

WORKFORCE PRODUCTIVITY BEST PRACTICES

Increasing productivity is one of the main levers executives can pull to impact near-term results and long-term profitability. Before we discuss the levers that impact productivity (i.e. motivation, efficiency, and utility) organizations must first benchmark their productivity against time and goals.

Whether the organization is in a period of fast-growth or in a mature industry will dictate whether the benchmark should be revenue-per-full-time employee (fast-growth) or profits divided by total labor costs if in a mature industry.

What is not measured cannot be improved. The best run organizations have higher revenue and profits per employee as evidenced by the following table¹.

Industry	Company Example	Revenue-Per-Employee	Industry Revenue-Per-Employee
Business Software and Services - Payroll	Paychex	\$171,580	\$252,805
Business Software and Services - Payroll	ADP	\$186,734	\$252,805
Food Processing	Imperial Sugar	\$818,068	\$300,399
Food Processing	Sara Lee Coffee/ Tea	\$300,273	\$300,399
Hardware	Seagate	\$235,333	\$358,410
Hardware	Western Digital	\$161,254	\$358,410
Investment Broker	Schwab	\$394,000	1 Mil
Investment Broker	E*Trade	\$438,812	1 Mil
Investment Broker	Goldman Sachs	\$2M	1 Mil
Insurance	Marsh McLennan	\$210,679	\$590,666
Insurance	Traveler's	\$767,087	\$590,666
Manufacturing - Chemicals	Flotek Industries	\$418,682	\$887,243
Manufacturing - Computer/Electronic	Benchmark Electronics	\$254,017	\$207,265
Manufacturing - Computer/Electronic	IES	\$145,346	\$226,210
Manufacturing - Computer/Electronic	Flextronics Sercel Inc.	\$189,823	\$326,845
Manufacturing - Industrial Electronic	Powell Electrical Mfg	\$293,415	\$251,487
Manufacturing - Medical	Cyberonics Inc.	\$286,107	\$416,654
Manufacturing - Networks	ABB Network Mgmt	\$293,607	\$251,487
Rentals and Leasing Services	United Rentals	\$323,578	1 Mil
Services - Personnel	Pre-Paid Legal Services	\$572,843	\$501,291
Services - Personnel	Jackson Hewitt	\$643,888	\$501,291
Services - Staffing and Outsourcing	Gevity	\$626,470	\$346,392
Services - Staffing and Outsourcing	Administaff	\$898,375	\$346,392
Software - Application	Salesforce.com	\$352,647	\$352,805
Software - Application	NetSuite	\$191,868	\$352,805
Software - Application	Epicor	\$155,658	\$480,467
Software - Application	BMC Software	\$307,603	\$480,467
Software - Application	Intuit (QuickBooks)	\$374,509	\$480,467
Software - Application	Microsoft	\$663,956	\$480,467
Software - Application	JD Edwards	\$179,000	\$480,467
Transportation	Continental Airlines	\$353,009	\$236,185
Transportation	Southwest Airlines	\$304,799	\$346,468
Wholesales - Auto	Coast Distribution	\$367,105	\$298,847

¹ Public company data is taken from Hoover's and MSN's MoneyCentral (<http://moneycentral.msn.com>). Private company data is taken from www.ephorgroup.com databases.

Notice that industry leaders have higher values! Though revenue-per-employee varies widely from industry to industry and company to company it nonetheless provides an interesting view into how well a company is run. Revenue-per-employee is a commonly used measure of management efficiency because it is easy to benchmark ones competitors. The following table highlights that there is a clear difference between mature, industry leaders and small businesses.

Industry	Industry Revenue-Per-Employee	SMB* Revenue Per Employee Mark
Business Software and Services - Payroll	\$352,805	\$92,506
Software - Application	\$480,467	\$131,495
Services: Staffing and Outsourcing	\$346,392	\$141,332
Services - Marketing	\$363,682	\$288,372
Business Software and Services - SaaS	\$352,805	\$141,868
Internet Services and Software	\$313,813	\$111,032
Services - Management	\$563,729	\$243,438
Education and Training - B2B	\$186,642	\$58,462
Insurance Broker	\$590,666	\$200,000

*SMB (Small and Medium Businesses) defined as firms with less than 200 employees or \$20M in annual revenues.

What causes such a wide variation within an industry? Operational efficiency and productivity are major factors. The number of outsourced business functions also has a big impact.

Productivity Ratios by Revenue Range	Under \$1M	\$1-10M	\$10-99M	\$100M - \$500M
Annual sales per employee	\$71,334	\$122,424	\$153,941	\$215,941

What is your firm's revenue-per-full-time-employee?

Now that a benchmark has been established, it is time to turn our attention to the levers that impact productivity:

- A. Motivation
- B. Efficiency, and
- C. Utility

WORKFORCE PRODUCTIVITY LEVER: MOTIVATION

Employee motivation impacted by financial compensation and incentives and non-financial motivation. More often, poor culture, a bad supervisor, or mistrust of management is the primary culprit of lackadaisical performance. Improving efficiency and utility is a waste without proper change management best practices.

WORKFORCE PRODUCTIVITY LEVER: EFFICIENCY

There are many factors that influence workforce availability and therefore the potential output of equipment, distribution channels or your manufacturing plant. Before labor utilization can be improved it must be measured. Understanding where downtime losses are coming from and the impact they have on production can reveal root causes — which can include machine downtime, material delays, or absenteeism — that delay production.

