

Eight steps towards a living wage: A costing model for clothing brands and retailers

Draft for discussion

This briefing presents a model for use by garment buying companies to cost a living wage into the overall amount paid to suppliers.

The model also aims to improve compliance with 'wage defaulting' issues that are endemic in the garment industry, such as payment below the legal minimum rate, and under-payment of overtime.

Whilst buying companies usually specify fabric costs in their supplier contracts, it would appear that most do not break down the labour cost component separately in the overall manufacturing cost.

This absence of accurate labour costing makes it difficult for buyers to determine a factory's capacity, and for suppliers to deliver orders at a negotiated price and date. In turn, this can compromise suppliers' ability to pay decent wages, meet production schedules on time, adhere to overtime standards and comply with local wage laws.

This briefing makes the case for 'fact-based negotiation' between buyers and suppliers based on Standard Minute Values for garments, which can be used to calculate a living wage labour cost.

It argues for the inclusion of such a figure alongside the fabric cost in price negotiations, and for making disclosure of such amounts and 'pass through' to workers a contractual obligation.

In this way individual buyers can contribute towards workers receiving a decent wage, address a root cause of non-compliances and ultimately enhance their brand reputation.

To ensure success, workers will need to be integral to the design, implementation and monitoring of sustainable labour costing. It is important to recognise therefore that this model needs to complement, rather than substitute for, positive measures to promote mature systems of industrial relations that ensure the rights to freedom of association and collective bargaining are respected.

Marks & Spencer's Fair Living Wage commitment

Marks & Spencer is using the labour costing element of this model to help the company implement a public commitment to ensuring its 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 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."

"Almost daily our living costs are increasing and our wages are not enough for us to have a decent life. We work all week and yet we can't afford the basic things that we need on our salaries."

Anishka Ratwatte, a 25-year-old machinist working at a UK-supplying factory in Sri Lanka.

A step-by-step summary of the model is presented on the back page.

The business benefits of using this model

Costing labour more accurately would:

- Assist more **accurate determination of required capacity** for both buyers and suppliers.
- Improve **production planning**, and suppliers' ability to meet **production schedules on time**.
- Drive **efficiency** and **productivity** improvements within factories.
- Lead to more **long-term strategic partnerships** between buyers and suppliers.
- **Assist compliance with wage laws.** Accurate labour costing would also help reduce 'wage defaulting', which is a chronic problem within the garment industry (see right).
- **Enhance brand reputation.** Companies that use this model would send a clear signal to campaign groups that they are serious rather than aspirational about a living wage.

Prevalence of wage non-compliance at suppliers to members of the Fair Labor Association

Underpaying wages	58%
With difficulty paying overtime	68%
With starting wage below minimum wage	23%
With difficulty in paying minimum wage	33%
Not providing social insurance to all workers	77%

Source: Fair Labor Association, 2009

“Food prices weren’t so high before. Now prices are high, sometimes I have food but other times I go without. But I feel that’s alright because if I don’t eat today, I’ll eat tomorrow.”

Shanthi Deveraju, a 19-year-old machinist working at a UK-supplying factory in Bangalore.



Suma,* 38, has worked as a machinist in Bangalore’s garment factories for over 12 years. She was earning £54 per week in 2010 – half the Asia Floor Wage rate of £107. Suma shares a tiny two room flat with her husband, her two children and her brother in a slum district of Bangalore.

Suma and her family live on a diet of mainly rice and vegetables. They have eggs about once a fortnight and chicken about once a month. There are no subsidised meals at her factory. “If we eat chicken and eggs once a day or once in a week we can’t afford to run the family, we can’t afford to pay for education,” Suma says.

*Not her real name.

Photo: Tom Pietrasik/ActionAid

Eight steps towards a living wage: a model for brands and retailers

1

Stage 1: Establish the Standard Minute Value for a garment.

To cost the labour input accurately, buyers need to know the length of time it takes to make a particular garment.

Currently, some buyers may base their price negotiations on ballpark 'historic' timings from previous orders. Others may base negotiations on an often unrealistic time provided by the sampling department of the supplier they intend to use.

More accurate labour costing is possible by using 'Standard Minute Values' (SMVs), which measure the time required for each operation needed to make a particular garment item.

A number of commercial firms offer this service for buying companies, providing SMVs for every new style from an ever growing database of operations. Available software includes a 'drag and drop' function to quickly construct SMVs for new styles.

