

Competitive Advantage – Turning Productivity into Market Strength



Procurement and Supply Chain Management Made Simple.

Foreword

Competitive advantage rarely comes from one dramatic decision. More often, it develops through thousands of improvements in how people, capital, technology, suppliers, and processes combine. Productivity sits at the centre of that relationship because it determines how effectively resources are converted into useful output. Organisations that consistently achieve more from what they already have gain strategic options that less productive competitors may not be able to afford.

Yet productivity is frequently misunderstood as another name for cost reduction, workforce pressure or doing more with less. Genuine productivity is broader and more constructive. It can emerge through better quality, shorter lead times, improved forecasting, stronger supplier relationships, automation, workforce capability or the elimination of unnecessary work. The objective is not maximum utilisation at any cost, but the intelligent conversion of scarce resources into greater economic, commercial or public value.

That distinction matters across both private and public sectors. Businesses may convert productivity gains into lower prices, stronger margins, greater investment or faster growth. At the same time, public organisations can free up resources for frontline services, improve accessibility, and deliver better outcomes for taxpayers. In either environment, productivity becomes strategically valuable only when the benefits are deliberately translated into outcomes that customers, citizens, employees, investors or other stakeholders recognise as worthwhile.

The most important question is therefore not simply whether productivity has improved, but what that improvement makes possible. Greater efficiency can create capacity, resilience, innovation, and financial strength, but only management can decide how to deploy those advantages. Competitive strength develops when productivity is treated not as an isolated operational target, but as a strategic capability that continually expands organisational choice and supports sustainable performance over the longer term.

What Is Productivity?

Productivity is the relationship between what an organisation produces and the resources used to produce it. At national level, the Office for National Statistics (ONS) commonly measures labour productivity as output per hour worked, with output represented by Gross Value Added (GVA). The principle is equally relevant inside an organisation: productivity improves when more useful output is obtained from the same inputs, or the same output is achieved with fewer resources. [ONS](#)

Labour productivity focuses on the contribution of people, usually by comparing output with hours worked, workers or jobs. It should not be confused with asking employees to work faster. Better equipment, training, processes, scheduling, data and management can all raise output per hour. Tax-based ONS estimates showed United Kingdom (UK) output per hour 0.7% higher in the second quarter of 2026 than a year earlier, although survey-based measures recorded a slight fall. [ONS](#)

Capital productivity examines how effectively productive assets are used, including machinery, buildings, vehicles, software and technology. The relevant question is not merely how much capital has been purchased, but how much output its productive services generate. A distribution centre that increases throughput from existing automation, or a hospital that performs more scans with the same diagnostic equipment without compromising outcomes, raises capital productivity rather than simply expanding its asset base.

Multi-factor productivity (MFP) goes further by considering how effectively labour and capital are combined. ONS describes MFP as the part of output growth not explained by changes in quality-adjusted labour and capital inputs. It can therefore capture improvements associated with technology, organisation, processes, knowledge and management. In 2024, workers with degrees or higher qualifications accounted for 39% of UK market-sector hours, compared with 21% in 2008, underlining the changing quality of labour inputs. [ONS](#)

Public services require the same input-output discipline, although their outputs cannot be reduced to sales or profit. ONS estimated total UK public-service productivity rose 0.9% in 2025 because output increased 1.7% while inputs grew 0.7%, yet productivity remained 2.5% below 2019. The National Health Service (NHS) illustrates the distinction particularly well: appointments, treatments and outcomes matter, but so do staff, medicines, buildings, equipment and the taxpayer resources used to provide them. [ONS](#)

What Is Competitive Advantage?

Competitive advantage exists when an organisation can create value in a way that rivals cannot readily match. It may arise from lower costs, superior products, stronger service, faster delivery, specialist capability, innovation, reputation, intellectual property or access to scarce resources. The strongest advantages are not isolated improvements but combinations of capabilities that reinforce one another, enabling an organisation to win customers, protect margins, attract talent or deliver better outcomes than comparable providers.

Cost leadership is one route, but not the only one. An organisation with structurally lower unit costs can reduce prices, maintain higher margins or reinvest more heavily than competitors. Differentiation creates advantage differently, persuading customers to choose an offer because they value its quality, design, reliability, convenience or brand. Sustainable advantage requires something harder to imitate than a discount, because competitors can copy prices far more quickly than capabilities, culture or accumulated know-how.

Rolls-Royce provides a strong UK example of capability-led advantage. Following its transformation programme, underlying operating profit rose from £2.5 billion in 2024 to £3.5 billion in 2025, while underlying operating margin increased from 13.8% to 17.3%. The group attributed the improvement to strategic initiatives, including commercial optimisation and cost efficiency, as well as stronger aftermarket demand. Crucially, improved performance supported higher investment and stronger cash generation, rather than cost reduction alone.

Rolls-Royce

Competitive advantage also has a public-sector equivalent, although public bodies do not normally compete for profit. Their advantage is expressed through superior value, service quality, resilience, capability and outcomes from a given resource envelope. The 2025 Spending Review committed a £3.25 billion Transformation Fund and identified almost £14 billion of annual technical efficiency gains by 2028–29. Better productivity can therefore strengthen national capability while releasing resources for frontline priorities. [GOV.UK](#)

The Link Between Productivity and Competitive Advantage

Productivity and competitive advantage are linked because productivity creates options. When an organisation produces more value from the same resources, management can choose where to deploy the gain: lower prices, higher wages, better service, greater capacity, stronger margins, additional research, faster delivery or new investment. Competitors operating with less productive systems have fewer choices because a larger proportion of revenue or public funding is consumed simply maintaining existing output levels.

Tesco demonstrates this relationship directly. Its Save to Invest programme delivered more than £2.2 billion of savings over four years to February 2026. Tesco states that these savings helped fund lower customer prices and higher colleague pay, while adjusted operating profit reached £3.152 billion and free cash flow £1.957 billion. Productivity therefore supported several competitive levers simultaneously: value, workforce investment, profitability, cash generation and continued investment in technology and distribution. [Tesco](#)

The connection becomes stronger when productivity improvements are difficult to copy. A competitor can match a promotional price almost immediately, but it cannot instantly reproduce an integrated distribution network, years of process learning, proprietary data, skilled employees or trusted supplier relationships. Productivity embedded across operations becomes a capability rather than a one-off saving. That capability can then compound, because savings generate investment and investment can create further productivity, service improvements and innovation.

