FOUL PLAY SPONSORS LEAVE WORKERS (STILL) ON THE SIDELINES

COLLECTIF ÉTHIQUE SUR L'ÉTIQUETTE

Clean Clothes Campaign

COLOPHON

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June 2018

This report is the follow-up of the report "Foul Play.
Sponsors Leave Workers on the Sidelines" published in June 2016.

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FOUL PLAY. SPONSORS LEAVE WORKERS (STILL) ON THE SIDELINES.

EXECUTIVE SUMMARY

Two years after our first "Foul Play" report,[1] the sponsorship battle between Nike and Adidas—who will outfit 22 of the 32 teams taking part in the next World Cup—has never been so fierce and has set new records:

- The German national team, the reigning champions, tripled its sponsorship revenue by renegotiating its contract with Adidas in 2016 (65 million euros per year, the largest such contract in football history).[2]
- The ten largest European football clubs garnered an additional 143 million euros combined in annual sponsorship revenues between 2015 and 2017.[3]
- When it comes to players, in 2016, Cristiano Ronaldo became the first footballer to ever sign a lifetime endorsement deal, which will earn him 25 million dollars per year.[4]

The association of major sportswear brands with prominent teams and celebrity athletes—and, more recently, stars of the entertainment world—is one of their central levers for increasing sales, due to the unconditional devotion these teams and figures inspire in many of these countries.

Yet, on the production side, the working conditions of garment factory workers remain just as precarious as ever.

- Leading sportswear brands, like Nike and Adidas, continue to withdraw from China because of the rising cost of labor, despite the fact that wages are only now barely enough to allow workers' families to live with dignity.[5]
- In terms of the price of a pair of Nike or Adidas shoes sold to a consumer, the worker's share has fallen by 30% between 1995 and 2017.
- In Indonesia, Cambodia, and Vietnam, where these brands have shifted most of their sourcing, incidents of human rights violations are more prevalent, and workers' average salaries are 45% to 65% below the living wage, that is to say largely insufficient for workers to meet their families' basic needs.

In a more long-term frame, the new automated factory models that Nike and Adidas have been developing for some years now and their spread throughout the entire garment industry could threaten between 64% and 88% of industry jobs in Indonesia, Vietnam, and Cambodia by 2050 according to the ILO; the sector provides jobs to over 9 million people in Southeast Asia, most of whom are women.

The apparent contradiction between the creation of downstream value and the precarious situation of garment factory workers can be explained by the business and financial model of sportswear makers Nike and Adidas. The central objective of this model is the maximization of profits in order to generate greater and greater returns for shareholders, as evidenced by the extraordinary dividends paid to shareholders each year (as high as 10% of gross revenue in the case of Nike). Nike has thus become a shining example of stock market success that its competitors strive to emulate: the company boasts a performance 70% above the Dow Jones Industrial Average and its market capitalization now more than triples its revenue (around 95 billion euros). Its rival Adidas has a market cap of nearly 43 billion euros, double its annual turnover.

In order to achieve such a remarkable level of performance, sportswear brands' business and financial model relies not only on growth, but also on cost control/reduction, and in certain cases on strategies to minimize their tax burden.

1 https://lebasic.com/wp-content/uploads/2016/06/BASIC-ESE_Foul-PLay-Report_2016_Final.pdf
2 http://www.sofoot.com/l-allemagne-prolonge-son-contrat-avec-adidas-pour-un-montant-record-224641.html consulted 4/23/18
3 Brand Finance - Football 50, 2017
4 https://www.forbes.com/profile/cristiano-ronaldo/ consulted 4/23/18
5 Worker Empowerment, 2017年广东省四类地区工人工资与生活开支调查报告, 2018

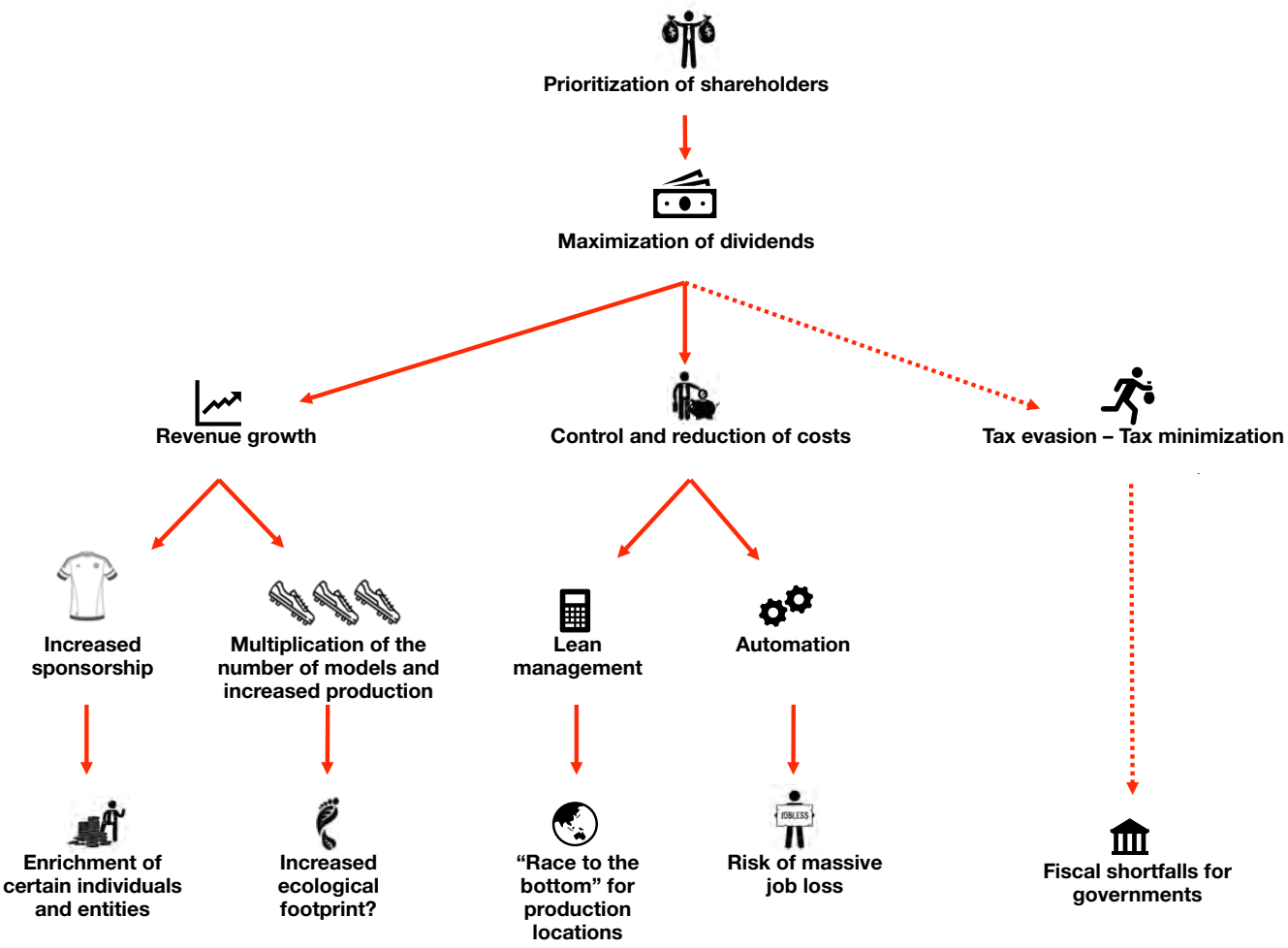

Figure 1. Diagram depicting sportswear companies' business model and its impacts
Source: BASIC

Nike and Adidas have in this way become masters in the creation of value, on the one hand thanks to greater and greater investment in sponsorship and, on the other, thanks to the convergence of the worlds of fashion and sports; through these models, they have been able to double their revenues in less than 10 years.

At the same time, their ability to create profit rests just as much on their ability to control and decrease production costs:

- Firstly, their use of multi-level, transnational subcontracting supply chains based on the principles of lean management allowed them to achieve substantial savings via the pursuit of greater productivity and the exertion of increased economic pressure on their suppliers. Even if the working conditions in the factories such sportswear brands contract with are attracting more and more scrutiny, these factories are increasingly being located in countries where labor is cheaper—and salaries are lower than the living wage—and there is greater social risk.
- In the foreseeable future, the increasing automation of the manufacturing process will open new avenues for reducing costs in the face of rising wages in Asia.
- More recently, Nike and Adidas have also begun to devise strategies to reduce downstream costs with the use of e-commerce, which allows them to further increase profitability.

Beyond these methods, tax evasion schemes, like those brought to light in the case of Nike, can allow companies to reduce their tax rate in order to increase cash flow to shareholders as well as to the star athletes and teams on which their system is based.

However, this model could also guarantee the rights and meet the needs of workers in their suppliers' factories:

- If Nike and Adidas had paid the same amount of dividends in 2017 as they did in 2012, or maintained the level of marketing/sponsorship spending, the resulting proceeds would have allowed for living wages to be paid throughout their entire supply chain in China, Indonesia, Vietnam, and Cambodia.
- In 2007, Adidas paid 11 million euros more to Lionel Messi than they did to Zinédine Zidane fifteen years earlier, a sum that could have been used to issue a living wage to more than 44,170 garment factory workers in Indonesia or 52,600 in Vietnam.
- Nike's annual tax evasion figures estimated by *Tribune de Genève* journalists—60 billion dollars per year on average—correspond to what it would take to take to pay living wages to 287,000 workers in Vietnam and 241,000 in Indonesia.

Nike and Adidas have succeeded in developing a highly efficient business model which has continued to steadily yield impressive growth for over 10 years. This model generates increasingly substantial profits which are reaped by shareholders and do not "trickle down" to the workers in the garment factories, despite the promises of sportswear brands, notably about the payment of living wages to their suppliers' workers. To honor this commitment, the very logic of the system would have to inverted; guaranteeing workers adequate wages and working conditions would need to be the objective—not brands' profit margins. As this study shows, this is not a matter of insufficient financial means—Nike and Adidas generate enough revenue to be able to pay living wages across their supply chains—but, rather, one of priority.
Even though the practices of these companies have of course improved over the last 10 years, there remains much work to be done in order for them to demonstrate their commitment to social responsibility.

With this in mind, the *Clean Clothes Campaign / Collectif Ethique sur l'Etiquette* calls for sportswear brands to:

FOR ALL SPORTSWEAR BRANDS:

1 REGARDING THEIR GENERAL SOURCING POLICY

- Establish a time-bound road map with specific targets in order to guarantee the payment of a living wage, earned in a standard working week (no more than 48 hours), to workers within their supply chain, in collaboration with local unions in sourcing countries.
- Adopt responsible purchasing practices that enable the payment of a living wage to the workers within their suppy chain, including long term commitments to workplaces or other production units, and FOB prices that include a wage component sufficient to pay workers a living wage, ring-fenced in contractual agreements when placing orders.
- In accordance with their responsibility according to international guidelines, develop, publish and implement a human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights linked to their activities throughout their business relationships and the activities of their subsidiaries and subcontractors, including up to the raw materials, with particular attention to the causal link between purchasing practices and wages.
- Publish annually in a transparent manner the actual monthly wages of the workers in the supplier factories, disaggregated by gender - average wages, median wages and the difference between the lowest and highest wages - in order to allow for an informed debate with trade unions and civil society on working conditions, including gender pay gaps, in their supply chains.
- Publish annually the results of social audits of their suppliers and subcontractors, identifying the supplier and subcontractor concerned, and make the audit reports publicly available.

2 REGARDING THEIR SOURCING POLICY IN INDONESIA

- Continue and enhance the implementation of the Freedom of Association Protocol with the Indonesian trade unions involved:
  - require all Indonesia-based suppliers to sign the FoA protocol;
  - publish detailed information about how the brand's purchasing practices support compliance with the Protocol;
  - maximise the potential positive impact of the Protocol by rolling it out in suppliers below the first tier in supply chains.

- Within the next 3 months enter into negotiations with the Indonesian trade union organizations for the signing of a protocol on job security and living wage.

3 REGARDING THEIR SPONSORSHIP POLICY

- Initiate a dialogue and collective reflection within the sector, with the participation of independent experts and civil society actors, to stop the escalation leading to an excessive growth of sponsorship amounts and to investigate the possibility of capping their annual increase.

