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Producing low cost

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# Introduction to Low Cost theory

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- 1 The term “low cost” has become ubiquitous in modern discourse and is used in reference to anything relatively inexpensive and/or easy to do. The concept has permeated most if not all spheres, with the media constantly applying it in discussions as wide-ranging as sports, football teams, funeral parlours, banks or investment funds. In opposition to these representations, however, the present *Corpus* seeks to demonstrate that these are approximations glossing over historical realities, starting with the complexity of the factors involved in the creation of low cost goods and services.
- 2 It is true that the low cost concept generally refers to a good or service that is relatively affordable for persons or groups possessing little economic capital. It is also more intellectually stimulating to focus on production processes occurring in specific spatio-temporal spheres without forgetting to highlight an object’s positioning in the market that it seeks to conquer.

## Defining “low cost”

- 3 The practice of lowering prices to gain market share is nothing new. In sectors as diverse as restaurants, perfume, transportation vehicles, property and even education, goods and services have long been segmented by price. In Europe 300 years ago, for instance - a time when it seems anachronistic to talk about mass “consumption” - there were probably very few areas where the lower classes enjoyed the material or immaterial goods that the upper classes did. Conversely, it is possible nowadays to find cheaper bread or fish in modern large retail outlets or local neighbourhood stores without a low cost strategy being at work. In other words, it has been often unclear in both the past and the present to what extent pricing differences exemplify a low cost concept or some other phenomenon.
- 4 Bona fide low cost discussions necessarily cover both the technical manufacturing process involved in making a good or service and the price competition that is a key

aspect of this strategy. In opposition to traditional commercial offers, low cost production draws from two highly inter-related principles (Combe, 2011):

- Radical simplification in a good or service reduced to its core functionality (hence lacking in luxury, comfort or aesthetics). Point-to-point air or train journeys (with less room, fewer services and any extras incurring a charge), the design-manufacturing of “basic” automobiles, goods delivered to customers in their original packaging (or on palettes in hard discount supermarkets), etc.
  - Drastically reduced input costs (cheap materials and components, minimised labour costs). This implies massive reliance on subcontracting and all kinds of methods being used to reduce labour costs, including moving productive activities to countries where tax policy is more capital-friendly.
  - A simplification of work applying advanced Taylorian and Fordian logic, culminating in an intensification of labour;
  - Localisation or delocalisation of productive activities towards cheap labour countries, being territorial spaces reputed for paying low direct wages and offering little if any social protection;
  - Intensive reliance on subcontractors, often firms lacking any union representation and where the workforce is paid as little as possible (due to disadvantageous employment contracts and other forms of precarity) and lacks the kinds of benefits often found in larger companies. Here work contracts are often replaced by commercial contracts, self-employment and/or piecework arrangements. Air transport and the digital platform economy offer many examples of these practices.
- 5 The low cost paradigm has also started to converge with the digital platform economy model, as witnessed by the spectacular rise in the number of minicabs competing with taxis or courier cyclists making home deliveries. This attests to a real invention in (or renovation of) markets, specifically based on an offer of low cost goods and a deterioration in the working and employment conditions of the workers affected (who sometimes struggle to get re-classified as employees instead of independent contractors). The often lower prices associated with this gig economy<sup>1</sup> are associated with much worse working conditions for warehouse employees (i.e. Amazon); with customers doing more of the work themselves and incurring greater household expenses (Dujarier, 2008); and/or with consumer shaving to undergo a “commercial education” (Tiffon, 2013). A number of other changes are also part of this trend towards more and more work being moved on-line, with the *Nouvelle Revue du Travail* devoting a special issue to the topic in its upcoming autumn 2018 issue.

## Elements of continuity

- 6 The low cost concept means a new way of producing things and setting prices. It does not, however, imply a total lack of continuity with previous productive organisations. An article by Cyrine Gardes about hard discounting in the food industry speaks about elements of change but also of continuity within the mass retail sector in general. Similarly, an article by Severin Muller on generic medicine manufacturing shows that the activity is not entirely different from the way original medicine is made but that labour intensification and precarisation has progressed more with the former than the latter. Similarly, the problems Ryanair had with its pilots (cancelling thousands of flights in summer 2017 after many pilots left to earn more elsewhere) led it to work more closely

with trade unions in a timid attempt to “normalise” industrial relations (see article by Louis-Marie Barnier and Jean Vandewattyne).