Sainsbury's offers a comparable example. By February 2026, it had delivered around £680 million of cost savings since launching its Next Level strategy in 2024, including £330 million during 2025/26. The retailer reported that these savings helped sustain its competitive position amid unusually high operating-cost inflation. Grocery sales rose 5.2%, food volumes again grew ahead of the market, and the organisation reached its highest volume market share in a decade. [Sainsbury's](#)

In public services, the mechanism is similar even though the destination of the benefit differs. NHS England's productivity plan requires annual productivity improvements of 2% over the Spending Review period, which it estimates could unlock around £17 billion of savings. The intended advantage is not a commercial margin; it is the ability to deliver more activity and better outcomes from available funding, reduce waiting pressures, and redirect resources towards higher-value care. [NHS England](#)

Productivity therefore becomes competitive advantage only when management converts an operational improvement into a strategic benefit. A faster production line that merely creates unwanted inventory is not an advantage. Nor is a reduced workforce if service deteriorates and customers leave. The decisive question is what the productivity gain enables that competitors, alternative providers or previous operating models cannot achieve as effectively: lower cost, superior value, greater responsiveness, stronger resilience or better outcomes.

Productivity, Costs and Operating Margins

Productivity can improve financial performance by changing the cost attached to each unit of useful output. If labour hours, energy, floor space, inventory or machine time are used more effectively, unit costs can fall even when expenditure remains high. The benefit may appear through gross margin, operating margin, working capital or cash flow. An organisation does

not need to increase selling prices to strengthen profitability if productivity offsets inflation or removes avoidable costs.

Tesco's 2025/26 results show the mechanism clearly. Group sales excluding value-added tax and fuel reached £66.588 billion, while adjusted operating profit was £3.152 billion. During the year, approximately £535 million of Save to Invest benefits helped offset operating-cost inflation and customer investment. Tesco simultaneously expanded low-price programmes and generated £1.957 billion of free cash flow, demonstrating how productivity can protect economics while value continues to be passed to customers. [Tesco](#)

Sainsbury's faced similar pressure. Retail underlying operating profit was £1.025 billion in 2025/26, slightly below the previous year as the organisation absorbed significant operating-cost inflation and invested in value. Structural savings of £330 million partially mitigated those pressures. Its programme included nearly £50 million from closing selected in-store food-service operations and almost £30 million of productivity savings from moving to third-party warehousing and transport arrangements, illustrating how operating design affects margins. [Sainsbury's](#)

Manufacturing provides an even clearer margin effect because asset utilisation, yield, downtime, rework and throughput directly influence unit economics. Rolls-Royce increased underlying operating margin from 13.8% in 2024 to 17.3% in 2025 while underlying revenue rose to £20.059 billion. The group reported that commercial optimisation and cost efficiency supported profitability across its divisions. Such gains strengthen resilience because higher margins create more room to absorb supply-chain disruption, wage growth or input-cost volatility. [Rolls-Royce](#)

The same logic applies to taxpayer-funded services, although the financial objective is released capacity rather than shareholder return. Spending Review 2025 requires departments to deliver at least 5% savings and efficiencies by 2028–29 and reduce administration budgets by at least 16% in real terms by 2029–30. Productivity gains are valuable only if service outcomes are protected or improved; cutting expenditure while output or quality falls proportionately is austerity, not productivity. [GOV.UK](#)

Productivity and Price Competitiveness

Price competitiveness is strongest when lower prices are supported by lower structural costs rather than by sacrificing margin indefinitely. A productive organisation can reduce prices selectively, hold them steady while competitors increase theirs, or fund promotions without weakening financial resilience to the same degree. This matters particularly in grocery retail, logistics, manufacturing and other high-volume markets where small changes in unit cost, multiplied across millions of transactions, can materially affect market share and profitability.

Tesco illustrates the scale involved. By 2025/26 it had expanded its Everyday Low Prices range to 3,000 products, offered more than 10,000 Clubcard Prices and matched Aldi on more than 600 lines. Those investments sat alongside more than £2.2 billion of Save to Invest savings. Tesco reported a 28.5% UK market share, its highest for more than a decade, showing how efficiencies can be recycled into price competitiveness rather than retained as profit. [Tesco](#)

Sainsbury's has followed a similar strategy, investing around £1.3 billion in lower prices over five years while pursuing £1 billion of cost savings over the three years to March 2027. In 2025/26 it absorbed significant operating-cost inflation and continued investing in value, while grocery sales rose 5.2%. Productivity therefore supported a strategic decision to protect customer value and competitive position despite sustained pressure from wages and other operating costs. [Sainsbury's](#)

Price competition must nevertheless remain lawful and transparent. The Competition Act 1998 prohibits agreements or concerted practices that directly or indirectly fix selling or purchase prices. For consumers, the Digital Markets, Competition and Consumers Act 2024 has applied

to commercial practices since 6 April 2025, including rules against misleading pricing and material omissions. The Competition and Markets Authority (CMA) also requires mandatory fees, taxes and charges to be presented clearly in consumer pricing. [CMA](#)

Productivity and Customer Value

Productivity creates lasting advantage only when customers experience a meaningful benefit. That benefit might be a lower price, better availability, shorter waiting time, greater reliability, faster delivery, easier access, improved quality or more responsive service. If every productivity gain is absorbed internally, customers may see no reason to change their behaviour. The strongest organisations therefore treat productivity as a source of value creation, deciding deliberately how much benefit to retain and how much to share.

Tesco's approach demonstrates that conversion. Its savings programme funded lower prices while the retailer also expanded product quality and convenience. During 2025/26, more than 2,000 products were launched or improved, Finest sales grew 15% to £3 billion, online sales increased 11% to more than £7 billion and rapid-delivery service Whoosh grew 51% to more than £400 million. Productivity supported a broader proposition encompassing price, choice, quality and accessibility. [Tesco](#)

Customer value can also emerge through availability and capacity rather than headline price. Marks & Spencer is opening a 390,000-square-foot food depot at Avonmouth to strengthen logistics capacity and improve store availability. Its 2026 results reported £89 million of structural cost reduction alongside continuing investment in digital technology and supply chains. The competitive value lies in combining efficiency with a more dependable customer experience, not simply removing expenditure. [Marks & Spencer](#)

The public-sector equivalent is citizen value. ONS estimated healthcare productivity increased 1.0% in 2025, although it remained 5.8% below 2019. NHS England separately estimated acute-sector productivity growth of 2.6% under its own methodology, alongside a 42% fall in agency expenditure and improved theatre utilisation. The distinction matters: patients value timely, safe and effective care, so greater activity is beneficial only when quality and health outcomes are maintained or improved. [ONS](#); [NHS England](#)

Customer value also protects reputation, which can itself become a competitive asset. Organisations that use productivity solely to remove labour may lengthen queues, reduce expertise or make service harder to access. Conversely, automation that removes repetitive administration can give employees more time for customers. In March 2026, Marks & Spencer gave artificial intelligence (AI) tools to 11,000 colleagues, including every store manager, to help with rotas, handover notes and sales analysis. [Marks & Spencer](#)

The strategic lesson is that productivity is not the destination. It is the mechanism that converts scarce resources into outcomes people value. Lower costs matter, but so do quality, choice, reliability, innovation, speed and trust. Competitive advantage emerges when an organisation repeatedly converts productivity gains into a customer proposition that rivals struggle to match. In public services, the equivalent achievement is better outcomes and access for citizens from each pound of taxpayer funding.