4 CONCERNING INITIATIVES TO PROMOTE A DECENT WAGE IN THE TEXTILE SECTOR

- Take the step from dialogue to implementation on living wages in the sportswear supplier factories, on the basis of the Asia Floor Wage or other robust living wage benchmarks supported by trade unions and local workers' organisations. Where collective bargaining agreements covering wages are not in place or cannot be negotiated de jure or de facto, brands should take time-bound interim measures, preferably negotiatied directly with (local) trade unions to increase wages and report regularly and publicly on wage progress at the workplace level.
- Do not hamper but publicly support and, upon their request, collaborate with trade unions in the production countries during and towards annual tripartite negotiations to obtain an increase of the legal minimum wage in the national garment and textile sector to the level of the calculated living wages.

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   - Production cost reduction and labor cost reduction via "Lean Management"
   - Strategies of automisation with a strong impact on jobs
   - Tax evasion : the Nike case

4. **Conclusions and recommendations**

1. INTRODUCTION

The World Cup that will take place in Russia next June promises to be the most expensive in the tournament's history, with an estimated budget of over 20 billion euros compared to the 8 billion euro budget of the 2014 World Cup in Brazil and 3 billion euro budget of the 2010 World Cup in South Africa.[6]

This increase reflects the growing economic stakes of sports: with revenues exceeding 17 billion euros per year, the market for football goods (jerseys, cleats…) has doubled over the last 10 years.[7]
Nike and Adidas overwhelmingly dominate the sector, together representing 89% of sales.[8] Furthermore, the two are perpetually "warring" with one another over sponsorship deals to maintain a constant media presence, attract more consumers (especially young ones), and create the conditions for unconditional attachment to their respective brands.[9]

Adidas agreed in 2016 to triple the price of their sponsorship agreement with the German national team—the current world champions—which thus reached 65 million euros per year, making it the most expensive football sponsorship contract to date.[10] The French national team renegotiated an annual total of 50.5 million euros per year with Adidas' competitor Nike, which amounts to an increase of 8 million euros annually with respect to the previous agreement. [11]
As for the players, in 2016, Nike and Cristiano Ronaldo signed the very first lifetime endorsement deal in football history, which will bring him earnings of at least 25 million dollars per year for the rest of his life; the deal is thus valued at a billion dollars. [12] In comparison, Cristiano Ronald earns in 7 days what a European worker earns over the course of his or her entire life (based on average salaries in Europe). Six months later, Lionel Messi also signed a lifetime endorsement deal, but with Adidas, for a total of 12 million euros annually. [13]

In addition to their omnipresence in the media, the chief sponsors in the world of football—Nike and Adidas—have been portraying themselves for several years as "good guys" with respect to garment factory working conditions. In light of scandals related to their suppliers in the 1990s, they made their corporate social responsibility policies a central priority and have ever since been cited as models to be emulated in the textile sector.

Yet, at the bottom of the chain, the workers are far from sharing in the wealth that has come out of this incredible business success story. Sportswear brands are increasingly shifting their sourcing away from China due to rising wages, which are only just now beginning to allow workers to provide adequately for their families,[14] and toward Indonesia, Cambodia, and, most of all, Vietnam, countries where wages are significantly lower. This development completely disregards the infringements of basic human rights faced by garment industry workers; according to two studies by the ILO, there is a 1 in 2 chance that a textile factory in these 3 countries does not comply with overtime or social security policy, union rights, or workplace health and safety norms.[15]
Two years after the first "Foul Play" report,[16] *Collectif Ethique sur l'Etiquette* has decided to investigate whether or not the brands have chosen to reform their models in favor of a more equitable sharing of profits and to offer relevant recommendations to these athletic multinationals.

6 http://www.lepoint.fr/sport/football-mondial-2018-la-russie-est-elle-vraiment-prete-17-04-2018-2211201_26.php# consulted 5/20/18
7 https://www.bloombergquint.com/business/2017/12/05/adidas-wins-world-cup-race-but-nike-kicks-back-at-ground-level#gs.C0FHdlU consulted 5/20/18
8 Ibid.
9 https://www.marketingweek.com/2018/05/04/adidas-plays-down-russia-world-cup-opportunity/ consulted 5/20/18
10 http://www.sofoot.com/l-allemagne-prolonge-son-contrat-avec-adidas-pour-un-montant-record-224641.html consulted 4/23/18
11 https://www.lesechos.fr/17/02/2017/lesechos.fr/0211809076740_le-contrat-signe-entre-nike-et-la-fff-se-monte-a-50-5-millions-par-an.htm+&cd=2&hl=fr&ct=clnk&gl=fr&client=firefox-b-ab consulted 4/23/18
12 https://www.forbes.com/profile/cristiano-ronaldo/ consulted 4/23/18
13 https://www.forbes.com/profile/lionel-messi/ consulted 4/23/18
14 Worker Empowerment, 2017年广东省四类地区工人工资与生活开支调查报告, 2018
15 ILO, Better Work Program, Vietnam, Indonesia, and Cambodia reports, 2017
16 https://lebasic.com/wp-content/uploads/2016/06/BASIC-ESE_Foul-PLay-Report_2016_Final.pdf

2. MAJOR BRANDS NOW OMNIPRESENT IN CONSUMERS' DAILY LIVES ARE BASED ON BUSINESS MODELS THAT ARE INCREASINGLY HIGH-PERFORMING FOR SHAREHOLDERS

In 2017, the market for athletic apparel recorded global revenues of over 260 billion euros, [17] making up more than 15% of the world's clothing market. Sportswear is furthermore its most dynamic sector, with a growth rate of 5% per year compared to the 1.5% annual growth of the clothing market on the whole. [18] The athletic apparel market is largely dominated by Nike and Adidas, which represent between the two of them 58% of the European market, 47% of the North American market, and 41% of the Chinese market. [19]

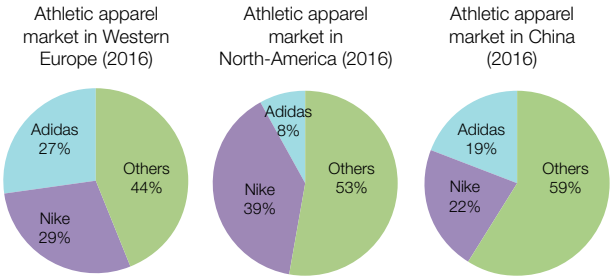


Figure 2. Nike's and Adidas' market shares in the largest athletic apparel markets
Source: Basic, according to Nielsen Fields (2017)

Between 2011 and 2017, the total revenues of the two brands grew by an average of 9% per year, roughly twice as rapidly as the athletic apparel market in general. [20]

The sharp growth of Nike and Adidas illustrates the success of their marketing strategy, which consists of positioning themselves more and more at the intersection of the worlds of fashion and sports.
This has given rise to the "Athleisure" (an amalgamation of the words "athletics" and "leisure") trend. Two sneaker models are particularly illustrative of this style—the Adidas Stan Smith and the Nike Dunk Sky Hi—which both can be worn at the gym, at the office, at school, or "on the town." [21] First launched in the United States, this trend has quickly spread across the majority of European markets as well as those of developing countries. [22]

The vibrancy of this market segment owes much to its aggressive advertising (publicity campaigns, product placement in music videos, at event…), which involves countless stars from the worlds of fashion, sports, and entertainment.
Beyond the contracts signed with athletes that allowed the brands to launch their iconic models (such as the Stan Smith and the Nastase, both released by Adidas in the 70s, and the Air Jordan, launched by Nike in the 80s), [23] in recent years the athletic apparel brands have developed sneaker models with artists, in the vein of the Adidas' "Yeezy" range designed in collaboration with rapper Kanye West, which has become one of the brand's best-sellers since its launch in 2015. [24] Following this lead, partnerships with big names in fashion are on the rise: Valentino and Damien Hirst with Nike, Raf Simons and Rick Owens with Adidas… [25]

17 According to Euromonitor International, in NDB Securities, Textile and Clothing Sector: Moving away from the Conventional Mix, 2017
18 According to Euromonitor International, in NDB Securities, Textile and Clothing Sector: Moving away from the Conventional Mix, 2017 and Xerfi, The Global Sporting Goods Industry, 2017
19 Nielsen Fields, Nike Company Profile, 2017
20 According to data from the two companies' annual reports compiled since 2011
21 http://www.marieclaire.fr/,c-est-quoi-la-tendance-athleisure,735857.asp consulted 4/24/18
22 Fung Business Intelligence, Shift to fitness-inspired clothing: The athleisure boom in China, 2017
23 https://www.gqmagazine.fr/mode/news/diaporama/nos-25-baskets-fiches/2622#adidas-stan-smith-la-simplicite-faite-basket-1 consulted 4/30/18
24 https://enmodesneakers.fr/5-raisons-succes-adidas-yeezy-boost-2018/ consulted 4/24/18
https://www.gq.com/story/adidas-is-now-more-popular-than-air-jordan consulted 4/24/18
25 https://www.lesechos.fr/06/11/2015/LesEchosWeekEnd/00006-008-ECWE_la-guerre-des-baskets.htm consulted 4/24/18

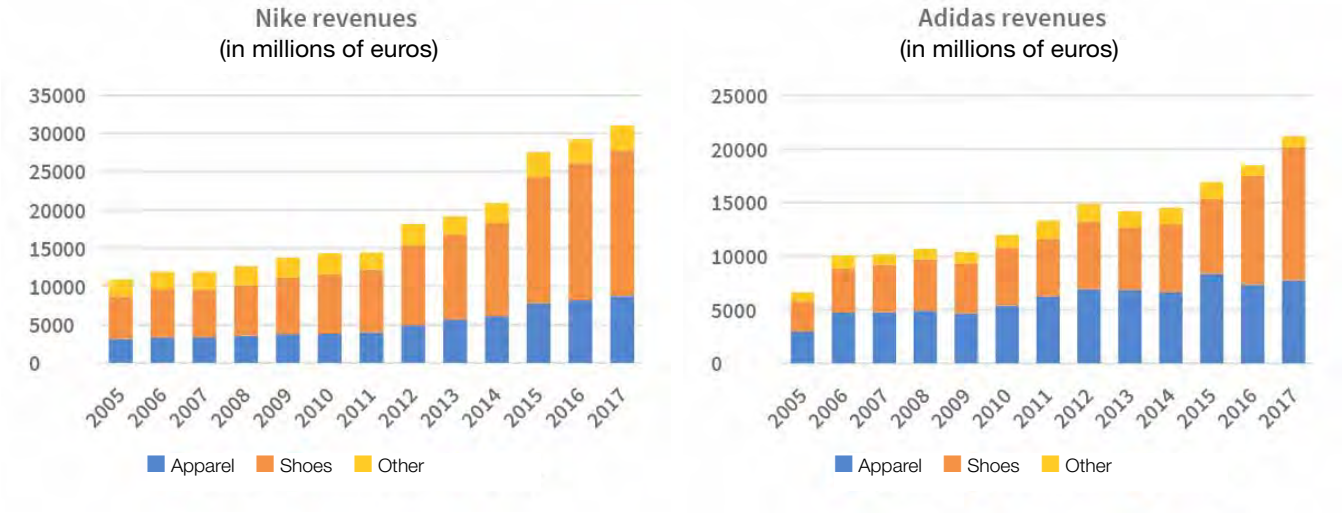


Figure 3. Trends in Nike's et Adidas' revenues (2005-2017)
Source: Basic, according to each company's annual reports

This development is concomitant with accelerating consumption of athletic goods, which stems in no small part from brands' appropriation of the codes of the fashion world. The sector's major players have thus been drawing upon the strategy of "mass customization." This strategy allows brands to offer consumers a nearly limitless variety of personalizable models at nearly the same price as standardized products, not dissimilar from the "fast fashion" business model currently dominating the fashion industry. Illustrative of this trend is the sharp increase in the number of Nike sneaker models currently on the market of approximately 25% in 2 years, by a factor of 15 since the 80s.

Nike and Adidas products have become part of the everyday life of an ever-growing consumer base; these brands have entrenched themselves far beyond the athletic realm from which they originate.

The success of these companies is coupled with a proven ability to increase profitability, as illustrated by the graphs below. Both Nike's and Adidas' sales margins—that is to say the difference between suppliers' purchase prices and consumer sales prices—have increased by a factor of about 2.5 since 2006.

This has ultimately lined shareholders' pockets; since 2006, dividends have increased in line with profits in the case of Adidas and tripled in that of Nike.

