



Driving productivity in domestic markets: The role of competition

McKinsey Global Institute

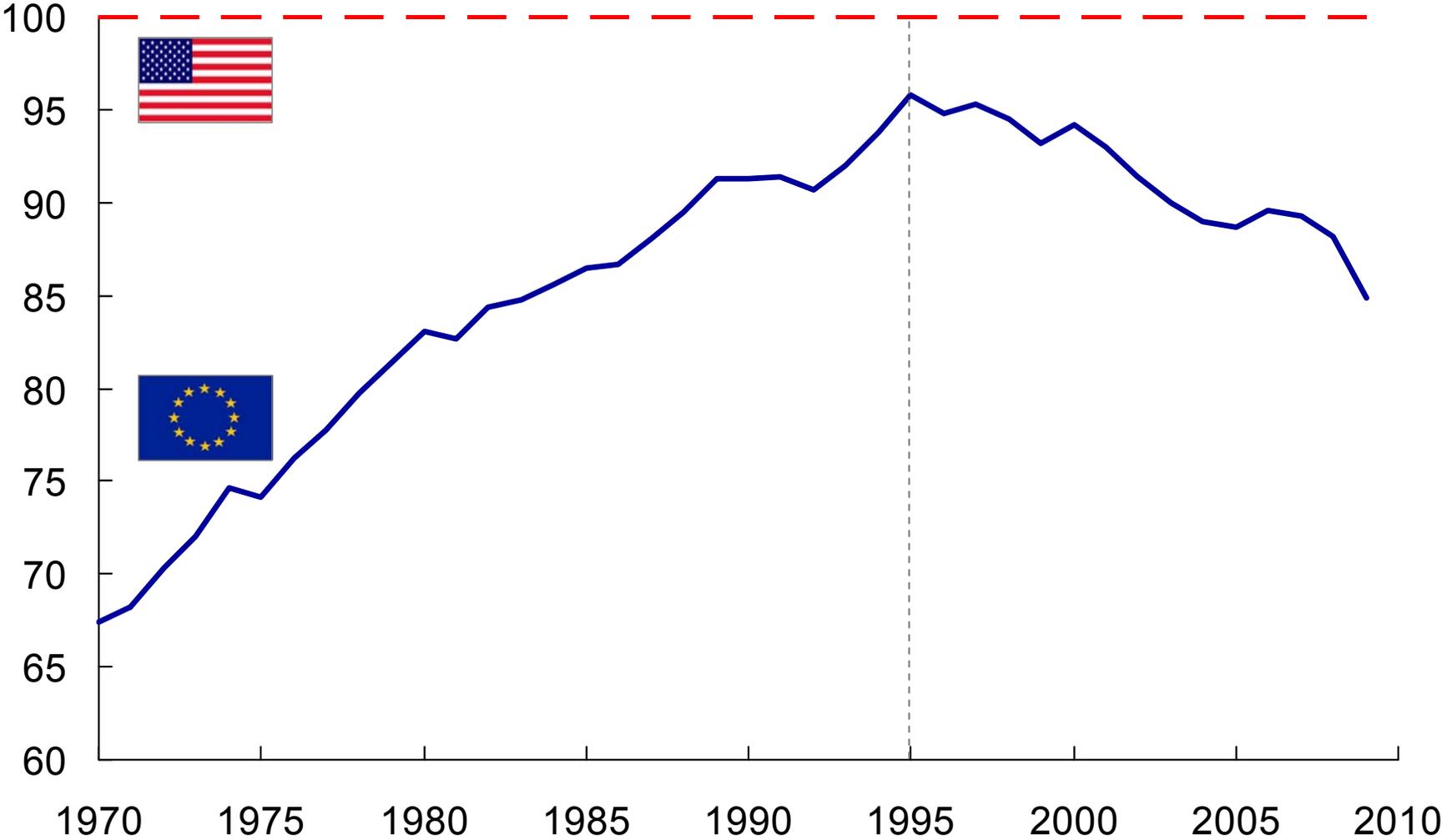
March 8, 2012

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Europe's labour productivity stopped catching up with US labour productivity in the mid-1990s

