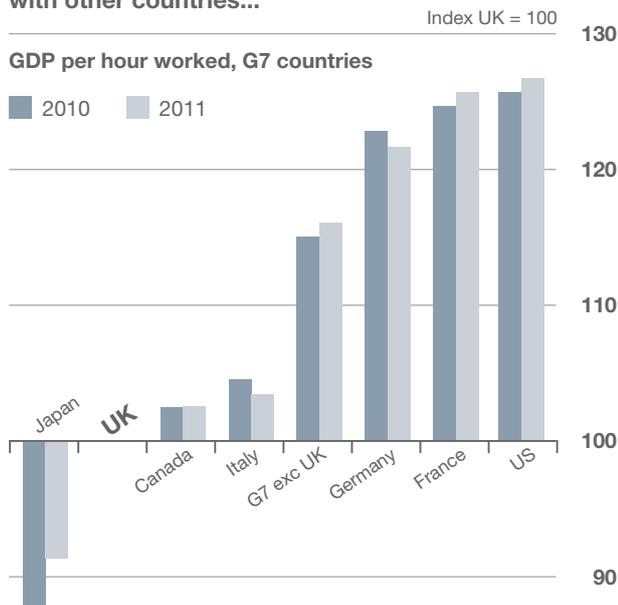


UK productivity is 16% below the G7 average What should companies do to close this gap?

Recent official figures from The Office for National Statistics make for sobering reading. Every hour worked in America produces 26% more output than in Britain; Germany produces 22% more and in Italy 4% more. To put these figures in perspective the productivity gap as against the rest of the G7 has not been this bad since 1993. When measured by output per worker, the gap was even larger, at 21 percent. The rest of the G7 in other words is roughly a fifth more productive than Britain.

What appears to be happening is that pay is dropping but so is productivity. The UK is in danger of sliding into being a low wage, low productivity economy. If we want to become more prosperous then productivity must increase so wages can increase.

Britain's productivity is low compared with other countries...



Even if your business's productivity has improved these figures may still apply to companies operating in the UK.

The drop in UK productivity may be a surprise to many as until recently, UK companies, in areas such as manufacturing, had been making significant improvements in productivity. The temptation is to believe that The Office for National Statistics findings do not apply to your business but the reality is that they probably do. Productivity in Germany, USA and Italy is increasing at a faster rate than UK productivity, so whilst UK productivity may be improving, it is not improving fast enough.

CEO and Board level support and involvement is essential if significant productivity gains are to be made. Abdicating responsibility for success down to the operational level is often a root cause of failure.

Every undertaking in a business can contribute to productivity improvement but in The Highland Group's experience sales effectiveness, supply chain and logistics, back office operations, contract and vendor management, spare part management, asset utilisation, waste reduction, working capital, organisational design and customer service are all places where we find significant opportunity for productivity gains and cash savings.

Understanding the scale of productivity improvement that can be achieved for a specific business requires detailed analysis with an open mind, as apposed to pre-determined solutions. The Highland Group's analysis approach has two stages. Firstly, 'Discovery', which is a thorough investigation of the working practices across all the business operations, assessing what actually happens in practice on the ground. The second stage is 'Design', a solution where we set out specifically the scale of productivity improvement that can be achieved, the areas where this will occur, the bottom line savings that will be made and timescale over which these results will be achieved. These are then agreed with the management team. By taking this approach Highland clients have experienced productivity improvements such as those outlined in Figure 1 below.

- ▲ Improved productivity at a toy manufacturer by 28%, reduced new product introduction time by 3 months and reduced quality problems by 48%
- ▲ Increased equipment utilisation by 68% and increased sales by 20% for a major food packaging company.
- ▲ Reduced overtime by 50% while increasing customer service effectiveness for a major food manufacturer.

Figure 1. Highland Productivity Case Study Examples

When you take the cumulative impact of productivity improvements and cash savings across many areas of a business then it soon becomes possible to achieve substantial benefits. For example The Highland Group saved a high performance materials manufacturer £13 million in operating cost and achieved £6.6 million in annualised savings for a division of a global manufacturer of life science products. These are the kind of savings in operational cost that businesses working with The Highland Group achieve.

Understanding the scale and potential sources of productivity improvement is not enough.

The challenge for companies seeking to achieve productivity improvement is galvanising the workforce to take concerted action, working together to drive out inefficiency and thereby lower costs. This usually necessitates new ways of working, a different business perspective and a willingness to implement change. Few businesses have the skills and additional capacity required to achieve success without impacting negatively on the day-to-day business.

The Highland Group can bring the necessary expertise, support and direction to ensure the pressure for change is maintained, and agreed business outcomes are achieved whilst ensuring that your teams have all the skills and management tools required to sustain improvement.

This is evidenced by a recent case whereby a large energy equipment manufacturer was experiencing growing inventory and rising costs. They needed to optimise performance whilst maintaining their ability to meet customer orders. The Highland Group team partnered with the company's leadership to develop an implementation roadmap, which included the specific actions required to achieve significant increases in productivity and decrease inventory levels.

“The results were a 20% decrease in inventory and an 18% improvement in productivity.”

What was immediately evident was that the control, master scheduling and performance management systems were ineffective so The Highland Group developed and implemented a new inventory control system and barrier removal process. Highland's senior consultants created and installed a production control and master scheduling system, driven by and responsive to customer demand. Additionally The Highland Group developed and trained the leadership on how best to manage and drive performance improvement with clear accountability right down to workgroup level and instituted daily production review meetings that included production management and supervisory personnel.

The results were a 20% decrease in inventory and an 18% improvement in productivity. In addition over 100 managers and supervisors were trained to use a management system, designed to drive performance accountability and remove barriers to success and implemented over 400 business improvements.

Can companies improve productivity without outside help?

Of course companies can improve productivity without outside help. However The Highland Group's all-senior teams, consisting of consultants who average 15+ years of relevant business experience often achieve greater and accelerated benefits than a client can achieve on its own, typically with a one-year ROI of 300% to 600%. In addition, many in-house teams don't have well-designed change programmes, access to customised training and coaching, and use of measurement systems to ensure sustainability of benefits, thereby enabling continuous improvement. This infusion of expertise is summed up by a CEO of one of Highland's clients.

“The Highland Group brought the business forward a very long way in a short period of time. Consequently the ROI in Highland is the best we have received on any project for many years.”

CEO Large manufacturer

Given the size of the productivity gap UK companies face when compared to the rest of the G7, The Highland Group suggests that help and the 'cavalry' can't come soon enough.

The Highland Group is a global operational consulting firm committed to delivering measurable financial results for its clients. Founded in 1991, the firm serves industry-leading companies around the world from its offices in Europe, North America, South America and Africa. The Highland Group's senior professionals bring extensive business experience from a wide variety of industries and disciplines, including cost optimisation, engineering, maintenance, sales and marketing effectiveness, shared services, working capital management, supply chain management, finance and accounting, private equity value creation, warehousing and distribution, organisational development and more. The firm's collective expertise, combined with its "needs-based" approach, ensures solutions are custom-tailored to help its clients meet their goals and realise their full potential.

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