

Smart. Focused. Done Right.

## Improving Productivity

*“Focusing the organization’s resources on the right things and doing those things the right way”*

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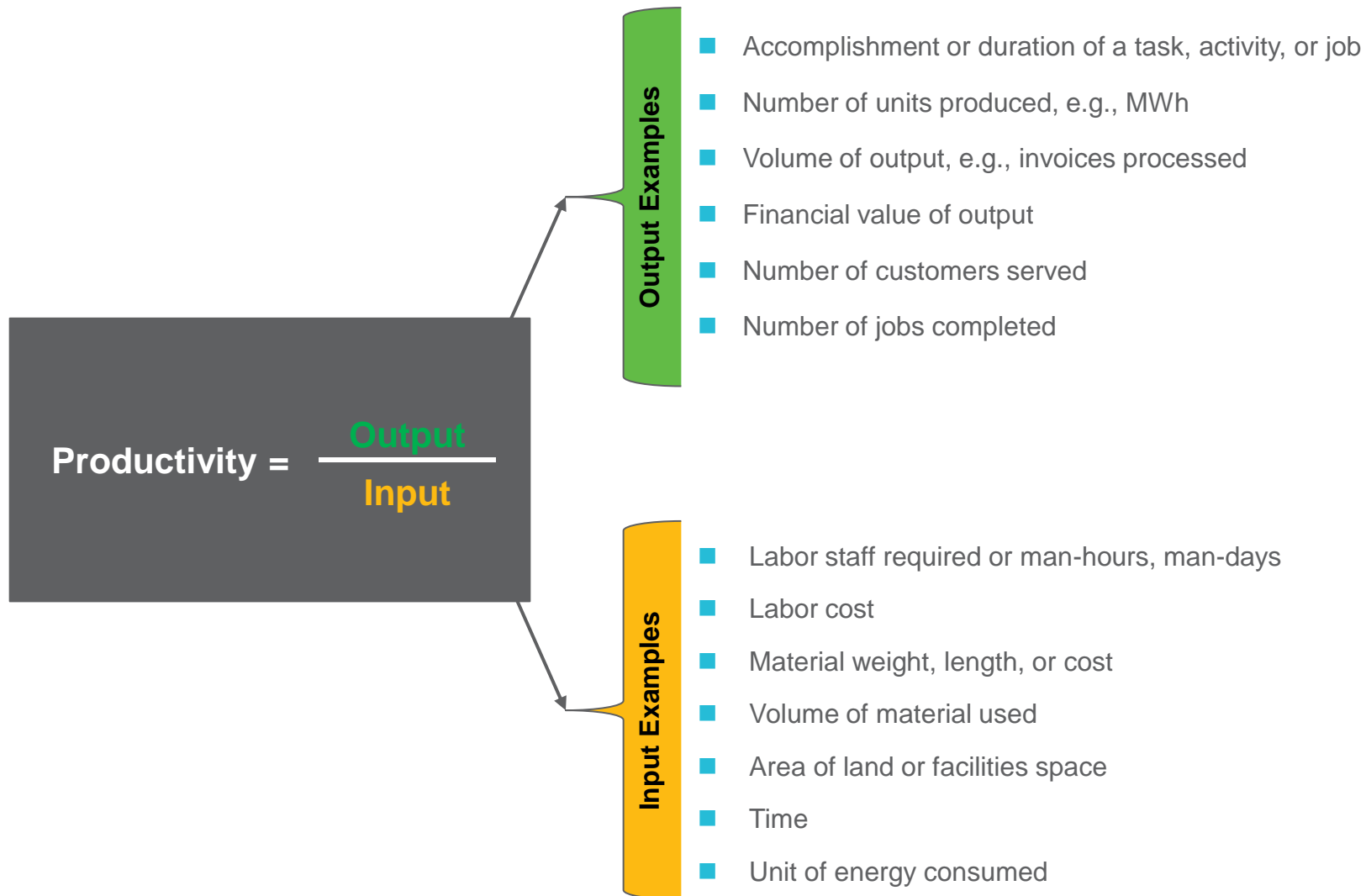
# Introduction

