



# FOUL PLAY HOW SPONSORS BENCH TEXTILE WORKERS

A STUDY BY BASIC (BUREAU FOR THE APPRAISAL  
OF SOCIETAL IMPACTS AND COSTS)  
FOR THE COLLECTIF ETHIQUE SUR L'ETIQUETTE



THE TIMES  
THEY ARE  
**NOT**  
A-CHANGIN'

# EXECUTIVE SUMMARY

As the European Championship is about to begin this month in France, the leading sports brands will be showcasing their new advertising campaigns which budgets should once again be rocketing through the roof: for instance, the estimated budget for Nike's FIFA World Cup advertising campaign in 2014 – *Risk Everything* – was the most expensive campaign in the brand's history and amounted to 68 million USD.

Nike, Adidas and Puma are not only ubiquitous in the media with advertisements, they are putting forward their long-term commitments to improve working conditions in their suppliers' factories. This is one of the top priorities of their CSR strategy since labour scandals hit the sector in the 1990s, and the 3 brands are now considered as references on this subject within the whole textile industry.

However, given the persistency of labour scandals within the textile industries' (accidents, fires, strikes...), it is legitimate to ask whether the situation has concretely improved for the workers within the supply chains of these sports brands.

The French member of the Clean Clothes Campaign, *Le Collectif Éthique sur l'Étiquette*, initiated this study in early 2016 with the objective to investigate and analyse the links between the sports brands' evolving economic model and the working conditions in their supply chains.

Its main results are the following:

## SPONSORING IS THE MAIN DRIVER OF GROWTH

Football has become a major society phenomenon and is now ubiquitous within the media's environment. Over the years, it has become the centre of a relentless and heightened competition between the leading sports brands.

The "sponsoring" of the European football, widely dominated by Nike, Adidas and Puma, can't stop

reaching new historical peaks: the value of the new contracts signed with the top ten European football clubs increased from 262 million euros per year in 2013 to over 405 million euros in 2015. The most famous football players, such as Lionel Messi or Paul Pogba, now sign sponsoring contracts which add up to 35 million to 40 million euros per year while five years ago, the previous generation's contracts only amounted to 20 to 25 million euros.

The same applies to national teams: according to the German magazine *Bild*, Adidas would be ready to increase fourfold the current amount of sponsoring, reaching 1 billion euros over 10 years, in order to outbid Nike's proposal and keep the German national team under their colours.

What is at stake in this race to always-more-sponsoring is the supremacy over world football and the global sportswear market.



Figure 1. Nike's Sponsoring Expenses (2005-2015).  
Source: BASIC, based on Nike Annual Reports from 2005 to 2015

## A MODEL BASED ON THE EXPONENTIAL EXPANSION OF SALES VOLUMES

During the 1990s, the leading sports brands have set the basis of an economic model made to satisfy the financial investors. Nike has become the main reference of the sector for the financial analysts, having doubled its dividends since 2010 and reaching an annual return of

27,7% for its shareholders in 2015, way above the Dow Jones index (13,9%) and the Consumer Goods S&P 500 index (19,7%). In response, Adidas and Puma entered in a race to catch up with their rival Nike. In order to keep up in this race for financial performance, more sports goods must be sold to always more consumers: for example, the leader Nike managed to double the sport brand's sales in less than 10 years. The sports brands have now a vital need to

### A COST-CUTTING HUNT...

Since the 2000s, sports brands developed new models for the management of their supply chains, which allowed them to integrate technological innovation in their always-expanding products' offer. In the athletic footwear sector, "mass customisation" is the new thing. It offers to consumers endless possibilities to create their very own pair of shoes by choosing the raw materials, the colours, the components. . .

The *lean management* systems implemented by Nike, Adidas and Puma in the majority of their suppliers' units enable them to integrally control their ever-complexifying arms-length supply chains (as the automobile industry managed to do it years ago).

The purpose of these processes is first and foremost to optimize supply costs: for each new product, sports brands start by setting the target price to consumer, then their expected margin and finally, the maximum level of cost of production. They then specify with their suppliers the list of raw materials and components to be used, their origin, their price and, last but not least, the exact number of minutes allocated to manufacturing and the workers' wages.

### ... THAT DICTATES CHOICES IN SUPPLY...

The implementation of these sophisticated management systems by sports brands allow them to influence the wages and working conditions in manufacturing, contrary to what they declare when being confronted with civil society's campaigns.

Among other things, lean management explains why their suppliers' lists are still volatile from year to year, in spite of reducing the number of factories they work with. Sport brands use lean management systems to disengage from certain countries and invest in others.

Currently, Nike, Adidas and Puma are massively shifting their supply to Vietnam and Indonesia in order to compensate the rise of wages in China; in the near future, they look towards countries such as Myanmar, India and Pakistan where low salaries would help them to reduce further the labour costs.

