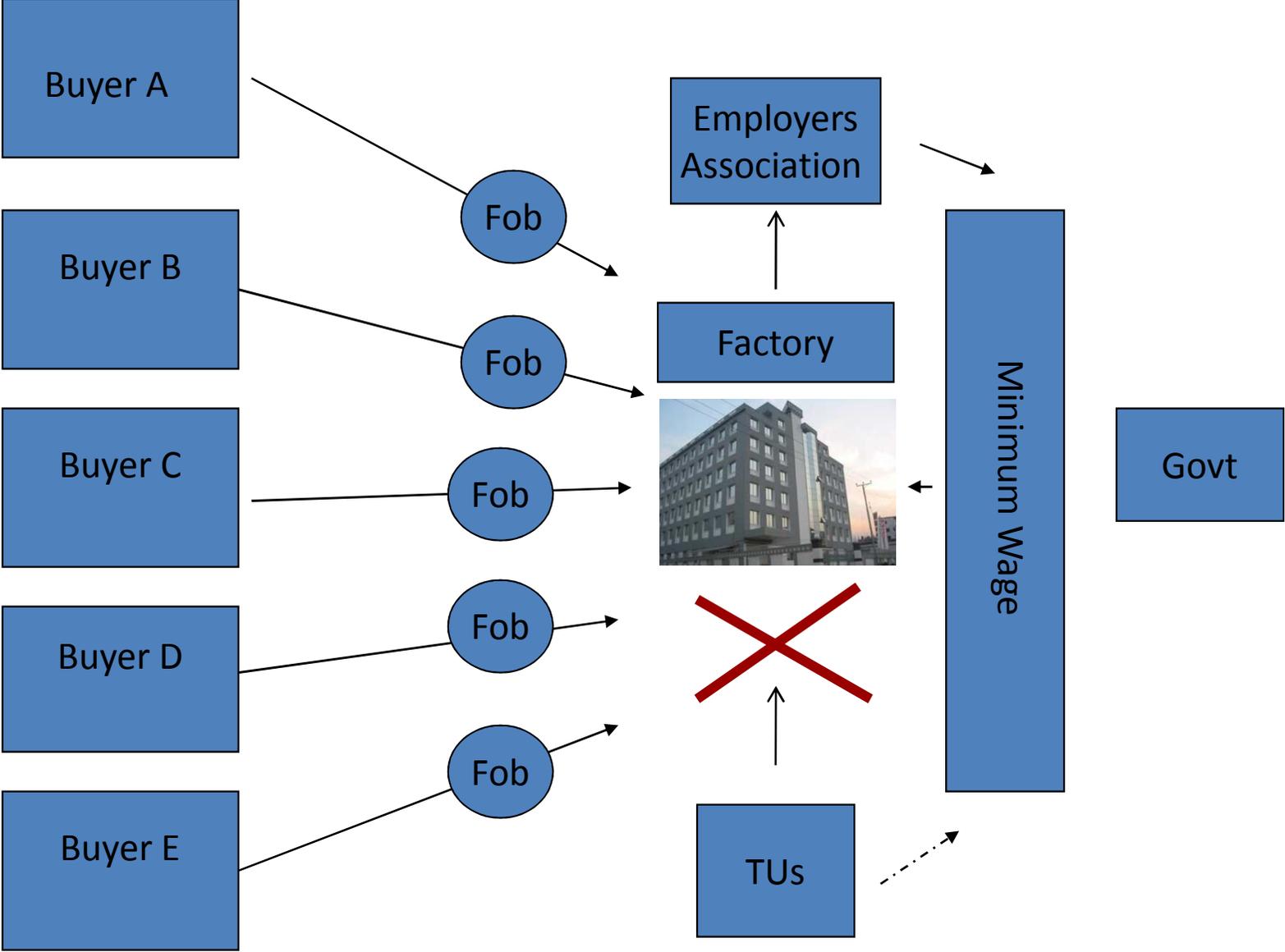
John Ruskin *

*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



