Creating shared value in the rose supply chain

Exploring the business case for a living wage rose

Colophon

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Research and texts by True Price for Hivos

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Authors
Berend Potjer
Esmee Bergman
Michel Scholte
Mirjam Bani

Design
SAZZA

Photos
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True Price

True Price is a social enterprise that aims to contribute to the creation of an economy that creates value for all. We do so by helping organisations quantify, value, and improve their impact on society.

True Price developed the first methods worldwide to monetize environmental and social costs in supply chains and has unparalleled expertise in supply chain analysis.

We assist multinationals, SMEs, NGOs, and governmental organisations with risk management and strategic decision-making by providing insights into their impacts and their associated risks and opportunities.

In addition, True Price brings together organisations in a joint quest towards establishing a relevant, sound, and inclusive standard for measuring and valuing impacts through an open source platform.

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Hivos

Hivos is an international organisation that seeks new solutions to persistent global issues. With smart projects in the right places, Hivos opposes discrimination, inequality, abuse of power and the unsustainable use of our planet's resources. Counterbalance alone, however, is not enough. Hivos' primary focus is achieving structural change. This is why Hivos cooperates with innovative businesses, citizens and their organisations. Hivos shares a dream with them of sustainable economies and inclusive societies.

Hivos established the Women@Work (W@W) program with the aim of promoting decent work for women who earn their living in global horticultural production chains. The program enlists the participation of Southern partners spread over Eastern Africa (Kenya, Uganda, Tanzania and Ethiopia), with a consumer advocacy component, housed within Hivos headquarters in The Hague, aimed at promoting "ethical consumerism", and proactive engagement with Northern governments. Women constitute the majority of horticultural sector workers. Gender dynamics make women more vulnerable to workplace violations. Working with a wide range of actors across the cut-flower value chains Hivos utilizes a multi-sectoral approach to influence corporate social responsibility to improve the livelihoods of women workers.

Since living wage is one of the topics within the W@W-program, Hivos commissioned a research to True Price to build a business case which is useful for all actors in the supply chain and for the multi-sectoral approach of this topic.

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1 Background

1.1 Previous study: True Price of Kenyan T-hybrid roses

In 2014 True Price studied the environmental and social impact of T-hybrid roses from Lake Naivasha, commissioned by HIVOS. The study assessed the environmental and social impact across the entire T-hybrid rose supply chain starting in Naivasha and ending at Dutch florist.

Environmental costs were identified as the most material external costs (see pie chart) and most of these are related to energy use, mainly from the air transport of the flowers. The social cost are mostly related to living wage gap: employee income below the living wage.

The aim of this study was to enable growers to effectively manage risks, steer innovations and reduce social and environmental impact by improving transparency throughout the entire supply chain of a rose. The social and environmental impact are monetised improving insight in external cost. This allows for easy comparison of societal costs and financial costs facilitating integrated decision making.

It also facilitates risk management as with the increasing internalisation (pricing) of externalities they are becoming revenue - and cost drivers. The study inventoried options to reduce these external costs. As can be seen in the graphs interventions reducing environmental costs can at the same time reduce financial costs, thus increasing profits. The reduction of social cost requires an increase of the employee wages up to a living wage thus decreasing profits at grower level.

The current study aims to explore how to close the living wage gap involving the entire rose supply chain.

1.2. Societal attention and pressure to pay a living wage is increasing

Closing the living wage gap in the flower supply chain is part of a broader societal move towards living wage supply chains. Both awareness of human rights issues and the sense of responsibility is growing.

Society is becoming more informed. Technological advancements facilitate increased supply chain transparency and the evolution of mass media. Firstly, our ability to store, communicate, and interpret large databases has increased. This reduces the distance between consumers in developed countries and workers in developing countries and has revealed social issues within supply chains. Secondly, mass- and social media ensures that major incidents and accidents, the likes of Rana Plaza, reach the public within mere moments.

Not only is information regarding wage issues and human rights more readily available, organisations in the developed world are also increasingly being held accountable for violations of human rights in their supply chain. This global consensus about the responsibility of businesses to respect human rights helps transnational institutions and advocacy groups to keep working conditions and wages on the agenda. The UN guiding principles on business and human rights by John Ruggie assert that organisations are responsible for detecting human rights issues in their supply chain, but also for reporting on and addressing them. The new OECD guidelines, endorsed by 42 countries, establish that organisations should respect labour standards, human rights, and environmental standards in every country they operate in and have a due diligence system in place to ensure this. •

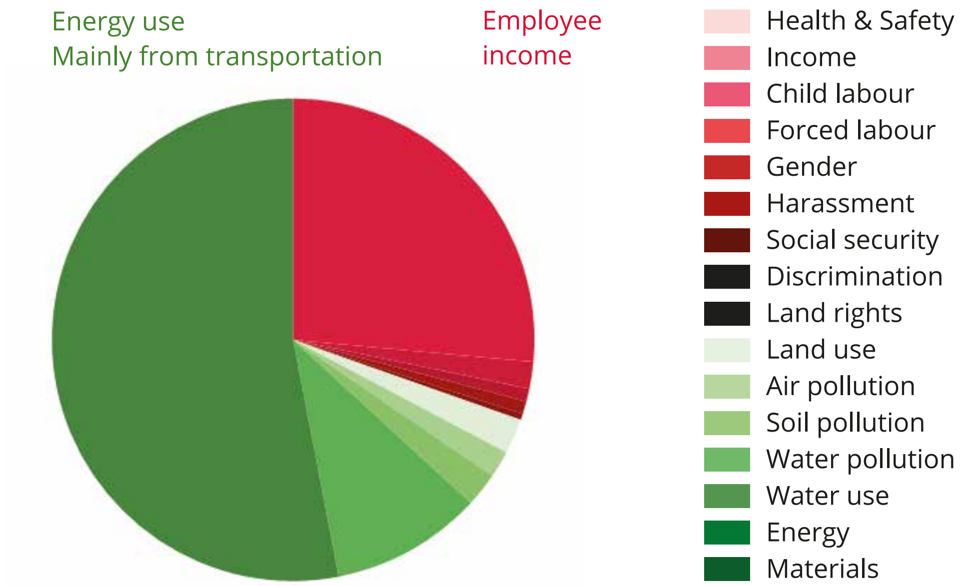
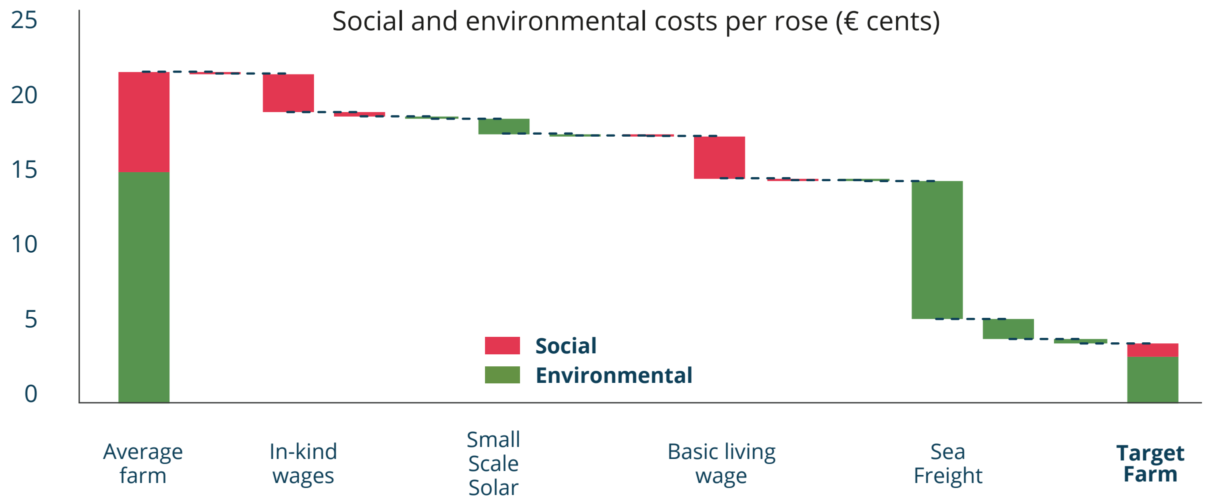


Figure 1. This pie chart represents the relative contributors to the total external costs per rose. More than three quarters of this impact is due to energy use and underpayment.