Quality as a Productivity Advantage

Quality is a productivity issue because every defect consumes resources without creating corresponding customer value. Rework requires additional labour and materials, rejected output wastes capacity, complaints absorb administrative time, and returns create transport and handling costs. Preventing failure therefore improves both the numerator and denominator of productivity: more saleable or usable output emerges from the same inputs, while customers experience greater consistency, reliability and confidence in the organisation delivering it.

Toyota Motor Manufacturing UK provides a practical illustration through the Toyota Production System (TPS), which combines standardisation, continuous improvement and built-in quality

with the elimination of waste. Its Deeside engine plant produced 244,847 hybrid and petrol engines in 2025, with an assembly line capable of producing an engine every 44 seconds. Toyota's principle of stopping production when problems occur is designed to prevent defective output from progressing further through the process. [Toyota UK](#)

The economic consequences of poor quality are equally visible in public services. NHS Resolution estimated the annual cost of harm for incidents covered by its main clinical negligence scheme at £4.6 billion in 2024/25, while total clinical negligence payments reached £3.1 billion. Those figures do not fully measure healthcare quality, but they show how preventable failures can consume resources that could otherwise support additional treatment, staffing or service improvement. [NHS Resolution](#)

Quality improvement also releases hidden capacity. When organisations reduce inspection failures, duplicate checking, corrective work and complaint handling, employees spend a greater proportion of their time on activities that customers actually value. The same principle applies to digital processes: entering accurate data correctly the first time prevents downstream reconciliation and decision errors. Productivity therefore rises not because standards are relaxed, but because fewer resources are repeatedly spent correcting work that should have been right initially.

Customer perceptions further strengthen the productivity case. Reliable quality reduces friction around a purchase or service, encouraging repeat business and protecting reputation, while recurring defects can erase the apparent savings from faster production. Quality and productivity should consequently be designed together. The strongest operating systems do not inspect quality into finished output; they build controls, feedback and problem-solving into processes so that waste is removed before customers experience its consequences.

Speed, Responsiveness and Lead Time

Productive processes compress time and cost. Shorter production cycles, quicker approvals, faster replenishment and reduced queues allow the same assets and people to complete more useful work during a given period. Lead-time reduction can also lower inventory and working-capital requirements because organisations need less stock waiting between activities. For customers, the benefit appears as faster fulfilment and greater responsiveness; internally, management gains more time to react when demand, supply or priorities change.

Toyota's Burnaston plant shows how disciplined flow translates into speed. The Derbyshire site can build up to 750 vehicles a day, about one car every 66 seconds, and a painted bodysheet becomes a fully functioning car in around three-and-a-half hours. Toyota links its production system to high quality at low cost with the shortest possible lead times, making speed an outcome of process design rather than work intensification. [Toyota UK](#)

Tesco demonstrates the same principle in distribution. During 2025/26 it improved in-house AI routing tools that identify the most efficient journey for every lorry and delivery van, removing around 100,000 miles of travel each week. Its Whoosh rapid-delivery service also covered more than 70% of UK households by the first half of the year. Better routing turns data into shorter journeys, lower resource consumption and additional delivery capacity while improving convenience for customers. [Tesco](#)

Speed in public procurement must remain compatible with fairness and due process. Under section 54 of the Procurement Act 2023, an electronically submitted tender, with all documents provided at the outset, normally requires at least 25 days, while a qualifying planned procurement notice can reduce the period to 10 days. Authorities must also avoid unnecessary delay. Good procurement productivity removes internal waiting without compressing suppliers' minimum response periods. [Legislation.gov.uk](#)

Capacity Without Proportionate Cost Growth

Capacity growth does not always require costs to rise at the same rate as output. Productive organisations use existing labour, premises, technology and equipment more intensively,

remove bottlenecks and redesign processes before adding resources. This creates operating leverage: incremental demand can be served at a lower additional cost per unit. The objective is not permanent utilisation at maximum intensity, which can weaken resilience, but greater productive output from each pound already committed to capacity.

NEXT provides an unusually clear example. Its results for the year to January 2026 set out warehouse investments expected to add 44% capacity between 2027/28 and 2029/30, with £307 million of project expenditure supporting around £1.5 billion of additional online full-price sales. Once all projects are live, NEXT expects productivity savings to offset most of the additional depreciation and overhead, leaving a net annual charge of only around £7.3 million.

[NEXT](#)

Ocado Group demonstrates how automation can expand fulfilment capacity without matching growth in manual labour. In the first half of 2025, productivity across Ocado Smart Platform customer fulfilment centres increased 8.1%, while almost 40% of Luton volumes were being picked robotically. Ocado also reported enabling its Detroit facility to operate 50% beyond its original design capacity. The gains show how software, robotics and process learning can stretch physical infrastructure. [Ocado Group](#)

Marks & Spencer is pursuing a similar principle while adding infrastructure where the economics justify it. Its Avonmouth depot and £340 million automated Northamptonshire centre will together add almost 1.7 million square feet of food network capacity, with pallet cranes, high-speed shuttles and hands-free picking improving accuracy and restocking. Its 2026 results are expected to show cost per case falling as investments are delivered, showing how capacity and productivity reinforce each other. [Marks & Spencer](#)

Public services can also create capacity through better utilisation. Chesterfield Royal Hospital NHS Foundation Trust used the NHS Federated Data Platform's Care Co-ordination Solution within a theatre improvement programme and treated an additional 232 patients between April and December 2024, a 3.7% year-on-year increase. Average daily cases later rose from 2.8 to 3.5, while the proportion of heavily overrunning theatre lists fell sharply, releasing scarce clinical time. [NHS England](#)

Capacity productivity should not be mistaken for a promise that growth requires no investment. Warehouses eventually need expansion, machines require renewal and public services may need additional facilities. The strategic advantage comes when output grows faster than the underlying cost base because existing resources are better scheduled, automated, standardised or shared. Organisations that understand their true bottlenecks can invest selectively, while inefficient competitors may add people or assets before extracting value from existing capacity.

Technology, Automation and Artificial Intelligence

Technology raises productivity only when it removes genuine constraints or improves decisions. Automation can reduce repetitive labour, digitalisation can eliminate hand-offs, analytics can expose bottlenecks, and AI can accelerate information-intensive work. None of those benefits is automatic. A poorly designed process that is merely digitised can remain inefficient, while software with weak adoption adds licences, integration costs and complexity without increasing valuable output. The business case must therefore precede the technology choice.

