Concepts...

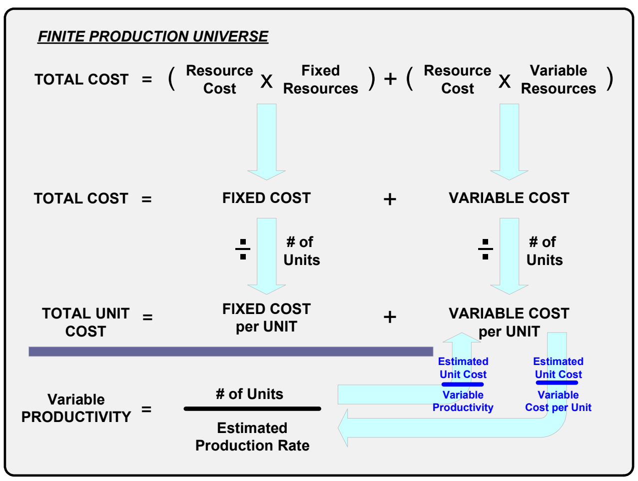
PARVIDYA DESIGN PARTNERS™

"Concepts" is published by Parvidya Design Partners to raise as many questions as it answers. It is driven by the belief that the industry, its products and its services are ever evolving. The ideas reflect the challenges faced in the continuous journey of innovation and improvement.

Productivity:

Henry Ford famously stated: "Customers can have any color they want as long as it's black". He knew that despite the efficiency savings of production lines, with which he revolutionized the car industry, the lines would always be more efficient if they had reduced variety of products to build. In today's financial services, variety and flexibility are the cornerstones of competitive advantage.

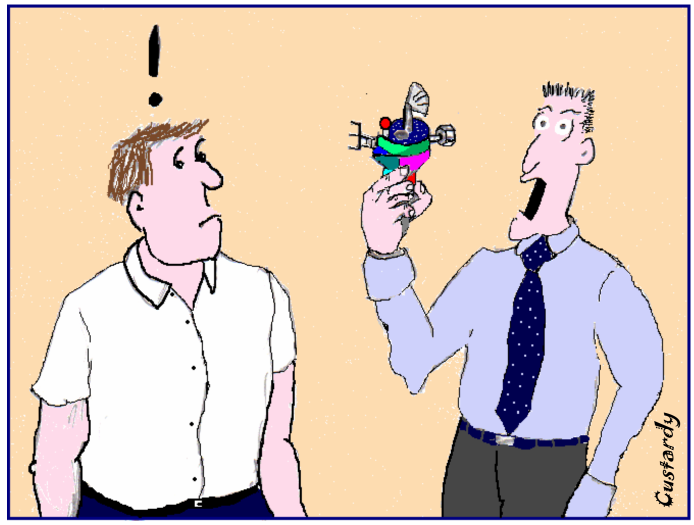
While there will always be significant margin in the "spread" of a new transaction, ultimately the competitive advantage could come from reduced expenses through higher productivity. Understanding your productivity is critical.



Most people are familiar with the simple concepts above for unit cost. Productivity can be calculated by dividing the number of units produced by a target or "estimated" number of units. The diagram also shows the direct relationship between *variable unit cost* and *productivity*. The "Estimated Production Rate" may come from a calculation or historical analysis.

For this discussion we will concentrate on resource costs and ignore larger fixed costs such as infrastructure, technology, utilities and consistent variable costs such as fees, commissions or interest. Productivity is tracked against variable costs and so is dependent on the *Fixed* vs. *Variable* cost allocation. It is also dependent on the "*Estimated*" rate.

Problems can arise without a holistic analysis. Without reviewing every variable, expenses may be miscounted or misclassified. How can that happen? Can it be prevented?



"I believe it's a 'widget'! Apparently, if we count a lot of them, we'll become more productive."

If the focus is on the *variable* costs and the *total* costs are only measured vs. a budget then productivity can be increased by allocating more to fixed costs provided it doesn't affect the total budget. Unless it is rigorously validated, the "estimated" figure may also be altered to suit the productivity target.

The solution is to allocate your full resource and review total cost vs. variable cost for a reasonable factor and validate the estimated production rate by considering its actual cost. By this method you have defined a "finite universe" i.e. you have trapped all the air in the balloon so squeezing one section for a benefit only inflates another section to its detriment; a zero sum game.

Parvidya Design Partners has designed and is developing the technology for a holistic productivity model, which allows a simple total allocation of all expenses and the granular breakdown of specific process variables. The only assumption is that you do know your bottom line expense. There isn't even the need for detailed product analysis of your business or its costs. The holistic review allows you to perform the analysis of your expense allocation assumptions. The assumptions can change but the total expense can not.

Parvidya Design Partners would be pleased to discuss the realization of these concepts with you further. We thank you for your consideration.

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