- 7 In other words, although the global low cost economy is based on very different principles, the implementation thereof in the goods and services manufacturing processes has reproduced and (even more importantly) deepened the lean production paradigms that many prime contractors and their subcontractors already pursue worldwide. For example, intelligent product design using fewer materials (article by Martin Krzywdzinski, Grzegorz Lechowski and Ulrich Jürgens) is nothing other than the culmination of a revolution that started more than 20 years ago (Womack et al, 1992; Midler, 1994). Indeed, some or all of the ordinary ingredients found in lean or frugal production (just-in-time, teamwork, employees’ subjective mobilisation, employment deregulation, subcontracting, delocalisation towards cheap labour countries, etc.) are or can be deemed pertinent to a low cost approach, despite the terrible absence of quantified data about the different ways these outcomes are achieved.
- 8 Examining situations on a case-by-case basis, it becomes clear that contrary to the dominant Fordist model, a low cost approach might also involve using lean production to achieve comfortable profit margins even when manufacturing short series (Durand 2004; 2017). More broadly, textbook cases of low cost practice include the automotive industry (see Dacia example detailed in Tommaso Pardi’s article), Kwid (see reference in this NRT issue’s appendix to a book by Christophe Midler et al, 2017) or India and China (aforementioned article by Martin Krzywdzinski et al). Articles cover other sectors - like air transport (Louis-Marie Barnier and Jean Vandewattyne), rail transport (Marnix Dressen), generic medicine manufacturing (Severin Muller) or hard discounting (Cyrine Gardes) - focus on radical revisions in the techniques used to produce goods and services.

## Low cost practices

- 9 Clearly, low cost strategies have a direct effect on one core economic institution – labour. This includes direct impacts upon employees working in low cost companies but also a “contagion” phenomenon where traditional firms (parent companies or prime contractors) align their employment and working conditions with low cost companies to whom they delegate certain activities. It is true that not all low cost companies possess a subsidiary status (e.g. hard discounters like Aldi or Lidl; airlines like Ryanair). Still, it should be recognised that these “independent” companies are also laboratories experimenting with ideas aimed at increasing productivity, inspiring in turn bigger companies operating in the same sector. And where low cost subsidiaries have been created, one main issue that arises is whether prime contractor or parent company employees will ultimately be deprived of their social safety network and whatever rights they have earned. Air France employee unions have shown an awareness of this reality, explaining their mobilisation since 2015 in response to the creation of bargain basement subsidiaries (Transavia or Joon). Using language formulated by Peter Doeringer and Michael Piore (1971), the primary segment of companies and administrations has good reason to fear the encroachment of low cost production.
- 10 This raises a number of questions, namely whether this type of activity - when it has not been delocalised - mobilises a workforce that might be deemed typical (in terms of gender, age, nationality, education, etc.) compared to similarly ordinary activities, and

whether the same kind of collective conflicts and specific negotiations have been observed in branches, sub-branches or professions where the low cost paradigm has had an influence.