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- Electric and gas companies continue to be faced with:
  - Attrition or slow growth, at best
  - Volatile commodity prices
  - Uncertain demand
  - Shrinking margins
  - Continued competition from evolving technologies
- Addressing these issues can be challenging, particularly for companies with a traditional utility mindset and investments often steeped in the legacy of a 100+ year-old company
- Taking a fresh look at what you do, and how you do it, is good for shareholders, customers, and employees
  - Shareholders benefit from improved operating efficiencies and a more competitive cost structure
  - Customers benefit from improved customer service and lower (or more slowly increasing) rates
  - Employees benefit from additional opportunities and improved tools and by becoming more engaged in a new culture where continuous improvement is the objective and it is okay to try new things and change
- Companies tackling these issues from a productivity improvement perspective, i.e., getting more out of existing company resources, have seen immediate, significant, and sustained results in three areas—financial performance, customer service, and employee engagement

# Example Productivity Inputs and Outputs

Productivity is defined as the output of a process per unit of input:



# Methods for Improving Productivity

Productivity improvements increase the amount of output for a given set of inputs used, i.e., getting more for the same or less input.

Productivity Improvement Method	Change in Input	Change in Output	Example
Increase output while input remains the same	—	↑	Modifying or upgrading a plant's control system to improve heat rate
Decrease input while output remains the same	↓	—	Automating the accounts payable process
Increase input resulting in a very large increase in output	↑	↑	Investing in regional transmission infrastructure to secure additional alternatives for off-system sales
Decrease input by a very large amount with a resultant small reduction in output	↓	↓	Restacking and consolidation of facilities/real estate

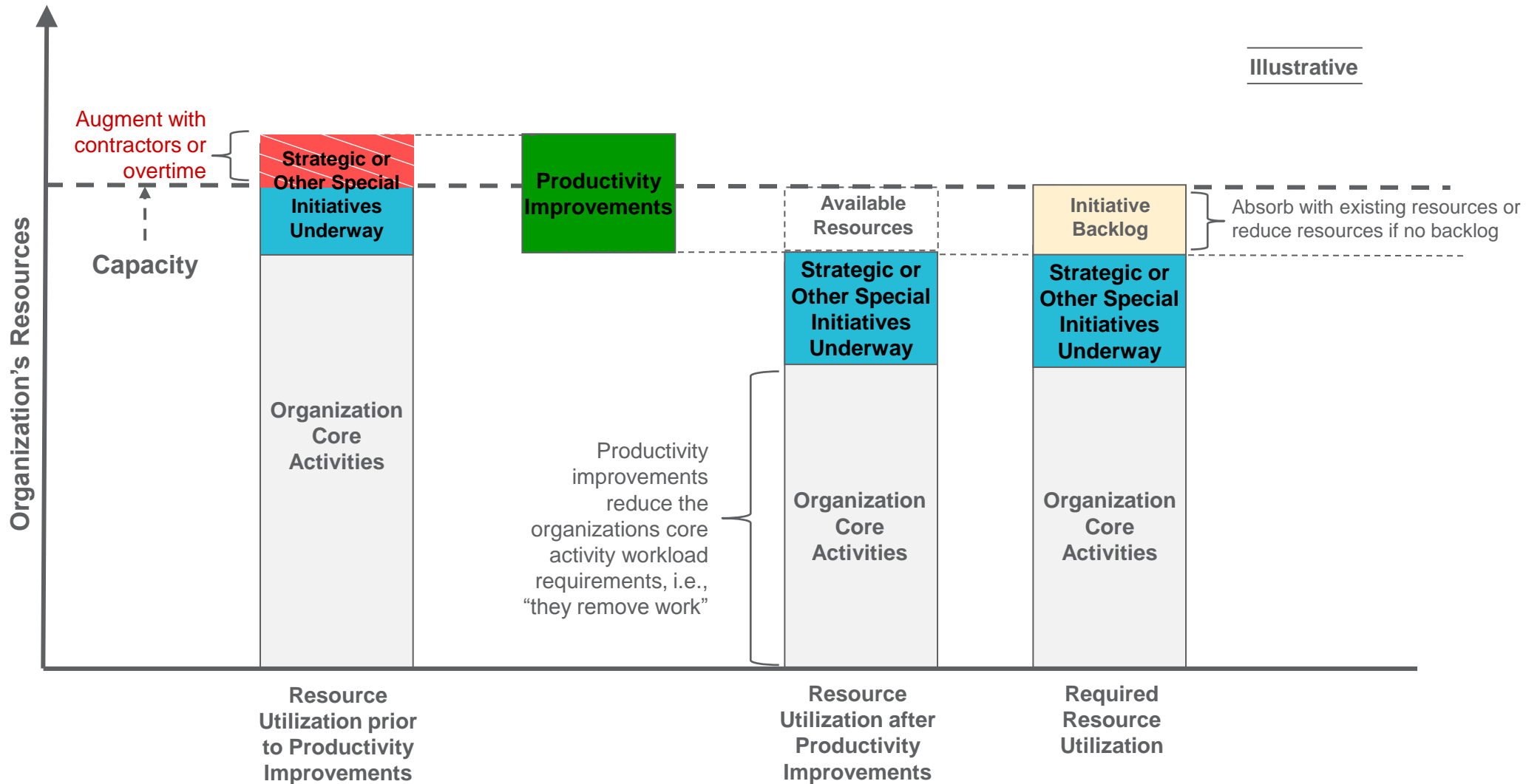
# “It’s Not Just About Cost Reduction”