Labour productivity,¹ indexed to the United States

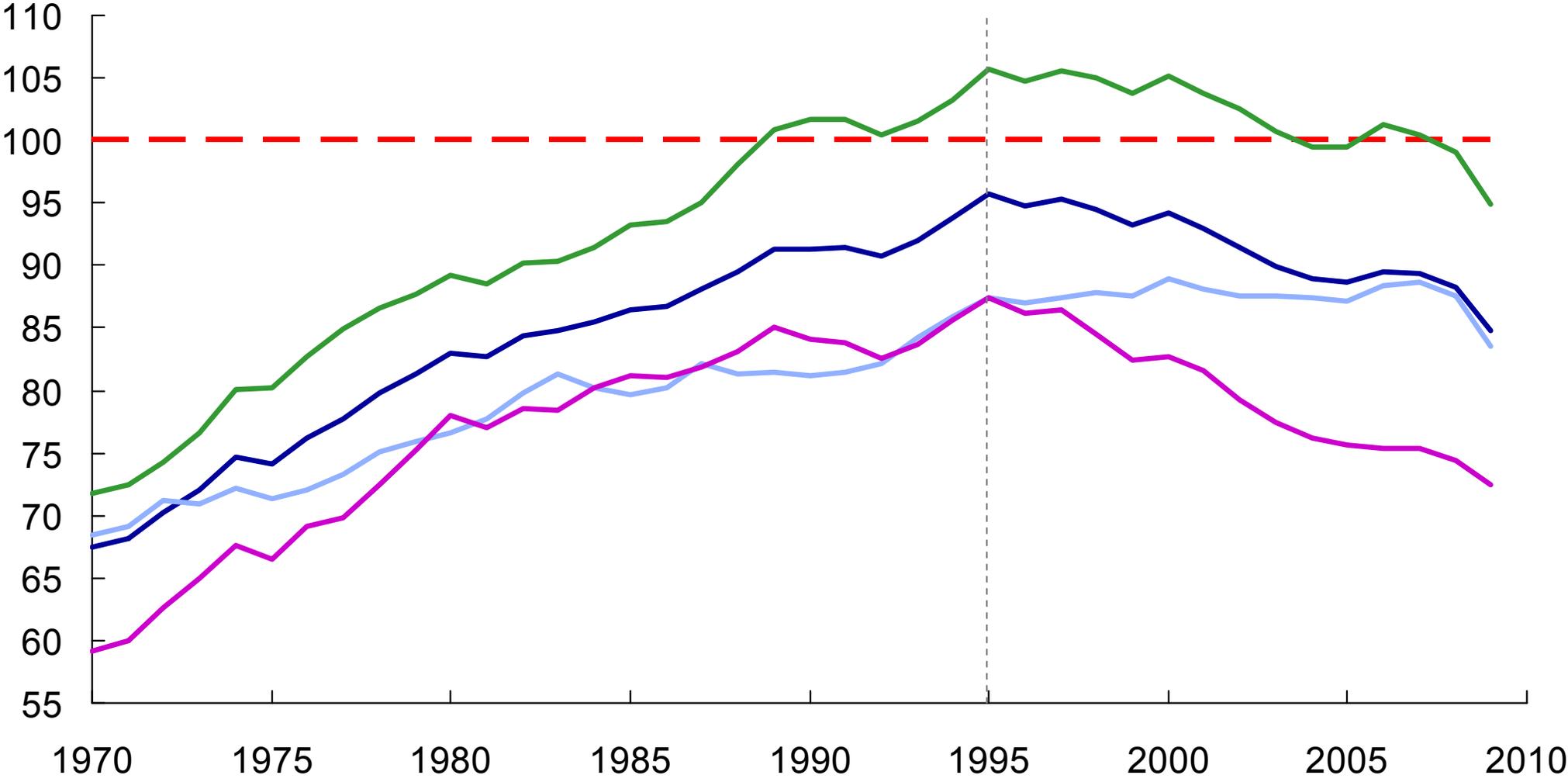


¹ Expressed in \$ at 2009 EKS (Elteto-Koves-Szulc) purchasing power parities (PPP).