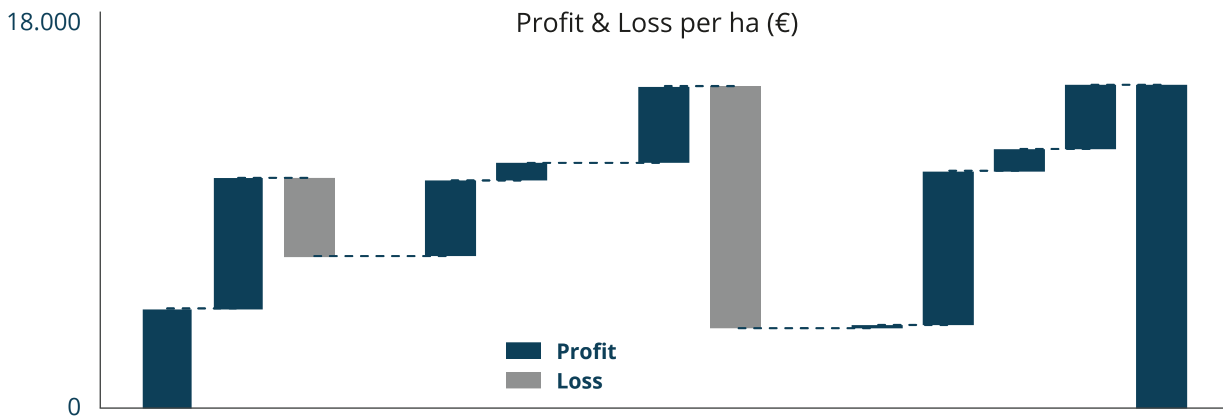


Figure 2. There are several existing well-established projects which can help bring environmental and social costs down. Examples are installing drip irrigation or installing solar panels. Some projects are a bit more innovative in nature but have the potential to reduce the external costs significantly. All together the projects identified have the potential to reduce social and environmental costs by 80%. These projects require initial investment but most of them have a clear business case.

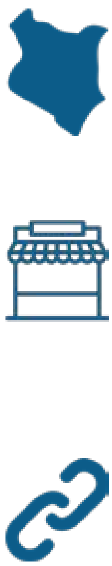
2 Scope

Flowers available on the Dutch market are mostly grown in developing countries in East Africa and South America where problems with working conditions on flower farms seem to be systematic and wages are found to be below living wage throughout the industry. Women Working Worldwide performed a three year study into working conditions on horticulture farms in Tanzania, Uganda, Kenya and Ethiopia supplying European and UK supermarkets. Their findings indicate that in most cases the flower workers in these East African countries earn less than half of what they actually need to provide an income approaching a living wage. This conclusion is in line with an earlier study into underpayment and labour conditions specifically on cut flower farms in Kenya and Columbia by War on Want.

The cost of living and thus the living wage varies per country as do the wages paid to workers. About 50% of total flower import to the Netherlands originates from Kenya and many Dutch growers are active in the Kenyan flower sector. The Lake Naivasha area is the principle production site of cut flowers in Kenya, with between 50% and 70% of national production originating from this region Therefore, this report focuses on this specific region in Kenya and specifically on the sweetheart rose sold in Dutch supermarkets.

In the Netherlands supermarkets are becoming an increasingly important sales channel for flowers, growing from 18% to a 25% market share between 2010 and 2015. This market share by supermarkets is divided among a small number of large retailers, while for example the florists are many but small in size. As a consequence the supermarkets have a lot of buying power and can easily source their flowers directly from the flower farm. Shortening the supply chain means they bypass several steps in the traditional supply chain (such as the auction). This not only results in a growing profit margin but also increases their influence on and responsibility for the flower production. Because supermarkets are becoming more important players they are the retailers included in this analysis. •

The study explores the business case for closing the living wage gap for flower workers using the following scope:



The study focuses on sweetheart roses grown at medium to large good practice rose farms[1] in the *Lake Naivasha* area, where the majority (50-80%) of the Kenyan flowers are produced.

The sweetheart roses are sold in *supermarkets* in the Netherlands. Even for the certified flowers sold at these supermarkets the living wage is not being paid.

The supermarkets buy the roses through *direct supply*. They do not source their roses through the flower auction but through long term contracts directly from the grower. The sweetheart roses are sold in supermarkets in *bouquets* for an average retail price of *€2.99*. These bouquets contain an average of 15 sweetheart roses.

Figure 3. This study focuses on the sweetheart rose grown in lake Naivasha Kenya sold in the Dutch supermarket.

1 Good practice farms are farms that operate according to high standards and implemented several measures.

3 Living wage gap

For this report we determined the living wage benchmark based on the True Price living wage methodology. The benchmark is an estimation of what is needed for a family to provide in their basic needs in line with the basic rights set forth in the Universal Declaration of Human rights (Article 25.1). Our calculation of the living wage includes the ability to afford decent housing, sufficient food and water, medical care, education for the children, clothing, and ability to pay for transport to and from essential locations such as work, school and shops. As additionally included in the Universal Declaration of Human Rights we also include the ability to save up for unexpected unemployment or illness as well as for retirement. The living wage calculated for rose workers in Lake Naivasha in Kenya is based on regional statistics and household data from Lake Naivasha. A more detailed breakdown of the living wage calculation and gap can be found in Appendix I.

The Universal Declaration of Human Rights Article 25.1
"Everyone has the right to a *standard of living* adequate for the health and well-being of *himself and of his family*, including food, clothing, housing and medical care and necessary social services, and the *right to security* in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control"

3.1 Living wage

The True Price methodology was used to calculate the living wage in Lake Naivasha based on costs in the Lake Naivasha area to provide a family with the standard of living defined in Universal Declaration of Human Rights.

Household composition in Naivasha

- 45% two-parent, on average 3 children
- On average the monthly living wage gap for these workers is €60

- 55% single mother, on average 3 children
- On average the monthly living wage gap for these women is €105

Figure 4. More than half of the women working on the flower farms are single parents providing for their families by themselves. Because they are the sole providers they need to earn enough to support their entire family. Women who share this burden with another provider need less to support their family.

The majority of the flower workers (about 75%) in Kenya are women who mostly work as pickers and graders at the flower farms. Many of the women in Lake Naivasha live alone. For single moms with three children the living wage benchmark in the Lake Naivasha area amounts to €2.455 (€205 per month). A two parent household providing for three children needs €1.900 per FTE (€160 per month).

3.2 Average wage

Wages on Kenyan flower farms are highly influenced by the strong unionisation within the sector. The sector negotiates Collective Bargaining Agreements (CBAs) in which basic wage rates, in-kind provisions, cash allowances, working hours, leave and other benefits are specified. Basic wage rates included in the 2013-2015 CBA are higher than the legal minimum wages for the agricultural sector and often the flower farms pay wages well above the minima agreed upon in the CBA. The flower farms usually pay their workers in finanical wage and in-kind benefits. In-kind benefits include housing, transport, on-site clinics, schooling and child care.

Unfortunately, when wage and in-kind benefits are added up this does not reach the level of a living wage. In the Lake Naivasha area the flower workers earn on average €1.200 per year (€100 per month) at a good practice rose farm of which 73% is financial wage and the remaining payment in-kind benefits.

3.3 Living wage gap

Kenyan flower workers working in large greenhouses harvest on average about 1,500,000 stems annually per hectare. With an average of 25 full-time workers per hectare and accounting for employer labour costs (gross wages, in-kind benefits and employer taxes) closing the living wage gap amounts to €0.02 per rose stem.

Assuming a bouquet of sweetheart roses of fifteen stems, this translates into €0.35 per bouquet[2]. This means that payment of €0.35 per bouquet of sweetheart roses on top of the current price would be sufficient to close the living wage gap and provide a decent living to a single parent household. •

Figure 5. Additional costs per bouquet and rose to close the living wage gap for flower workers (single parent household).

