

# Adidas purchasing practices and the brand's possibility of supporting Living Wage

## What do we know about purchasing practices of adidas?

We know the names and the location of the most important adidas suppliers. So we know that in Asia the company sources its products mainly from China, Indonesia, Vietnam and Cambodia.

We know the extensive and quite impressive CSR program adidas carries out for more than a decade now. This implies a commitment to the freedom of association, for the payment of minimum wages, detailed requirements for their supplier factories on the payment of overtime pay, maximum working hours, holidays and the payment of social security. We also know that adidas has discussed the issue of "fair" wages since 2002.

Adidas states that it uses "open contracts" with its suppliers which are not limited to a certain period of time and that they try to spread their orders evenly over the months of a year to avoid a surge in the workload during certain times of the year (level loading).

However, there are a lot of things we do not know about adidas purchasing practices:

We do not know the details of the contracts they have with their suppliers. So we are not informed about the prices they pay to the supplier. We do not know which conditions go with this price. We do not know about the lead time they give the supplier i.e. the time during which an order must be finished. We do not know what conditions are attached to the price and what role CSR

requirements play in the contracts especially in the face of the need to keep the price low. We do not know how adidas balances these issues and we do not know enough about the receptivity of suppliers for CSR. We know only little about sub or sub-sub suppliers for adidas and the economic conditions under which they have to produce adidas products. If we knew more on these issues we would understand the responsibilities in the supply chain better and we would understand why after all these years there are so many cases of violations of basic labour rights in adidas supplier factories.

## Living wage

In 2012 SÜDWIND carried out a study on the labour standards at adidas, H&M, Nike and Inditex factories. Freedom of association and living wages were some issues put to the 60 workers interviewed. 85% of them stated that their wage was not enough to meet their basic needs. There was a high number of workers from the adidas suppliers Nikomas Gemilang (25 out of 31) and PT Framas plastic technology (12 out of 15) who agreed with this statement.

In 2012 we analyzed 16 pay slips from adidas workers from PT Framas Plastic Technologies in Bekasi, West Java. We found that the basic wage paid at the end of 2011 and the beginning of 2012 was much higher than the regional minimum wage, it was often twice the minimum wage, but it was always below the Asian Floor Wage. Eight of the workers received a payment slightly above the Asian Floor Wage, however, all of them did at least 14 hours of overtime

per month, six of them worked 40 hours or more overtime per month.

In 2014 we analyzed 44 pay slips from Panarub, Nikomas, Framas Plastic Technologies, Bina Busana Internusa and Glostar Indonesia.

The situation had obviously changed. The minimum wages in Indonesia had been raised by about 20%. Now the basic wages were much closer to the minimum wage. Some companies paid exactly the minimum wage as a basic wage and no rupiah more. Still more worrying was that this sample showed that in 11 out of 44 cases the basic wages were below the official minimum wage. When we added the fixed benefits to the basic wage there were still 8 pay slips showing a payment below the relevant regional minimum wage.

Probably due to reduced orders at the beginning of the year workers did not have the opportunity to work so many hours overtime as at the end of 2011. Only one of the workers received a payment which reached the Asia Floor Wage by working 20,5 hours per month of overtime.

Living wage is an issue for adidas just as price is. We see a lot of rhetoric and effort to find out what a fair or living wage is. The facts we know about the payment of workers in adidas contractors and subcontractors in Indonesia, however, do not reflect these efforts.

They rather show that suppliers are struggling to pay the official minimum wage, let alone a living wage as defined by the Asia Floor Wage Campaign. Paying the minimum wage is also one of the main controversies between suppliers and trade unions in Indonesia.

We also do not understand why adidas takes so long to find out what a living or fair wage is. Although this is a complicated issue we wonder why it takes more than 10 years for a company with more than 50.000 employees and 1,2 billion Euro operating profit in 2013 to solve this problem.

We appreciate that adidas addresses the issue of a living wage, we are looking forward to see more action from the company to implement living wages in all its suppliers worldwide and we welcome every effort to have an open discussion on wages, prices and working conditions between NGOs, suppliers and brand companies like adidas.

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### **Input Paper for**

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