Northern Europe continued strong productivity performance, while the South lagged behind

Labour productivity,¹ indexed to the United States

- United States
- EU-15
- Northern Europe
- Continental Europe
- Southern Europe

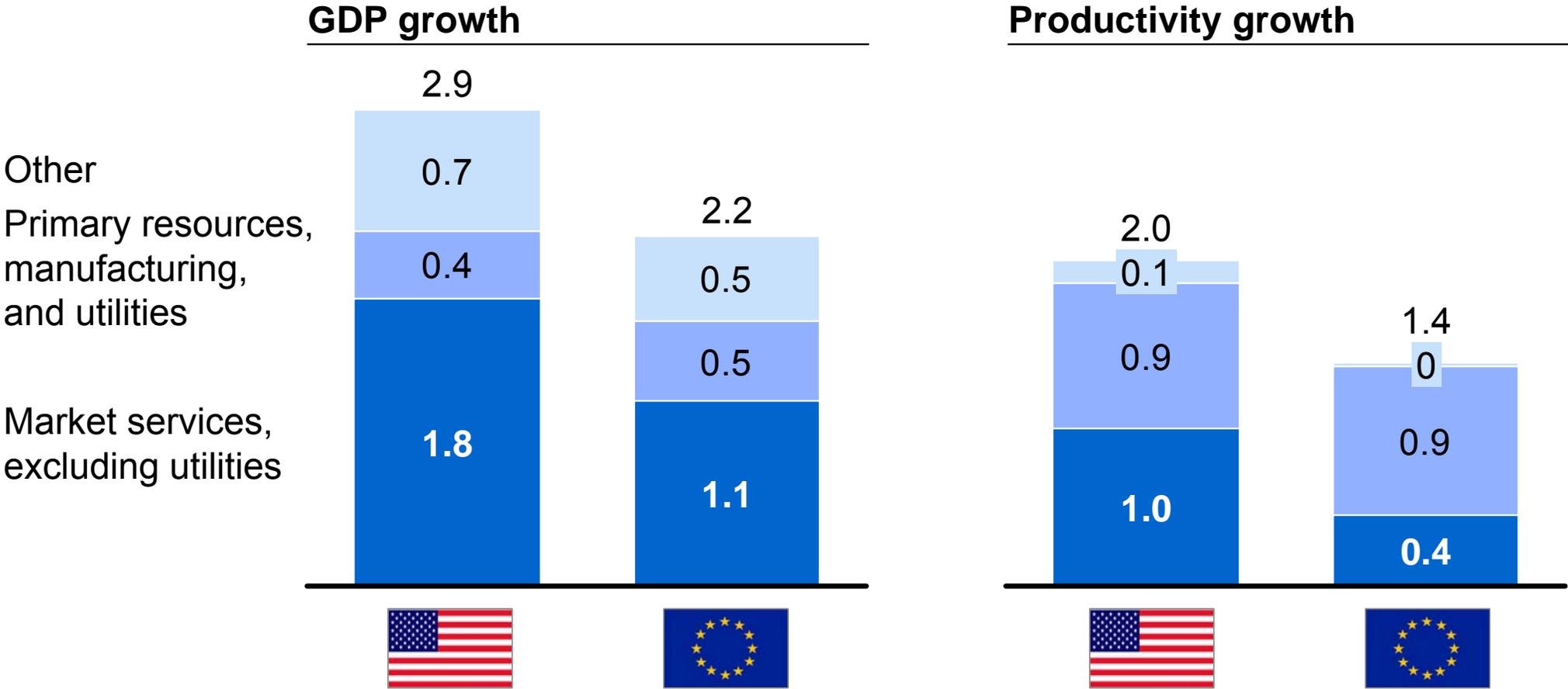


¹ Expressed in \$ at 2009 EKS PPPs.

Services sectors are the source of the GDP and productivity growth gap between the EU-15 and the United States