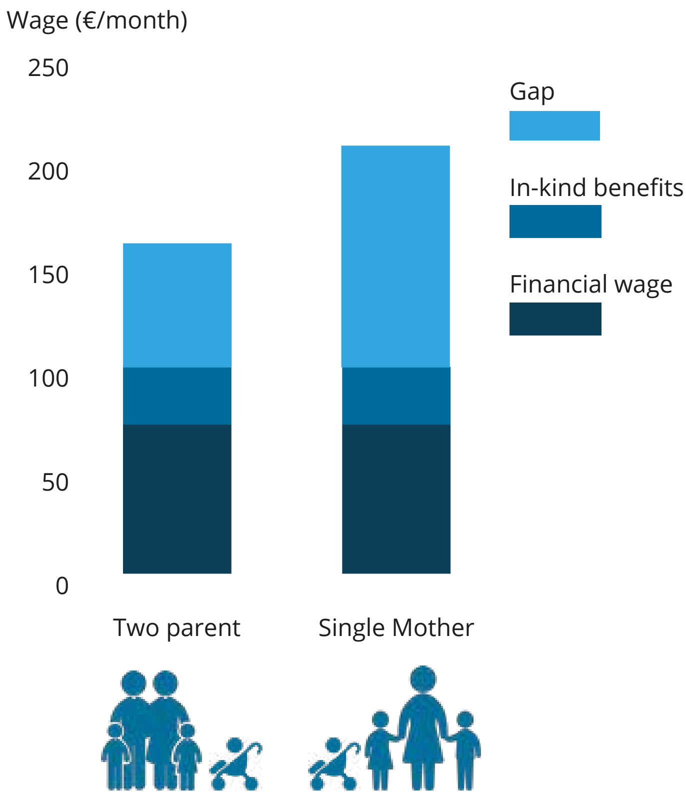


Figure 6. Overview of average wages and living wage gap for single and double parent households.

2 The 2 cents are a rounded number.

4 Creating a living wage supply chain

Closing the living wage gap requires a significant wage increase. It is not likely that this will be legally required in the near future, thus this would require a voluntary living wage payment system. Various systems can be developed, depending on (local) jurisdictions, worker employer relations, supplier buyer relations and the net and gross value allocation across the supply chain. Regardless of the details, five principles should be met in order to be effective and have the potential to evolve into more institutionalized arrangement, like a national minimum wage standard.

These five principles are:

1. A roadmap defining how the living wage is realized over time.
2. Buying party commitment to the roadmap is required to ensure demand for the living wage rose.
3. The roadmap should include a funding strategy to cover the costs of the wage increase.
4. External validation to assure the flower workers of the living wage rose are being paid a living wage.
5. An effective branding strategy to create awareness and create consumers demand.

4.1 Roadmap for realizing a living wage rose

The living wage supply chain could be created through a supply chain agreement setting out the roadmap to a living wage rose. The sector can draft an agreement in 2015 defining the final goal and milestones in specific, measurable, acceptable, realistic, and time specific (SMART) terms. This agreement should be ambitious and have support of innovators in the supply chain to start implementation. Early adopters and late adopters can join the agreement over time. As the support broadens it can set the sector standard or even the national standard over time. For the laggards to adhere to these standards and pay a living wage would probably require the agreement to become legally binding.

4.2 Long term buyer-supplier commitment

Ensuring a long-term commitment between supermarket and suppliers is a key requirement. Supermarkets cannot offer living wage products without suppliers offering them, whereas growers will not offer living wage products without demand. For growers, a long-term buyer commitment from a supermarket is vital as wage increases cannot easily be reversed.

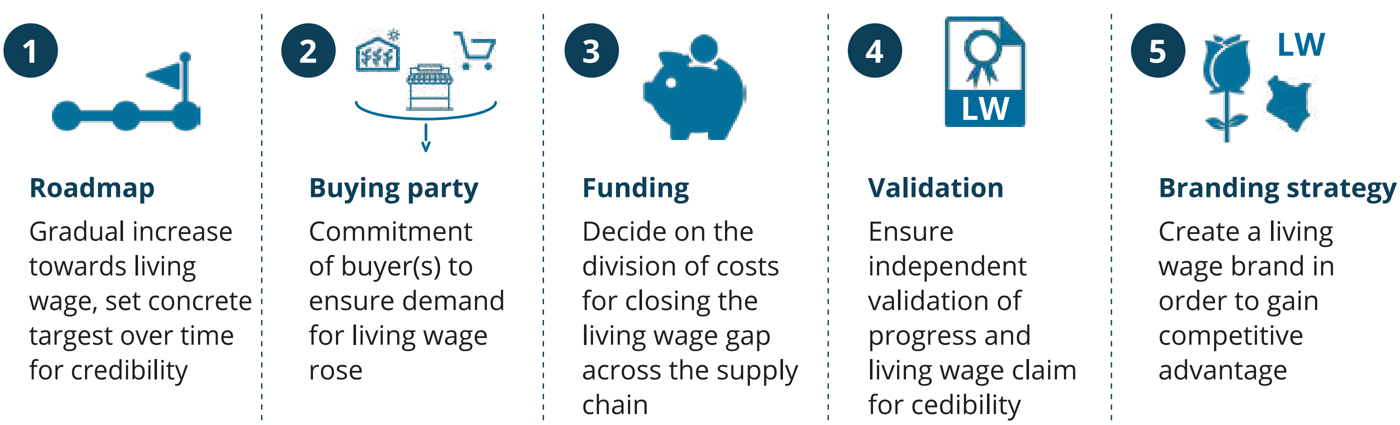


Figure 7. Five principles for realizing a living wage rose.

4.3 Funding the living wage

Paying the living wage implies the wages must increase and will thus result in higher labour costs. The supplier margins are insufficient to fully absorb those additional expenses. The supermarket and other actors in the supply chain must chip in to cover (parts of the) costs. The incentives and capacity do contribute to a living wage supply chain is discussed in more detail for each of the stakeholders in chapter 5.

4.4 External validation of payments

Common critique of societal organisations on businesses' ethical claims or standards, is that businesses do not practice what they claim to be doing, as illustrated by The Washington Post and the CleanClothesCampaign critical response to H&M's Conscious Actions Sustainability Report. Therefore if supply chain actors are requested to pay extra to close the living wage gap they will require assurance their contributions are actually used for this purpose. External validation by a certifying body of the (living) wage payments can provide the assurance and increases the credibility to consumers.

4.5 Develop effective branding strategy

Living wage roses can only be sold if consumers know of their availability and can recognize living wage roses. An effective marketing and branding strategy should raise awareness on the value of paying a living wage and ensure demand for living wage roses. This could be supported by a recognizable trademark and external validation distinguishing living wage roses from other products. ●

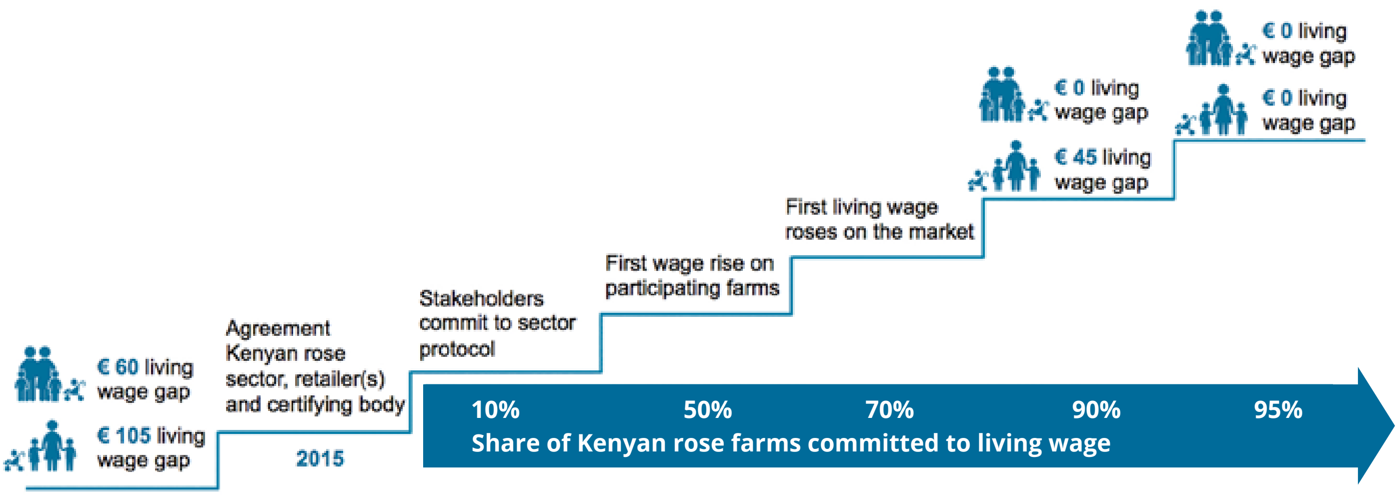


Figure 8. The roadmap for gradual, stepwise, closure of the living wage gap.

