Threat or opportunity?

Richard Taylor, managing director of Scott-Grant Limited, considers the pressure on businesses from the latest legislation on wages and what impact it could have.

The National Minimum Wage increase that came into effect on 1 October 2015 presents a real challenge for employers in the UK. And the pending National Living Wage rate, due to be introduced in April 2016, will add further challenges as it applies to all working people aged 25 or over. There may well be more of a compounding impact if part-time employees then earn more than the weekly NI threshold.

We are seeing how businesses are reacting to this legislation – with a mixture of bewilderment and real concern about an increase in costs. When it comes in the form of government legislation it's not going to go away.

As an external factor it is a threat to the business, but how many will consider it an opportunity as well? This situation could create a useful platform to encourage managers to take a more in-depth look at all elements of their business and find ways to improve performance and productivity. Of course a company must have financial balance and sensible productivity improvement really can help moderate cost increases.

Productivity is about the effective and efficient use of all resources. People are one of the resources of a business, often with significant cost. Their talent and knowledge, together with time, information, systems, finance, energy, land, buildings, equipment, space and materials comprise all the resources. Lean thinking is about minimising the waste of any of these resources in any form, always adding value. With a commitment to Lean the return is ongoing because Lean is a process of continuous improvement.

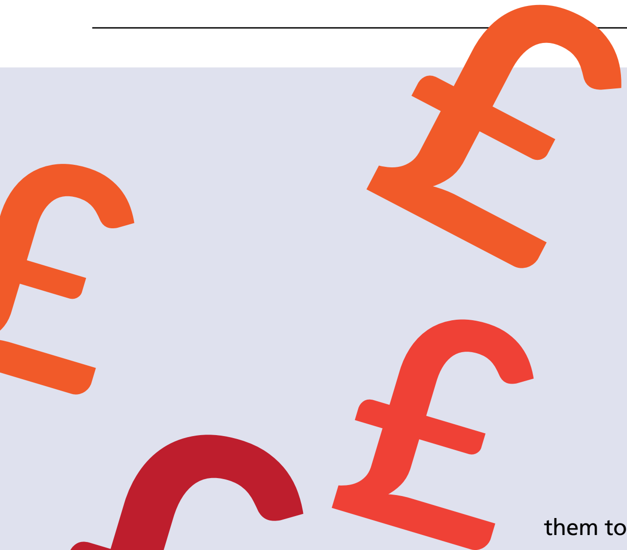
What's at the heart of a productivity issue?

We advocate that costs, capacity and response are at the heart of any productivity issue. Every business can seek to moderate unit cost, particularly in conjunction with increasing capacity and improving response. But it has to be an ongoing quest; it really is about continuous improvement. Perhaps the new ruling on the minimum wage has created the need and/or opportunity for businesses to examine anew their organisational effectiveness.

Let me offer a recent example. We were approached by a smaller, privately owned supermarket chain with their own distribution centre, the majority of whose workforce is impacted by the NMW increase. The company was facing a £multi million uplift in their staff costs so they wanted "to look for ways to save money and make the operation more cost-effective". We soon established that although they were using time standards, the origin and therefore the accuracy of their data was questionable.

We have encountered this issue time and time again, so I ask – when were your time standards validated and checked? Is there a solid and accurate basis for them? So many calculations and serious business finance matters derive from this fundamental data. The basis of formal time measures is the real foundation for a productivity KPI. The process of formally measuring work content identifies opportunities for productivity improvement, good targets, better flow, method improvement, less handling, appropriate staffing levels.

Some DC workers were on 12 hour shifts but often they had finished most of their work in 10 or 11 hours. After they had met their (notional) targets, they slackened off – they had little else to do. But this means that the targets weren't realistic and the workers were only doing what their employer had organised




them to do. The last hour or two probably dragged and after ten plus hours, no wonder. What does that do a) for motivation and b) for costs?

Twelve hours seems a long time for repetitive, physically demanding and mentally tiring tasks – every day. So the question is raised: would eight, nine or ten hour shifts be more productive and more motivating? Do you really get 50% more out of a 12 hour shift than an eight hour?

Readers of this Journal will know that having accurate time standards, at BS100, would establish the best answer to this question. Time standards are central to costing, capacities, planning, manning, estimating, justifying investment, creating flow, so this data must accurately reflect relevant work content.

When reviewing the staffing costs, why not compare the costs of a change to equipment or a process, or investigate the consequences of a batch-size reduction. It's time to think outside the box. Softening the burden of excessive hours could deliver more social and domestic benefits to workers. You might be surprised when you get more than the benefits you were originally after, as happened in this next example.

With many new housing developments and changes to their own vehicles, the refuse collection service of a large local authority needed to revise manning levels and develop new vehicle routings. A team of our productivity specialists was able to develop the necessary detailed information, to allow the local authority to restructure its operations within its existing capacity. This yielded considerable benefits: no additional costs for staffing, nor any for fleet.

Cost, capacity, response

We would however, urge businesses not to view and review employment cost issues in isolation as they are often a consequence of many factors. When it comes to productivity, remember also to consider capacity and response issues.

How do you identify capacities – accurately? How easily can you establish whether you can produce more for your customer, or what the effect would be on your business if you produced the same volume, but in smaller batches of more products? What capacity have you got to handle new customers, to introduce new products and people? These are typical capacity issues facing companies in many business sectors.

> It's rarely a single issue that is the cause of a productivity problem. Often more than one resource issue lies at the root.

Response isn't just about time. It's also about how well you react to order quantities, changes, commercial terms, supply issues. Response involves improving the whole cycle of quote, design, process, delivery, quality and completeness. Are you confident in giving firm delivery dates? Have you got the right information to meet project or delivery deadlines in full and at acceptable cost? Response issues like these can be addressed when you have accurate data.

If you see idle equipment, double handling, people waiting for work, falling customer service, missed deadlines in your business, what you're seeing are symptoms of low productivity. I'd like to bet that if you examine their root cause, the chances are you'll find cost, capacity, response issues. Resolving them gives you real opportunities to improve productivity.

Rarely is a single issue the cause of a productivity problem. Often more than one resource issue lies at the root. And in our experience over more than 35 years, the trap is that some productivity solutions just 'work round' the effect of the problem, without addressing the actual cause.

A process had been in place for four years, comprising a sequential group of equipment that produced a finished and packaged product. A change in product specification was planned. This involved the current spec output almost needing to double for several months to satisfy demand from stock until the new product phase-in was complete. Working with management and operators, a team of our productivity specialists and industrial engineers identified many 'quick wins' which would reduce both downtime and lost capacity. Effectively, they recommended an array of detailed and immediate organisational opportunities, both with and external to the product line. Over a four week period improvements achieved grew by around 85% with no extra working hours. One of the most significant and telling reactions came from an operator who declared: "We're producing nearly twice as much but working no harder and with far less frustration."

Conclusion

So employers need to be aware that productivity improvement is a consequence of good organisation and management – more so than just an individual trying to work harder. Many businesses can't soften the total cost of this wage increase, but if employers could perhaps be more circumspect about its impact, they might uncover more opportunities in their operations. Help your employees to help you improve productivity and increase the ability to be more competitive.

For more ideas on productivity, contact Scott-Grant; see their advertisement on the centre page of the *Journal*.