

Costs behind Lidl's £5.99 jeans – Part II

By João on May 16, 2016 at 8:00 am

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In [my last post](#), I explored [an article from The Guardian](#), explaining how Lidl was able to sell a simplified version of jeans at £5.99. However, I finished saying that I felt that the article conclusion (“It’s not magic. It’s just exploitation” of the worker sewing the clothes) didn’t really match the previous in-depth analysis. Here’s why.

Lidl’s “magic” – let’s call it “secret”, or “formula”, or the “business model”- is what the author accurately also pointed out: “the reality of a £5.99 pair of jeans: everyone is squeezed, all down the line”. This includes savings on wages, of course, but also on materials, shipping, middlemen and even (absent) shop displays.

The denim fabric of a jeans (Photo credit: Wikipedia)

Indeed, the relatively low impact of wage costs, within the overall cost structure, was highlighted by the same author in [another great article](#). And this is actually a great opportunity. “The very fact that wages are so low makes the cost of fixing the problem low, too. Someone has to absorb the hit, be it the brand, supplier, middleman, retailer or consumer. (...)”

Here is the shopper, agonising over ethical or cheap. What if they can do both? What if they can pluck two pairs of jeans off the rail and hold them up. One costs £20. One costs £20.15. It has a big label on it, which says “I’m proud to pay 15p more for these jeans. I believe everyone has the right to a decent standard of living. My jeans were made by a happy worker who was paid the fair rate for the job.

Go further. Stitch it on to the jeans themselves. I want those jeans. I want to know I’m not wearing something stitched by kids kept locked in backstreet godowns, never seeing the light of day, never getting a penny. I want to feel clean. And I want the big brands and the supermarkets to help me feel clean. (...) And here’s the best part: I think they would sell more. I think consumers would be happier and workers would be happier.”

Indeed, even considering that those additional 15p of wage costs will increase overall costs by more than that, as some other cost categories may depend on accumulated costs (certainly, tariffs and taxes, and perhaps some intermediate margins calculated on a percentual basis), the overall impact of (slightly more) “decent” wages alone will not be huge. So, as the author says, the problem could be fixed with no major loss of price competitiveness – and even adding value by meeting consumers’ ethical concerns, at negligible additional costs.

Great idea, right? I’d say “Yes”, but unfortunately I have agree with the serious risk highlighted by the commentator “Plataea”: “Audit trail - add 15 pence & somebody somewhere will try to get that that is the mentality of the supply chain”.

So, how to make the money from that small price increase actually going into the workers’ pocket? That is the real 1 million pounds question – for cost management and for sustainable and ethical management and development.

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