5 Sharing costs and benefits across the supply chain

The previous study showed profit margins of growers are insufficient to absorb all the costs of closing the living wage gap by themselves. Thus a living wage rose can only be realized if actors in the supply chain are willing and able to cooperate.

These actors all have incentives and capacity to contribute to closing the living wage gap and create a living wage sweetheart rose.

5.1 Growers incentive: branding Kenyan roses

In the competitive international floricultural market, Kenyan growers feel the need to differentiate from international competition to maintain market share. Pioneering with a living wage rose seems a promising way to do so. Previously Kenya pioneered as low cost flower producing country, but as production costs are rising and countries with more favourable cost structures, such as Ethiopia (Rabobank, 2015) are increasing their market share this no longer seems a winning strategy.

Lowest price	Best looks	Best feeling
Some competing countries have lower cost structures	Competing countries have similar or more favorable growing conditions	Kenya can pioneer by paying a living wage, creating sentimental value to consumers

Figure 9. As flower workers in Lake Naivasha are paid well above the national minimum wage the living wage gap is reduced providing a good starting position for developing Kenyan living wage flowers creating sentimental value.

Who	Growers	Retailers	Consumers
Why	Improving competitiveness of the Kenyan rose in the international market	Prevent revenue losses caused by reputational damage from negative publicity and create additional revenues from positive branding	Willing to buy ethical, living wage, products
How	Implement profit increasing interventions to generate capacity for wage increase	Reduce costs by shortening the supply chain or increase revenue by effective marketing	Willing to pay a premium for ethical products, which is passed on to the workers

Kenyan growers and labour unions have entered into a Collective Bargaining Agreement (CBA) agreeing on minimum wages well above legal minimum. Most growers participate in this agreement and many of them pay more than the CBA minimum. As a result the living wage gap in Kenyan rose farms is smaller than in surrounding countries, like Ethiopia and Tanzania providing Kenyan growers a competitive edge when competing on the living wage gap.

As flowers are emotional products, competing on living wage gap and branding Kenyan roses as feel good flowers could be an effective strategy.

5.2 Growers capacity: branding Kenyan roses

In the previous study True Price identified interventions that would reduce both external costs and financial costs for the grower. While good practice farms have implemented some interventions, solar power replacing diesel generators and closed loop hydroponics have not been implemented and replacing air freight by (cooled) sea transport is being investigated.

Implementing these interventions would save costs, thus creating room for increasing wages as shown in the graph. The potential cost savings are the findings of the hybrid tea roses study applied to the sweetheart rose case. Comparing the cost saving measures with the costs of closing the living wage gap indicates that these can be used to finance most of the cost increase for closing the two parent living wage gap.

5.3 Retailers incentive: reputational risks

Consumers are increasingly connected and informed. Society is almost instantly informed about accidents, such as the Rana Plaza accident, in the supply chain. This provides reputational risks as consumers hold supermarkets (and large businesses in general) accountable for upholding ethical standards in their supply chain.

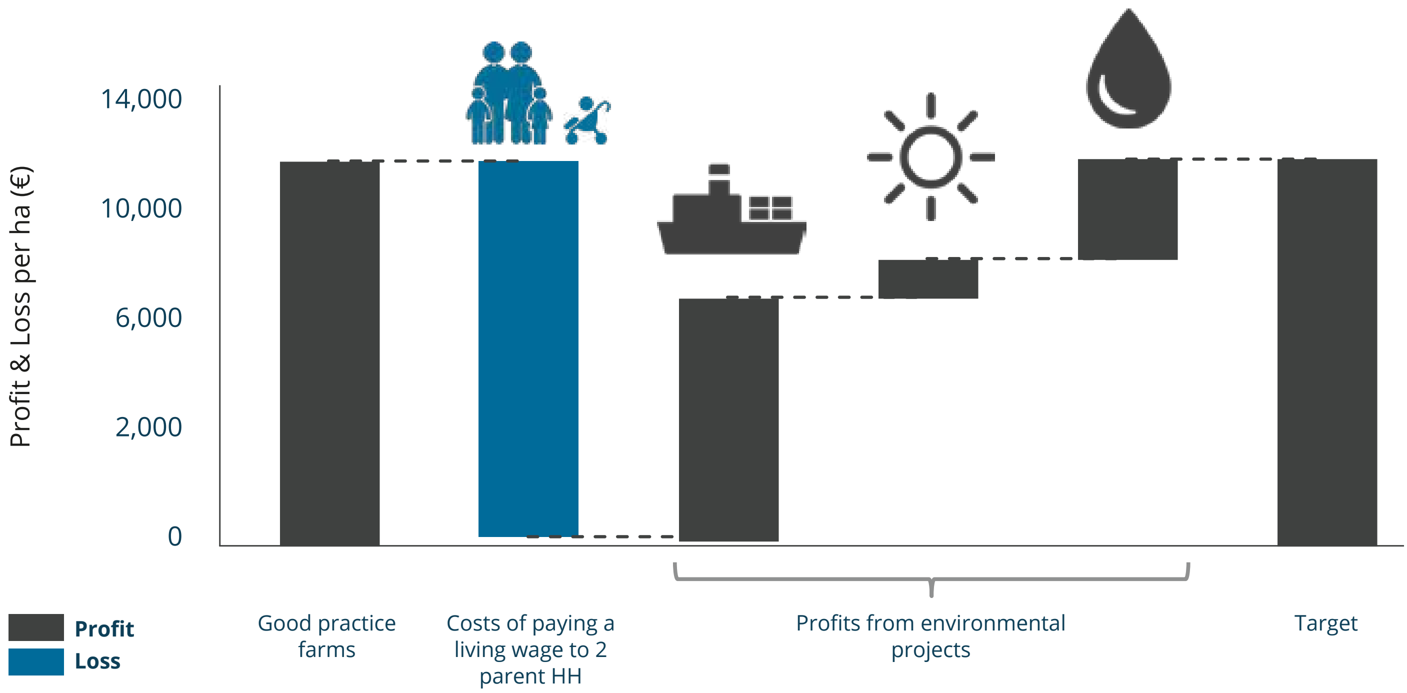


Figure 10. Rose growers could contribute to the closing the living wage gap from money saved by implementing cost reducing interventions.

Dutch supermarkets are specifically vulnerable to reputational risk as the fierce supermarket competition and high supermarket density in the Netherlands provide consumers easy alternatives. In main urban areas alternatives for their primary supermarkets are on average only 200 meters further away.

Advocacy organisations have acknowledged this vulnerability and have been targeting supermarkets to implement ethical standards in their supply chain.

Examples are the Dutch “Plofkip” campaign from animal rights advocacy Wakker Dier (Parool, 2014) and the half wage campaign by the labour union FNV (Young & United, 2015). In the Netherlands Fairfood has targeted supermarkets in their campaigns for fair wages in the Moroccan tomato sector and the shrimp sector in Thailand (Fairfood 2014, 2015).

SOMO (2014) reported supermarkets lack credibility on the wage issue in many supply chains.

5.4 Retailers capacity: small cost to mitigate reputational damage

Supermarkets are especially sensitive to negative publicity on ethical issues in the flower supply chain as supermarket flowers are usually:

- Certified, branded as responsible products;
- Home branded, directly relating it to the supermarket’s own brand;
- Exposed, visibly displayed at the entrance or exit reinforcing brand associations;
- Sentimental, the emotional and social value is vulnerable to negative publicity;
- Directly supplied, increasing the supermarket’s accountability.