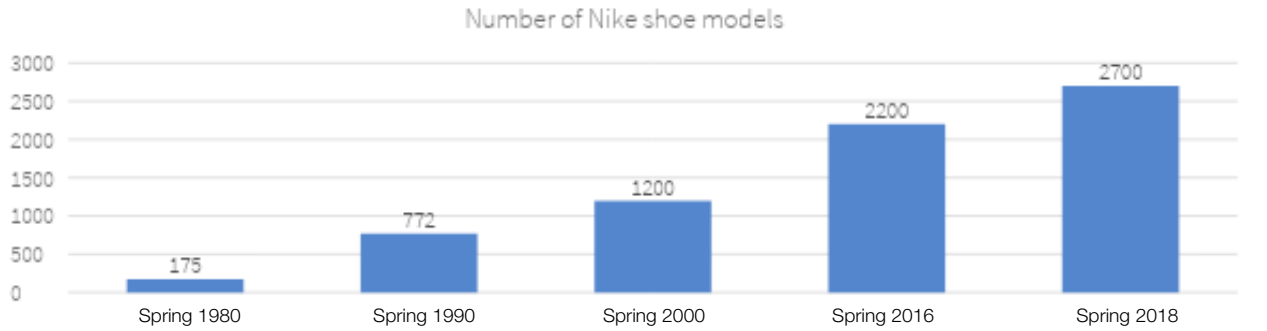


Figure 4. Number of models of Nike shoes on the market (1980-2018)
Source: BASIC, according to data from R. M. Locke (MIT, 2003) and Nike's website (2016 & 2018)

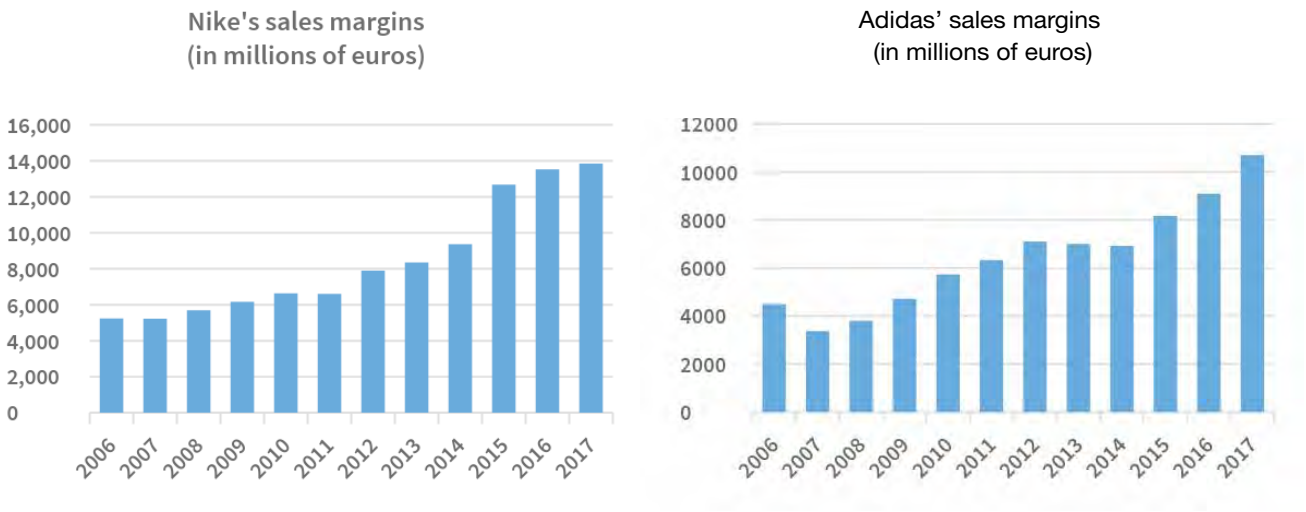


Figure 5. Trends in Nike's and Adidas' sales margins (2006-2017)
Source: Basic, according to annual reports published by both companies

A global leader in the athletic apparel market, Nike is also one of the best performing stocks on Wall Street due to consistent increase in dividends per share over the past two decades. Dividends paid each year to shareholders represent, since 2006, more than 10% of gross revenue. [26]

The company is now considered a gold standard that its competitors seek to emulate in terms of its robust stock market track record, with a more than 70% rise on the Dow Jones Industrial Average over the last four years. [27]

According to financial analysts, 1000 dollars worth of Nike stock in 2007 are now worth 3319 dollars, a triple in value over 10 years. Nike currently boasts the 5th strongest stock market growth, behind Netflix, Amazon, Apple, and Starbucks, but ahead of Google, Microsoft, and Coca Cola. [28]

In 2018, Nike's market capitalization rose to more than triple its total revenues, to 112 billion dollars[29] (approximately 95 billion euros). Its rival Adidas boasts a value of 43 billion euros at the stock exchange,[30] double its gross revenues (21.2 billion euros in 2017).[31]

26 https://seekingalpha.com/article/4133392-nike-races-past-earnings-estimates-stock-still-buy consulted 4/24/18
27 https://seekingalpha.com/article/4097530-nike-going-long-run-total-return and https://marketrealist.com/2018/01/can-sportswear-players-come-out-strong-in-2018 consulted 4/24/18
28 https://www.cnbc.com/2018/01/17/if-you-invested-1000-in-nike-10-years-ago-heres-what-youd-have-now.html consulted 4/29/18
29 https://ycharts.com/companies/NKE/market_cap consulted 4/29/18
30 https://ycharts.com/companies/ADDYY/market_cap
31 In comparison, the market capitalization of H&M, approximately 240 billion dollars, is roughly equivalent to its total revenues, 200 billion dollars, https://finance.yahoo.com/quote/HM-B.ST/ consulted 5/19/18

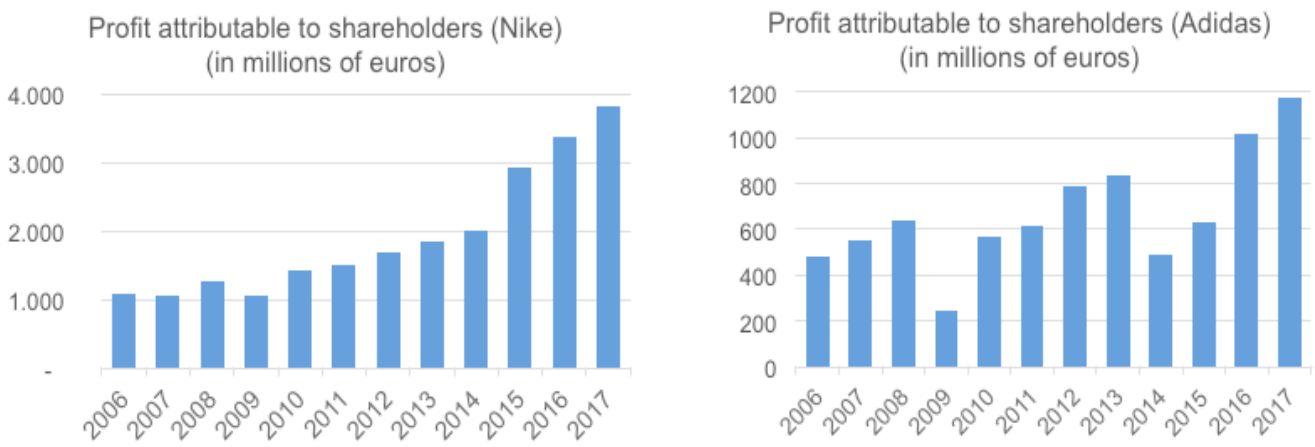


Figure 6. Trends in profits attributable to Nike's and Adidas' shareholders (2006-2017)
Source: Basic, according to annual reports published by both companies

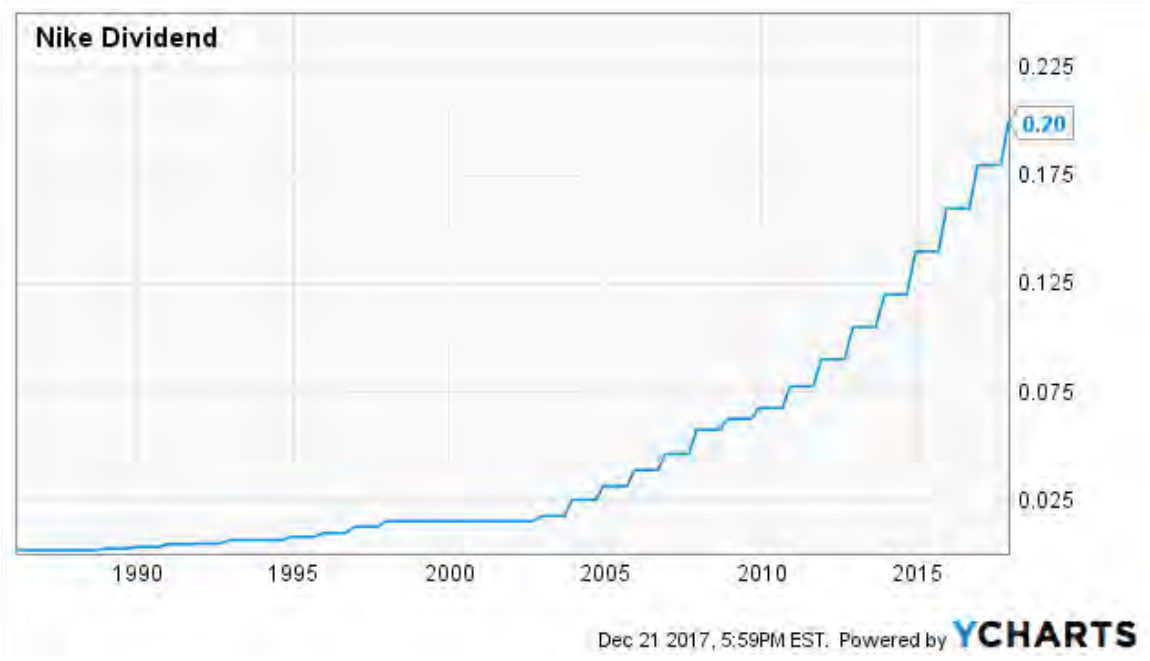
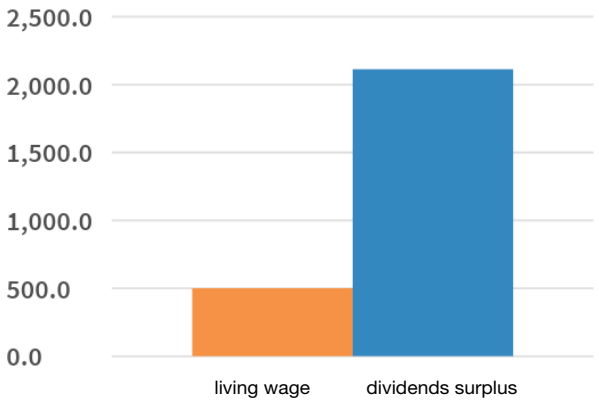


Figure 7. Trends in per-share dividends paid by Nike (1985-2018)
Source: www.Ycharts.com

Payment of living wage and dividends surplus in 2017 compared to 2012 for Nike (in millions of euros)



Payment of living wage and dividends surplus in 2017 compared to 2012 for adidas (in millions of euros)

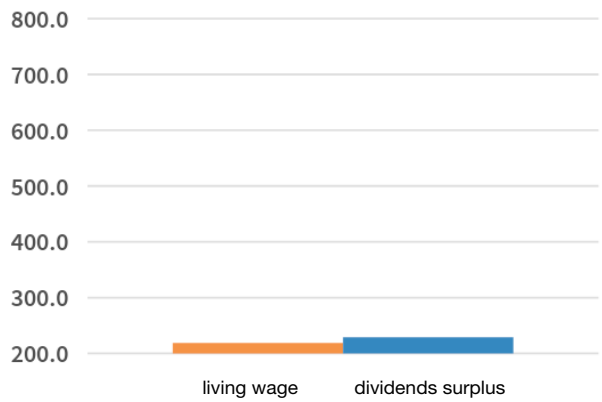


Figure 8. Estimate of what the payment of living wages would represent in terms of dividends paid.
Source: BASIC, based on data published by both companies and estimates of living wage rates and average salary by country

If Nike and Adidas had opted to keep their 2017 dividends at 2012 levels (the latter had already reached elevated levels five years ago), the money saved would have allowed for decent wages to be paid to their workers in the countries where most of their manufacturing takes place (China, Indonesia, Vietnam, Cambodia)

3. BUSINESS DECISIONS INTENDED TO INCREASE PROFITABILITY

The remarkable financial performance of Nike and Adidas is directly related to a business model based on two key pillars:

- Sponsorship
- Minimizing production costs (notably through "lean management" and the shifting of sourcing to countries with increasingly low-cost labor)

For certain athletic apparel brands, including Nike, tax evasion constitutes a third pillar.