Tee-shirt example²

Standard Minute Value (SMV) for a basic men's tee-shirt: **10.565**

Cutting	0.996
Machining	6.537
Examination	1.111
Pressing	0.863
Packing	1.058
Outwork	0.000
Total	10.565

2

Stage 2: Calculate the Actual Minute Value, based on factory efficiency

SMVs are based on a 'standard' factory environment. Since factory environments vary, buyers will need to calculate the 'Actual Minute Value' (AMV) for the style in question, based on consultations with their supplier about assembly line efficiency.

Regular consultation with workers and their representatives will be needed, as an unrealistic AMV could result in excessively high targets for employees.

Once assembly line efficiency has been determined, a simple calculation gives us the AMV:
SMV / factory efficiency

Tee-shirt example

For a men's T shirt in a factory operating at 50% efficiency:

$$10.565 / 0.5 = \mathbf{21.13}$$

So the Actual Minute Value for a men's tee-shirt in this factory would be **21.13 minutes**.

3

Stage 3: Identify the existing factory labour cost per unit

By identifying the existing labour cost, buying companies can better determine the difference between the existing wage cost and given living wage benchmarks.

First tier suppliers may be able to provide the existing wage cost, however this may require some corroboration. The following calculation should deliver this figure:

Divide the existing wage figure by the number of minutes in a standard working month.
(For an 8-hour day over 26 days, this comes to 12,480 minutes.)

Divide the mean average earnings including social costs (where these exist) in the factory by 12,480

This gives a monetary value to each minute:
E.g. India: 3,666³ rupees /12,480 = 0.294 rupees = 0.0064 US cents per minute.

Tee-shirt example

SMV = 10.565 x 0.0064 US cents = **6.7 US cents**

At 50% efficiency = 21.13 x 0.0064 US cents = **13.5 US cents**

4

Stage 4: Identify the local living wage

In consultation with unions, establish the living wage rate for the country or region where the supplier is based. If sourcing from Asia, the Asia Floor Wage is widely accepted as a credible minimum living wage benchmark.

Asia Floor Wage ⁴	
Bangladesh	12,204 taka
Cambodia	690,390 riel
China	1,836 yuan
India	7,938 rupees
Indonesia	2,124,468 rupiah
Sri Lanka	19,008 rupees
Thailand	7,567 baht

5

Stage 5: Work out the living wage rate per item

Divide the living wage figure by the number of minutes in a standard working month. Multiply this figure by the AMV.

Tee-shirt example

Asia Floor Wage rate for India: **7,938** rupees per month.

$7,938 / 12,480 = 0.636$ rupees (0.0141 US cents)

So the Asia Floor Wage cost for 1 minute in India is: **0.0141 US cents**

Asia Floor Wage cost for a tee-shirt with an SMV of 10.565 = **14.9 US cents**

At 50% efficiency (21.13) the Asia Floor Wage rate = **29.8 US cents** per tee-shirt

So the Asia Floor Wage cost is an additional **16.3 US cents** per tee-shirt over the existing wage cost.

6

Stage 6: Include the labour cost as a separate element of the cost sheet

Multiply the unit labour cost by the number of items ordered.

Itemise the labour charge separately on the costing sheet and include this sum clearly as a discrete, non-negotiable element in the commercial contract.

Tee-shirt example

Order for 100,000 tee-shirts x 29.8 US cents (cost to achieve a living wage on this order) = **\$29,800**

Of which **\$16,300** is the additional labour cost over and above the existing labour cost.

Each order would thus generate an amount which would accrue over an accounting period/bargaining round.

7

Stage 7: Make 'pass through' of the living wage amount to workers a contractual obligation.

Stipulate in the commercial contract that an additional living wage amount has been *ring-fenced* in the payment for the consignment of goods, and that the supplier must:

- notify workers of this amount
- transfer this amount to workers in a manner according to their choosing.

This obligation should be auditable.



Stage 8: Invite and support workers to negotiate how the living wage amount is distributed, and promote mature systems of industrial relations.

Invite and support workers to organise themselves and negotiate with management how the additional funds will be distributed.

Take concrete steps to promote mature systems of industrial relations that ensure the rights to freedom of association and collective bargaining are respected. For example:

- issuing right to organise guarantees within factories
- ensuring workers are free to affiliate with trade union organisations outside factories
- running worker rights trainings in collaboration with local and or national unions
- making the unit labour cost available to workers' representatives that are engaged in collective bargaining with suppliers.

How costing labour can improve production planning

Let us assume that an order is placed with a weekly production target of **20,000 tee-shirts** where:

- a) the weekly contracted minutes available per worker is **2,880** (48 hours x 60 minutes).
- b) the attendance per week is **97%**.
- c) factory efficiency is **75%**.