Sector contribution to 1995–2005 GDP and productivity growth

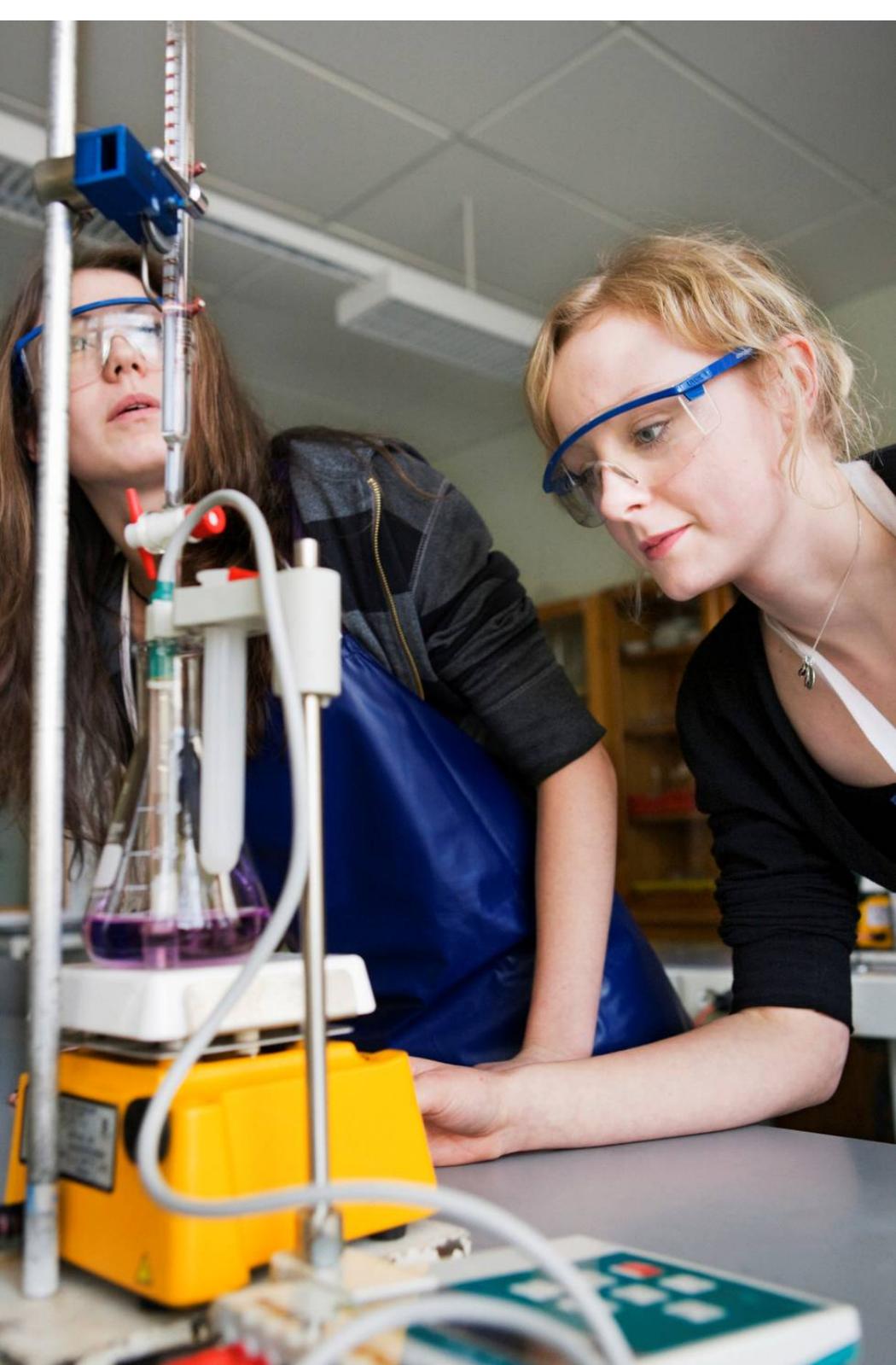
Compound annual growth rate, %



1 Construction; transport; retail; wholesale; hotels and restaurants; professional and financial services; computer and related activities; research and development; legal; technical and advertising services; renting of machinery and equipment; other community; social and personal services; and private households with employed persons.

2 Education, health and other public goods, real estate, and mix effect.

NOTE: Numbers may not sum due to rounding.



- **MGI sector approach**

- How competition improves productivity across services
- Service sector reform as a catalyst for growth



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MGI has researched productivity for 20 years, both across Europe and globally

Published country productivity analyses

Western Europe

- United Kingdom (2010, 1998)
- Finland (2010, 2007)
- France (2006, 2002, 1997)
- Sweden (2006, 1995)
- Germany (2002, 1997)
- The Netherlands (2006, 1997)
- Spain (2010)

Other regions

- Vietnam (2012)
- United States (2011, 2000, 1994)
- Russia (2009, 1999)
- Canada (2008)
- Brazil (2006, 1998)
- Turkey (2003)
- Thailand (2002)
- India (2001)
- Japan (2000)
- Korea (1998)
- Poland (2000)
- Australia (1995)