A. Sponsorship

For several years now, athletic apparel brands' value creation strategies have relied on associating their brands with star athletes who they sponsor in order to maximize their sales and, ultimately, their profits.

The linking of their brand image with those of major athletes, which becomes more costly for brands each year, has allowed them to strengthen consumer appeal thanks to the athletes' star power and the passionate admiration they inspire among the general public. Beyond the inherent qualities of their products, this association allows athletic apparel brands to promote a lifestyle that consumers around the world can identify with. [32]

32 UMEA School of Business Economics, The role of athlete's sponsorship on the marketing strategy of a sports brand: A qualitative study conducted at HEAD France, 2017 et Helsinki Metropolia University of Applied Sciences, Branding a lifestyle: the case of Nike, 2015

Nike's marketing and sponsorship spending
(in millions of euros)

Adidas' marketing and sponsorship spending
(in millions of euros)

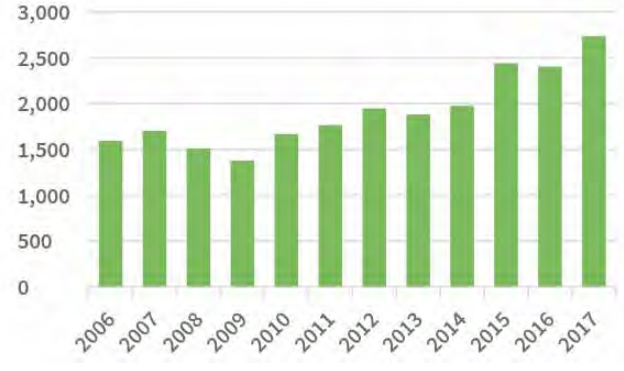


Figure 9. Trends in Nike's and Adidas' sponsorship and marketing spending (2006-2017)
Source: Basic, according to annual reports published by both companies

Nike's sponsorship spending (in millions of euros)

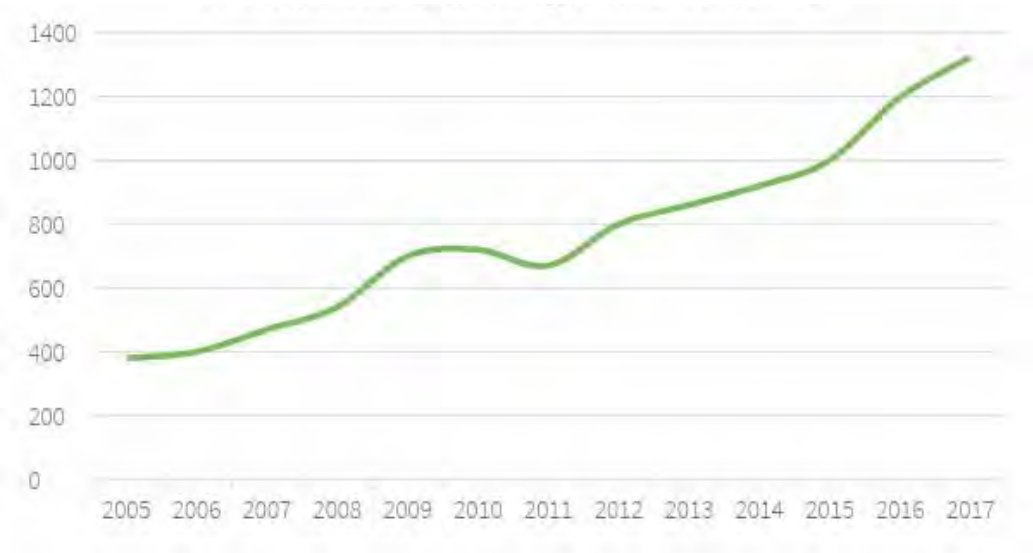


Figure 10. Trends in Nike's sponsorship spending (2005-2017)
Source: Basic, according to published annual reports

If Nike and Adidas had kept their 2017 marketing and sponsorship expenditures at 2012 levels (these expenditures were already extremely significant five years ago), the money saved would have allowed for decent wages for one year to be paid to their workers in the countries where most of their manufacturing takes place (China, Indonesia, Vietnam, Cambodia).

Payment of living wage and marketing spending surplus in 2017 compared to 2012 for Nike (in millions of euros)

Payment of living wage and marketing spending surplus in 2017 compared to 2012 for adidas (in millions of euros)

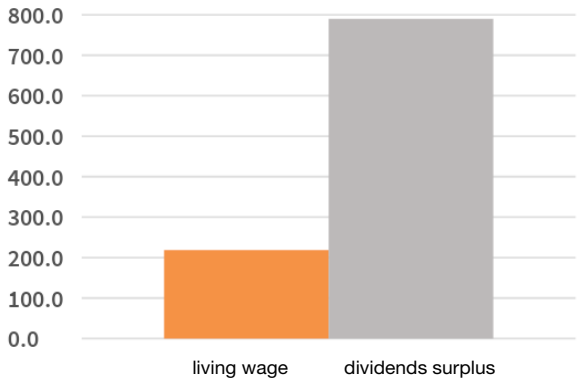


Figure 11. Estimate of what the payment of living wages would represent in terms of Nike's and Adidas' marketing spending
Source: BASIC, according to data published by both companies and estimates of living wage rates and average salary by country

Marketing and sponsorship are consuming a growing share of sportswear brands' budgets, a point of fierce competition among leading brands: 13% of Adidas' gross revenue in 2017 (2.7 billion euros) compared to 10% of Nike's the same year (3 billion euros). The stakes of this veritable bidding war should be analyzed in comparison to the expenditures allocated to factory workers' salaries.

Sponsorship spending alone made up 40% of Nike's entire 2017 marketing budget (approximately 1.2 billion euros), with an increase even larger than that of the previous year.[33] Adidas invested a similar amount that same year in sponsorship, to the tune of 1 billion euros.[34]

Football players occupy a special place in society due to their stature and public image. Football, in fact, largely dominates the athletic world—in Europe in particular—in terms of the number of (both amateur and professional) players, its popularity, and its media presence. The football sector is therefore necessarily a crucial component of athletic apparel brands' strategies for conquering the sports market.[35]

This explains why many football players are among the most highly paid athletes in the world in terms of sponsorship revenue (even if the two athletes that top the ranking are the basketball players Lebron James and Kevin Durant).[36]
As the ranking below demonstrates, Adidas—the historical leader in the football sector—and Nike effectively find themselves in head-to-head competition for sponsorship deals with football players, which inflates the price of these contracts.

33 Nike, Annual Report, 2017
34 Associated Press, For Adidas and rivals, sponsorships are good business, October 2017
35 W. Gasparini et J. F. Polo, L'espace européen du football : dynamiques institutionnelles et constructions sociales, l'Harmattan, 2012
36 https://www.totalsportek.com/money/biggest-endorsement-deals-sports-history/ and https://www.forbes.com/athletes/list/#tab:overall_header:position consulted 4/26/18

In 2017, Adidas paid 11 million euros more to Lionel Messi than to Zinédine Zidane 15 years earlier, a sum that would have allowed them to pay decent wages to more than 44,170 Indonesian workers or 52,600 Vietnamese workers in garment factories for one year (see section 3.b for more details).

The two best players of their generation, Cristiano Ronaldo and Lionel Messi, signed lifetime sponsorship deals far more lucrative than their actual football contracts.
Forbes estimates that the global revenue Ronaldo will reap from his partnership with Nike will approach a billion dollars. [37] It would take 6 years for a worker on an average European minimum wage to match what Ronaldo earns in just one day from this sponsorship deal alone.
In comparison, Zinédine Zidane, European Footballer of the Year in 1998, "only" earned 1 million euros per year in 2002 from his partnership with Adidas; [38] this figure has increased 20-fold in 15 years, 50 times more so than European salaries on average.[39]

The rise of football sponsorship spending does not affect just star players, but also major clubs, whose business models depend in no small part on sponsorship as a key revenue stream.

Player	Sponsor	Annual amount of sponsorship contract (in millions of euros/year)
C. Ronaldo	Nike	20
L. Messi	Adidas	12
Neymar	Nike	12
M. Balotelli	Puma	5
G. Bale	Adidas	5
M. Ozil	Adidas	4.5
P. Pogba	Adidas	4
C. Fabregas	Puma	4
P. Dybala	Adidas	3
M. Verratti	Nike	3
K. Benzema	Adidas	2.5
A. Griezmann	Puma	2
PE. Aubameyang	Nike	2
W. Rooney	Nike	2
S. Ramos	Nike	2

Figure 12. Annual totals of the largest sponsorship contracts with international football players
Source: BASIC, according to data published by www.sportune.fr (2018)

Club	Sponsor	Annual total in 2017 (MM €)	Annual total in 2017 (MM $)
FC Barcelona	Nike	153.3	173.2
FC Bayern Munich	Adidas	89.0	100.5
Manchester United	Adidas	85.0	96.0
Chelsea FC	Nike	68.0	76.8
Real Madrid CF	Adidas	39.6	44.7
Arsenal FC	Puma	34.0	38.4
Liverpool FC	New Balance	31.7	35.8
Paris Saint Germain	Nike	19.7	22.3
Manchester City FC	Nike	17.0	19.2
Tottenham Hotspur FC	Under Armour	11.3	12.8
TOTAL		548.6	619.7

Figure 13. Annual totals of the largest sponsorship contracts with major European football clubs
Source: BASIC, according to data published by Brand Finance – Football 50

37 https://www.forbes.com/profile/cristiano-ronaldo/ consulted 4/23/18
38 Pentacom, Communication corporate, interne, financière b-to-c et b-to-b, Pearson, 2012
39 European Commission, Labour Market and Wage Development in Europe, 2017. According to the report, wages in Europe have risen on average by 2.25% per year since 2002, an increase of (1,0225)15 = 39,6% since then, compared with the increase in sponsorship contracts with major football players, which have increased by 1900% over the same interval (i.e. multiplication by 20), a pace 50 times larger.

If athletic apparel brands had opted to maintain 2015 football club sponsorship expenditure levels in 2018, the 226 million euros saved would have allowed, if allocated to Asian garment factory workers, to pay decent wages to more than a million of them for one year (based on the average wages and decent wages in the countries where most of their manufacturing takes place (China, Vietnam, Indonesia, Cambodia, India, Sri Lanka, and Bangladesh).

Just like for players, Nike and Adidas take the top spots—they sponsor 21% and 19% respectively of top-division European football clubs—and compete to sign with the major clubs and develop their image vis-à-vis fans and consumers.[40] This has led to a dramatic increase in sponsorship spending; the total amount paid to the top 10 clubs exceeded 407 million euros annually in 2015 and 549 million euros in 2017.
In 2018, these 10 major clubs will reportedly take in 633 million euros according to the trade magazine Handelsblatt, constituting an increase of over 55% since 2015.[41] There is also competition among athletic apparel brands for the sponsorship of national teams. Germany's national team, the reigning World Cup champions, thus saw its Adidas sponsorship revenues nearly triple, reaching 65 million euros in 2018 following a bidding war between Nike and Adidas in 2016.[42] The French national team follows closely behind with the 50.5 million euro contract they renegotiated with Nike, worth 8 million euros more than their previous deal.[43]

Figure 14. Number of national teams sponsored by Nike, Adidas, and Puma and total of the largest sponsorship contracts
Source: BASIC, according to information from Bild (2015), Sofoot, and Les Echos (2018)

40 Nova Business School, Adidas AG Company Report: A paradigm shift in sportswear, 2018
41 https://global.handelsblatt.com/companies/top-sports-suppliers-vy-for-top-soccer-clubs-860794 consulted 4/26/18
42 http://www.sofoot.com/l-allemagne-prolonge-son-contrat-avec-adidas-pour-un-montant-record-224641.html consulted 4/23/18
43 https://www.lesechos.fr/17/02/2017/lesechos.fr/0211809076740_le-contrat-signe-entre-nike-et-la-fff-se-monte-a-50-5-millions-par-an.htm+&cd=2&hl=fr&ct=clnk&gl=fr&client=firefox-b-ab consulted 4/23/18

Country	Brand	Annual total in 2015	Annual total in 2018
France	Nike	42.6	50.5
UK	Nike	30	40
Germany	Adidas	25	65
Brazil	Nike	25	Estimation of negotiation in 2018
Spain	Adidas	24	24
Italy	Puma	20	20
Russia	Adidas	12.5	12.5
Netherlands	Nike	8.5	8.5
USA	Nike	8.25	8.25
Argentina	Adidas	8	8