By doing so, they expose themselves to higher social risks (non-payment of overtime, non-compliance with paid leave, discrimination and labour-union repression...) that they try to mitigate by implementing sophisticated and costly social auditing systems which results are often subject to controversy.

### ... AND DOES NOT ALLOW WORKERS TO LIVE WITH DIGNITY...

In 2015, the analysis of the value breakdown of sports goods is unequivocal: the workers' wages only represent on average 2% of the consumer price of a pair of sports shoes and 1% of the consumer price of a sport jersey, be they mainstream models or more technical ones.

To give a concrete example, workers earn less than 0,65 euros to manufacture the football shirt of one of the main football teams of the Euro 2016, which is sold 85 euros to consumers.

In most of the manufacturing countries, salaries earned by the workers do not cover their families' basic needs.

On the long term, the sport brands aspire to drastically reduce the labour cost thanks to the automatization of manufacturing processes. Reflecting this trend, the first fully automated Adidas footwear factory opened in Germany earlier this year.

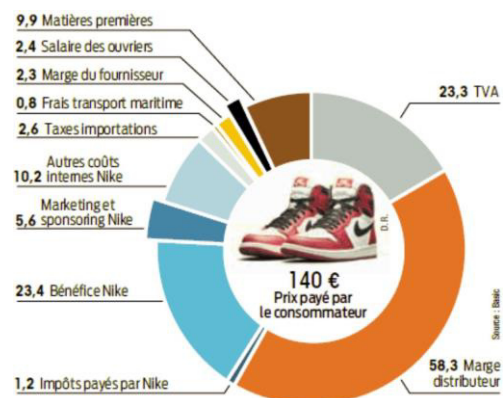


Figure 2. Value breakdown of a Nike Air Jordan pair of shoes (140€).  
 From the top: 58,30€ for retailer, 23,40€ for Nike (net margin), 23,30€ taxes, 10,20€ for internal cost, 9,90€ for raw materials, 5,60€ for marketing and sponsoring, 2,60€ for import taxes, 2,40€ for worker, 2,30€ for supplier (net margin), 1,20€ for taxes paid by Nike, 0,80€ for maritime transport.  
 Source: Alternatives Economiques, based on data gathered by BASIC

... IN CONTRADICTION WITH THEIR CSR COMMITMENTS.

This systematic search of the lowest supply costs questions the sports brands' commitment to build long-term partnerships with a smaller number of suppliers and their genuine will to provide their suppliers with the means for bettering social and working conditions.

The dynamic of disinvestment from China initiated by sports brands, at a time when the salaries finally cover the basic needs of the workers' families in this country, contradicts a strong commitment taken by Nike, Adidas as well as Puma: to ensure the payment of living wages in all their suppliers' factories.

More generally, and contradicting once again their CSR commitments, workers still are an adjustment variable...

HOWEVER, THE SPORT BRANDS COULD MAKE A DIFFERENCE IF THEY WANTED TO...

This study estimates that the payment of a living wage for all the workers would amount to much less than what Nike, Adidas and Puma currently spend each year on marketing, sponsoring and dividends paid to their shareholders.

At the scale of an individual product, to pay a living wage would only represent a few euro cents more on the final price of a pair of shoes or a sport jersey. However, by saving those small amounts on large volumes, the sport brands manage to set aside enough money to finance their permanent growth in marketing spending and their race to the top in the field of football sponsoring.

According to our calculations, the sole sponsoring growth of the major ten football clubs in Europe since 2013 would have enabled sports brands to cover the costs of paying a living wage to 165 000 Vietnamese workers or 110 000 Indonesian workers.



Figure 3. Sponsoring Contracts of Manchester United Football Club and Cristiano Ronaldo VS numbers of workers who could have earned a living wage in Indonesia, Vietnam and China. Source: Bastal, based on data gathered by BASIC

... AND EVEN CHANGE THEIR MODEL

Lack of financial resources is not the reason for not paying living wages within the sporting goods sector. It is a whole global economic model that needs rethinking. The model is based on massive investments in marketing and communication at the expense of the supply chain workers. But it does not have to be that way. For several years, some brands have started to build alternative models in which everyone can make a living out of their work, from the raw materials producers to the manufacturing workers, while offering successful products to consumers.

Link to the full study:

<http://lebasic.com/en/fool-play-sponsors-bench-textile-workers/>

Link to BASIC website:

[www.lebasic.com](http://www.lebasic.com)

Link to Collectif sur Éthique sur l'Étiquette website:

[www.ethique-sur-etiquette.org](http://www.ethique-sur-etiquette.org)



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AS TO BETTER INFORM THE PUBLIC DEBATE, STRENGTHEN THE  
EXPERTISE OF CIVIL SOCIETY AND HELP IDENTIFYING  
SUSTAINABLE ECONOMIC MODELS.**