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

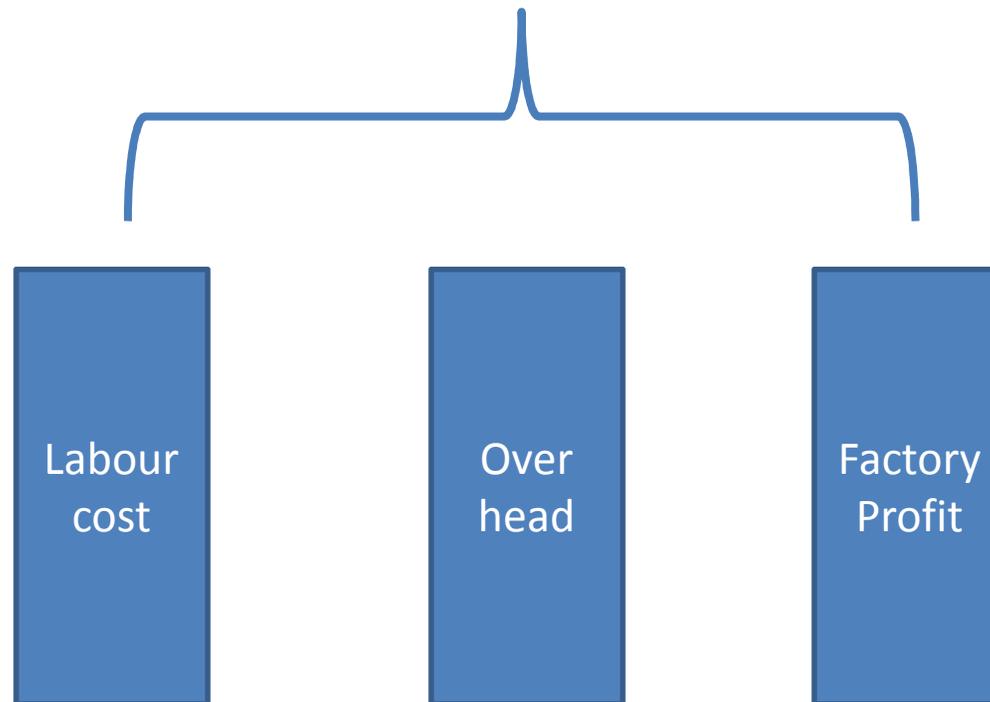
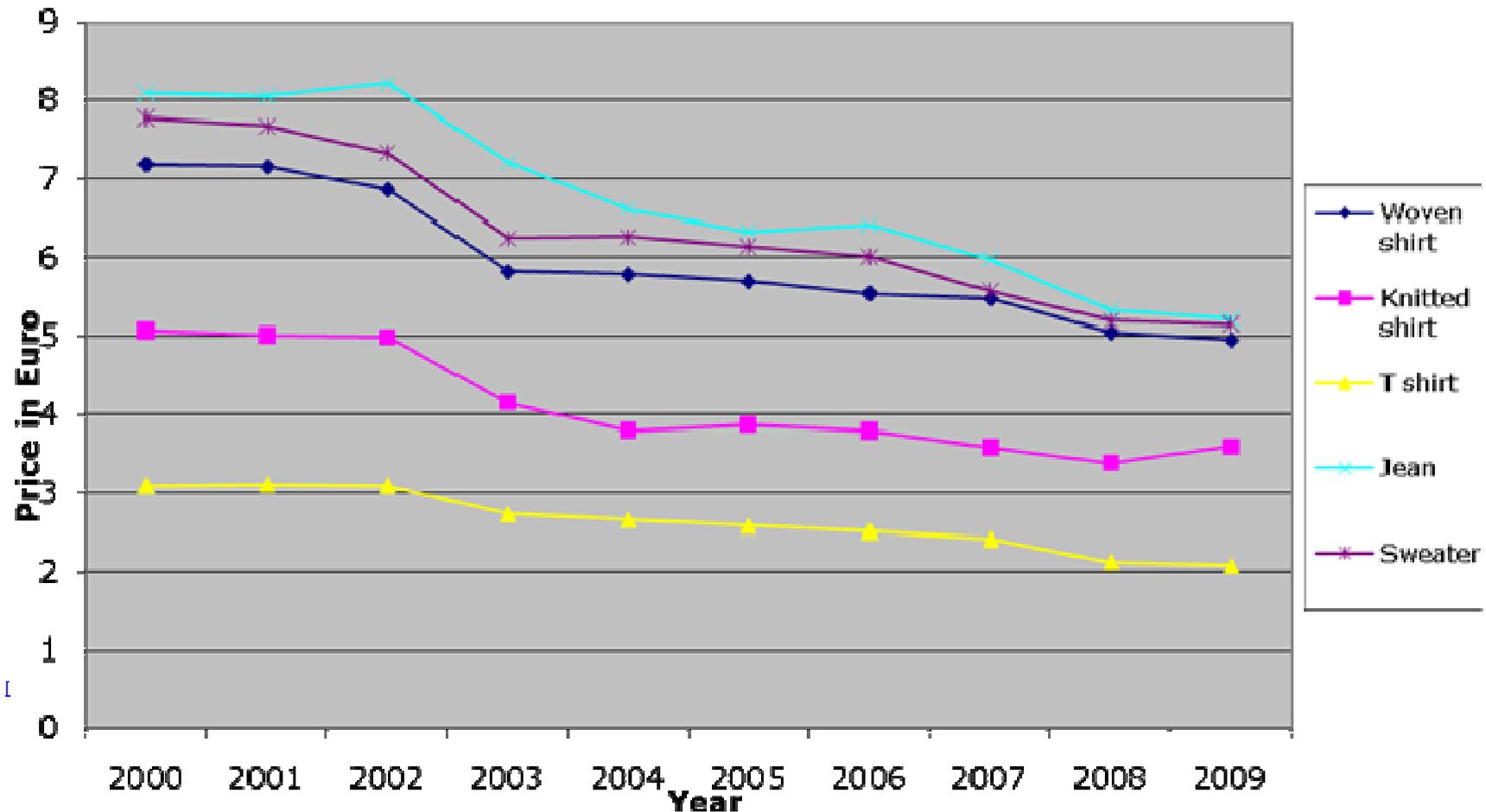