When employees cannot perform their work against established standards, performance can suffer. Effective training can increase performance by improving the skills that directly impact the quality of output. A skilled operator knows how to measure work, understands the impacts of variability, and knows to stop production for corrective actions when quality falls below specified limits. Accurately measuring can pinpoint performance improvement opportunities down to the individual level.

There are a plethora of methods for improving efficiency, we highlight a few areas first and then list some of the latest tools:

- ✓ **Eliminate redundancy!**
 - While human instinct is to do the job manually there is often a faster, better, more efficient means of getting the job done.
 - How much time and money have you spent entering, correcting and storing redundant information?
- ✓ **Abolish approval cycles!**
 - Know what matters to your business and track it. Use the information to empower your employees.
- ✓ **Empower!**
 - Enable front-line employees to give discounts, make customers happy.
 - You can improve efficiency further by enabling customers to enter their own information through your website or an in-store kiosk. such as technology, tools,

- ✓ **Training!**
 - Employee
 - Manager
 - Executive
 - Supply chain

- ✓ **Share information!**
 - Create a knowledge base. For small firms, this can be a network file server with logically arranged folders for information. Larger firms will need a database and a formal information taxonomy.

- ✓ **Leverage relationships!**
 - Identify your key vendors and suppliers. Don't just place orders and send money. Have them track order history down to the line item. They should even be able to tell you when it's time to reorder relieving you of the responsibility.
 - Set up an extranet (that is, allow them access to a portion of your internal network). They could track inventory levels, enter their own orders, track payments, etc. Your costs go down significantly and it's faster and more efficient for the supplier as well.

- ✓ **Automate sales and distribution channels!**
 - Allow buyers of your products and services to place their own orders on your web site whenever possible. Provide options to have the item shipped, picked up at a local store or downloaded (if applicable). Offer special deals available only on the web as an incentive to place orders there. If you use resellers, empower them to enter orders, choose delivery dates and select payment terms by using your extranet. Provide them with marketing and training materials online. Make them self-sufficient.

- ✓ **Develop customer self-support and self-help systems!**
 - Many customer problems can be handled through "Frequently Asked Questions" or knowledge base articles. Make these systems easy to use and attractive on your web site. Your phone system can also offer solutions to common problems via either voice or fax.
 - Customer returns for items ordered via the web can also be automated. Both UPS and FedEx offer product return services to make this easy for your company and your customer.

- ✓ **Move your employees to self-help systems too!**
 - Train employees to answer their own questions regarding benefits by using an intranet knowledge base. Benefits literature, forms, and provider contact information should be available online. Copies of corporate correspondence regarding benefits or other business matters should also be archived online. Free up your Human Resources staff to deal with real business issues. Once you've eliminated all those brainless tasks, you can

focus the organization on being the best it can be. When manual intervention is needed, your team will have the time to provide rapid response and outstanding service. Relieved of the mediocre, they will be positioned and empowered to add value to the organization and drive that revenue per employee statistic higher up the chart.

✓ **Effective Performance Management!**

- Performance management is another aspect of layoff avoidance.
 - Identify low-performing employees for progressive discipline.
 - Shorten the time span for giving employees a second chance
 - Institute "forced ranking" to force managers to make tough choices.
 - Identify low-performing employees for additional training.
 - Fire or buyout low performing employees
- Require managers to keep a fixed portion (10%) of their staff "flexible" during times of decreasing revenues.
- Outsource key production, MIS or product components to vendors, which allow us to scale down without the need to layoff. Outsource transactional or low value "overhead" functions to vendors.
- Build strategic partnerships with other firms and let them do a portion of the "people intensive" work.
- Utilize consulting firms to supplement your key competencies.
- Hire contractors for short-term needs.
- Hire temporary or seasonal help for short-term work.
- Hire part-timers that are willing to work only during your peak periods of need. Offer job sharing options to current employees.
- Convert regular full-time staff to contract status via third-party vendors.
- Hire interns or college co-ops, who are cheap and easy to let go

✓ **Increasing Revenue**

- Another layoff avoidance strategy is to increase current employee productivity and revenue from sales. Some approaches to consider include:
- Hiring away the best salespeople from your competitors.
- Increasing sales incentives.
- Increasing or modify sales training.
- Offering productivity incentives to your employees or increasing their percentage of pay-at-risk.
- Reengineering processes to improve efficiency.
- Raising hiring standards in order to attract more productive employees.
- Buying technology to increase efficiency and productivity

Most executives spend far too much time reinventing the wheel and chasing information that can and should be readily available.

WORKFORCE PRODUCTIVITY LEVER: UTILITY

For business purposes, utility is a measure of the relative satisfaction or impact of one's work; that is an employee may be very efficient and motivated, but be doing work that has zero utility to the customer.

A number of drivers contribute to quality, but the effort to improve quality can result in a lowering of labor performance. When making the correlation between the workforce and quality it is important to consider factors such as the training and skills of employees, whether they have access to the right tools to follow procedures, and their understanding of how their roles drive and impact quality. OLE can help manufacturers analyze shift productivity down to a single-shift level, and determine which individual workers are most productive, and then identify corrective actions to bring operations up to standards.

THE FUTURE OF WORKFORCE PRODUCTIVITY: MEASURING THE RETURN ON YOUR MOST PRECIOUS INVESTMENT

Revenue-per-employee does not take into account the composition of the workforce, especially the significant use of contingent workers, but is a good starting point. For a firm to achieve competitive agility, it must be organized in a way that supports continuous learning and change. Competitive agility is achieved through organizational agility which, in turn, is facilitated by workforce effectiveness (i.e. scalability).

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