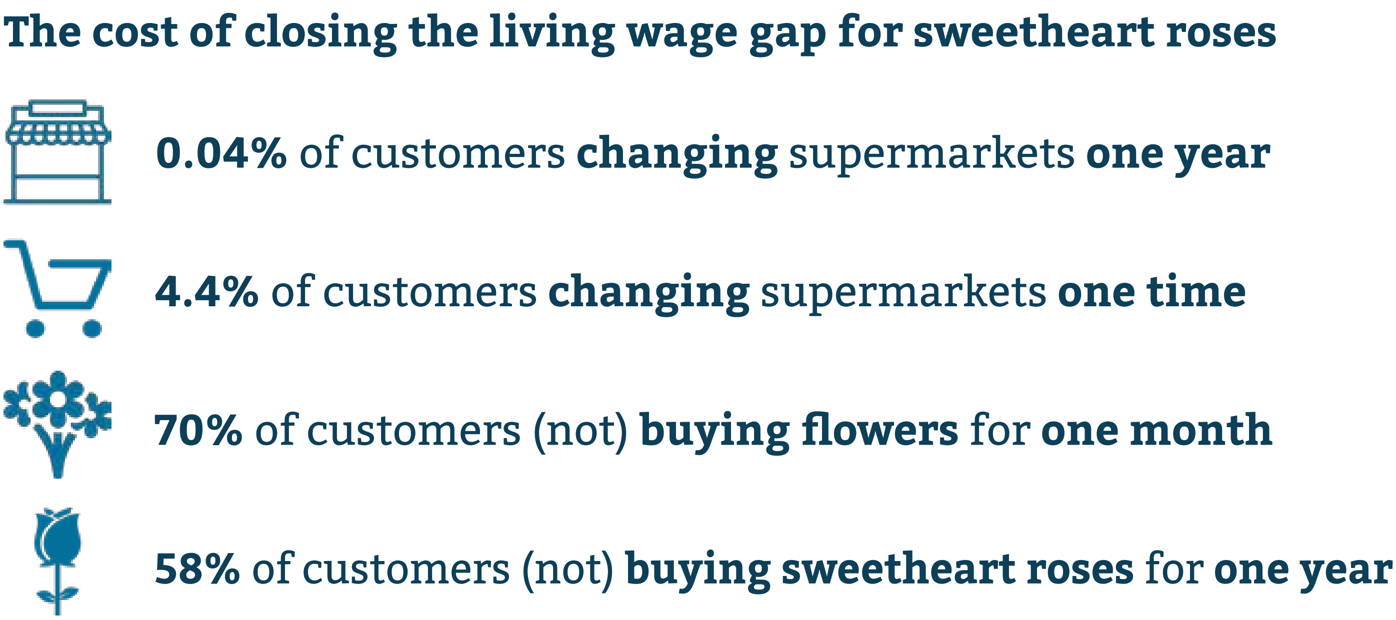


Figure 11. The cost for closing the living wage gap is relatively small compared to the cost of losing customers due to reputational damage.

Paying a living wage for sweetheart rose workers seems a rather small investment to prevent reputational risks as company's reputation is considered their most valuable asset and every year 11% of the consumers switch supermarkets.

Most consumers switch for practical reasons (supermarket opening or closing, changing opening hours), but 4.4% switch supermarkets for other reasons. As the figure shows this equals the costs for closing the sweetheart rose living wage gap. However a negative event can multiply consumers switching. During the "I switch bank week" consumers switching to ethical banks quadrupled (NOS, 2014).

5.5 Consumers incentive: ethical shopping

Technological developments facilitate advocacy groups trying to inform consumers on production conditions. (Social) media enables instant reporting on mishaps and incidents such as the Rana Plaza incident in Bangladesh.

Accidents and effective campaigns have triggered consumer awareness of worker conditions of the product they buy. Increasing their willingness to act upon it, pressing producers and retailers to do something about it.

This growing demand for ethical products is illustrated by the fact that consumer spending on certified products (Bio, UTZ and Fairtrade) in the Dutch supermarkets tripled and global Fairtrade flower sales doubled the last years (Fairtrade International, 2009 to 2013).

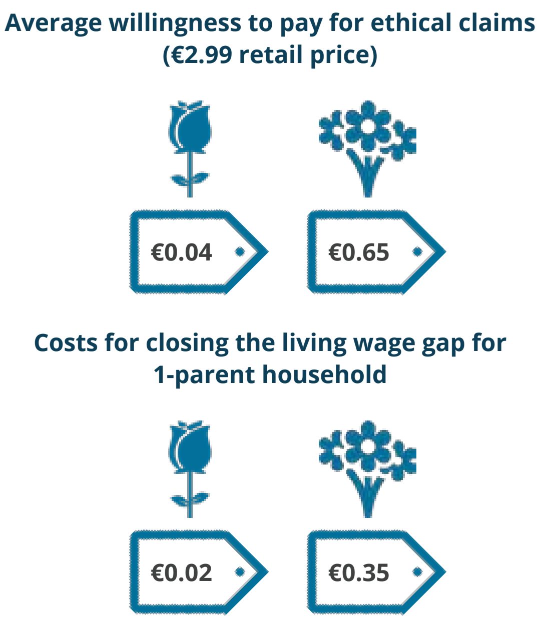


Figure 12. The average willingness to pay is almost double the cost for closing the living wage gap.

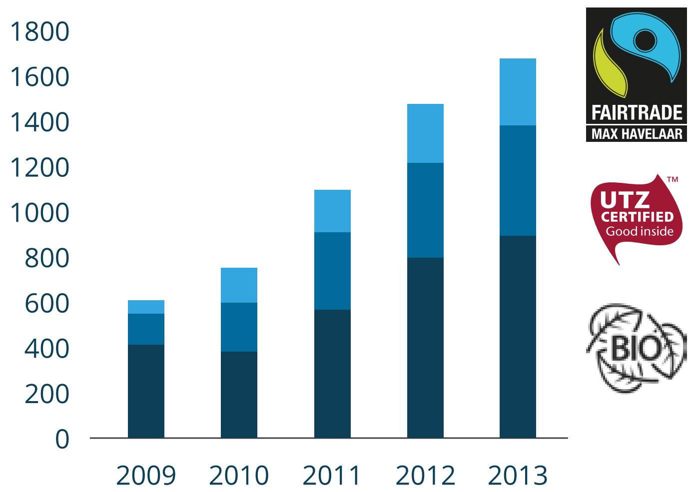


Figure 13. The demand for ethical products is growing rapidly.

5.6 Consumers capacity: willingness to pay

Consumers who can afford it increasingly demand product quality and quality of production. They expect supermarkets to uphold ethical standards in their supply chain and are willing to pay for it.

A meta-analysis of 41 recent academic studies assessing consumers' willingness to pay on 63 ethical products was performed. It showed European and North American consumers are on average willing to pay 21.5% of the conventional price extra for ethical products.

For the average sweetheart rose this amounts to €0.04 per stem or €0.65 per bouquet, which is about double the living wage gap per sweetheart rose.

The analyses didn't show any statistically significant variation on the willingness to pay between

- Health related and ethical claims;
- Stated and revealed willingness to pay;
- Food and non-food products;
- Country of origine. •

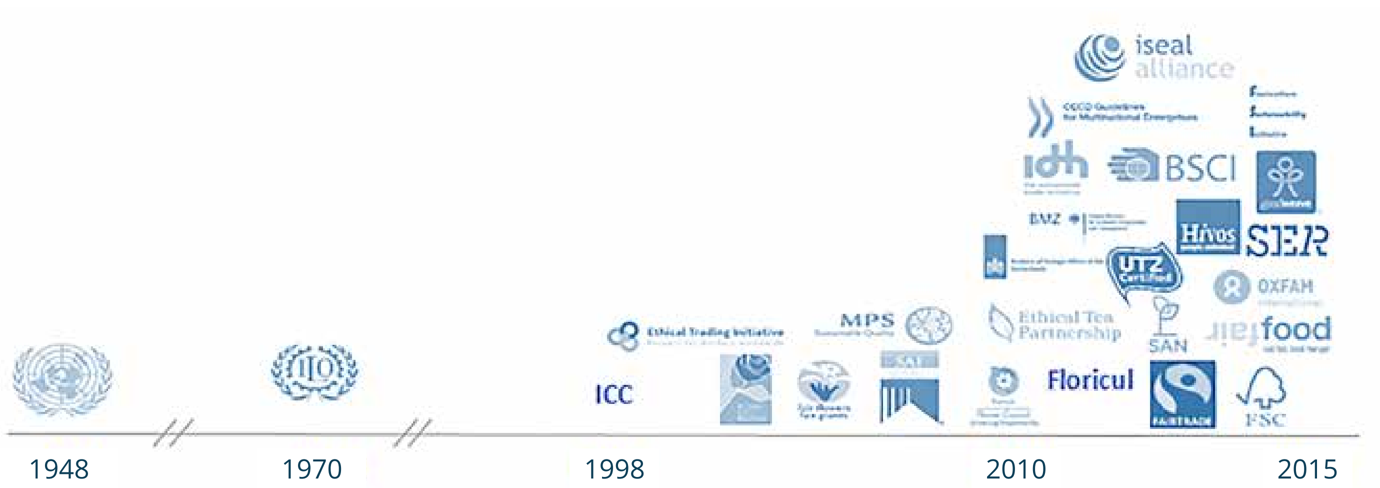


Figure 14. The number of living wage initiatives is rapidly increasing. This trend is indicative of the pressure on businesses to pay more attention to fair wages within their supply chain.