As a consequence of this bidding war phenomenon, sponsorship too represents a source of the inequalities at the heart of the football sector. If more and more money is being paid to the most renowned clubs and players, the same cannot be said for the rest of the clubs and players, who are increasingly being left behind by major sponsors more interested in the potential return on investment generated by more prestigious clubs than in supporting a larger number of teams. [44]

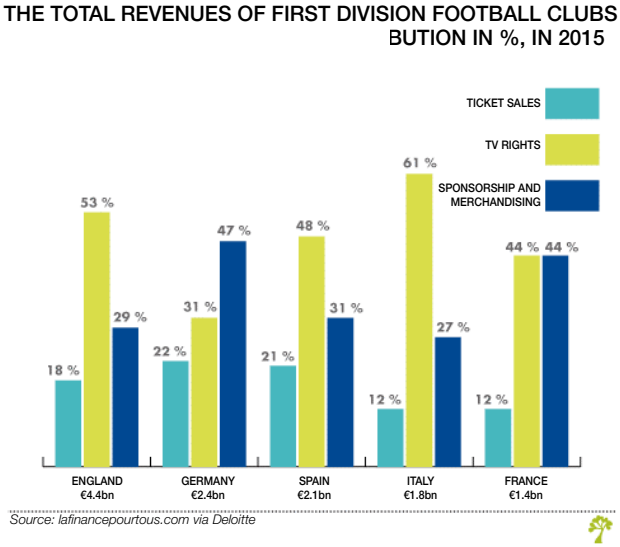


Figure 15. Revenues of top-division football clubs in major European chamionships
Source: Deloitte (2016)

B. Production Cost Reduction, and, in Particular, Labor Cost Reduction via "Lean Management"

Athletic apparel brands' products, in particular those of Nike and Adidas, are now produced almost exclusively in Asia via an extensive supply chain network. Nike is built on this business model, which allowed it to minimize its production costs (that is to say the costs of raw materials and of the manufacture of its components and products),[45] which has motivated Adidas to externalize its production and outsource the entirety of it to Asia starting in the 90s.[46]

This dynamic has led to the rise of large companies in Asia that develop vast networks of factories across the continent,[47] such as Li & Fung (Hong Kong), Esquel (Hong Kong), and Pou Chen (Taiwan), which possesses the world's largest sneaker manufacturing complex, the Yue Yuen shoe factory located near Hong Kong, which produces about 20% of the athletic footwear sold around the world each year. [48]

44 https://global.handelsblatt.com/companies/top-sports-suppliers-vy-for-top-soccer-clubs-860794 consulted 4/26/18
45 R. M. Locke, The Promise and Perils of Globalization, 2003 op. cit.
46 B. Smith, Pitch Invasion. 2007 op. cit.
47 S. Azmeh and K. Nadvi, Asian firms and the restructuring of global value chains, London School of Economics 2014
C. Staritz, Apparel export – still a path for industrial development? Dynamics in apparel global value chains and implications for low-income countries, OFSE, 2012;
R. Appelbaum, Giant Transnational Contractors in East Asia: Emergent Trends in Global Supply Chains, Competition & Change, 2008
48 Reuters, http://www.reuters.com/article/yue-yuen-ind-workers-idUSL3N0N02FX20140408 consulté le 24/04/2018
New York Times, http://www.clb.org.hk/content/new-york-times-workers-strike-shoe-factory-over-benefits-dispute consulté le 24/04/2018

By investing in national teams and clubs and sponsoring internationally renowned players, garnering themselves an omnipresent global showcase, Nike and Adidas are serving one central objective: financial performance. This has a price. Nike's marketing and sponsorship budgets grew in 2017 to 10% of their gross revenues, a level that has risen to 13% in the case of Adidas.
This virtuous circle—whose starting point is an increase in visibility in order to generate more and more sales, and, ultimately, greater profits—operates primarily in the interests of one privileged player: the shareholder. Nike's and Adidas' remarkable stock performance testifies to this. Nike has performed 70% above the Dow Jones Industrial Average since 2014.

The emergence of intermediary suppliers now of multinational size has given rise to a "triangle structure" whereby these intermediary suppliers handle management of the supply chain through a network of subcontracting factories which produce individual components that they then assemble.[49]

In order to increase their bargaining power and optimize production costs all while preserving the quality of their merchandise and their technical innovation capabilities, Nike and Adidas utilized a management system called "lean management" in their supply chain networks.
This system, pioneered by Toyota in the 70s, is specially adapted to assembly-line products with a wide variety of components and has spread throughout the textile sector over the last fifteen-some years.
Through the methods of lean management, Nike and Adidas have constructed a system that allows them to "remotely" manage every step in their complex and ramified supply chain.[50]

Lean management is based on two pillars :[51]
- Just-in-time production in order to reduce lead time
- production cost reduction

More specifically, one of the main tools used by sportswear companies in their lean management is "target costing" which aims to optimize costs at all levels of production.

Through this precise method of breaking down the total cost of a product, sportswear brands determine for each model:[52]
- First, the final retail price
- Then, the desired profit margin
- To arrive at the maximum production cost of their product

This final step has a crucial impact on the salaries of workers at the end of the supply chain. The budget allocated for production costs is determined with respect to the desired retail price and sales margin; it is up to suppliers to adapt in order to operate at the required cost.[53] Today, sportswear brands go so far as to optimize the number of minutes spent by workers on each product to improve productivity and reduce associated costs.[54]

Because its internal logic is effectively the opposite of that of a model that factors the payment of a living wage (that allows workers to live with dignity) as a non-negotiable factor in determining the total cost of production, lean management can therefore contribute to the ongoing payment of wages well below subsistence levels in a sector that is flourishing.

49 S. Azmeh and K. Nadvi (2014), C. Staritz (2012) and R. Appelbaum (2008) op. cit.
50 Man-Li Lin, Philip Y. Huang, Using target costing to manage sporting goods, Kuo University of Management, 2014
51 Ibid.
52 Ibid.
53 Man-Li Lin, Improving Product Development and Production with Target Cost Management, Tunghai University, 2007 op. cit.
54 www.adidas-group.com/media/filer_public/86/a5/86a53df1-c795-4b consulted 4/24/18

	Pair of Nike sneakers in 1995	Pair of Nike sneakers in 2017	Pair of Adidas sneakers in 2017	Pair of Nike sneakers in 2017 sold on the internet
Distributor (including VAT)	49%	50%	50%	20% (VAT)
Brand (taxes)	1.5%	1%	1%	1%
Brand (profit)	3.5%	5%	2%	30%
Brand (other costs)	12%	12%	13%	17%
Brand (marketing and sponsorship)	4%	5%	8%	5%
Transportation (and customs)	5%	5%	5%	5%
Production costs	24%	22%	21%	22%
Supplier (other costs and profit)	7%	2.5%	2.5%	2.5%
Workers' wages	4%	2.5%	2.5%	2.5%
Raw materials	13%	17%	16%	17%

Figure 16. Estimate of the average price breakdown of a pair of Nike or Adidas shoes
Source: BASIC, according to information published by the Washing Post (1995) and www.solereview.com (2018)

Lean management is now used by the majority of Adidas' and Nike's suppliers (in 76% of the latter's textile factories and 85% of their shoe factories). If the brands justify their use of lean management on the grounds that it reduces waste, increases productivity, and is better able to respond to market trends,[55] they omit its social impact: an intensified work pace imposed by "just-in-time production" and, above all, the high cost pressure on suppliers, in particular on labor, becomes a pivotal adjustment variable despite the fact that labor represents only a fraction of total production costs.

This dynamic is displayed in the evolution of the price breakdown of both brands' sneakers. The data published in a study conducted by the Washington Post in 1995[56] and recent work by "Solereview"[57] (which estimated in 2017 the production costs and selling prices of 8 of Nike's and Adidas' signature sneaker models) allow us to roughly ascertain their value breakdown over an interval of 25 years:

When considered in conjunction with the analysis laid out in previous sections, this data demonstrates that between 1995 and 2017:

- The share allocated to raw materials grew by more than 25%, reflecting both an increase in their prices and in the technical sophistication of sportswear brands' products.
- Factory workers' share has fallen by 30%. This distribution reflects the pressure exerted on wages in spite of high inflation.
- The profit generated by suppliers (once raw materials and wages have been paid for) has fallen by nearly a factor of 3, which demonstrates the growing pressure exerted by sportswear companies on their production costs, and, consequently, the pressure exerted by suppliers on their workers (for example, the share allocated to the production of sneakers has fallen by 5% despite the increase in the price of raw materials).
- The budget allocated to marketing and sponsorship has grown by 20% at Nike and has nearly doubled at Adidas, illustrating the increasing importance of this component in terms of its share of the value of its products. Sponsorship now represents a third of such spending, making up 1.5% of their sneakers' total value.

55 Nike, Sustainability Report, 2013
56 https://nie.washingtonpost.com/sites/default/files/Sneaker%20Supply%20and%20Demand.pdf consulted 4/30/18
57 https://www.solereview.com/what-does-it-cost-to-make-a-running-shoe/ consulted 4/30/18

- Nike's profits are rising at a rate of 40% and Adidas' at an even higher rate . Profit margin can go from 5% for a pair of sneakers sold by a distributor like Foot Locker to up to 30% for the same product sold directly by the brand on its website. The profits garnered by Nike in this fashion have exceeded 10% of their total global revenues; in comparison, the average for the textile sector was 4% in 2017 and 5.9% over the last 10 years.[58]

Though we were unable to find an estimated price breakdown of football jerseys 25 years ago, we have found recent PR Marketing studies that offer a look at the price breakdown of the jerseys of the top World Cup teams:

To achieve these results, sports brands have transferred their production to countries with cheaper labor under the pretext of rationalizing their business model. For this reason, there has been a significant, consistent decline in sourcing from China, where wages in the textile sector are among the highest in Asia, accompanied by a rise in sourcing from Indonesia and, in particular, Vietnam, countries where labor is far less expensive. This trend has largely been made possible by the spread of lean management, which allows brands to standardize their production no matter where it is carried out.

Nike's Chief Operating Officer, Erik Sprunk, declared during an investor presentation in October 2013 that: "It's no secret. This model is facing significant challenges with rising labor rates and trends towards protectionism in a few key markets around the world. . . .

	Nike 2018 World Cup Jersey	Adidas 2018 World Cup Jersey
Distributor (including VAT)	64.5%	64.5%
Brand (taxes)	3%	6%
Brand (profit)	17%	14.5%
Brand (money paid to team)	4.5%	4.5%
Brand (marketing and other costs)	2%	2%
Transportation (and customs)	2%	2%
Production costs	7%	6.5%
Supplier (other costs and profit)	2.5%	2.5%
Workers' wages	1%	1%
Raw materials	3.5%	3%

Figure 17. Estimation of the average price breakdown of a Nike and Adidas national team football jersey
Source: BASIC, according to information from PR Marketing (2018)

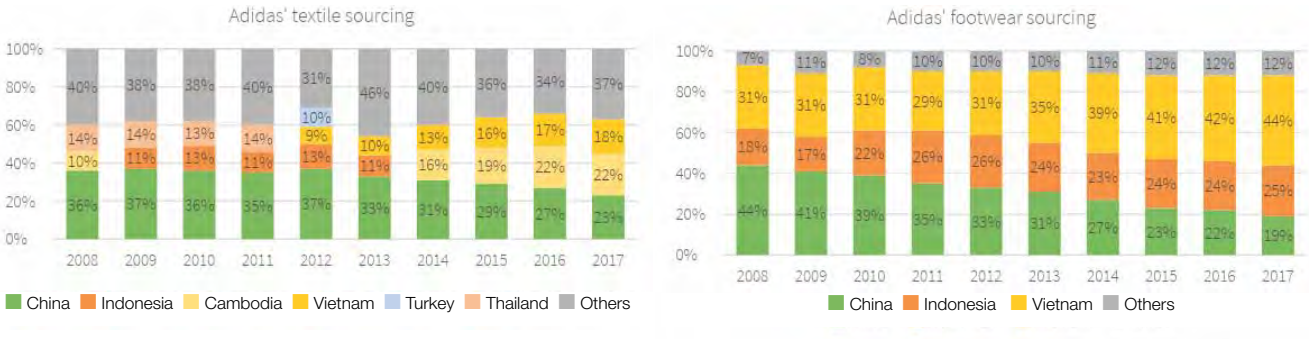


Figure 18. Trends in the countries where Adidas sources their shoes and apparel (2008-2017)
Source: BASIC, according to Adidas' annual and CSR reports

58 https://csimarket.com/Industry/industry_Profitability_Ratios.php?ind=1301 consulted 5/20/18

The estimates of the Asia Floor Wage Alliance as well as the independent research conducted by the NGOs the Wage Indicator Foundation and the Global Living Wage Coalition show that the average wages of qualified textile workers is 45% to 65% below living wage standards in Bangladesh, Cambodia, India, Sri Lanka, Vietnam, and Indonesia (see below).