- 11 Lastly, one risk exuding from the low cost approach is the progressive contamination of an entire branch and all its ancillary activities. SNCF French national railways, for instance, depicts its iDTGV and Ouigo subsidiaries as responses to competition from Easyjet on the Paris-Marseille route, which used to be one of the SNCF's more lucrative lines. Ouigo might be portrayed here as offering a "parallel" structure where it is easier to get employees to accept new rules that are always less generous than the ones found in the parent company where these new organisations had been designed. In addition and as demonstrated in Marnix Dressen's article about SNCF, successive initiatives associated with each low cost innovation cause further deterioration in the services being offered.
- 12 Studies in this *Corpus* also reveal customer segmentation policies that have led to a deterioration in working and employment conditions. One robust hypothesis here is that a more or less direct relationship exists between product markets and associated labour markets. In turn, this raises questions about the attributes of intermediary (so-called "middle-cost") goods producers in areas like passenger air transport – being the same product up-market move, everything else remaining equal, as the one occurring in the Chinese and Indian automotive industries and analysed in the article by Martin Krzywdzinski et al. In other words, it is hard to analyse low cost practices without delving into questions relating to consumption and consumer preference motives. These are focal points in this special issue's *Controverse* section, featuring contributions from Franck Cochoy, Marie Plessz and Diane Rodet, in conversation with François Sarfati.
- 13 This series of observations raises questions about how low cost product or service customers – who are also workers – feel about the contradictions they are experiencing. As consumers they have an interest in lower costs hence prices, but as workers (whether employed or "independent") they will suffer from the lower wages paid over the medium or long term and/or from the labour intensification that often accompanies cuts in service or product prices. The question at this level is how producers-consumers navigate this low cost dilemma when developing their preferences and arbitrating between different spheres within their private lives. The real issue here may be one of split identities.

## Low cost factors driving new macro-economic regulations

- 14 One specific question is whether the low cost phenomenon helps to maintain or even raise the purchasing power of working classes whose income levels have suffered due to the new distribution of wealth exemplifying the Western world. The 2007 Beigbeder report assigned a purchasing power lever function to the low cost paradigm. Similarly, there is the question whether low cost products give working class populations access to goods and services that they could never have bought before (flights, new cars, etc.)<sup>2</sup>. If so, they might be partially represented as a substitute for the cash-stricken Keynesian state (Guez, 2003), providing a solution that "smoothes over" social contradictions, being the role that states used to perform before losing the functions they were previously allocated. From this perspective, a low cost approach offsets some of the cuts in social

benefits and public service. The end result is a new regulation where “classes of masses” (Gaggi & Nadurzzi, 2006) are induced to rely on low cost services and goods (Carolan, 2015) in the vague hope of maintaining their standard of living (with low cost consumption serving as an alternative to the collective mobilisation for higher wages). Social integration becomes the aim here, a function partially structured by the unending quest for objects of consumption that will allow people to identify with the social class that is immediately above their own (Gaggi & Nadurzzi, 2006). In this sense, low cost offers support the emergence of a new socio-economic regulation model<sup>3</sup> based on certain principles:

- Tendency for most workers to experience a loss of income (reduction in nominal wages and in the social protections offered by the Keynesian state in crisis),
  - Stabilisation of consumption due to two phenomena:
    - Low cost approach leading to cost and price cutting (partially explained by the aforementioned reduction in labour costs)
    - Preservation of working class purchasing power due to unemployed being offered state benefits, funded by the middle classes and complementing workers’ own consumption.
- 15 This depressive model leads to a twofold social segmentation, reinforcing the inequalities between beneficiaries of financial income vs. workers in general, and increasing the gap between the middle classes who fund the state and the more deprived social categories subsidised by it. Social equilibrium is largely based here on social integration encouraged by consumption, a not insignificant part of which involves low cost products and even services coming from low wage countries.
- 16 This equilibrium must overcome one hurdle right from the start, namely to whom products and services can be sold if working class incomes fall as the low cost paradigm spreads and undercuts direct or indirect wages. The question here is whether the price competition enabling a few low cost operators to enter and conquer new markets (cf. article by Patrick Dieuaide) creates sufficient change so that the people working in these sectors benefit as well. This then leads to a new bottom-up socio-economic regulation where workers can more or less maintain their standard of living. The macroeconomic observation here is that this strategy – involving an intensification of labour and above all a reduction in workers’ benefits (especially healthcare and pension rights) – is beneficial to shareholders and other powerful stakeholders with an interest in low cost firms or digital platforms. It is a kind of regulation intended to reproduce healthy profits in the real economy without generating excessive social protest given the new modes of productive mobilisation used by employee and especially neo-independent workers isolated in the execution of their tasks.
- 17 This casts a new light on the social and political events marking recent decades, often referred to as an “economic modernisation” era, especially 2016-2018 when, in France for instance, a host of new “Work laws” were enacted. In reality, the reforms all tried to apply the 2007 Beigbeder report recommendations that worker rights be adapted to a “new economy” characterised by digital platforms and low costs. Pioneers in this area, like Ryanair or Uber, will always have less to fear from court cases given that their conception of production relationships are increasingly being integrated into legislation.
- 18 In some cases, the low cost good or service niche is also something that new entrants (i.e. hard discount retail chains) think they can use to gain market share. Conversely and as shown in Patrick Dieuaide’s opening article entitled *Stratégies low cost et relation d’emploi*, a low cost strategy can be used to dominate markets and keep new entrants at bay. The low