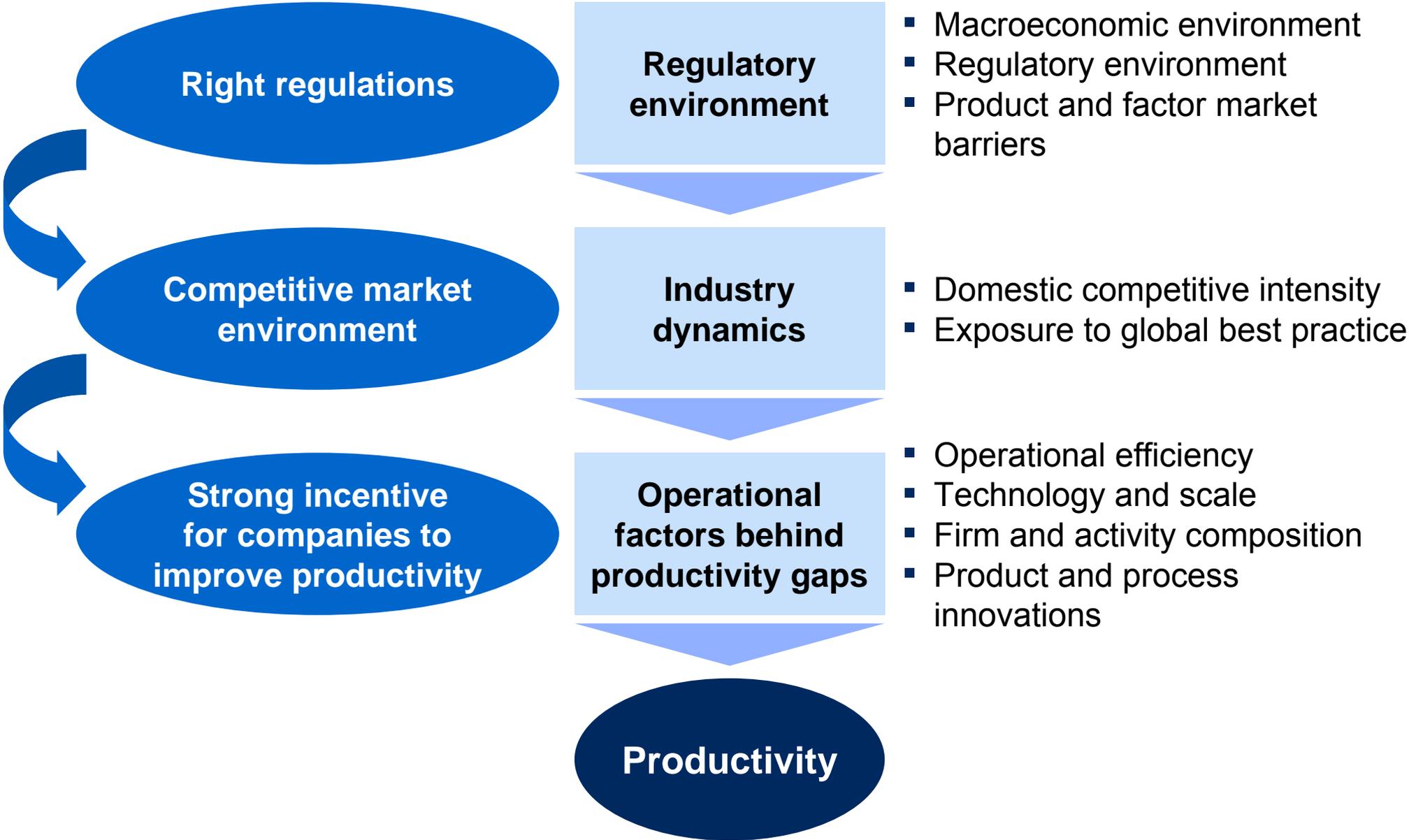
How IT enables productivity

- United States (2000, 2002)
- France (2002)
- Germany (2002)

Competitiveness and growth

- *Beyond austerity: A path to economic growth and renewal in Europe* (2010)
- *How to compete and grow: A sector guide to policy* (2010)

Our sector approach identifies the causal factors behind industry productivity differences across countries



How competition boosts sector productivity

Operational efficiency



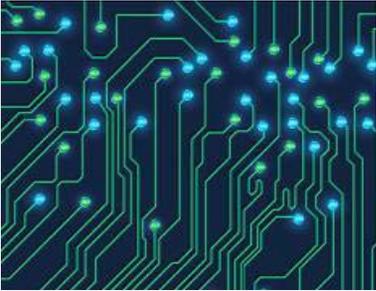
Pressure to reduce inefficiencies and improve performance in existing operations

