

July 2010

### Upcoming Events

- CAM-I Third Quarter Meeting  
Jackson Hole WY  
September 12-15
- ABM Smart Cost and Profitability Conference  
Palo Alto CA  
September 26-28

### People in the News

- Many thanks to Richard Trent for his thoughtful comments on the Agile Analytics and Cost of Capital One Eighty segments

### Links

- For listing of world GDP by country  
[http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_\(PPP\)](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP))
- U.S. productivity for the first quarter 2010 (revised and dated June 3):  
<http://www.bls.gov/news.release/prod2.nr0.htm>

## Productivity

The productivity calculation is deceptively simple: output (what's produced) divided by input (resources used).

Productivity measures are typically labor based and commonly used in production processes, expressed as units of time (minutes/hours) per unit of output. Number of labor hours to assemble a car (about 30) is an example from the automotive industry.

The calculation itself is meaningless unless compared to something. Is productivity getting better or worse? Will productivity improve in the future? Are we as productive as our competitors?

These are not trivial questions in a world that competes on the basis of productivity and where the most productive companies win.

Productivity, along with the business action in bold, improves in several ways:

- Outputs go up and resources go down. **Do more with less**
- Outputs go up and resources don't change. **Do more with what you got**
- Outputs increase more than resources increase. **Set stretch goals**
- Resources decrease more than outputs decrease. **Downsize**
- Outputs don't change and resources go down. **Right size**

Defining outputs and inputs is where the simplicity of the calculation ends. There are endless variations of outputs and inputs which could be defined for a single process/activity, an individual company, or an entire country.

A simple calculation and definition of labor productivity for an entire country is the market value of all products and services produced (Gross Domestic Product or GDP) divided by the total workforce (input).

In the United States, GDP was about \$14.5 trillion in 2009 (output). Using the total workforce of about 125 million employed people as input, the resulting calculation would be \$112,000 of GDP produced by each person in the workforce. If this same workforce produced \$15 trillion in GDP in 2010, productivity would go up 3.4%.

What's often missing in productivity calculations that only consider physical measurements like hours and units is cost. Doubling the pay of every worker in the United States with no change in the GDP produced does not change a productivity calculation based on the labor force. If the labor cost was used as the input rather than the number of workers, productivity would decline 50%.

**Whenever possible include costs in your productivity calculations...**

*John A. Miller*