

## You Can't Afford **NOT** to Have Productivity Initiatives

*The Associated Cost of Inefficiency can be Enormous*

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It's amazing how many managers say they don't have budget for productivity initiatives. Some think "productivity" is a fuzzy word, and few managers know how to measure it. But **productivity can and should be measured**. It's step one towards continuous improvement.

Productivity increases when either the value of your organization's output or the efficiency to achieve the output increases. Just focusing on efficiency is worthwhile:

All organizations can achieve a 10-20% increase in efficiency, and the cost of inefficiency is very high.

The least efficient organizations can realize efficiency gains of at least 40% – or more. At Auxilium, our consultants measure efficiency in several ways, all of which roll up to an overall indicator that ranges from 0% to 100% (40% to 90% is the actual range we usually see). Using this scale, we define a 1% efficiency gain as increasing by one point on the scale.

The cost of inefficiency in an organization of technical professionals is approximately \$2,000 per year, per employee, for every one percent of inefficiency. This is based on the burdened cost of labor. The math is easy. That's \$20,000/year per employee for every 10% of inefficiency, and 10% is the minimum potential improvement for most companies!

This number takes into account the fully loaded cost of labor, including office space, equipment, energy costs, benefits, etc. The same percentage of your business infrastructure that supports the productivity of your knowledge workers is affected by organizational inefficiencies.

Do the math in your head right now: Assume you can improve efficiency by at least 10%. Then count the number of engineers, scientists, software developers, technical managers, and other technical professionals in your organization. Multiply that by \$20,000. That's the **minimum** amount a successful productivity initiative is worth to you.

Smart business leaders know cost-cutting actions generally reduce productivity. So, then, **after the cost-cutting is complete, productivity initiatives are critical**. Whether or not your company has done significant cost-cutting in this economy, now is the time to undertake productivity improvements.

We can help.