ONS research illustrates the adoption gap. In 2023, 9% of surveyed UK businesses with at least ten employees had adopted AI, while 69% had adopted cloud-based systems or applications. Technology adoption also correlated strongly with management quality: 88% of businesses in the top decile of management-practice scores had adopted at least one major technology category, compared with 51% in the bottom decile. Capability influences whether technology becomes productive. [ONS](#)

Tesco has moved beyond isolated experimentation. In December 2025, it signed a three-year

partnership with Mistral AI to scale AI across internal workflows, customer service, demand forecasting, online delivery routing and Clubcard personalisation. Those applications target recurring operational decisions, where small improvements accumulate at enormous scale across thousands of stores, vans and product lines. The productivity gain comes not from the model itself, but from embedding it in processes colleagues already use. [Tesco AI Agreement](#)

The public sector provides equally striking evidence. A cross-government Microsoft 365 Copilot experiment involving 20,000 civil servants reported average time savings of 26 minutes per user per day, around 13 working days a year. Separately, the government's Consult tool categorised more than 50,000 responses to the Independent Water Commission review in about two hours for £240, followed by 22 hours of expert checking. Technology can release professional time while preserving human judgement. [Copilot Report](#); [GOV.UK](#)

The discipline measures realised benefits rather than technological activity. The 2025 State of Digital Government Review estimated more than £45 billion a year of unrealised public-sector savings and productivity benefits from fuller digitisation, but potential is not delivery. Investment decisions still need baselines, whole-life costs and measurable outcomes. Cybersecurity, data protection, interoperability, training and human oversight also matter; productivity exists only when net useful output improves after those costs are considered. [GOV.UK](#)

People, Skills and Workforce Productivity

Sustainable productivity ultimately depends on people because technology, capital and processes require judgement, skill and disciplined execution. Training improves technical competence; capable managers allocate work and remove obstacles; thoughtful job design reduces unnecessary effort; and appropriate incentives align individual behaviour with organisational goals. Engagement matters because employees closest to an activity often see waste before senior management does. A productive culture therefore treats improvement as part of everyday work rather than an occasional restructuring exercise.

The Employer Skills Survey 2024 shows why capability cannot be assumed. Twenty-seven per cent of vacancies were skill-shortage vacancies, 12% of employers reported at least one employee lacking full proficiency, and 4.0% of the workforce had a skills gap. Only 59% of employers provided training during the year, down from 66% in 2017, although 63% of employees received some, limiting how effectively organisations can deploy technology and redesign work. [GOV.UK](#)

Employer investment also points to a longer-term risk. UK organisations spent £53.0 billion on training in 2024, equivalent to around £1,700 per employee and 10.2% less in real terms than in 2022. Public administration employers recorded the lowest spend per employee of any sector. Reducing development expenditure may support short-term budgets, but persistent underinvestment can weaken adaptability and the skills needed to capture future productivity gains. [GOV.UK](#)

Management quality ties these factors together. ONS findings show that 89% of surveyed businesses took some action to improve management practices, while 64% consulted employees about areas for improvement. Better-managed businesses were also much more likely to adopt AI: 37% of those in the top management-practice decile had tested or adopted it, compared with 3% in the bottom decile. Technology and workforce productivity are therefore complements, not substitutes. [ONS](#)

Procurement as a Driver of Productivity

Procurement affects productivity long before a purchase order is raised. Specifications determine whether an organisation buys complexity it does not need; sourcing determines access to capable suppliers; evaluation determines whether cost, quality and performance are balanced; and contract management determines whether promised value is realised. Standardisation, demand management and supplier innovation can reduce transaction

volume, inventory, maintenance and process variation. Procurement productivity therefore concerns the efficiency of the entire requirement-to-outcome chain, not simply buyer workload.

Specification is especially influential because unnecessary variety creates cost throughout the supply chain. Consolidating similar requirements can increase purchasing leverage, simplify training, reduce spare-parts holdings and make supplier performance easier to compare. Demand management can remove consumption that creates little value before sourcing begins. Conversely, an over-prescriptive specification may prevent suppliers from proposing more productive solutions. Effective procurement describes the outcome and essential constraints clearly enough to protect need without accidentally purchasing avoidable complexity.

The opportunity is substantial in government. The Government Commercial Function (GCF) states that the UK public sector spends more than £400 billion each year on goods and services. In 2025/26, the Government Commercial Agency (GCA) supported 18,800 customers and around 97,000 commercial transactions, with £34.4 billion of direct spend on common goods and services. GCA reported £5 billion of benefits from aggregating demand and improving commercial activity. [GCF](#); [GCA](#)

Contract management is equally important because productivity can disappear after award. The Procurement Act 2023 expressly defines procurement as including the award, entry into and management of a contract. Since 1 January 2026, section 71 has required authorities to assess performance against key performance indicators set under section 52, generally for contracts above £5 million, at least annually and publish the results. Strong monitoring allows earlier intervention before poor performance causes disruption. [Legislation.gov.uk](#)

Central government evidence shows what disciplined commercial management can achieve. GCF reported £6.8 billion of cumulative savings by 2024/25, split equally between cashable and non-cashable savings. It calculated benefits equivalent to £3.52 for every £100 the government spent externally on goods and services and approximately £7.35 of taxpayer benefit for every £1 invested in the commercial function. Those figures make commercial capability a productivity investment, not an overhead. [GCF](#)

Procurement creates competitive advantage when it improves the productivity of the wider organisation, not merely its own metrics. Better suppliers can reduce defects and lead times; standardisation can simplify operations; collaborative contracts can stimulate innovation; and demand management can release cash and capacity. In public procurement, those gains must operate within the Procurement Act and National Procurement Policy Statement (NPPS). The objective remains better value from expenditure, not the lowest purchase price. [GOV.UK](#)

Supplier Productivity and Competitive Advantage

An organisation's productivity is partly inherited from its suppliers. Late deliveries stop production, inconsistent quality creates inspection and rework, limited supplier capacity constrains growth, and weak innovation forces buyers to solve problems internally. Conversely, capable suppliers can improve yield, shorten lead times, reduce inventories and introduce better technology. Competitive advantage therefore depends not only on what happens inside organisational boundaries, but on the productivity of the wider value chain.

The UK depends heavily on external inputs, making that relationship economically significant. The Department for Business and Trade reported that, between 2018 and 2020, 75% of UK manufacturing trade depended on simultaneous imports and exports. Imported inputs can improve choice, quality and productivity, but dependence also means supplier reliability, transport performance and geopolitical exposure can determine whether domestic assets operate efficiently or sit idle when critical components are unavailable. [GOV.UK](#)

Rolls-Royce illustrates how supplier performance can affect strong operations. In its 2024 results, the group included a £150 million to £200 million supply-chain cash impact in its 2025 guidance and expected supply-chain issues to persist for a further 12 to 18 months. Strong

demand did not remove the need for dependable upstream capacity; supplier limitations directly influenced cash flow, production schedules and the pace at which orders became revenue. [Rolls-Royce](#)

Productive supplier relationships go beyond negotiating lower prices. Joint forecasting can smooth demand, supplier development can improve quality and throughput, and early supplier involvement can simplify specifications before costs become embedded. Where suppliers possess specialist engineering, data or manufacturing knowledge, collaborative improvement may create savings unavailable through repeated tendering. The commercial objective becomes better total-system productivity: reducing waste across organisational boundaries rather than shifting cost or risk from the buyer to the supplier.