Figure 1: Import Price Trends on selected garments from Non EU countries into the UK 2000-2009



Source: Clothesource^[1]

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

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?

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

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?

MARKS &
SPENCER

Plan A performance



Fair partner



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

Date printed :- 10/03/2010

Style File Number QMTS001 Style Number / Title Mens T Shirt Style Description Includes Cutting Room operations Tacked sleeve seam ends		S.M.V. @ Eff. Act. Local Cost Cutting 0.996 1.327 0.113 Machining 6.537 8.717 0.618 Examination 1.111 1.481 0.098 Pressing 0.863 1.150 0.076 Packing 1.058 1.411 0.093 Outwork 0.000 0.000 0.000 Total 10.565 14.086 0.999	
Customer Season Product Ref. Order Quantity Comments		Factory Overheads % 0.000 0.000 Fabric Range Variance % 0.000 0.000 Learning Curve Allowance % 0.000 0.000 Weighted Cost Contract Washing Minutes 0.000 Contract Decorative Mins 0.000 Total Production Cost 0.999	
			
		Fusable 0.000 Accessories 0.000 Lining 0.000 Packaging 0.000 Fabric 0.000 Embroidery 0.000 Thread 0.000 Misc 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 Quota 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%	
Created By	GSD	09/02/2010	
Amended By	GSD	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

Bangladesh NMW Increase 29 July 2010

	NEW AMOUNT	RISE IN %
Grade-I	Tk 9,300	81
Grade-II	Tk 7,200	87
Grade-III	Tk 4,120	68
Grade-IV	Tk 3,763	67
Grade-V	Tk 3,455	69
Grade-VI	Tk 3,210	77
Grade-VII	Tk 3,000	80
Apprentice	Tk 2,500	108

How much is 3,210 Taka?

T Shirt SMV = 10.565

- Available Minutes In A Month = 12480
- 1 Minute Currently = $3,210 \text{ Taka}^*/12480 = .0036 \text{ US Cents}$
- T Shirt Labour Cost = $10.565 \times .004 = 3.6 \text{ Cents} = 2.2 \text{ Pence}$
- But At 33% Efficiency The Labour Cost = $10.8 \text{ Cents Or } 6.6 \text{ Pence}$

But a minimum wage \neq 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 = $10.565 \times .0056$ 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 RESERACH

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