6 Conclusions and recommendations

6.1 Conclusions

Growers

Kenyan growers are confronted with upward pressure on costs and downward pressure on prices. As most Kenyan growers pay well above minimum wage they have a relatively small living wage gap. Competing on living wage (gap) could therefore provide a competitive advantage.

Growers need to reduce costs and increase prices to be able to contribute to the necessary wage increase to close the living wage gap.

Supermarkets

Dutch supermarkets experience fierce competition and are relatively vulnerable to consumers switching due to negative publicity. Introducing a living wage rose can mitigate those risks and even create branding opportunities as consumers increasingly appreciate ethical behaviour in the supply chain.

Paying the costs of closing the living wage gap seems to be relatively small compared to the reputational risk and the branding opportunity a living wage rose provides.

Consumers

Consumers who can afford it, are increasingly demanding quality products and ethically produced products. On average western consumers are willing to pay a premium of 21.5% on the conventional price for ethical products. The growing revenues of ethical products and the growing premium supermarket segment provide support for these findings in practice.

6.2 Recommendations

Creating consensus across the entire sector and entire supply chain is a sheer impossible challenge therefore we recommend to start with the creation of the living wage rose with the innovators. The innovators can differentiate themselves by creating and branding the living wage rose. The turnover of this group should be small enough to create momentum and large enough to create impact. As they are creating impact early and late adopters will join the living wage rose agreement to prevent or reduce reputational risks and consumer losses.

It can be considered to start with a living wage bonus system. In this system consumers can voluntarily pay a living wage premium. The premiums that are paid are transferred to the flower workers as a living wage bonus. The feasibility of this system is demonstrated in practice by Nudie Jeans. Appendix III elaborates on this system: the low risk, the technical feasibility and the business case for the growers and supermarkets. •

7. Literature

Literature used for this report and for the willingness to pay meta-analysis are stated below. The meta-analysis was run based on the 63 willingness to pay extra analyses, drawn from 41 studies.

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Appendix I – Wages in Kenya and the living wage gap

The living wage gap calculated for rose workers in Lake Naivasha in Kenya, is based on sector statistics of the Kenyan flower sector, farm level wage data and household data from Lake Naivasha, and the True Price living wage methodology. A more in-depth outline of the wage structure in the Kenyan cut flower sector, followed by a description of the True Price living wage methodology is provided below.

I.1 Compensation in the Kenyan cut flower sector

Labour conditions and worker's rights developments on Kenyan flower farms are highly influenced by the strong unionisation within the sector. The Kenya Plantation and Agricultural Workers' Union and Agricultural Employers' Association (AEA) negotiate Collective Bargaining Agreements (CBAs) for the flower sector every two years in which basic wage rates, in-kind provisions, cash allowances, working hours, leave and other benefits are specified. Currently 98 of the 170 large flower farms in Kenya are members of the AEA (AEA, 2014). Basic wage rates included in the 2013-2015 CBA are higher than the legal minimum wages set by the government on national level for the agricultural sector. Often the flower farms pay wages well above the minima agreed upon in the CBA, however, still not sufficient for the workers to cover their and their family's basic needs.

Wages on flower farms are paid both as basic wage and in-kind benefits. In-kind benefits include housing, transport, on-site clinics, schooling and child care. The financial value of these benefits is based on what workers would spend on equivalent services themselves. The average wage per FTE is a summation of these basic wages and the value of the in-kind benefits offered at the flower farm. Our average wage is based on the wage structure at the medium to large flower farms in the area. These farms are often certified, have permanent workers, and have signed the sector CBA. The average general worker on such a farm earns about €1,200 per year of which 73% is basic wage and the rest payment in in-kind benefits. The figure below illustrates the average wages used in the calculation of the living wage gap.

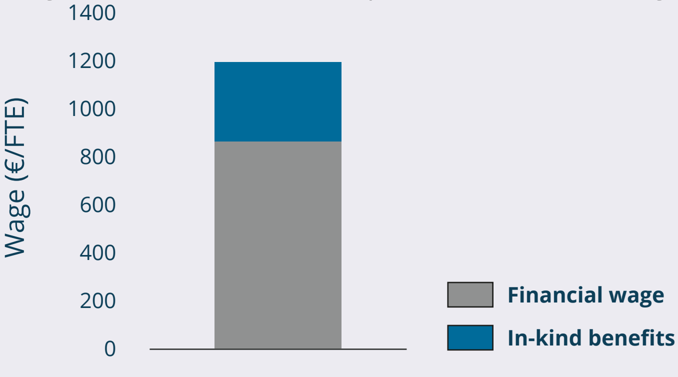

Figure 15. Average wage of flower worker at best practice flower farms in Lake Naivasha.

I.2 Household composition in Lake Naivasha

In Lake Naivasha 55% of the households are single-mom households. A single-mom in Lake Naivasha on average has three children (KHRC , 2012). These three children are counted as two consumption units in order to calculate the required spend on food of the single-mom household. Since the single mom is the sole provider of the household, the number of FTEs in the household is set at 1 FTE.

The two-parent household accounts for 45% of all households in Lake Naivasha and has on average three children. Based on national unemployment statistics in Kenya the average number of FTEs working in a double parent household is set at 1.69 FTE.

I.3 True Price living wage methodology

The True price living wage methodology is based on the Universal Declaration of Human Rights. It is expected from all organisations to respect these internationally recognized basic human rights and pay their workers a fair wage allowing them to cover their and their family's needs. In accordance with article 25.1 our living wage includes a basic living basket consisting of necessities such as food, housing, clothing, transport, health care, and education. Food spending is based on the required calorie intake with (local) staple food at local prices. Spending is calculated based on local prices for all categories. An additional buffer is included on top of that basic basket to provide for the household in the event of unemployment or old age. The magnitude of this buffer is adjusted based on the social security provisions already in place. In the case of Kenya the social security system is quite basic and does not cover the costs of what we consider decent living.

The Universal Declaration of Human Rights Article 25.1
"Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control" (UN, 1948)

The difference between the living wage and actual wages is the living wage gap. This gap is the amount of money the worker earns too little every year to provide his or her household with a standard of living adequate for the health and wellbeing of the family. As discussed in Chapter 2 the living wage per FTE for a single parent is higher (€ 2,455) than for the double parent household (€ 1,900). As wages do not depend on an employee's household composition - both the single mom and the worker that is part of a 2-parent household earn the same - the ultimate goal would be flower workers earn a living wage that suffices for all types of family composition. •