As we introduce more and more of this innovation [such as lean management], we expect significant increases in labor productivity, and these innovations also create the possibility to make products closer to market, so we can serve our consumers more quickly with products that perform better."[59]
Adidas' head of global sourcing, John McNamara, revealed in a 2015 internal presentation that rising wages in China were behind their current strategy of delocalization toward countries with lower cost labor.[60]
He also stated during an investor presentation in 2015 that Adidas would reduce the amount of apparel and footwear it sources from China, while increasing orders from Indonesia, Vietnam, Cambodia and Myanmar. "We see Myanmar as one of the last great sourcing markets for our type of product,"[61] he said.
This strategy has allowed Adidas to significantly lower its production costs in recent years, notably in comparison with Nike, as the graph below shows (which represents each brands' "sourcing costs" in terms of gross revenue).

Figure 20. Trends in the share that "supplier costs" represent for Nike and Adidas (2006-2017)
Source: According to annual reports published by both companies

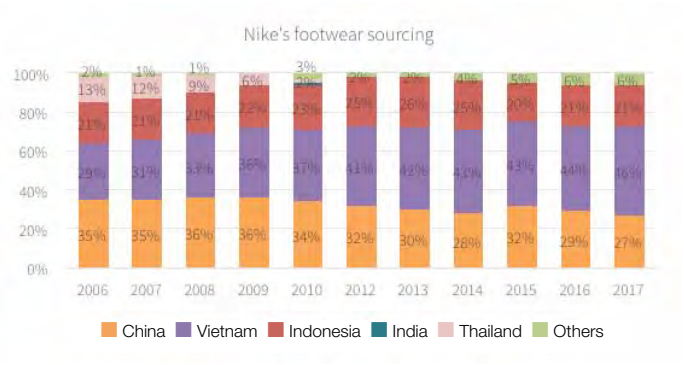


Figure 19. Trends in the countries where Nike sources their shoes (2006-2017)
Source: BASIC, according to Nike's annual and CSR reports

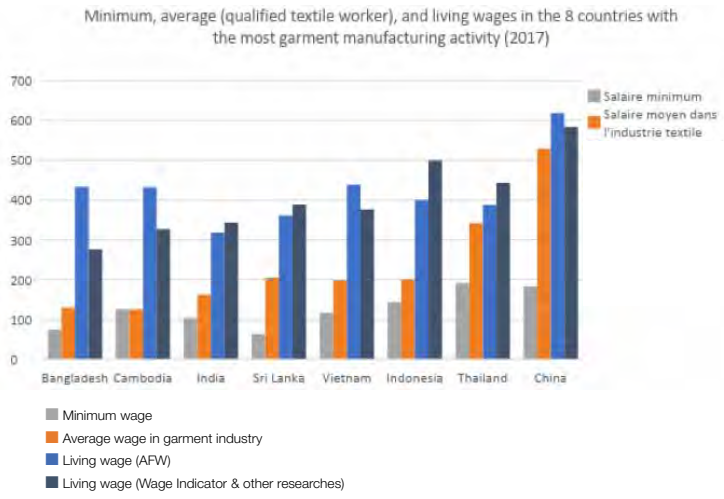


Figure 21. Minimum wage, average wage in the sector, and living wage in major textile-producing countries
Source: BASIC, according to data from the ILO and research on the living wage in each country
(Asia Floor Wage Foundation,, Global Living Wage Coalition, and WageIndicator)

59 Reported in : Credit Suisse, 2014 Apparel and Footwear Sourcing Outlook, April 2014
60 www.adidas-group.com/media/filer_public/86/a5/86a53df1-c795-4b consulted 4/24/18
61 http://europe.chinadaily.com.cn/business/2015-12/11/content_22687006.htm consulted 4/24/18

Estimating a Living Wage

A living wage is calculated based on the amount workers in a typical family need to earn in order to cover:[62]

- Basic nutritional needs as defined by the International Health Organization, taking into account regional and cultural contexts
- The minimum cost of decent housing
- Costs of other household essentials: childhood education, health, clothing, transportation, and enough discretionary income to allow for some limited savings.

Living wages are estimated in terms of regional specificities and the sectors in question (and in particular the number of adults who earn full-time wages per family as well as the number of people who depend on this income). Based on this definition, the Asia Floor Wage Alliance calculated—the last time in 2017—an estimated living wage for the major garment-producing Asian countries. It is a figure expressed in purchasing power parity (PPP) which takes into account differences in standard of living between countries and may be converted into the local currency to be compared to the wages in effect.[63]

In pursuit of the lowest production costs, relocalization strategies orient sportswear companies toward countries synonymous with poor social rights. In the face of numerous scandals in the sector over labor exploitation and pressure from workers' and human rights movements, Nike and Adidas, like the rest of the textile sector's major players, put into place annual social audits in the factories of their suppliers and their subcontractors in order to reduce the incidence of violations of basic workers' rights without calling into question the economic practices that drive such violations.
As the most recent research published by the International Labor Organization (see the table below) illustrates, "non-compliance" rates are particularly high in the three countries with the most significant growth in sportswear sourcing.

Cases of non-compliance in the sector detected in textile factories by the ILO as part of its Better Factory Program in different countries in 2016

	Indonesia	Vietnam	Cambodia
Violation of minimum wage	26%	12%	28%
Non-payment of overtime work	64%	49%	36%
Denial of legal paid vacation	20%	58%	64%
Non-payment of social security	67%	30%	63%
Failure to provide adequate information to workers and abusive deductions	31%	42%	-
Contract violations	65%	30%	-
Violation of maximum work hours	54%	71%	-
Violation of maximum overtime hours	71%	82%	-
Failure/refusal to provide legal paid leave	46%	31%	-
Denial of right to unionize	2%	37%	-
Denial of collective bargaining rights	22%	50%	-
Violation of fire safety rules	86%	80%	-
Poor management of hazardous substances	84%	73%	-
Absence or non-use of protective equipment	90%	89%	-

Figure 22. Sector-wide violations in textile factories in Indonesia, Vietnam, and Cambodia
Source: BASIC, according to data from the ILO (Better Factory Program)

62 R. Anker, Living wages around the world, Edward Elgar Publishing, 2017
63 https://asia.floorwage.org/what consulted 4/30/18

Given that Nike and Adidas sell approximately 750 million and 400 million pairs of shoes per year respectively, the negative environmental impact associated with the production of their products could therefore amount to a hidden annual cost in the order of 3.2 billion euros and 1.7 billion euros respectively.

Examples of such non-compliance include in particular non-payment of overtime wages, legally-mandated annual leave, and social security as well as disregard for the freedom to unionize, maximum working hours, fire safety regulations, disposal and safety protocol for hazardous substances, and the provision of protective equipment.[64]

Nike and Adidas claim to take adequate measures when their social auditing systems discover these kinds of failings on the part of their suppliers.[65] According to a recent study, the lean management strategies they have implemented are correlated with a drop—in the order of 15%—in the probability of non-compliance with basic labor standards (minimum wage legislation, overtime pay) in garment factories.[66] However, this potential improvement does not take into account the matter of living wage and could be challenged on the grounds that brands are shifting their sourcing to countries based on a veritable "race to the bottom" with respect to social risk.

Numerous such cases of non-compliance with basic labor standards have been reported by civil society organizations in recent years despite the implementation by sportswear companies of social auditing systems.[67] This is explained by the underlying fact that neither Nike nor Adidas have changed their sourcing practices in order to offer a price that would allow suppliers to pay their workers living wages.[68]

Beyond social issues, and beyond the substantial investments brands have made in order to reduce their ecological footprint, the sector is characterized by increasing environmental impact in its sourcing countries: deforestation to acquire the wood needed to heat factories, water pollution from hazardous chemicals, etc. For instance, a study conducted by Trucost on behalf of Puma estimated in 2013 that the environmental externalities had risen to approximately 4.30 euros for every pair of athletic shoes (in terms of the cost of damages, adaptation, and compensation associated with environmental impact).[69]
In the long term, athletic apparel companies seem to be concerned solely with cutting their labor costs even further by dramatically reducing their workforce via the automation of their manufacturing lines. In effect, similar to the industrial revolution experienced by automobile companies over the last 30 years, Nike and Adidas aspire to transform their factory workshops, which are still manual labor-intensive, into production lines operated by robots, which will have a still unknown but potentially considerable impact on employment within the industry and entail dire social consequences for factory workers as well as the developing countries highly dependent on textile and clothing exports.

64 ILO, Better Work Program, Vietnam, Indonesia and Cambodia reports, 2017
65 Nike et Adidas Social Responsibility reports, 2017
66 Greg Distelhorst, Jens Hainmueller, Richard M. Locke, Does Lean Improve Labor Standards? Management and Social Performance in the Nike Supply Chain. Management Science, 2016
67 In Cambodia, an investigation conducted by the NGO Human Rights Watch revealed numerous workers' rights violations (precarious contracts, forced overtime, union busting) in the factories of Adidas' official subcontracting suppliers. (https://www.hrw.org/report/2015/03/11/work-faster-or-get-out/labor-rights-abuses-cambodias-garment-industry consulted 4/30/18)
In July 2017, protests against Nike's treatment of workers were organized in light of serious workers' rights violations revealed by 2 NGO in one of Nike's Vietnamese suppliers' factories, Hansae, Workers Rights Consortium (WRC), Fair Labour Association (FLA), and https://qz.com/1042298/nike-is-facing-a-new-wave-of-anti-sweatshop-protests/ consulted 4/29/18. At the end of 2017, a plan to rectify these issues was developed and signed off on by the brand Oregon that will be put into place starting in 2018.
An investigation by the Mirror conducted jointly with the NGO China Labor Watch in 2017 in a Chinese factory that produces Adidas' "Yeezy" sneakers revealed that the workers earned only barely wages than the legal minimum, a level 65% lower than living wage levels. (http://www.thefashionlaw.com/home/new-yeezy-boosts-are-made-in-chinese-sweatshops-per-new-report consulted 4/30/18)
68 https://www.hrw.org/report/2015/03/11/work-faster-or-get-out/labor-rights-abuses-cambodias-garment-industry consulted 4/30/18
69 Trucost, Puma Environmental Profit & Loss, 2013