The strongest supply networks also make innovation cumulative. A supplier that reduces component weight, simplifies assembly or redesigns packaging can improve transport, labour, quality and sustainability simultaneously. Those gains are harder for competitors to imitate when they depend on established relationships, shared data and accumulated learning. Supplier productivity therefore becomes strategic when it strengthens the customer proposition, lowers total cost and expands capability without weakening resilience or creating unsustainable pressure elsewhere in the value chain.

Supply Chain Productivity

Supply chain productivity concerns how efficiently materials, information and cash move from origin to customer. Inventory, warehousing, forecasting, transport, network design and working capital are interconnected rather than separate disciplines. Excess stock ties up cash and space; poor forecasting creates shortages or markdowns; inefficient routes waste fuel and driver time; and badly positioned warehouses lengthen journeys. Improvement comes from increasing flow, reliability and availability while reducing the resources required to achieve them.

Ocado provides a measurable example. In the first half of 2025, labour productivity across its customer fulfilment centres using the Ocado Smart Platform increased 8.1%, from 221 to 239 units per hour. Delivery productivity also improved to an average of 21.2 drops per standardised eight-hour shift. Higher utilisation, robotic picking and routing optimisation moved more customer demand through existing infrastructure, showing how warehouse and transport productivity reinforce one another. [Ocado Group](#)

Working capital is another productivity resource because cash trapped in inventory cannot be used elsewhere. Rolls-Royce reported a £421 million working-capital inflow in 2025, compared with £280 million in 2024, although a £685 million inventory increase, partly reflecting supply-chain constraints, offset other gains. The example shows why inventory cannot be judged simply as too high or too low: stock can support growth and resilience, but carries a financial opportunity cost. [Rolls-Royce](#)

Network design determines whether productivity gains survive at scale. Marks & Spencer began building a £340 million, 1.3 million square foot automated food distribution centre in Northamptonshire in May 2026, due to open in 2029 and serve more than 200 food stores. Productive networks balance automation, location, inventory, and transport so growth does not create an equivalent increase in handling cost, delay, or working-capital requirements. [Marks & Spencer](#)

Lean Management and the Elimination of Waste

Lean management starts from a simple question: which activities consume resources without creating value for the customer or service user? Unnecessary movement, waiting, excess inventory, overproduction, defects, repeated approvals, duplicated data entry and overprocessing all absorb time and capacity. Removing them can raise productivity without increasing workload because employees spend less effort navigating poor processes. Lean therefore differs from indiscriminate cost reduction: it redesigns work so fewer resources are

wasted before productive activity begins.

Toyota remains the clearest operational example. TPS is built around continuous improvement, just-in-time flow and jidoka, or automation with a human touch. Toyota describes its objective as the absolute elimination of waste, overburden and unevenness so that members can work smoothly and efficiently. At its Deeside engine plant, more than 320 parts are assembled on each engine, while quality checks remain embedded throughout production rather than added at the end. [Toyota UK](#)

Waiting is one of the least visible forms of waste because it often appears as normal routine. A machine waiting for maintenance, a buyer waiting for approval, a clinician waiting for information or a customer waiting for a decision all represent capacity that exists but cannot create value. Mapping elapsed time against actual processing time often reveals that most lead time consists not of work, but of queues, hand-offs, batching, and avoidable delays between activities.

Inventory can conceal process weaknesses rather than solve them. Large buffers may compensate for poor forecasting, unreliable suppliers or unstable production, but they consume cash, storage and management attention. Lean systems seek to expose those causes and progressively reduce unnecessary stock. The objective should not be zero inventory regardless of risk. Critical products, long replenishment cycles and vulnerable supply chains may justify buffers, meaning lean management must be combined with resilience rather than applied ideologically.

The same principles apply to administration. Multiple data entry, repeated checks, poorly designed meetings and approvals added without reviewing earlier controls can create substantial non-value activity. Digitalisation may remove some waste, but automating an unnecessary step merely makes waste faster. Effective lean management challenges the underlying purpose of each activity, asking whether it protects quality, manages genuine risk or creates value. If it does none of those things, simplification should normally precede automation.

Lean becomes a competitive capability when continuous improvement is embedded, not episodic. Toyota's approach emphasises standardised work, employee involvement and kaizen, allowing improvements to accumulate over time. Competitors can copy an individual layout or tool, but reproducing thousands of small improvements, problem-solving routines and behavioural expectations is harder. The enduring advantage comes from a system that repeatedly identifies waste and converts learning into better quality, lower cost and shorter lead times. [Toyota UK](#)

Innovation and Productivity Growth

Productivity growth increasingly depends on innovation because mature processes eventually reach practical limits. New products can generate greater value from existing capabilities, process innovation can remove labour or material intensity, and new operating models can change how customers are served. The UK Innovation Survey 2025 found that 34% of UK businesses were innovation active during 2022 to 2024, with 25% introducing new business processes compared with 19% introducing new products. [GOV.UK](#)

Investment in knowledge is substantial. ONS figures show that research and development performed in the UK reached £79.4 billion in 2024, equivalent to 2.71% of Gross Domestic Product. Businesses accounted for £55.6 billion, or 70%, while higher education performed £17.9 billion. These figures matter because productivity gains often begin years before commercial impact, through experimentation, engineering, software, scientific research and organisational learning that competitors cannot immediately reproduce. [ONS](#)

Ocado demonstrates the relationship between innovation and operating productivity. Its automated fulfilment model combines robotics, software, routing and data rather than relying on a single technology. During the first half of 2025, robotic picking handled almost 40% of

Luton volumes, helping that site approach 300 units per hour. In Detroit, Ocado enabled capacity 50% beyond the original design, showing how innovation can increase output from installed infrastructure. [Ocado Group](#)

Innovation also changes public-service productivity. Digital tools can automate routine administration, improve scheduling and help professionals allocate scarce capacity effectively. Public-sector benefits may appear as shorter waiting times, fewer errors or better access rather than commercial revenue. Investment cases should therefore define the outcome being improved and establish a baseline. A technology project that merely replaces one system with another without changing output, quality or cost is modernisation, not necessarily productivity growth.

Long-term advantage emerges when innovation becomes repeatable. Individual products are eventually copied, and patents expire, but an organisation that can identify problems, experiment quickly, and scale successful solutions can keep moving ahead. The most productive innovators connect research, customer insight, supplier expertise and operational data. Their advantage lies not only in owning technology, but in learning faster than competitors and converting that learning into commercially or socially valuable improvements before imitation erodes the original gain.

