

PLACING A VALUE ON THE WASTE OF PEOPLE'S TIME

In a few instances, the impact of increasing process productivity on the bottom line is clear and simple. It may reduce the expenditures on overtime or contract workers. However, beyond those few cases, productivity improvements for employees do not directly reduce expenditures, but instead increase *capacity*. How much these improvements benefit the bottom line depends on how that capacity is put to use. The impacts can be extremely profitable or can amount to nothing — or worse!

To illustrate this, let's look at five different scenarios. Each organization has 30 people at an average cost per person per year of \$50k. Each organization is able to make major process improvements that achieve a 50% reduction in the amount of time required to handle the current workload. In *theory*, the impact of the productivity improvement would be the same — 30 people, 50% productivity improvement, \$50k/year — should be simple math, right? In the real world, the impact would vary dramatically. Other factors, such as potential for sales growth, amount of attrition, transferability and scarcity of skills, etc. have a very significant impact on the value of any productivity improvements the organization may achieve.

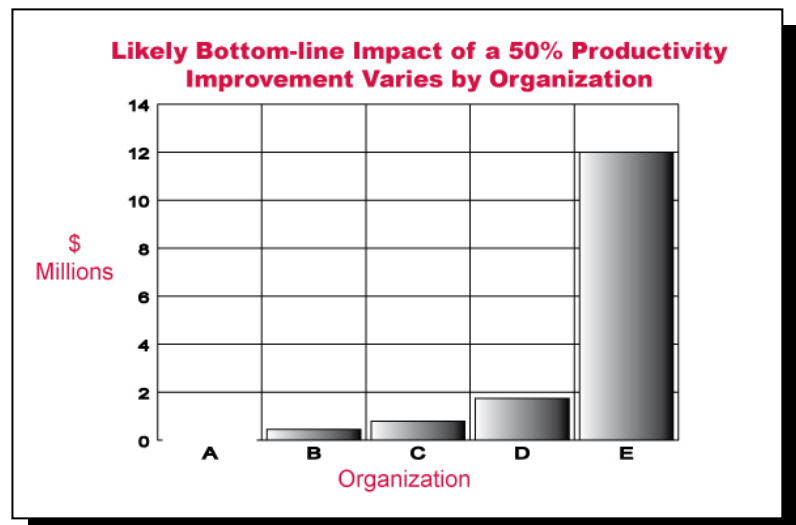
The hard dollars you gain will depend on management decisions: 1) what processes are targeted for improvement and 2) what the plans are to utilize the freed-up capacity.

The bar chart to the right illustrates how the bottom line impact varies for different organizations, even when the magnitude of the productivity improvements and the size and cost of the organizations are identical.

Organization A reduces the amount of time required to do the work by 50%. Demand for the work is stable, neither increasing nor decreasing. No new value-adding work is brought into the organization and there is neither attrition nor layoffs. People quickly add non-value-adding activity to fill the gap and make themselves look and feel busy. The productivity improvements produced neither revenue growth nor cost reductions. The impact of the improvement in Organization A is slightly negative — equivalent to the value of any time and investment expended to achieve the productivity improvement.

Organization B also has no use for the excess capacity created by the productivity improvements. Business is flat and the skills are not transferable to other parts of the organization where they need people. Organization B takes advantage of the productivity improvements to lay off 15 people. That amounts to \$50k x 15 people laid off, or \$750k. But transition costs associated with the layoff amount to \$20k each, bringing the savings down to \$450k in the first year. Excess office equipment sold on the secondary market yields a small pittance, bringing the bottom line results up to \$452k. The freed up space has no monetary value. The other parts of the corporation take note of the layoff and stonewall any future efforts to study and improve their work.

Organization C has 50% attrition. They stop hiring and use continuous improvement and process redesign to shrink the time required to do the job by 50%. Because they do not have layoffs, their return



on the study and improvement of work is: 15 people they don't have to hire x \$50k/year, or \$750k, plus the costs of hiring and training the additional staff (\$50k) to total \$800k the first year.

Organization D expects to double sales over the next year. Improving the work so as to cut the required time in half enables them to forgo hiring an additional 30 people at an annual cost of \$1.5 million and arranging training, space and equipment for the new employees (\$250k) — totaling \$1.75 million the first year. Alternatively, if they could handle twice as many customers at almost no additional cost, they may be able to find a new price point that would very profitably take away business from all their competitors.

Organization E is a bottleneck organization — that is, the skills required to do this work are in scarce supply and they cannot hire the additional people to accommodate their unmet demand. In this case, the true value of improving the productivity is not tied to the salaries of the people or cost of hiring but rather to the profit of the potential sales that are being lost. In this example, the special-skilled workers now complete 1,000 units of work each year. Each unit of work yields a gross margin of \$400. If one could double this organization's through-put, selling the additional output at a gross margin of \$400 each, the bottom line impact of the improvement would be the value of the additional sales: 30 current workers x 1,000 additional units x \$400 margin each, or \$12 Million.

So where do you focus your improvement efforts? Follow this sequence:

1. When you want to gain productivity improvements, you look first toward parts of the business that are growing and profitable rather than those whose workload is shrinking and/or unprofitable. This may seem counter-intuitive for companies that think of productivity improvements as a means of cost cutting and focus most of their attention on the lagging areas — but growth areas are clearly where the most lucrative returns from productivity improvement will be found.
2. If no parts of the business are currently growing, look to where productivity improvements might leverage excess capacity to help gain business. The additional capacity gained from studying and improving the work enables an organization to bring in considerably more revenue at the same cost structure, providing a pricing advantage. Or explore whether the capacity can be used to add services which drive up business volume.
3. If there are no growth opportunities, look to areas with high attrition.
4. If there are no opportunities for growth and no areas with especially high attrition, develop a resource plan that identifies how many people a department can profitably afford. Then adjust the workforce to the right number and improve the processes so that the workforce can do it well. Retain the people most effective at studying and improving their own work and that of the departments they manage because you will need these skills. The contrary more often happens, with downsizing organizations disproportionately retaining people who are *least* effective at capitalizing on the opportunities for eliminating waste in their work because their work *appears* less accessible to improvement efforts.

So the answer to the question "What is the expected bottom line impact of a productivity improvement?" is ... it all depends on the value you put the extra capacity to. People who are trained and skilled at studying and improving work can find ways to improve virtually any process. The question management must answer is where would the productivity improvements create the most value and focus the efforts there.