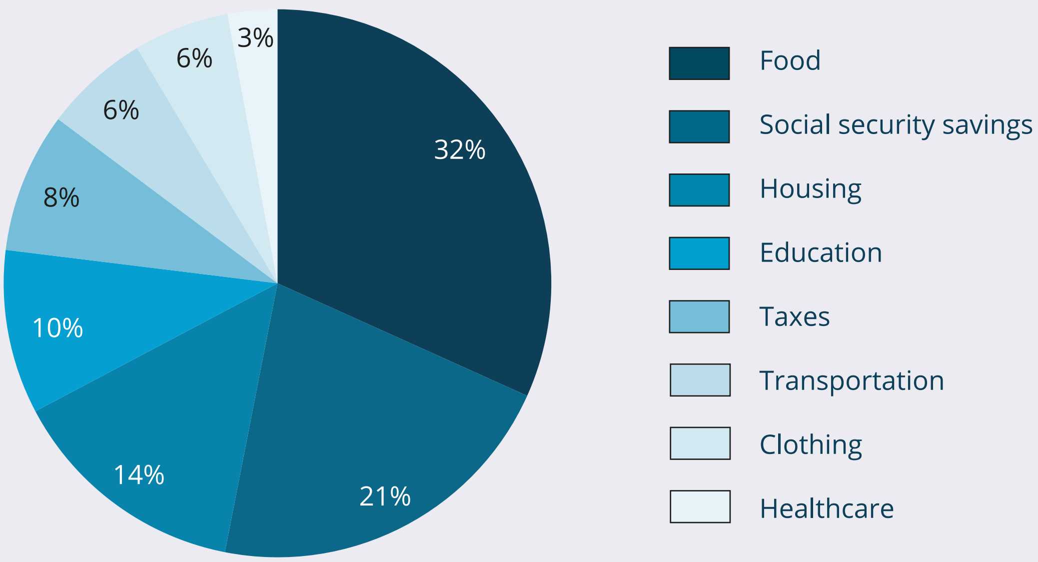

Figure 16. Living wage components include basic needs, savings for unemployment and retirement, and taxation.

Appendix II – Meta-analysis: consumer willingness to pay extra for ethical and environmental attributes

Meta-analysis based on the consumer willingness to pay (WTP) extra for products with an ethical label indicates the average consumer is willing to pay 21.5% more for products with an ethical label, being either of environmental or social nature. This suggests consumers are willing to pay extra for living wage products.

II.1 Scope and approach

The meta-analysis is based on 41 studies, including 63 analyses on the average consumer WTP for products with an environmental or social label, conducted in Europe and North-America in the period 2000 - 2015. Excluded are studies conducted in Africa, Asia and Latin-America; consisting of mainly developing and emerging markets, these markets are perceived too different from the Dutch market, the focus market for this report. Studies reporting a WTP of below zero or above 100%, were considered outliers and excluded from the analysis. Due to the limited research and experience with living wage products, we have looked at studies on social, rather than living wage labels specifically. The WTP extra for environmental product labels is more elabourately researched, reflected by the higher number of studies included in the meta-analysis on the WTP for environmental (43 studies) versus ethical (20 studies) product attributes. For comparability reasons we have only included studies on food items and lower priced non-food items typically sold in supermarkets, like detergents and toilet paper. Due to the scarcity of studies on the WTP for environmental and ethical labels for non-food items, we broadened the scope of non-food products to include also wooden items and low priced apparel. Around one-fifth of the studies included are based on revealed consumer preferences, the rest on stated consumer preferences.

Regression analysis on all studies was conducted to assess the average WTP extra for products with environmental and ethical labels, and whether the WTP extra differs between food and non-food items. Statistical tests were conducted to test for the significance of the model results.

II.2 Results

The average consumer WTP for products with an ethical label, including environmental and social labels, from the meta-analysis is 21.5%. The average consumer WTP extra for products with environmental labels was found to be 21.7%, compared to an average consumer WTP extra for social products of 21.1%%. There is no statistically significant difference between the two results, indicating consumers are not willing to pay more for environmental attributes or vice versa. The average consumer WTP extra was not statistically different for food and non-food items.

II.3 Interpretation of results

The positive average consumer WTP extra for ethical attributes is in line with the trend of increasing consumer demand for ethical products in the Netherlands. The fact that the average WTP extra for ethical labels is not significantly different between food- and non-food items suggests that the 21.5% average WTP extra can be applied as a cautious estimate for the WTP extra for an ethical rose. Based on the meta-analysis, consumers are not willing to pay more for environmental than for ethical attributes; this counters the common argument against the WTP extra for ethical claims stating that consumers are mainly willing to pay extra for products with environmental labels, e.g. organic vegetables, because of health reasons.

II.4 Limitations of research

Publicly available market research on the WTP extra for living wage products is scarce, mainly explained by the dearth of experience with living wage products; this makes an analysis on the extra consumer WTP for a living wage label not possible. Given that many flowers currently sold are already labelled responsible and thus sold at a premium, it is difficult to estimate what premium consumers are willing to pay on top for a living wage label. Running the proposed living wage pilot for a Kenyan rose could provide supermarkets in the Netherlands with insights in the revealed preferences of Dutch consumers for a living wage rose.

The meta-analysis conducted is based on previous studies in Europe and North America. Consumer preferences differ across countries and over time, depending on for example cultural factors, economic prosperity and demographics. The analysis results are thus not specifically applicable to the Dutch market, but relevant for indicative purposes. The variety of products used for this analysis also limits the results; however, due to limited availability of studies focusing on the floriculture sector, this analysis could be considered as a credible first step for exploring the market for a living wage rose in the Netherlands. •

Appendix III – The supermarket business case for piloting an inclusive payment system for a Kenyan living wage rose

Below a more detailed outline of the supermarket business case mentioned in the recommendations, by illustrating the business case for an average supermarket branch in the Netherlands. Based on total supermarket turnover and the number of supermarket branches in the Netherlands on average a supermarket has total annual revenues of €7.5 mln., incl. VAT. (Consultancy.nl, 2013; GfK, 2015). The average VAT rate is set at 12%, based on the average revenue shares per product category (CBL, 2013). Net margin of the average supermarket is assumed to be 2%. Assumed is that sweetheart roses represent around 0.1% of total revenues. A sweetheart rose bouquet is sold at a €2.99 retail price.

III.1 Low risk opportunity

Starting up a living wage payment system for sweetheart is relatively low-risk for a supermarket for two reasons. Firstly, there is no risk the supermarket loses on sweetheart rose sales: the price for a bouquet of sweetheart roses is maintained at the current price level, usually set at a psychological price point. Since consumers have the choice between paying the regular retail price and paying the living wage premium on top, the base price remains the same and there is no reason for consumers to switch supermarkets or resign from buying sweetheart roses. Secondly, financial risk of the living wage rose pilot is limited, since sweetheart

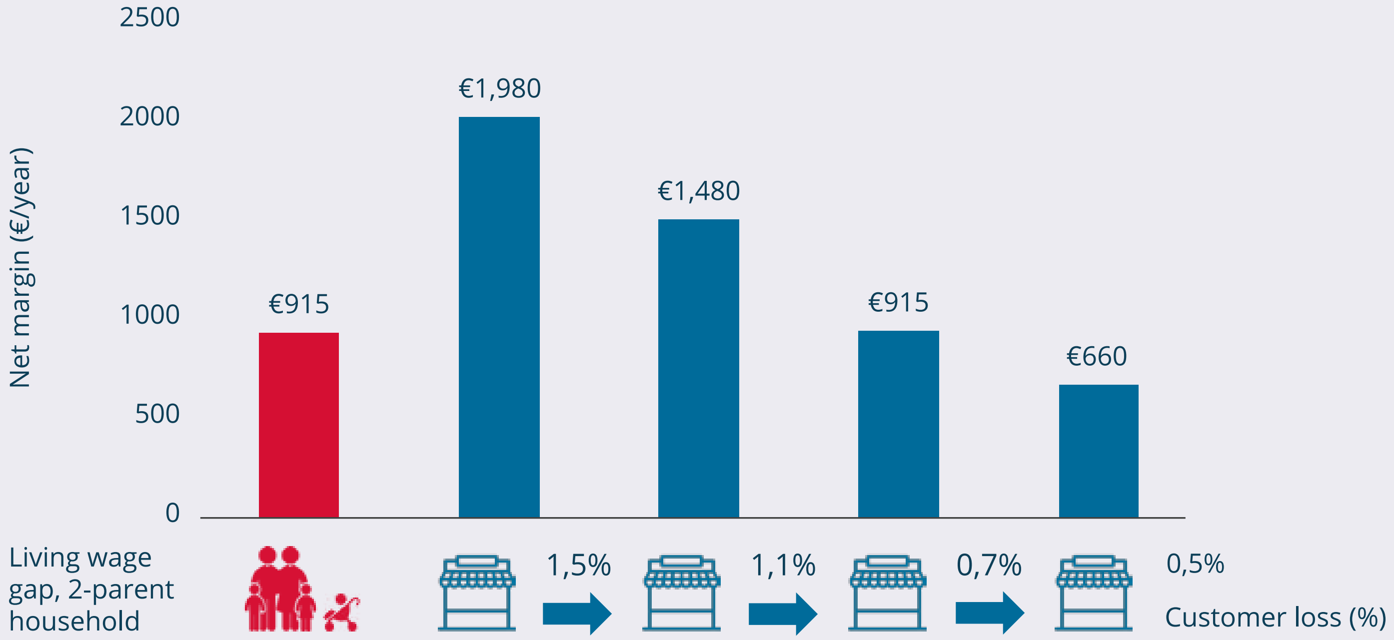

Figure 17. Potential consumer loss resulting from negative publicity concerning living wage compared to the costs of closing the gap.

roses represent only around 0.01% of a supermarket's sales. Though an important category, it is not the core business of a supermarket. Given the dearth of experience in the living wage domain, it seems wise for a supermarket to run a living wage pilot in a category that is clearly visible to the consumer, yet relatively small compared to other supermarket categories.