cost offer that *SNCF mobilités'* developed, for instance, was also a way to keep new operators out of the French long-distance rail market. This is supposed to be completely open to competition in 2020 but the company hopes in this way to discourage potential rivals.

## Conclusion

- 19 The low cost model has markedly changed both how things are produced - often accentuating trends that were already identifiable in the lean production paradigm - and consumers' representation thereof. It has tended to transform large segments of the population into consumers constantly seeking good deals and better value for money, creating an incentive in all areas of human activity to minimise upfront investments and maximise utility. This is meant to turn a person into a rational *homo œconomicus* whose mental structures are no longer shaped by a public service ethos but by a Trip Advisor culture. It may be excessive to attribute a "civilising" function to the low cost paradigm, one based on "anthropological transformation" and where certain social categories with great online abilities yet little economic capital are incentivised to constantly seek better value for money by focusing on price considerations alone. In this hypothesis, consumers (who are also workers) get totally confused and agree to lower quality products and services since they are cheaper - even though, as wage-earners themselves, it is hardly in their interest to see general wage levels stagnate or even fall. Nor is it in their interest for employment and working conditions to deteriorate. Yet these outcomes are inevitable in the low cost universe.
- 20 The dossier that follows will also show that despite the clear commonality of certain elements, a wide variety of industrial branches and companies have been affected by this phenomenon, relating to the geneology of initiatives, their timing, the types of actors involved and, to a lesser extent, the target audience. The big question here, for a number of reasons, is whether all industrial goods and service activities are destined to succumb sooner rather than later to this low cost revolution. Economic actors' strategy has always consisted of draining everything they can from a system, implying under the present circumstances that it might be possible to offer the upper middle classes (customers enjoying substantial economic capital) costly and prestigious top-of-the-range goods or services - with some experts considering that low cost flights, to only take this example, are unlikely to exceed 40 to 50% of the air travel market (depending on the segment). Conversely, low cost operators will also offer the lower middle and working classes goods and services that further accentuate the "crisis" in public services (i.e. air or rail transport), the limit here being disadvantaged populations' solvency. Note that this summary categorisation can be partially combined with certain generational and spatial situational criteria (i.e. differences between capital and provincial regions).
- 21 As far as equity holders are concerned, low cost and customer segmentation strategies constitute one instrument among the many others they possess in their toolkit. The delocalisation of jobs to countries characterised by cheap labour - but involving products that are not bottom-of-the-range - is an activity that still has a lot of upside. In the service arena, sectors worth paying attention to include call centres, software design and documentary medical expertise. Even top-of-the-range industrial activities can be made on the other side of the world (i.e. i-Phones). All of these outcomes might well be able to co-exist in a world defined by the growing domination of low cost business strategies.

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## NOTES

1. A gig refers to payments made to musicians for a show they do. The gig economy is one where workers are paid for the tasks they perform (i.e. per journey, per delivery).
2. It might also be averred that the low cost paradigm contributes to environmental degradation since it increases the consumption of certain fossil fuels. Examples include the carbon footprint associated with air travel and a few other industries. This critique differs, however, from one focused on reducing social inequality.
3. A model that might be called, in macro-economic language, post-Fordian given its break from the previous capital-labour distribution compromise. From a production perspective, however, the model remains deeply Fordian, seeing how lean management

principles – pushing the Ford assembly line concept to its very limit (Durand, 2004) – continue to dominate the organisation of production and labour.

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