Productivity improvements can be made to all resources available to an organization.

People and Labor	Materials	Plant and Equipment	Other Capital	Energy
<ul style="list-style-type: none"><li>■ Use appropriate and/or better process and communication tools, systems, and applications</li><li>■ Streamline and standardize work processes, procedures, and policies</li><li>■ Improve working conditions, e.g., lighting, ventilation, work station/office layout, etc.</li><li>■ Enhance and improve compensation, reward, and recognition programs</li><li>■ Enhance and improve training and development programs</li><li>■ Optimize recruiting and on-boarding processes</li></ul>	<ul style="list-style-type: none"><li>■ Utilize less-expensive and/or alternative materials</li><li>■ Improve material utilization</li><li>■ Utilize less-expensive sources</li><li>■ Match material specifications to job requirements</li></ul>	<ul style="list-style-type: none"><li>■ Optimize and standardize maintenance processes, procedures, and policies</li><li>■ Upgrade/modify existing equipment</li><li>■ Restack and consolidate real estate</li><li>■ Reduce and/or improve floor or workspace</li></ul>	<ul style="list-style-type: none"><li>■ Reduce working capital</li></ul>	<ul style="list-style-type: none"><li>■ Implement/install energy efficiency programs and equipment</li><li>■ Reduce or minimize waste</li></ul>

**Productivity improvement is about focusing the organization’s resources on the right things and doing those things the right way.**

# Free up Resources for Other Critical Initiatives



# Change Management Considerations

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- With productivity improvement comes change, i.e., the way people perform their day-to-day jobs
- Change management is a critical component for developing, implementing, and sustaining productivity improvements
- A successful change initiative begins with clarity about goals, objectives, and rationale, i.e., Why are we doing this? And what are we trying to achieve?
- Productivity improvements should be linked to the organization's strategy and business plans so that they become the new normal
- The approach must be balanced to address hard and soft components, e.g., initiatives/plans/accountabilities versus cultural change
- Leadership commitment and role clarity (sponsors, stakeholders, etc.) are essential for achieving the desired change
- Employee engagement and involvement are critical for building grassroots support and sustaining changes
- A comprehensive communication plan is necessary to help build buy-in and strengthen grassroots support

# Lessons Learned

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- Ensure commitment to productivity improvement starts at the top; this will bear fruit
  - Corporate executive participation and strong, visible support (there should never be any question about how important this is)
  - Appropriate resource allocation: a lot of people, cross-level and cross-function, the best and brightest, significant time
- Start broad by soliciting ideas for improvement from across the company—all ideas are fair game—then narrow focus to a fixed list in a number of defined areas
  - Big enough for business impact, not so big to be unmanageable
  - Provide focus by assigning each group one area for review
  - Choose an ambitious number of projects (“10”) so that enough people are involved to catalyze cultural change
- Communicate early and often
  - Initial kickoff meeting with all participants
  - Formal communication plan, including recurring updates
- Choose skilled project lead(s) who will be engaged and passionate about the project; dedicate full time
- Create teams that have strong players, but maintain a balance between detailed analysis, subject matter expertise, and global perspective; involve both those in the process/function and those who are outside it to create practicality and perspective
- Develop an overarching plan, but maintain flexibility to modify the plan subject to business needs
- Create and use templates to ensure consistency in analytics and presentations



# How ScottMadden Can Help

There are myriad tools and techniques used by leading practice companies to improve and manage productivity.