Productivity and Investment

Productivity can create a reinforcing investment cycle. Lower unit costs and stronger margins increase cash generation; cash can then finance better equipment, training, digital systems, research and additional capacity; those investments can create further productivity. Rolls-Royce illustrates the mechanism. Free cash flow increased from £2.425 billion in 2024 to £3.270 billion in 2025, while capital expenditure rose to £978 million, including £621 million of property, plant and equipment additions. [Rolls-Royce](#)

Return on capital matters because investment should increase productive capability rather than enlarge the asset base. Rolls-Royce reported a return on capital of 18.9% in 2025, up from 13.8% in 2024. Stronger returns create room to invest, absorb volatility, reward investors or strengthen the balance sheet, illustrating why productivity and capital allocation should be managed together rather than as separate finance and operations agendas. [Rolls-Royce](#)

NEXT offers another example of deliberate reinvestment. Its accelerated E3 online boxed warehouse programme is expected to add 44% capacity through £307 million of project expenditure and accommodate £1.5 billion of additional online full-price sales. Management expects productivity gains from new equipment to offset much of the additional depreciation and overhead. The investment case therefore depends not simply on adding capacity, but on increasing the revenue each pound of warehouse cost can support. [NEXT](#)

The cycle can also run in reverse. Weak productivity compresses margins, reduces cash generation and makes investment easier to postpone, leaving outdated systems and skills in place. That can widen the gap with better-performing competitors. Management should therefore protect productive investment during cost pressure where the economics remain sound. Capital, training and innovation are not automatically “good” expenditure, but cutting them indiscriminately may preserve short-term cash while weakening the organisation’s future ability to create it.

Productivity and Supply Chain Resilience

Efficiency and resilience are sometimes presented as opposites, but productive organisations can possess more options when disruption occurs. Lower structural costs create financial headroom, strong processes make scarce capacity easier to prioritise, and good data reveals emerging constraints earlier. The important distinction is between eliminating waste and eliminating every buffer. Productive systems should remove avoidable cost while retaining deliberate redundancy where the expected consequence of failure justifies stock, alternative suppliers, spare capacity or additional routes.

The UK's Critical Imports and Supply Chains Strategy explicitly recognises diversification, stockpiling, surge capacity, onshoring and demand management as possible resilience measures. It also reports that 75% of UK manufacturing trade between 2018 and 2020 depended on simultaneous imports and exports. Resilience therefore cannot mean retreating from international trade. The objective is to understand critical dependencies and decide where extra capacity or alternative sources are worth paying for because disruption would be more expensive. [GOV.UK](#)

Rolls-Royce demonstrates why productivity cannot eliminate supply risk. Its 2024 results built a £150 million to £200 million supply-chain cash impact into 2025 free cash flow guidance, despite strong demand and improving internal performance. Part scarcity can leave highly productive labour and equipment underutilised. The competitive response is therefore broader than internal efficiency: supplier development, inventory strategy, contractual visibility and alternative capacity all determine whether productivity survives a shock. [Rolls-Royce](#)

Healthcare provides an even clearer case for deliberate buffers. The government's supply-chain strategy notes the use of stockpiles, targeted buffer stocks, an express freight service for medical products and multiple-supplier framework agreements. Holding additional stock can appear inefficient when measured only by inventory turns, yet shortages may delay treatment or create much greater emergency costs. Productivity measures must therefore recognise the economic value of continuity when failure has severe consequences. [GOV.UK](#)

Resilience also requires financial capacity. An organisation with healthy margins and cash flow can expedite freight, secure alternative supply, pre-purchase scarce materials or fund temporary capacity more readily than one near insolvency. That flexibility is a productivity dividend because past efficiency creates present choices. However, management should quantify resilience investments where possible, comparing buffer costs against disruption probability, recovery time and the potential impact on customers, revenue or essential services.

The strongest model is consequently "lean but not brittle". It eliminates unnecessary movement, duplication and excess processing while preserving strategic options around critical dependencies. Design resilience into network architecture, contracts, inventory policies, and supplier relationships rather than adding it after disruption occurs. Productivity then strengthens resilience by reducing resources wasted in normal conditions, while resilience protects productivity by preventing shocks from shutting down the productive system when conditions are no longer normal.

The Danger of Chasing Productivity Too Far

Productivity becomes destructive when management confuses useful output with maximum utilisation. Running people, equipment or suppliers continuously at theoretical capacity removes the ability to absorb variation, maintenance, learning and unexpected demand. Queues lengthen rapidly when utilisation approaches practical limits, while errors and delays can increase. A system that appears efficient on a spreadsheet may therefore deliver worse customer outcomes because it leaves no time, stock, or capacity to recover from ordinary disruption.

Workforce pressure is particularly important. Health and Safety Executive (HSE) statistics show that 964,000 workers in Great Britain experienced work-related stress, depression or anxiety in 2024/25, with 22.1 million working days lost. Productivity programmes that rely on chronic understaffing, unrealistic targets or continual work intensification may reduce headcount while increasing absence, turnover and error. Sustainable productivity removes unnecessary work and improves tools, rather than transferring an unchanged workload onto fewer people. [HSE](#)

Suppliers can be damaged in the same way. Aggressive payment terms, repeated price reductions and demands for inventory or capacity without adequate reward may improve a buyer's short-term metrics while weakening suppliers financially. The eventual consequences

can include quality deterioration, reduced innovation, insolvency or loss of capacity. A supply chain cannot remain productive if value is extracted faster than participants can replenish skills, equipment and working capital. Commercial pressure must therefore be economically sustainable.

Lean systems are especially vulnerable to misuse. Just-in-time does not mean holding the minimum possible stock in every circumstance, and standardisation does not mean preventing judgement. Toyota's own production philosophy combines waste reduction with flexibility, built-in quality and problem solving. Removing every inventory buffer or spare labour hour may lower visible cost, but it transfers risk into service failures. The correct question is which buffer is wasteful and which is justified insurance. [Toyota UK](#)

Balanced productivity therefore needs guardrails. Quality, safety, employee wellbeing, supplier health, resilience and customer service should sit alongside output and cost measures. If output per employee rises while complaints, sickness absence or defects deteriorate, the apparent gain may be temporary or illusory. Management should look for productivity improvements that can persist without exhausting people or degrading assets. The objective is greater value from resources over time, not the highest possible extraction from them today.

Why Cost Cutting Is Not the Same as Productivity

Cost cutting reduces expenditure; productivity improves the relationship between useful output and inputs. An organisation can cut costs while becoming less productive. Removing staff may save salaries, but if output falls faster than labour cost, unit economics worsen. Closing a facility can reduce overheads, but if customers experience longer lead times or lost availability, value may decline. Productivity requires evidence that resources have been removed, redesigned or redeployed without disproportionate damage to outcomes.

