

MATHEMATICS - LEVEL 3

SUMMER PREPARATION TASK

Read the article and try to make sense of the numbers involved.

Things to do:

1. Itemise the cost of a pair of jeans (eg, how much is labour, how much shipping, how much for materials, etc)
2. What percentage of the price we pay for jeans goes to each part of the supply chain?
3. If the jeans were 50p more expensive, with all of that extra money going to those who make the jeans, what effect would that have on the salary of those workers?
4. Why can't all of that extra money go to the workers? (VAT!)

Here is the article from the Guardian newspaper:

Source: <http://www.theguardian.com/business/2016/mar/13/lidl-jeans-bangladesh-worker-pay-23p-an-hour>

HOW CAN LIDL SELL JEANS FOR £5.99? EASY ... PAY PEOPLE 23P AN HOUR TO MAKE THEM

Abracadabra! "Jean genie Lidl magics up £5.99 denims," shouted the headline in a newspaper last weekend as it extolled the brilliance of the cut-price supermarket chain in once again undercutting its rivals.

The German retailer, it explained, was continuing its assault on the traditional supermarket giants by targeting the high street fashion-conscious with jeans selling for an astonishing £12 less than a similar pair in Tesco.

How could these retail wizards do it? The unchallenged line from Lidl was that its huge buying power was the answer. It was just good at doing deals.

But let us be clear. This is not magic. It is not Harry Potter making these jeans, it is a young woman in a factory in Bangladesh and one of the main reasons they are so cheap is that workers like her are paid as little as 2p for every pair they make.

Still, £5.99 is quite an achievement when even Primark – no slouches in the cost-cutting field – have only managed to get their lowest price down to £8. So how do they do it?

"Lidl surprises" is the slogan the supermarket currently uses to cunningly flog its wares, but it is no surprise to discover that the firm, like many of the British high street retailers, does much of its clothes shopping in Bangladesh, where the minimum legal wage for a garment worker is 23p an hour.

Sure enough, when the new range launched on Thursday morning at Lidl's more than 600 UK stores as part of the "We Love Denim" promotion – the word "love" denoted by a denim heart – the labels revealed Bangladesh as the source of the jeans. In a range of sizes and colours, they are dumped higgledy-piggledy in wire baskets at the rear of the store, but even Lidl's most ardent fans would probably concede that no one seeks out the stores for a retail therapy experience, so there are a few pennies saved on display costs for starters.



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Guardian newspaper article cont:

The headline-grabbing £5.99 offering is actually a pair of “jeggings” – tight-fitting leggings that resemble jeans. The label says they have a “stylish denim effect”. Cotton-rich fabric (77%), with an elasticated waistband; they have a single button, a YKK zip, two back pockets and two at the front, held together with stitching, no rivets. There is no embroidery on the pockets.

This is all important. Every additional detail adds to the price of the finished item. A breakdown of costs at a Bangladeshi jeans factory published by Bloomberg in 2013 priced a zip at 10p, a button at 4p and rivets at 1p each. Embroidery added another 9p, the pockets 6p and the labels 7p. At these margins, every single penny counts, so it is no surprise to find that the jeggings are pared back to the bone.

But the Boyfriend Jeans, at £7.99, appear to be the real thing: four pockets plus that baffling little one inside the front pocket on the right of the body (it is a watch pocket, apparently). There are six belt loops, five rivets, three buttons and a YKK zip. And they are made from 100% cotton, the material being the most expensive element of the production process: in the range of £2.30 to £2.50.

There is thread to pay for too, for the stitching, which might be as much as 19p, and the finished pair will need to be washed, so if we are going to try to put a price on the materials we are probably looking around the £3.90 mark.

Now we need to assemble those materials. Luckily – for the buyer – that is not nearly as expensive.

Most of the workers in Bangladeshi garment factories are women and most are paid at the minimum legal wage of 5,300 takas a month (about £48). That is 23p an hour on an eight-hour, six-day, week. It is a fifth of the £230 a month estimated by the Asia Floor Wage Alliance to be the minimum required for a living wage back in 2013.

To accurately work out the labour cost, you need to know how many pairs of jeans the factory turns out a day. The available figures cover quite a broad range: research in India found workers in one factory averaging 20 pairs a day, while a different study in Tunisia found 33 pairs a day. It all depends on the quality and complexity of the design. In 2010 the Institute for Global Labour and Human Rights looked at Bangladesh and found a team of 25 workers turning out 250 pairs of jeans an hour – 10 per worker, or 80 per worker per day.

That means a minimum wage worker would be paid somewhere in a range between 2p and 9p for each pair of jeans they make, which is broadly in line with a 2011 study of Bangladeshi garment manufacture by the US consultancy O'Rourke Group Partners, which priced the labour costs for a polo shirt at 8p.

O'Rourke put the total factory costs per shirt at 41p: Bloomberg calculated its Bangladeshi jeans cost the factory 56p to make, and the factory added on 16p in profit.

Splitting the difference, we are now up to about £4.50. But we still need to ship the jeans, and there are warehouse charges and port fees, so we can stick on another 30p, taking us up to £4.80. And we still need to get them from the port to the store, so that's another 50p. That gives us £5.30, but there is still VAT to go on top.

The grand total of £6.36 would bust the budget for the jeggings, but they use a little less material, and we have saved a few pennies on the buttons and rivets. That will make them quicker to turn out, so that is a bit off the labour costs. It might just about be possible to bring them in at £5.99 or they may be a loss leader: that happens. The jeans, meanwhile, are showing a profit of £1.63.

But this is where Lidl's purchasing power has to kick in, because both the jeggings and the jeans are imported by middlemen, who sell on to the supermarket – respectively OWIM GmbH, a German company, and Hong Kong-based Top Grade International Enterprise Ltd, which exports 30 million pieces a year from Bangladesh. Both need to take their cut. In the Bloomberg example, the middleman took a cut of £2. That is clearly out of the question here if Lidl is to turn a profit itself. And that is the reality of a £5.99 pair of jeans: everyone is squeezed, all down the line.

Times are tough. Customers demand the cheapest possible clothes. Lidl's success is built on this: that is how it racked up £4bn of sales in 2014. It meets a need and it does so by putting the tightest possible squeeze on its suppliers. Lidl argues that it is aware of its responsibilities and is working to improve the living and working conditions of garment workers. It audits its factories, it says, but everyone does. It does not publish the results. Hardly anyone does.

Unusually, Lidl has experimented with a system of top-up bonuses for some workers, which is more than can be said for most of its rivals. But then, it really does need to.

Because when your business model is based on offering the lowest possible prices, someone has to subsidise that, and that someone is the worker stitching those jeans. Lidl does not buy its jeans from Bangladesh because Dhaka's factories are the finest in the world: it does so because they pay their workers a pittance. And that, ultimately, is how it is possible to sell a pair of jeans for £5.99.

It's not magic. It's just exploitation