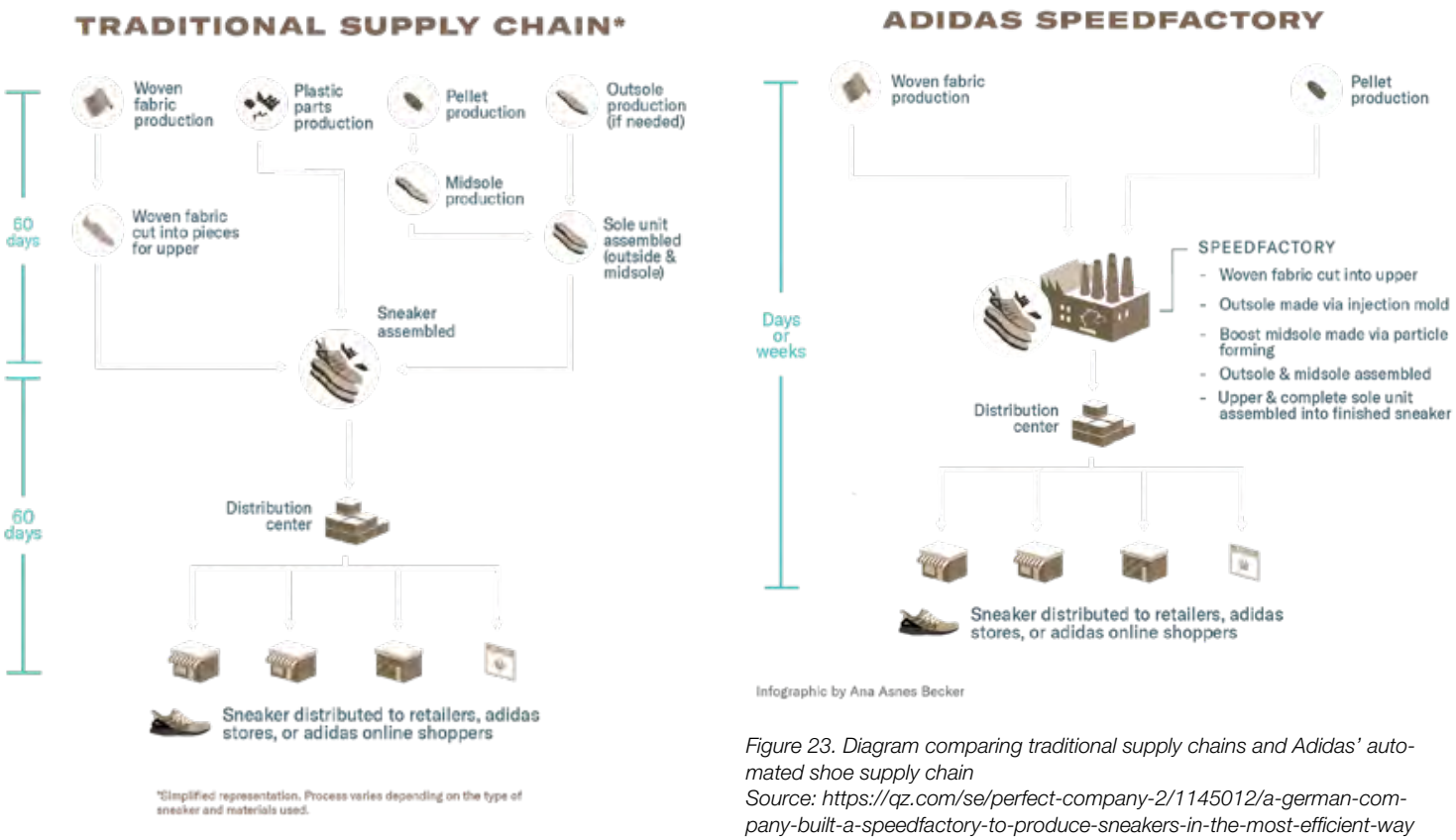


Figure 23. Diagram comparing traditional supply chains and Adidas' automated shoe supply chain
Source: https://qz.com/se/perfect-company-2/1145012/a-german-company-built-a-speedfactory-to-produce-sneakers-in-the-most-efficient-way

Adidas has developed a model for a fully automated factory called the "Speed Factory." Thanks to the use of intelligent robots and 3D printing technology, the company is poised to relocate their production throughout the world at cheaper prices, and, consequently, to substantially reduce procurement times from 60 days to a mere handful of days.[70] This constitutes a major advantage that allows the company to adapt in real-time to consumer demand and get an edge in the race to develop new models, in the image of the fast fashion model.[71]

Adidas has already set up two factories: one in Germany (in Ansbach) and the other in the United States (in Atlanta). They each employ 160 workers, each corresponding to over a thousand workers on average in suppliers' factories in China or Vietnam, for a total output of around 1 million shoes per year. This currently represents barely 1% of Adidas' total production, but their goal is to produce 20% of their footwear using automated manufacturing lines by 2023.[72]

Nike, though currently lagging behind its rival in this respect, is at work on a similar project. The company already uses 3D printers to reduce design time and aims to implement more than 1,200 automated machines in their Asian suppliers' factories in 2018 to aid in the production of soles, the cutting of textiles, and shoe assembly.[73]

At the end of 2015, Nike, with its partner Flex,[74] opened a fully automated shoe factory[75] that is expected to produce more than 3 million pairs by as early as 2018 and tens of millions by 2023 according to Nike's Chief Operation Officer, Erik Sprunk.[76]
Analysts from Citibank estimate that with these new manufacturing techniques, Nike could produce their Nike Air Max sneakers, one of the brand's best-selling ranges, with a 50% reduction in labor costs and a 20% reduction in the cost of raw materials (due to decreased waste). This would entail a cost reduction of over 400 million dollars per year and a 12% increase

70 https://qz.com/se/perfect-company-2/1145012/a-german-company-built-a-speedfactory-to-produce-sneakers-in-the-most-efficient-way/ consulted 4/29/18
71 Ibid.
72 Nova Business School, Adidas AG Company Report: Sustaining "Brand Momentum", 2017
73 https://qz.com/1112641/nike-is-racing-adidas-to-speed-up-sneaker-manufacturing/ consulted 4/29/18
74 http://news.nike.com/news/nike-s-manufacturing-revolution-accelerated-by-new-partnership-with-flex consulted 4/24/18
75 http://s2.q4cdn.com/065994059/files/doc_presentations/2016/April-2016-IR-Presentation-Flex.pdf consulted 4/24/18
76 https://qz.com/1112641/nike-is-racing-adidas-to-speed-up-sneaker-manufacturing/ consulted 4/29/18

in the company's sales margins, which could surpass 56% (compared to its current figure of 44%).[77]

The consequences of this development could become considerable in due time. A recent ILO report estimates that by 2050, between 64% and 88% of garment sector jobs in Indonesia, Vietnam, and Cambodia are under threat by automation; the sector employs more than 9 million people in Southeast Asia, most of whom are women.[78]

Executives from Nike and Adidas assert that the economic growth that their sales in Asia will generate will create enough labor need to compensate for the loss of jobs associated with automation. Jae-Hee Chang, co-author of the ILO report, responded: "There will be jobs, but they will be available to people who can maintain, troubleshoot, and work alongside robots. . . . There's going to be people possibly displaced and they will not automatically have jobs in that sector unless they acquire new training. Those are the people that are going to be most affected."[79]

As has been the case for several years now, major sportswear brands' cost optimization strategies are no longer limited to upstream supply chains; they are now also concerned with downstream distribution channels. Historically focused on the wholesale of athletic goods (which are are in turn sold to consumers by way of distributors like Foot Locker and Décathlon), Nike and Adidas are now generating more than a quarter of their revenue through direct sale to consumers. [80]

Beyond the stores that both brands operate themselves (Nike has roughly a thousand and Adidas has more than 2,500),[81] it is internet sales that are seeing the strongest growth.

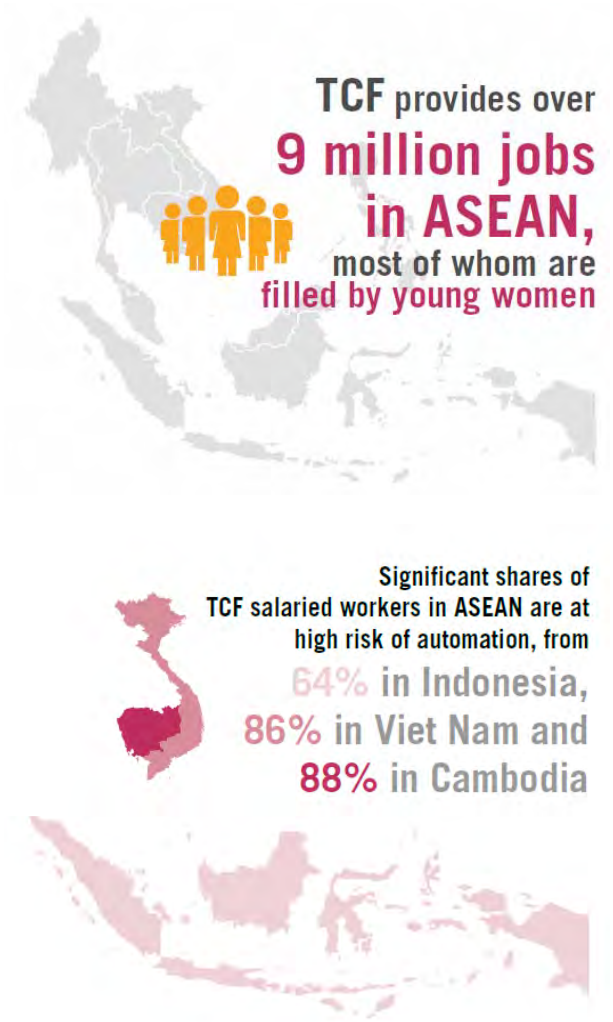


Figure 24. Potential impact by 2050 in the Textile, Clothing and Footwear sector in Southeast Asian countries
Source: ILO, ASEAN in transformation: How job technology is changing jobs and enterprises, 2016

77 Financial times : https://www.ft.com/content/585866fc-a841-11e7-ab55-27219df83c97 consulted 4/29/18
78 ILO, ASEAN in transformation: How job technology is changing jobs and enterprises, 2016
79 Financial times : https://www.ft.com/content/585866fc-a841-11e7-ab55-27219df83c97 consulted 4/29/18
80 Xerfi, The Global Sporting Goods Industry: the Market, 2017
81 Ibid.

Internet sales bring in 1.8 billion euros for Nike [82] and 1.6 billion euros for Adidas,[83] making up 6% and 7.5% of their global revenue respectively. The two sportswear companies expect to double this percentage by 2020, at the expense of in-store sales. As the CEO of Adidas, Kasper Rorsted, declared in April 2018: "Our website is the most important store we have in the world. . . . Over time, we will have fewer stores, but they will be better."[84]

In effect, as a recent study conducted by Nielsen Fields reveals, this new distribution channel is a major concern for Nike and Adidas, whose profits increase by a factor of 7 for their shoes sold over the internet in comparison with those sold through traditional distribution channels (going from 8 to 54 dollars for a pair of sneakers sold for 168 dollars),[85] due to the reduction of middlemen and to lower downstream distribution costs.

The strategies implemented by Nike and Adidas with respect to their suppliers raises questions: on the one hand, these two companies are stepping up the social auditing of their factories, which requires the allocation of more and more resources. On the other hand, their sourcing is increasingly situated in countries—Vietnam, Indonesia, Cambodia...—where the levels of social risk are among the highest in the world and workers' average wages are insufficient to allow them to live with dignity.

This trend, already identified in our previous "Foul Play" report,[86] has not relented. This is explained by the pressure exerted by sportswear companies on their suppliers for greater productivity and cost-efficiency, pressures that bring about negative consequences for suppliers' workforce.

In the current context, auditing systems are limited in what they can do to prevent the most serious violations of workers' rights, and the guarantee of a living wage for workers in garment factories would entail a "reversal" of the dominant logic; consumer prices would have to be determined in terms of how much workers must be paid (i.e. a living wage) and not the contrary.

In the near future, the spread of automation strategies throughout the athletic apparel industry could lead to even greater negative impacts, threatening to eliminate thousands of jobs in the sector if resources are not allocated for the retraining of workers.

82 Xerfi, Leading Players of the Global Sporting Goods Industry, 2017
83 http://fr.fashionnetwork.com/news/Adidas-va-fermer-plusieurs-magasins-pour-stimuler-ses-ventes-e-commerce,965939.html#.Wt-SA1IhubIV consulted 4/30/18
84 http://fr.fashionnetwork.com/news/Adidas-va-fermer-plusieurs-magasins-pour-stimuler-ses-ventes-e-commerce,965939.html#.Wt-SA1IhubIV consulted 4/30/18
85 Nielsen Fields, Nike Company Profile, 2017
86 https://www.tdg.ch/extern/interactive_wch/paradise-papers-tdg/inside-nike/ consulted 4/24/18

TAX EVASION: THE NIKE CASE

The ability of sportswear companies to generate profits and pay increasing dividends to shareholders is not based solely on their ability to create value on the one hand—in particular through sponsorship—and to keep their costs in check on the other. The development of tax evasion schemes complements these existing strategies. Nike's participation in such practices has been revealed through the recently leaked "Paradise Papers."

