Social Aspects of International Supply Chains

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Cost Calculations

Who gets how much of the sale price?

- Labor costs (production): 0,4 %
- Material costs: 12,0 %
- Design, advertising: 37,6 %
- Transport: 5,0 %
- Retail: 30,0 %
- Sales Tax: 16,0 %

Is that fair?

Estimated cost by Werner / Weis (2009)
Question: How would the world change if producers of sports shoes agreed to pay 0.8 percent of the sales price of one pair in wages for production personnel?

159.00 Euro

159.64 Euro?
Cost Calculations

Banana value chain breakdown between Ecuador and Germany
Source: BASIC

Analysis of German Banana Value Chains and Impacts on Small Farmers & Workers, BASIC, June 2014
Cost Calculations

QUELLE: FAIRWEAR FOUNDATION 2014
Case: van Laak

Van Laak (2013)
## Case: van Laak

<table>
<thead>
<tr>
<th>Service</th>
<th>Per piece</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment above tariff</td>
<td>1,26</td>
</tr>
<tr>
<td>Air conditioning</td>
<td>0,10</td>
</tr>
<tr>
<td>Bonus</td>
<td>0,07</td>
</tr>
<tr>
<td>Kindergarten</td>
<td>0,04</td>
</tr>
<tr>
<td>Training center</td>
<td>0,14</td>
</tr>
<tr>
<td>Free lunch</td>
<td>0,21</td>
</tr>
<tr>
<td>Bus shuttle, gasoline for employees, supervised parking</td>
<td>0,06</td>
</tr>
<tr>
<td><strong>Sum</strong></td>
<td><strong>1,88 €</strong></td>
</tr>
</tbody>
</table>

Van Laak (2014)
Case: van Laak

RIVARA Tailor Fit
Haifischkragen, Sportmanschette
199.95 €
inkl. MwSt.

RIVARA Tailor Fit
Haifischkragen, Sportmanschette
169.95 €
inkl. MwSt.

Online Shop
Van Laak
(2016)
Case: van Laak

Consequences of tariffs, taxations, absorption costing:

1,88 € $\rightarrow$ $\gg$ 15.00 €
Fairtrade
Average Fairtrade price in Germany: 1,80€/kg (100%) with:

- Minimum price plus bonus from haven
- Incl. insurance
- Transport, tariffs, ripening, packaging
- Marketing, promotion, PR

Mindestpreis für 1 Kiste Bananen (18,1kg) aus Peru: €8,11

Quellen: Banafair, Fairtrade (2015)
Difference of conventional and Fairtrade:

6.7 % wages → 27.2 % community

Plus higher sales price!!!
Charity
Charity

- For each case of beer Krombacher donated an amount of money to the WWF to save 1 m² of rainforest.
- Over a course of more than 10 years Krombacher donated 4 millions €.
- Most successful campaign of a German brewery ever: Increase in sales by 20%.

- No cost surcharge
- Costs only cents per box of beer

- Greenwashing: Enormous economic benefit for Krombacher and limited environmental success
Industrial Solution

SCM problems in international supply chains:

- Child labor
- Unfair wages
- Violation of human rights (e.g. forced labor)
- Health and safety
- Hazardous substances
- Unequal opportunity
- …
Industrial Solution

Brand vulnerability!
Would it not be great if all these problems can be solved at once?
Industry 4.0

What determines vulnerability to automation is not so much whether work concerned is manual or white-collar but whether or not it is routine.

Economist, June 25, 2016
Industry 4.0

Speedfactory Adidas

Source: Adidas (2016)
Potential losses of work places in selected countries due to automation:

- Bangladesh: 77 %
- Guatemala: 75 %
- Thailand: 72 %
- India: 69 %

Discussion

What is the nature of the problems?
Discussion

Who are the problem owners?
Discussion

Which are appropriate methodologies?
Beyond Optimization

- Goal function: e.g. create workplaces
- Maximize number of people leaving poverty
- Issue of modern slavery
- Dealing with the broader picture
Beyond Optimization