



Workforce Productivity Levers

WORKFORCE PRODUCTIVITY LEVER #1: MOTIVATION

Too often poor culture, a bad supervisor, or mistrust of management is the primary culprit for failing performance. Economic and career development motivations are both integral and should be rewarded and bonused appropriately.

Improving efficiency and utility is a waste without proper change management best practices.

WORKFORCE PRODUCTIVITY LEVER #2: EFFICIENCY

When employees cannot perform their work against established standards, performance suffers. Measurement and metrics can pinpoint performance improvement opportunities down to the individual level on a real or near-time basis.

Effective training coupled with productivity tools supported by enterprise systems will increase performance by improving the skills that directly impact the quality of output. A skilled operator knows better how to gauge work, understands the impacts of variability, and knows to stop production for corrective actions when quality falls below specified limits.

WORKFORCE PRODUCTIVITY LEVER #3: UTILITY

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

solving the value equation





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.

	Median Revenue per FTE	Median Income per FTE
All Industries	\$142,857	\$10,131
Educational services	\$76,896	\$263
Finance	\$162,712	\$41,361
Government	\$134,691	\$0
Health care services	\$103,166	\$5,000
High-tech	\$211,111	\$16,250
Insurance	\$159,150	\$46,667
Manufacturing (durable goods)	\$190,213	\$16,463
Manufacturing (non-durable goods)	\$222,222	\$33,810
Retail/wholesale trade	\$214,706	\$41,528
Services (nonprofit)	\$90,563	\$1,867
Services (profit)	\$113,374	\$18,866
Transportation & warehousing	\$192,593	*
Utilities	\$374,932	\$53,702
Government agency	\$99,622	\$725
Nonprofit organization	\$107,031	\$2,818
Privately owned for-profit organization	\$148,148	\$18,602
Publicly owned for-profit organization	\$210,673	\$38,751
Commercial sector	\$163,848	\$19,065
Defense sector	\$171,004	\$20,507
Government (nondefense) sector	\$92,165	\$155

* Data not reliable.
Source: 2006 SHRM Human Capital Benchmarking Study.





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.	\$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.

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

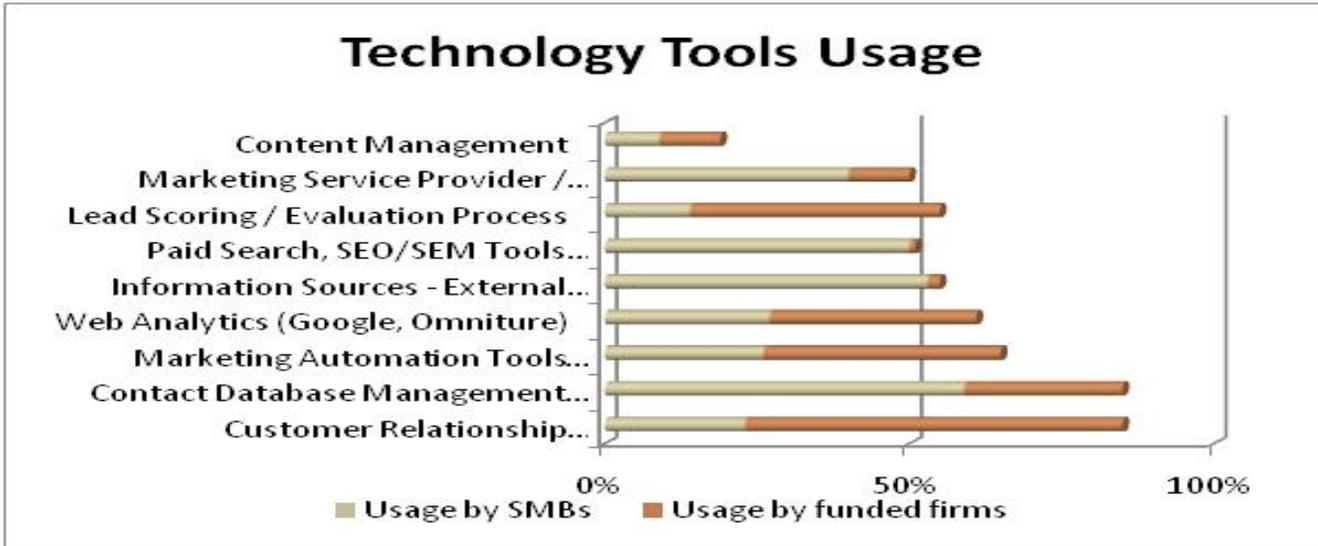
Productivity Ratios by Revenue Range	Under \$1M	\$1-10M	\$10-99M	\$100M - \$500M
Annual sales per employee	\$71,334	\$122,424	\$153,941	\$215,941

*(Be sure to factor in executive time when making the calculation).





CRM Sales and Marketing Tools Increase Productivity



*SMB (Small and Medium Businesses) defined as firms with under \$50M annual revenues or 500 employees.

**Funded firms defined as companies with angel, venture, or private equity investment

Workforce Productivity Attributes

1. Revenue Attributes
 - a. Known and predictable customer acquisition model and costs (under 20% for most technology and services firms is the benchmark)
 - b. Alternative distribution model represents at least 40% of new customers
2. Operational Attributes
 - a. Process scalability implemented
 - b. Operational performance benchmarked and achieves top quartile across revenue profits per employee, EBITDA, Gross Margin, etc.
 - c. Measurement and metrics guide daily branch activity
3. Workforce Attributes
 - a. Aligned and motivated workforce with near and long-term objectives
 - b. Recruiting and retention benchmarked and accounted
 - c. Communications rhythms established





4. G&A Efficiency
 - a. Back-office efficiencies
 - b. Scalability in all operations
5. Management Attributes
 - a. Role playbooks, management operating manuals, new location instruction manuals, process documentation, onboarding, training, and career development documented for all major roles
 - b. Operating metrics guide the business from the board room to the empowered front-line employees
 - c. Financial model guides budgets and operations

Once benchmarks have been established, it is time to turn your attention to the levers that impact productivity:

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

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 adaptability which, in turn, is facilitated by workforce effectiveness (i.e. scalability).

Management Mistakes

- ❑ Only 1 in 5 firms measure their return on investment of marketing and sales dollars.
- ❑ 50% firms do not use budgets or forecasts to help manage their business.
- ❑ 32% do not have specific metrics in place to monitor performance on a daily or weekly basis.
- ❑ 11% regularly monitor non-financial indicators, such as customer retention or employee turnover to further evaluate business performance.
- ❑ 60% indicate employee productivity is critically important but less than 12 % have measurement and programs in place to manage.
- ❑ More than 80 percent of small businesses outsource some component of their business—from IT to payroll and tax accounting—to save time, reduce costs and improve performance.