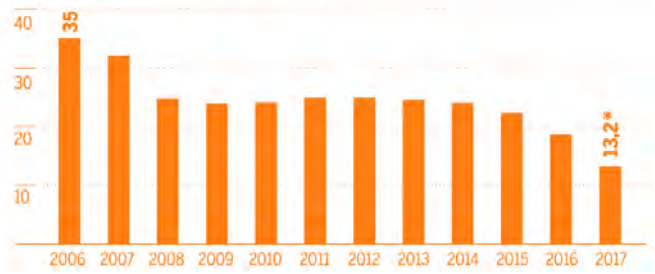
Firstly, all Nike items purchased by European distribution networks are billed by the European headquarters based in Hilversum in the Netherlands. It therefore in the Netherlands that all of their European revenue is taxed.[87]

Up until June 2014, the Dutch headquarters paid considerable amounts of money in trademark royalty fees to its subsidiary based in Bermuda, Nike International Ltd., which held all the company's intellectual property rights for its brands.[88]
Nike's European headquarters allegedly transferred more than 3.85 billion dollars between 2010 and 2012 for use of the Nike trademark and branding to Bermuda, where the tax rate is 0%. This shifted Nike profits away from the Netherlands and thus reduced its tax liability.[89]

Due to changes in fiscal policy, Nike supposedly dismantled its offshore network in Bermuda in 2014 and created yet another new company, this time in the Netherlands, to handle its intellectual property: Nike Innovate C.V.[90]
According to the "Paradise Papers," this subsidiary's profits—which rose to more than a billion euros in 2016—have not been taxed since its creation. This is due to its special status, a "limited partnership" *(Commanditaire Vennootschap)* held by two American subsidiaries. By virtue of this status, Dutch tax authorities did not tax the company's profits, as they considered that these profits were taxable only by American tax authorities (as the company's owners are American) and vice-versa (as the company is based in the Netherlands).[91]

Nike has thus succeeded in reducing its global tax liability by a factor of three over the course of the last decade: while the company paid 35% of its global profits in taxes in 2006, this rate fell to as low as 13.2% by 2017, a tax rate much lower than that of Google the same year (19.2%). Because of this, Nike has seen potential gains of over 600 million euros annually over the last 10 years.[92]

TAX RATE ON A GLOBAL SCALE
(IN PERCENT)



* Nike claims that its tax rate in 2017 was due to having secured one-off tax discounts. In 2018, they project a rate between 15% and 17%.

Figure 25. Nike's global tax rate
Source: Tribune de Genève (2017)

86 https://www.tdg.ch/extern/interactive_wch/paradise-papers-tdg/inside-nike/ consulted 4/24/18
87 https://www.tdg.ch/extern/interactive_wch/paradise-papers-tdg/inside-nike/ consulted 4/24/18
88 https://www.tdg.ch/extern/interactive_wch/paradise-papers-tdg/inside-nike/ consulted 4/24/18
89 https://www.tdg.ch/extern/interactive_wch/paradise-papers-tdg/inside-nike/ consulted 4/24/18
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91 https://www.tdg.ch/extern/interactive_wch/paradise-papers-tdg/inside-nike/ consulted 4/24/18
92 https://www.tdg.ch/extern/interactive_wch/paradise-papers-tdg/inside-nike/ consulted 4/24/18

When asked by journalists after the "Paradise Papers" affair, a brand spokesperson responded in November 2017 to a Swiss publication that Nike complies fully with tax laws and that company rigorously ensures that its tax declarations accurately report its business activities as well as its investments and the jobs it creates. [93]

The American company is not the only company implicated in such activities. Adidas was caught up in a scandal a few years ago due to its offshore banking in Liechtenstein,[94] and found itself under fire in 2017 for not paying Australian taxes despite its substantial profits [95] in Australia and for billing the sales on its German website to its Dutch site. [96]
More recent cases include the Kering group's (which owns Puma) alleged channeling of substantial earnings through Switzerland recently exposed by Mediapart,[97] Lionel Messi's conviction for tax fraud, [98] and recent revelations concerning Cristiano Ronaldo. [99]

4 CONCLUSIONS AND RECOMMENDATIONS

In economic terms, the athletic apparel sector has never been bigger or more profitable. Generating annual revenues of more than 260 billion euros, it is dominated by a small number of sportswear companies, with Nike and Adidas at the very top.

These two companies have successfully created a highly profitable business model that has seen steady growth for more than 10 years. Paragons of success in the industry, Nike and Adidas have become benchmarks in terms of stock market success. Increasingly part of the daily lives of consumers around the world, their brands have become practically unavoidable thanks to their painstakingly crafted appeal, particularly among young people.
To that end, they partake in a veritable bidding war in order to be able associate their brand images to those of celebrities from the worlds of sports, entertainment, and fashion through increasingly costly sponsorship deals. The football sector illustrates more than any other this trend, with every-growing sums being paid to the most prominent national teams, clubs, and players.
However, this study demonstrates that the downstream value generated by Nike and Adidas does not necessarily trickle down to the workers that produce their products. Located more and more often in countries with high levels of social risk and where average salaries in the textile sector are below living wage levels, workers continue to suffer violations of their basic rights. Even if the social auditing used by athletic apparel companies seeks to identify the gravest of these violations, they are ineffective when it comes to preventing them insofar as they do not entail changes to the business model that inevitably leads to these violations, a model that seeks above all else to increase payout to shareholders without consideration for its social impacts and the human rights breaches in the sector.

Above all, this study demonstrates that better pay for workers is not a question of financial means for sportswear companies, but a matter of priorities and decisions related to its business model.
Clean Clothes Campaign/ Collectif Éthique sur l'etiquette notes that under international norms, multinationals have the obligation to respect the basic rights of workers and communities and that they cannot shirk their responsibility to contribute to the public good. With this mind, it calls for the following:

93 https://www.tdg.ch/extern/interactive_wch/paradise-papers-tdg/inside-nike/ consulted 4/24/18
94 https://www.theguardian.com/business/2009/mar/31/total-michelin-adidas-france-tax-liechtenstein consulted 4/30/18
95 http://www.abc.net.au/news/2017-12-07/corporate-tax-data-released-by-ato/9236878 consulted 4/30/18
96 https://projekte.sueddeutsche.de/paradisepapers/wirtschaft/nike-und-die-niederlande-prellen-den-deutschen-staat-e116625/ consulted 4/30/18
97 https://www.mediapart.fr/journal/economie/160318/le-systeme-pinault-une-evasion-25-milliards-deuros?onglet=full consulted 4/30/18
98 https://www.forbes.com/sites/kellyphillipserb/2017/05/24/messi-prison-sentence-stands-after-supreme-court-rejects-tax-fraud-appeal/#2672e2ab1dff consulted 4/30/18
99 https://www.thelocal.es/20170613/ronaldo-accused-of-147-million-tax-evasion consulted 4/30/18

FOR ALL SPORTSWEAR BRANDS:

1 REGARDING THEIR GENERAL SOURCING POLICY

- Establish a time-bound road map with specific targets in order to guarantee the payment of a living wage, earned in a standard working week (no more than 48 hours), to workers within their supply chain, in collaboration with local unions in sourcing countries.
- Adopt responsible purchasing practices that enable the payment of a living wage to the workers within their suppy chain, including long term commitments to workplaces or other production units, and FOB prices that include a wage component sufficient to pay workers a living wage, ring-fenced in contractual agreements when placing orders.
- In accordance with their responsibility according to international guidelines, develop, publish and implement a human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights linked to their activities throughout their business relationships and the activities of their subsidiaries and subcontractors, including up to the raw materials, with particular attention to the causal link between purchasing practices and wages.
- Publish annually in a transparent manner the actual monthly wages of the workers in the supplier factories, disaggregated by gender - average wages, median wages and the difference between the lowest and highest wages - in order to allow for an informed debate with trade unions and civil society on working conditions, including gender pay gaps, in their supply chains.
- Publish annually the results of social audits of their suppliers and subcontractors, identifying the supplier and subcontractor concerned, and make the audit reports publicly available.

2 REGARDING THEIR SOURCING POLICY IN INDONESIA

- Continue and enhance the implementation of the Freedom of Association Protocol with the Indonesian trade unions involved:
  - require all Indonesia-based suppliers to sign the FoA protocol;
  - publish detailed information about how the brand's purchasing practices support compliance with the Protocol;
  - maximise the potential positive impact of the Protocol by rolling it out in suppliers below the first tier in supply chains.

- Within the next 3 months enter into negotiations with the Indonesian trade union organizations for the signing of a protocol on job security and living wage.

3 REGARDING THEIR SPONSORSHIP POLICY

- Initiate a dialogue and collective reflection within the sector, with the participation of independent experts and civil society actors, to stop the escalation leading to an excessive growth of sponsorship amounts and to investigate the possibility of capping their annual increase.

4 CONCERNING INITIATIVES TO PROMOTE A DECENT WAGE IN THE TEXTILE SECTOR

- Take the step from dialogue to implementation on living wages in the sportswear supplier factories, on the basis of the Asia Floor Wage or other robust living wage benchmarks supported by trade unions and local workers' organisations. Where collective bargaining agreements covering wages are not in place or cannot be negotiated de jure or de facto, brands should take time-bound interim measures, preferably negotiatied directly with (local) trade unions to increase wages and report regularly and publicly on wage progress at the workplace level.
- Do not hamper but publicly support and, upon their request, collaborate with trade unions in the production countries during and towards annual tripartite negotiations to obtain an increase of the legal minimum wage in the national garment and textile sector to the level of the calculated living wages.

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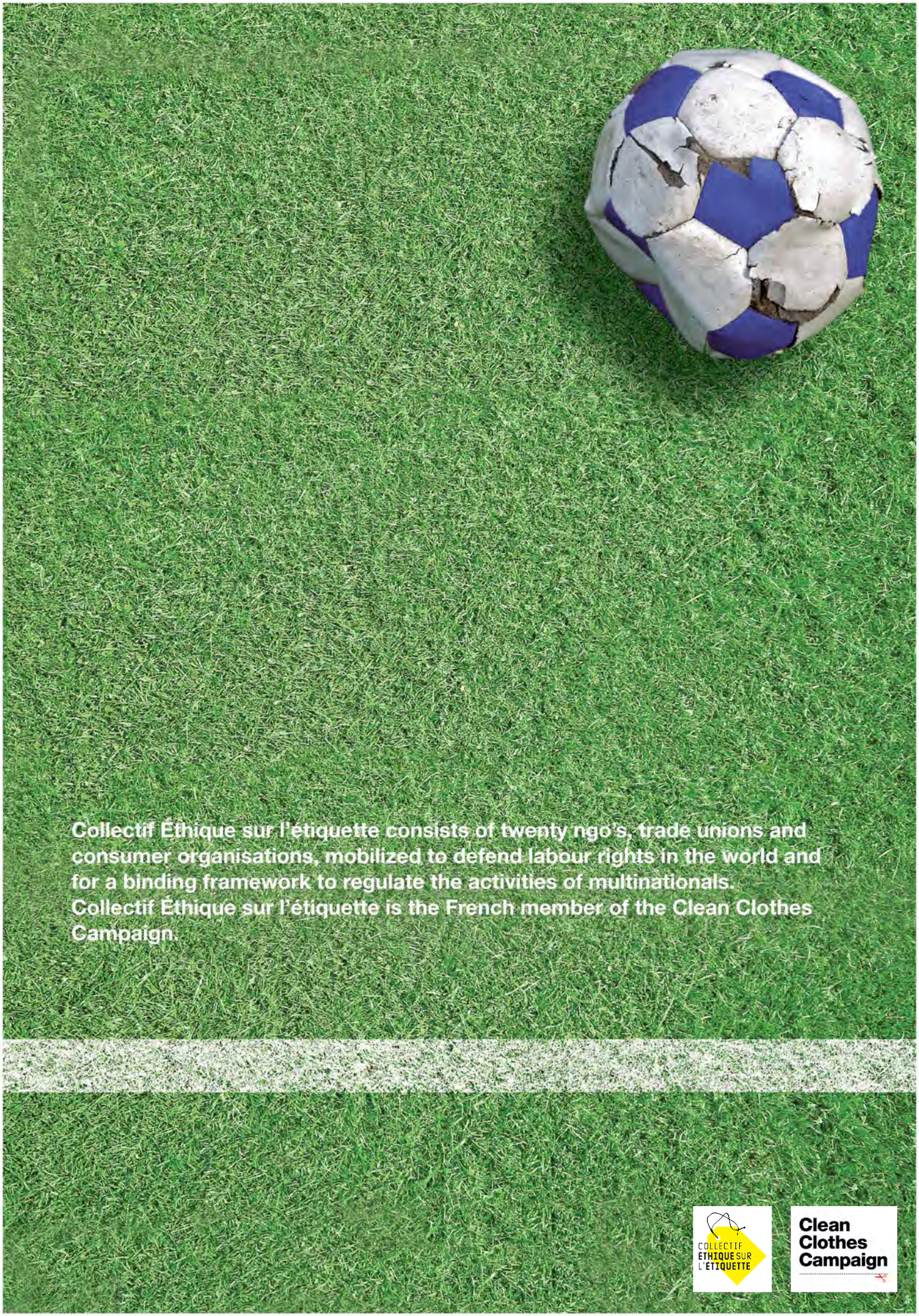

Collectif Éthique sur l'étiquette consists of twenty ngo's, trade unions and consumer organisations, mobilized to defend labour rights in the world and for a binding framework to regulate the activities of multinationals.
Collectif Éthique sur l'étiquette is the French member of the Clean Clothes Campaign.

COLLECTIF ÉTHIQUE SUR L'ÉTIQUETTE

Clean Clothes Campaign