Genuine productivity often requires spending before savings appear. NEXT's £307 million E3 online boxed warehouse programme is intended to create 44% additional capacity and support around £1.5 billion of additional online full-price sales. That is the opposite of simple austerity: capital is being committed to produce a more productive operating model. Similarly, training, maintenance and data investment can increase near-term expenditure while lowering future unit cost, defects, delays or labour requirements. [NEXT](#)

Public services make the distinction especially important because many outputs have no market price. Reducing clinic appointments, classroom hours or inspection activity will reduce inputs, but cannot automatically be labelled productivity. ONS methodology compares public-service outputs with inputs and, where possible, adjusts output for quality. Savings count as genuine productivity only when resources fall while output and outcomes are maintained or improved, not when service capacity is withdrawn. [ONS](#)

Managers should test each "efficiency saving" against its operational consequence. What activity disappeared? Was it waste, or valuable capacity? Did throughput, quality and service remain stable? Were risks shifted to suppliers, employees or customers? Did another department absorb the workload? Cost transfers can make one budget look better while leaving total-system productivity unchanged or worse. Productivity is an economic relationship, whereas a budget reduction remains an accounting event until you understand its effect on output.

When Productivity Does Not Create Competitive Advantage

Productivity is valuable but does not automatically create competitive advantage. If every competitor can purchase the same software, copy the same process or source from the same supplier, an efficiency gain may quickly become an industry requirement rather than a differentiator. Costs fall across the market, prices adjust, and the original advantage disappears. The organisation remains more productive than before, but no longer possesses something customers cannot readily obtain from alternative providers.

Technology illustrates the problem. ONS research found that businesses adopting advanced technologies had 19% higher turnover per worker after controlling for management practices and business characteristics. Yet widely available cloud systems, software and automation can diffuse rapidly. The enduring advantage therefore lies less in owning common technology than in integrating it better through proprietary data, skilled people, disciplined processes and decisions that competitors find difficult to reproduce. [ONS](#)

Customers may value attributes unrelated to operational efficiency. A premium retailer can lose differentiation if cost reduction removes knowledgeable staff, distinctive products or service quality. A manufacturer may produce cheaply yet lose against a competitor offering superior reliability or design. Productivity creates resources and choices, but competitive strategy decides where those resources should go. Efficiency that undermines the reason customers selected the organisation in the first place can destroy rather than strengthen advantage.

Scale can change the economics. A highly efficient process may be optimised for a product or channel whose demand is shrinking. Greater output per hour provides little strategic benefit if customers no longer want the output. Productivity measures therefore need a value dimension: doing unwanted work efficiently is still waste. Management must connect productivity programmes with customer behaviour, market structure and future demand rather than assuming that lower unit cost translates into stronger competitive position.

Public services face a similar problem because productivity can rise while public value falls if output measures reward volume rather than outcomes. More transactions per employee may look impressive, but rapid processing helps little if decisions are inaccurate or vulnerable citizens cannot access the service. Measures must reflect quality and purpose. In both sectors, productivity is useful only when additional output, released capacity or lower cost supports outcomes that stakeholders actually value.

Competitive advantage is strongest when productivity reinforces differentiation. A faster supply chain may support fresher products; better data may improve personalisation; efficient engineering may fund innovation; and lower defects may strengthen reputation. These combinations are more defensible because competitors must copy several mutually reinforcing capabilities, not one technique. Productivity should therefore be treated as an enabling capability within strategy, not as a substitute for deciding what distinctive value the organisation intends to create.

Measuring Productivity Properly

No single productivity measure suits every organisation. Output per employee is simple but can be distorted by part-time work, outsourcing or changes in working hours. Output per hour is often stronger because it relates production more directly to labour input, while unit cost shows how much expenditure supports each unit delivered. Utilisation, throughput and cycle time reveal operational flow. The correct measures depend on what the organisation is genuinely trying to produce.

At national level, ONS defines labour productivity as output divided by labour input, with hours worked preferred over workers or jobs where possible. Its 2026 productivity releases use GVA as the output measure. National productivity data are useful context, but internal management needs more granular indicators because two organisations in the same sector can produce similar revenue while differing dramatically in quality, capital intensity, service mix or risk. [ONS](#)

MFP measures are useful because labour productivity can rise for reasons unrelated to employees working more effectively. Better machinery, software, skills or capital intensity may all increase output per hour. MFP attempts to identify output growth not explained by measured labour and capital inputs, capturing effects linked to technology, organisation and efficiency. Management should therefore avoid attributing every labour-productivity improvement to workforce performance when investment or product mix may be the real cause. [ONS](#)

Operational measures need balancing indicators. A warehouse might track units picked per hour alongside accuracy, damage, on-time despatch and cost per order. A contact centre might combine cases handled with resolution quality, repeat contact and customer satisfaction. A hospital may examine theatre utilisation alongside cancellations, complications and outcomes. Such measures prevent local optimisation, where one team improves a headline metric by transferring delay or corrective work to another part of the system.

Good measurement also distinguishes activity from productivity. More meetings, purchase orders, deliveries or medical appointments are not automatically better if unnecessary demand is being created. Measures should connect inputs to useful outputs and, where practical, to outcomes. Trends matter more than isolated numbers, while benchmarking requires comparable definitions. Productivity dashboards are strongest when they prompt investigation rather than reward gaming, helping management understand why performance changed before deciding what intervention is required.

Productivity in the Public Sector

Public-sector productivity is more complex because many services are provided without market prices and success is measured through public value rather than profit. ONS estimates that total UK public-service productivity increased 0.9% in 2025 as output rose 1.7% and inputs 0.7%, although productivity remained 2.5% below 2019. The figures show why expenditure growth alone cannot demonstrate improvement: resources must be related to the quantity and quality of services produced. [ONS](#)

Healthcare illustrates both the opportunity and the measurement challenge. NHS England states that delivering 2% annual productivity improvement over the Spending Review period could unlock around £17 billion of savings and return productivity to pre-pandemic levels by the end of the Parliament. Yet healthcare output cannot be judged only by operations or appointments. Outcomes, safety, waiting times and patient experience matter, because higher activity producing poorer health results is not meaningful public value. [NHS England](#)

Commercial capability can also improve public-sector productivity. GCF reported £6.8 billion of cumulative savings in 2024/25, split equally between cashable and non-cashable benefits, equivalent to £3.52 for every £100 spent externally on goods and services. GCF also estimated a taxpayer benefit of £7.35 for every £1 invested in the commercial function. Better procurement therefore affects productivity when savings free up resources or improve outcomes elsewhere, rather than merely reducing contract prices. [GOV.UK](#)

Public-sector productivity ultimately concerns opportunity cost. Every pound or staff hour wasted on administration, rework, poor procurement, or avoidable delay is unavailable for frontline services, infrastructure, or prevention. Public bodies also carry obligations around equity, accessibility, resilience and lawful decision-making that private competitors may not share. Productivity programmes must improve the conversion of taxpayer resources into outcomes while preserving essential safeguards, rather than importing commercial measures without considering the purpose of public service.

Building a Productivity Advantage Competitors Cannot Easily Copy

Defensible productivity advantage usually comes from systems, not isolated techniques. Technology can be purchased, employees can be recruited, and individual processes can be observed, but a functioning combination of data, culture, supplier relationships, routines and accumulated knowledge is harder to replicate. The aim is to create complementarities: each capability makes the others more valuable. Competitors then face the difficult task of reproducing an operating model rather than buying the same piece of equipment.