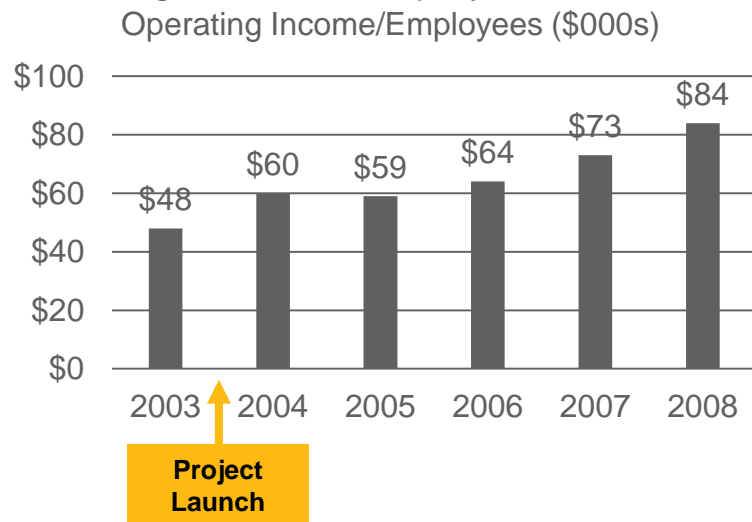
Work Management	Sourcing Management	Organizational Management	Performance Management
<ul style="list-style-type: none"><li>■ Graphical process map (electronic or paper)</li><li>■ Work management/scheduling system</li><li>■ Pre-work meetings and war rooms</li><li>■ Engineered standards</li></ul>	<ul style="list-style-type: none"><li>■ Governance council</li><li>■ Strategy and execution team</li><li>■ Competency matrix</li><li>■ Risk analysis</li><li>■ Comprehensive business case</li><li>■ Long-term contracts and alliances</li></ul>	<ul style="list-style-type: none"><li>■ Cost to manage</li><li>■ Management ratio</li><li>■ Complexity analysis</li><li>■ Layers analysis and diagnostic</li></ul>	<ul style="list-style-type: none"><li>■ Strategic framework</li><li>■ Published scorecard or road map</li><li>■ Performance incentives (financial/non-financial)</li><li>■ Benchmarking</li><li>■ Performance metrics and dashboards</li><li>■ Gap-based business planning and root cause analysis</li><li>■ Visual aids</li><li>■ Strategic continuous improvement teams and processes</li><li>■ Tactical “work out” teams</li></ul>

**ScottMadden has experience assisting its clients with these tools and techniques.**

# Proven Client Results

## Client 1

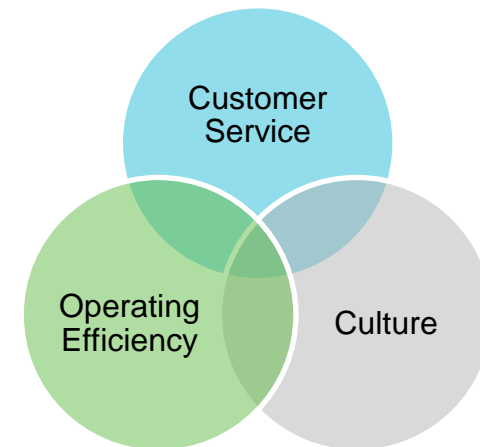
- A leading utility utilized our Business Process Improvement (BPI) process to improve productivity
- Annual operating income/employee improved from \$48K to \$84K
- The fact that this figure continues to increase is a testament to the environment of continuous productivity improvement that has been ingrained in the company



*“BPI was a springboard for our future...there is no way (culturally, teamwork, open and honest communication, etc.) that we would be where we are today without it.”* – BPI Team Member; April 1, 2008 BPI Reunion Luncheon

## Client 2

- Another leading utility utilized the BPI process to make productivity improvements with direct impacts to customer service, operating efficiency, and culture



- Key accomplishments included improved customer care, shortening the read-to-bill cycle, improved strategic sourcing performance, and improved workflow and response times via GPS technology

*“Our focus on continuous improvement at the utility is the catalyst that drove improved operational efficiency throughout the year.”* – Chairman, President and Chief Executive Officer; October 29, 2010

# Contact Us

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For more information on organizing to improve productivity, please contact us.

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Director



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