A simple calculation gives us the actual number of minutes available per worker per week, accounting for attendance and factory efficiency:

weekly minutes x attendance x factory efficiency

So for our tee-shirt example, each employee will have 2,095 minutes per week:

$$2,880 \times 0.97 \times 0.75 = \mathbf{2,095}$$

The standard minutes required in one week will be $20,000 \times 10.565 = \mathbf{211,300}$.

Dividing the weekly AMV for one worker (2,095) by the total standard minutes available (211,300) gives us the number of full-time equivalent employees required for the order:

$$211,300 / 2,095 = \mathbf{101 \text{ employees needed}}$$

Supportive measures

By adopting the following measures, buying companies would help ensure that labour costing is sustainable, and help move towards fact-based negotiation becoming a standard practice within the clothing industry.

— Start with strategic suppliers

The model could be implemented initially with key suppliers from which a buyer purchases a relatively large proportion of output.

— Roll out across the supply base

Marks & Spencer has made a public commitment to mainstream labour costing, and other buyers can similarly roll the model out across the supply base. This could involve giving incentives to suppliers. For example, establishing stable, long-term relations with suppliers that adopt the model; providing clear commitments about the volume and duration of orders; and granting preferred supplier status to participating suppliers.

— Provide incentives to buying staff

Buying staff could be given bonuses 1) for following the model during price negotiations, and 2) if compliance data show wages have risen as a consequence.

— Promote the model within the industry

Buyers could actively promote the model in various fora, including within multi-stakeholder initiatives.

“We work all day and at the end of the month I have nothing to show for it.”

Anishka Ratwate, a 25-year-old factory operator at a UK-supplying factory in Bangladesh.



Meet Rathna

J. M. Rathna, 39, has worked in Bangalore's clothing factories for 16 years. She lives with her husband and two sons in a tiny two-roomed flat in a slum district in the city. They share a toilet with four other families and have no running water in their home.

Despite Rathna's long service in the garment industry, as of December 2010 she was paid only the minimum wage of £53 a month. This is half the Asia Floor Wage figure of £107 for India.

“The cost of living is high,” Rathna says. “We have to pay rent, utilities bill, water bill and the salary we get isn't sufficient to meet all that. It's very hard work, but we have to live – there's no other way.”

In common with her colleagues across the garment industry, Rathna is regularly given excessively high targets. “They give us production targets which are very difficult to achieve,” she says. “Targets are given and if we can't do that then we are forced to stay back and do overtime. They won't allow us to take breaks on those days.”

Photo: Tom Pietrasik/ActionAid

Step-by-step summary

1

Identify the Standard Minute Value (SMV).

Example: The SMV for a 5-pocket Western-style pair of jeans = 20.737

2

Determine factory efficiency to identify the Actual Minute Value (AMV).

Example: If a factory in Bangladesh operates at 60% efficiency, divide the SMV by 0.6. So in this factory, the AMV for jeans = 34.561

3

Calculate the existing labour cost per garment.

Example: If workers in the Bangladesh factory are receiving the legal minimum rate of 3,000 taka for a standard 48-hour week (12,480 minutes), this works out at 0.240 taka per minute.

4

Identify the local living wage, in consultation with unions.

Example: The Asia Floor Wage for Bangladesh is currently 12,204 taka. This works out at 0.978 taka per minute.

5

Calculate the living wage rate per garment.

Example: The AMV for a pair of jeans is 34.561. Multiply this by the living wage rate per minute of 0.978 = 33.801 taka.

6

Include the labour cost as a separate element of the charge sheet.

Example: For an order of 50,000 jeans, multiply 50,000 by 33.801 = 1,690,000 taka (US\$22,800). Include this sum as a separate, non-negotiable element of the charge sheet.

7

Stipulate in the commercial contract that this amount will be notified and transferred to workers.

8

Invite and support workers to organise themselves to decide how the living wage amount should be distributed, and promote mature industrial relations within factories.

Examples:

- issue right to organise guarantees within factories
- run worker rights trainings in collaboration with local and or national unions
- ensure workers are free to affiliate with trade union organisations outside factories
- make the unit labour cost available to workers' representatives that are engaged in collective bargaining with suppliers.

Endnotes

1 Sampling may be done by an experienced machinist, who may be located in a sourcing hub rather than an actual factory. As such the 'AMV' quoted by the supplier may be unrealistic, both for actual factory conditions and for the average worker.

2 Figures provided by General Sewing Data.

3 Bangalore minimum wage figure, as of July 2010.

4 The Asia Floor Wage is revised every year to account for inflation. These figures are correct for 2011.

ActionAid UK

ActionAid UK Head Office

33-39 Bowling Green Lane,
London, UK
EC1R 0BJ

T: +44 (0)20 3122 0561
F: +44 (0)20 7278 5667
E: mail@actionaid.org

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