Stabilize higher prices



The prices buyers pay to their suppliers will directly or indirectly impact the wages paid to workers. Most commodities prices are too low and volatile for producers to earn a sufficient and stable margin while affording to pay workers a living wage. Higher prices enable suppliers a sound margin to invest on productivity and quality improvements as well as strengthening employment practices and higher wages. Securing price stability, for instance through long-term purchasing commitments, is also instrumental to allow suppliers to make long-term investments such as wage increases.

Requirements to stabilize higher prices

- A solid business relationship
- Long-term buying commitments
- Open communication
- Price transparency

ALERT! When one buyer is committed to influencing wages via prices and others are not, this can mean that not all workers may earn a living wage. Workers need to decide how to best use this extra effort to reach all workers in an equitable and fair manner.

Challenges addressed by this intervention



Low margins

When supply chain actors are able to stabilize higher prices for products or services, they might be able to improve wages along the supply chain.



Poor procurement practices

Conversations between buyers and suppliers about stabilizing higher prices are an integral part of creating stronger procurement practices.

Practical tips

Get inspired by the following tips:

For Buyer

Commit

Establish realistic time-bound commitments to living wages; set annual targets that specify the reduction of the living wage gap and set long-term commitments.

Share

Ensure to communicate your commitments internally and externally.

Research

Identify buyers purchasing at the same facility to make a joint effort to raising prices.

Collaborate

Seek for cooperation with other buyers to jointly facilitate the payment of higher wages.

Embed

Train procurement staff; ensure that company staff is aware of living wages and how to incorporate living wages in internal costing systems. Prepare clear guidelines and processes for your procurement staff.

Monitor

Monitor the efficiency of higher prices; higher prices must not create adverse effects such as low farm efficiency or quality. Setting benchmarks for feasible productivity and cost of production is important.

Allocate wisely

To ensure the additional price paid reaches the workers, the price portion could be safeguarded from market price fluctuations and ring-fenced and documented along the value chain.

Use credible certification

Companies can collaborate with certification schemes to ensure that they pay a price that covers production costs. In addition, some certification schemes also allow the payments of premiums on top of minimum prices which may incentivize suppliers to pay higher ways.

For Supplier

Be open

Cost-based pricing mechanisms require a higher level of openness and transparency, however there are ways to share enough information without sharing everything.

Build trust

For your buyers to pay structurally higher prices, they need to trust you. Make sure to respect contract conditions, communicate openly and transparently and inform the buyer if something unexpected happens.

Cooperate

Identify, jointly with the buyer, smart options for guaranteeing higher wages for all workers, not only the workers in a specific production line.

Communicate

Share with the buyer how the higher prices will translate into higher wages.

Spread the effort

If one buyer is committed to paying higher prices for higher wages, inform your other buyers about that. A coalition of committed buyers can do more than one buyer alone.

Be mindful about effects

Develop strategies that allow for a longer-term wage increase.

Involve your workers

Involve your workers to determine the best way to distribute the extra value obtained to higher wages.

Case studies



Fairphone: Living wages for everyone

Fairphone uses worker surveys and dialogue session to gather insights on how satisfied workers are with current working conditions.



Continental clothing: Traceable clothing

In the garment sector, Continental Clothing collaborated with Fair Wear to increase prices towards living wages while avoiding price escalation.

Sector considerations

The degree to which prices can be influenced is highly sector dependent, just as the extent to which higher costs can be distributed along the supply chain or covered by the consumer. Find out below some relevant considerations for your sector.

Manufacturing

In manufacturing, buyers and suppliers usually have direct contact and agree on prices and other contract specifications. This intervention can therefore be effective in manufacturing.

Fruits and vegetables

In those agricultural sectors where no auctions are used, this intervention can be effective. For crops such as bananas and mangos, where little product differentiation is possible, stabilizing higher prices is challenging unless it is an effort from multiple actors in the sector. See the initiatives by the Dutch and German retail towards living wages in the banana sector.

Flowers

Flowers are often sold via an auction system, which makes it more complex to offer higher prices and to earmark part of the higher price for higher wages.

Coffee

Given the trading system and price discovery mechanism in mainstream coffee markets, it may be difficult to implement living wage pricing. However, it would be possible to introduce higher value on specialty coffees where pricing is (to some extent) detached from the exchanges.

Tea

Some tea producing countries export all tea within an auction and both suppliers and buyers become subject to the world market price, creating little room for a living wage premium. However, also in the tea supply chain there are options for differentiation.

Supporting materials

The Salary Matrix

To learn what it would entail to consider living wage in pricing negotiations, companies could use inspiration from the Gap per Trade Unit found in the Salary Matrix.

The sustainable procurement kit

The Sustainable Procurement Kit allows you to calculate the degree to which the price paid for a particular product enables the payment of a living wage or income at supplier level.

GIZ costing tool

The GIZ Living Wage Costing Tool offers various simulations and scenarios for closing wage gaps, including the corresponding cost implications.

Fairwear competition law do's and don'ts

Fairwear foundation developed a factsheet informing companies what they can and cannot do in relation to living wages and competition policies.

Supporting partners

Buyer | Supplier | Supporting organisation

Related interventions

Create consumer awareness | Enhance price & supply chain transparency | Improve procurement practices

Inspiration and guidance

If you need more inspiration or guidance for the implementation of 'stabilize higher prices', or if you want to add a tip, sector consideration or case study send **an email** to the IDH living wage experts!

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