Management quality is one such complement. ONS research found that 88% of businesses in the top decile of management-practice scores had adopted at least one advanced technology category, compared with 51% in the bottom decile. Technology adopters were associated with 19% higher turnover per worker after controlling for management practices

and business characteristics. The evidence suggests that productive technology depends partly on the organisational capability surrounding it. [ONS](#)

Supplier relationships can create another barrier. Long-term collaboration may generate shared specifications, specialised tooling, joint forecasts and accumulated process knowledge that cannot be replicated immediately through a new contract. The benefit is greatest where suppliers contribute innovation rather than simply capacity. Competitors may be able to approach the same supplier, but they cannot instantly reproduce years of data, trust, problem-solving and integration. Relationship capital can therefore become part of the productivity system.

Ocado's model demonstrates the power of integration. Robotics alone are not the proposition; productivity depends on software, fulfilment-centre design, routing, data and repeated engineering improvements working together. In the first half of 2025, its platform warehouses increased labour productivity by 8.1%, while approximately 40% of Luton volumes were being picked robotically. The advantage is more defensible because operational knowledge and technology have evolved together rather than being assembled as independent off-the-shelf components. [Ocado Group](#)

Culture adds a further layer because behaviours cannot be installed as quickly as equipment. TPS depends on standardised work, employee involvement, problem solving, and the expectation that abnormalities should be surfaced rather than hidden. Competitors can study the system, yet reproducing the routines and trust that support it requires sustained management behaviour. Organisational learning becomes cumulative: yesterday's improvement provides the baseline for tomorrow's improvement. [Toyota UK](#)

The strategic objective should therefore be productivity that becomes embedded in organisational memory. Documentation, data, training, supplier collaboration and leadership routines should preserve learning when individuals change roles. Intellectual property may protect some innovations, but tacit knowledge and operating discipline often provide wider defence. The most resilient advantage is not a single breakthrough that competitors eventually copy; it is an organisation that can produce the next improvement before competitors have fully replicated the last one.

Productivity as a Strategic Management Responsibility

Productivity should sit on the board and senior-management agenda because it shapes cost, capacity, investment, resilience, workforce design and competitive position simultaneously. Delegating it entirely to operations encourages local efficiency projects without strategic coordination, while treating it solely as a finance target can reduce it to cost cutting. Leaders need to decide which productivity gains should fund lower prices, stronger margins, better service, innovation, resilience or growth, and which trade-offs are unacceptable.

The legal framework reinforces the need for long-term judgement. Section 172 of the Companies Act 2006 requires directors to act in the way they consider, in good faith, most likely to promote the company's success for members as a whole, while having regard to long-term consequences, employees, supplier and customer relationships, community and environmental impacts, and reputation. Productivity decisions that damage those factors cannot sensibly be assessed through short-term savings alone. [Legislation.gov.uk](#)

Governance expectations point in the same direction. The UK Corporate Governance Code 2024, issued by the Financial Reporting Council (FRC), requires boards within its scope to establish purpose, values and strategy and ensure they align with culture. Provision 29, applicable for financial years beginning on or after 1 January 2026, requires boards to monitor and review the effectiveness of material financial, operational, reporting and compliance controls. Productivity therefore intersects with strategy, risk and culture. [FRC](#)

Senior management should consequently own a balanced productivity portfolio. Some initiatives should improve current processes; others should build future capability through

technology, skills or supplier development. Each needs an accountable owner, a baseline, expected benefits, investment requirements, and measures of quality and resilience. Track benefits after implementation, because projected savings can disappear through lower service quality, shadow processes, or costs transferred elsewhere. Governance converts improvement proposals into sustained economic outcomes.

The strategic test is whether productivity increases organisational choices without silently increasing unacceptable risk. Boards should understand where capacity is constrained, which suppliers are critical, where automation genuinely pays back and whether workforce capability can support the intended operating model. Productivity is too consequential to become a quarterly percentage target divorced from strategy. Managed well, it determines how effectively the organisation converts capital, labour, knowledge and relationships into long-term value.

Summary - Productivity Creates Choices

Productivity creates competitive advantage principally because it expands choice. An organisation producing more value from the same resources can lower prices, increase margins, improve quality, shorten lead times, invest more heavily or create spare capacity. None of those outcomes is automatic. Management must decide where the gain produces the greatest strategic return. The same principle applies in public services, where released resources can improve access, resilience, service quality or taxpayer value rather than shareholder profit.

The evidence across sectors shows several routes to that outcome. Toyota removes waste through disciplined flow and continuous improvement; Ocado combines robotics, software and network design; NEXT is investing £307 million to expand warehouse capacity while controlling unit economics; Rolls-Royce has converted operational performance into higher margins and cash flow; and the NHS is targeting productivity gains worth around £17 billion. [Toyota UK](#); [Ocado Group](#); [NEXT](#); [Rolls-Royce](#); [NHS England](#)

The central distinction remains between productivity and simple austerity. Sustainable gains remove waste, reduce defects, improve decisions, develop people and strengthen the productive use of capital. Unsustainable programmes merely remove resources until employees, suppliers or customers absorb the consequences. The most effective organisations preserve resilience while improving efficiency, recognising that inventory, spare capacity or duplicated supply can sometimes be economically rational where the expected cost of failure exceeds the cost of the buffer.

Competitive advantage ultimately emerges when productivity becomes difficult to copy and deliberately connected to customer or public value. Technology, supplier relationships, culture, knowledge, process discipline and management capability can combine into an operating system competitors cannot reproduce quickly. Productivity then becomes more than an efficiency statistic: it creates strategic freedom. The strongest organisations use that freedom consciously, deciding where to invest each gain so today's improvement becomes the foundation for tomorrow's advantage.

Additional articles can be found at [Procurement and Supply Chain Management Made Simple](#). This site looks at procurement and supply chain management issues to assist organisations and people in increasing the quality, efficiency, and effectiveness of their product and service supply to the customers' delight. © Procurement and Supply Chain Management Made Simple. All rights reserved.

Further Reading

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- [Public service productivity, quarterly, UK: January to March 2026](#) – ONS, August 2026
- [Annual multi-factor productivity, market sector, UK: October to December 2024](#) – ONS, May 2025

- [Management practices in the UK: 2016 to 2023](#) – ONS, May 2024
- [Management practices and the adoption of technology and AI: 2023](#) – ONS, March 2025
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- [Introducing the Government Commercial Function Strategy 2026–29](#) – GCF, April 2026
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- [UK Corporate Governance Code 2024](#) – FRC
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- [Rolls-Royce Holdings 2025 Full Year Results](#) – Rolls-Royce, February 2026
- [NEXT Results for the Year Ending January 2026](#) – NEXT, March 2026