For the grower this system is low risk since they do not have to pay a living wage before the money has come in from the bonus system. Furthermore, if the living wage rose is not a success they have not made any irreversible changes to their wage structure.

III.2 Feasible method to pay out a living wage to workers

With current technology (IT, banking and cashier systems) an automatized system to collect the living wage contributions and to organize the payments to workers could be integrated with existing systems. Since not all workers might have a bank account, the system should be adjusted to how workers are or can be paid, for instance by integrating it with the regular salary payments or through cellular payment systems (mobile phones). Learnings from the living wage pilot should help to scale up the living wage payment system.

The proposed living wage bonus system, where the living wage contributions are equally distributed to all rose workers and paid out periodically as bonus is a positively tested solution by Swedish apparel manufacturer Nudie Jeans. Nudie Jeans and its Indian supplier Armstrong teamed up to paying the living wage to the Indian workers involved in the production of Nudie Jeans T-shirts in 2011. The first living wage T-shirts where produced in 2012, following the payment of the first living wage bonus in 2013. With the project still ongoing, Nudie Jeans demonstrates the feasibility of setting up an appropriate infrastructure to paying the living wage using a living wage bonus system.

III.3 Prevented consumer loss due to reputation damage is estimated at €1,502 annually (or 1.1% of current profit margin)

Evidence shows that companies suffer commercially from reputational damage. Our model assumes that a supermarket loses customers if negative publicity regarding the living wage in the supermarket's flowers supply chain comes out. Assumed is that 1.1% of the targeted supermarket's customer base switches to another supermarket in that case. This is the fraction of the consumers that are aware of the problem and care about the problem: the fraction of consumers aware that flower workers are not paid a living wage (7%) times the fraction that highly value fair labour conditions of the flower workers (16%) according to an IPSOS study (2015), The product of these two seems a conservative estimate as these will not be independent variables: it can be expected that consumers that value the labour conditions are more aware of the labour conditions and therefore the joint fraction will be more than the product of the average fractions. Even more so because negative publicity will most likely increase both fractions.

1.1% does not seem to overestimate the consequences. It equals 10% of the average 11% of consumers that switch supermarkets in the Netherlands every year (Deloitte, 2014a) whereas the "ik stap over van bank week" led to a quadrupling of consumers switching. and Zimmermann (2011) found an effective consumer boycott led to 30% consumer loss on the short term and 4% of consumers staying away for a longer term.

Figure 9 compares the reputational losses to the costs of closing the living wage gap on Kenyan rose farms, assuming a 2-parent household. A 1.1% consumer loss implies a €1,502 revenue loss for the average supermarket, well above the costs for closing the living wage gap. The low break-even point slightly below 0.7% consumer loss indicates there is a business case for the supermarket to address the living wage gap in the flower supply chain to prevent the reputational losses.

III.4 Retaining and attracting new customers by branding a living wage rose

A supermarket will retain more of its customers and attract new customers by piloting a Kenyan living wage rose.

On average 4% of the consumers switch to another supermarket for other reasons than price, new supermarket branches, parking facilities, and opening hours. These consumers may switch for assortment related reasons, such as a new unique product offer in another supermarket.

Supermarkets are likely to retain more of its customers by introducing a living wage rose; customers that would otherwise have switched to supermarkets with a better, ethical assortment. Assuming that a supermarket could reduce the number of customers switching to competitors by 10%, this would increase the profit margin with 0.4%. For the average supermarket, this means an annual net profit increase of €546.

A supermarket can attract more of the 4% switching customers by introducing a living wage rose. Assuming that a supermarket can attract 7.5% more of the switching customers than before, this would increase the profit margin by 0.3%. This would result in an additional increase in customer base and profit by 0.3%, or €409 annually.

The benefit from retaining customers is assumed higher than of attracting new customers, since it is generally more difficult to attract new consumers than to retain them (Cayan, 2013). Note that this might be a conservative estimate considering that the campaign "I switch my bank account week" (Dutch: Ik Stap Over van Bank Week) in the Netherlands led to a quadrupling of the new customer inflow (NOS, 2014).

III.5 Limited effect of increase in sweetheart rose sales

Introducing a living wage rose is likely to increasing the supermarket sweetheart rose sales. The assumed sweetheart rose sales increase of 20% is partly offset by the cannibalization of sales of other flower varieties. We can expect the cannibalization rate to be high, given the high substitutability of flower varieties. We assume the cannibalization rate is 50%, resulting in a net increase of 10%. This translates into a profit increase 0.01%, or €13 annually for the average supermarket.

III.6 Costs of setting up a living wage payment system for Kenyan sweetheart roses

Marginal costs associated with setting up a living wage payment system for Kenyan sweetheart roses are relatively low. Out of scope from the business case analysis are one-off, investment costs for two reasons. Firstly, fixed costs of the suggested pilot via establishment of a living wage association are not likely to be very high. Secondly, a supermarket can leverage the payment system when expanding the living wage offer to other product categories, so it seems unfair to attribute these costs fully to the living wage rose pilot.

Marginal costs can be sub-divided into three categories: the expected loss from the living wage pilot, the costs of running the living wage fund and the marketing and branding costs for introducing the living wage rose.

The first one, the expected consumer loss as a consequence of implementing this pilot is zero, as the base price of a sweetheart rose bouquet is constant; there are no reasons to believe the pilot will incur consumer losses. The associated cost for the average supermarket is thus €0.

Secondly, there are the costs associated with operating the living wage fund. We propose the supermarkets cover the operational costs of running the fund so all consumer contributions can be transferred to the Kenyan rose workers. We assume managing the living wage fund is relatively expensive compared to managing other funds, due to the innovative nature and the high number of transactions facilitated by the payment system. General fund management costs are set at 5% of the total revenues of the fund. The total amount of money transferred to the foundation equals the total value of the living wage contributions. We apply a conservative estimate of the operational costs, by assuming that all consumers pay the €0.35 living wage premium per bouquet required to close the living wage gap on Kenyan rose farms. Based on the number of sweetheart rose bouquets sold in supermarket running the Kenyan living wage rose pilot (3,200 bouquets a year), consumers donate €1,108 per year. This implies the supermarket needs to pay €58 a year to cover for the operational costs.

The highest costs for the supermarket are marketing and branding costs. These are also the most crucial, since it determines the branding opportunity for the supermarket. The estimated marketing budget of supermarkets is around 1% in 2013 and 2014 (varying between 0.3-3.5% in these two years), based on the reported media spend of the three largest supermarket chains in 2013 and 2014 (Nielsen, 2014). Gartner finds an average marketing budget of 10.7% for B2B businesses (Dutchmarq, 2014). The marketing budget required to launch a new product is likely to be a higher portion of the new product sales than 1%. In addition, since the turnover from sweetheart rose is relatively low it is plausible that the marketing costs account for a higher percentage. A 10% marketing budget on the other hand seems large, since there will be economies of scale for large supermarket chains, which do not run separate marketing campaigns for each branch; also, the supermarket running the living wage pilot will likely benefit from much (free) media attention, For the analysis we assume marketing costs account for 5% of sweetheart rose sales. For the average supermarket this translates into a €378 annual cost per branch based on the number of living wage bouquets sold. •

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