Firm and activity composition



Reallocation of resources toward more productive firms

Technology and scale



Adopting enabling technologies and building scale economies

Innovation



Incentives to pursue product and process innovations

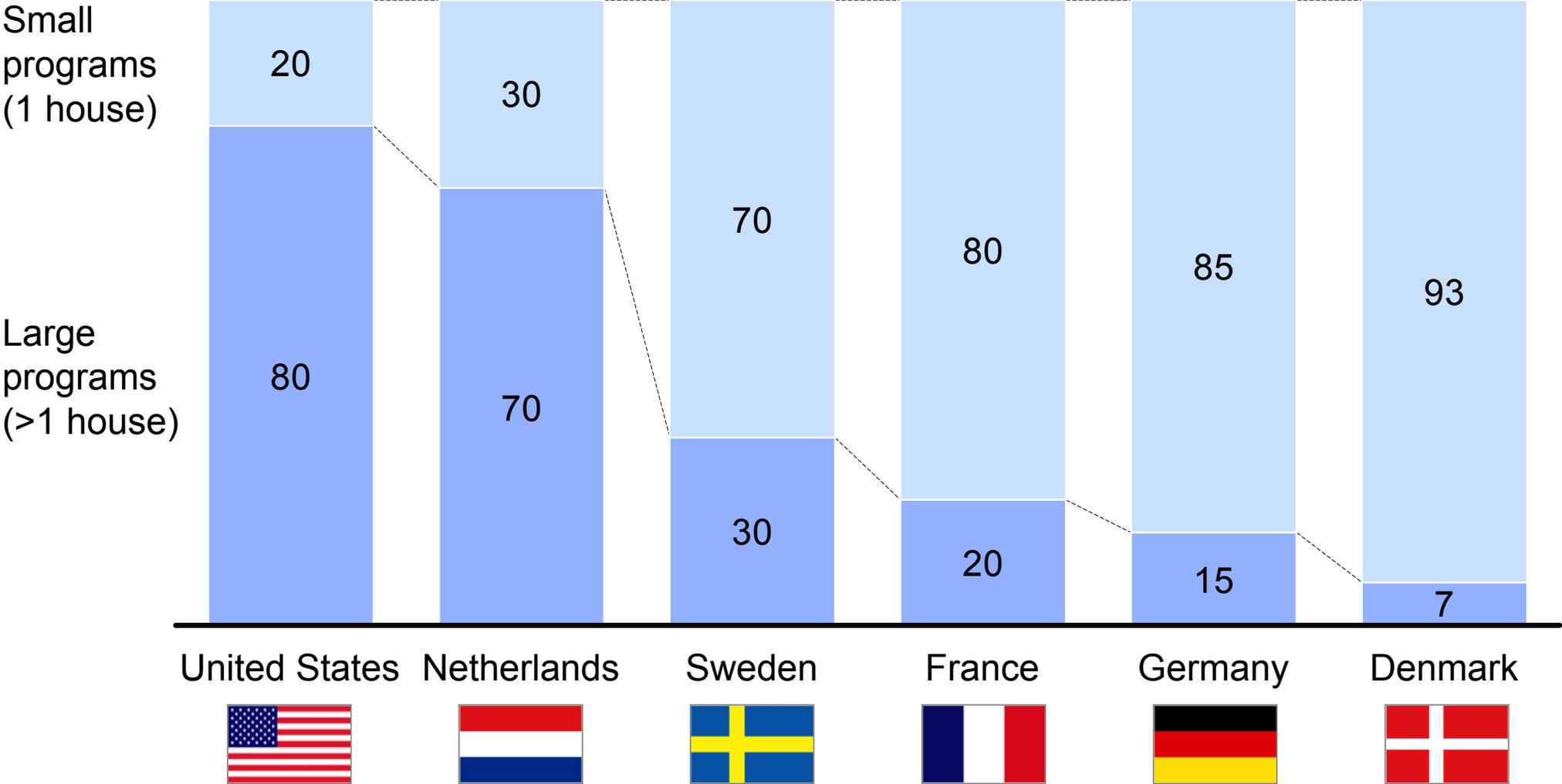


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The United States and the Netherlands have higher share of large construction programs than most European nations

ESTIMATE

% of all single-family houses built in 2004



1 Data for Netherlands is from 1995.

Construction typically has multiple handovers across different workers

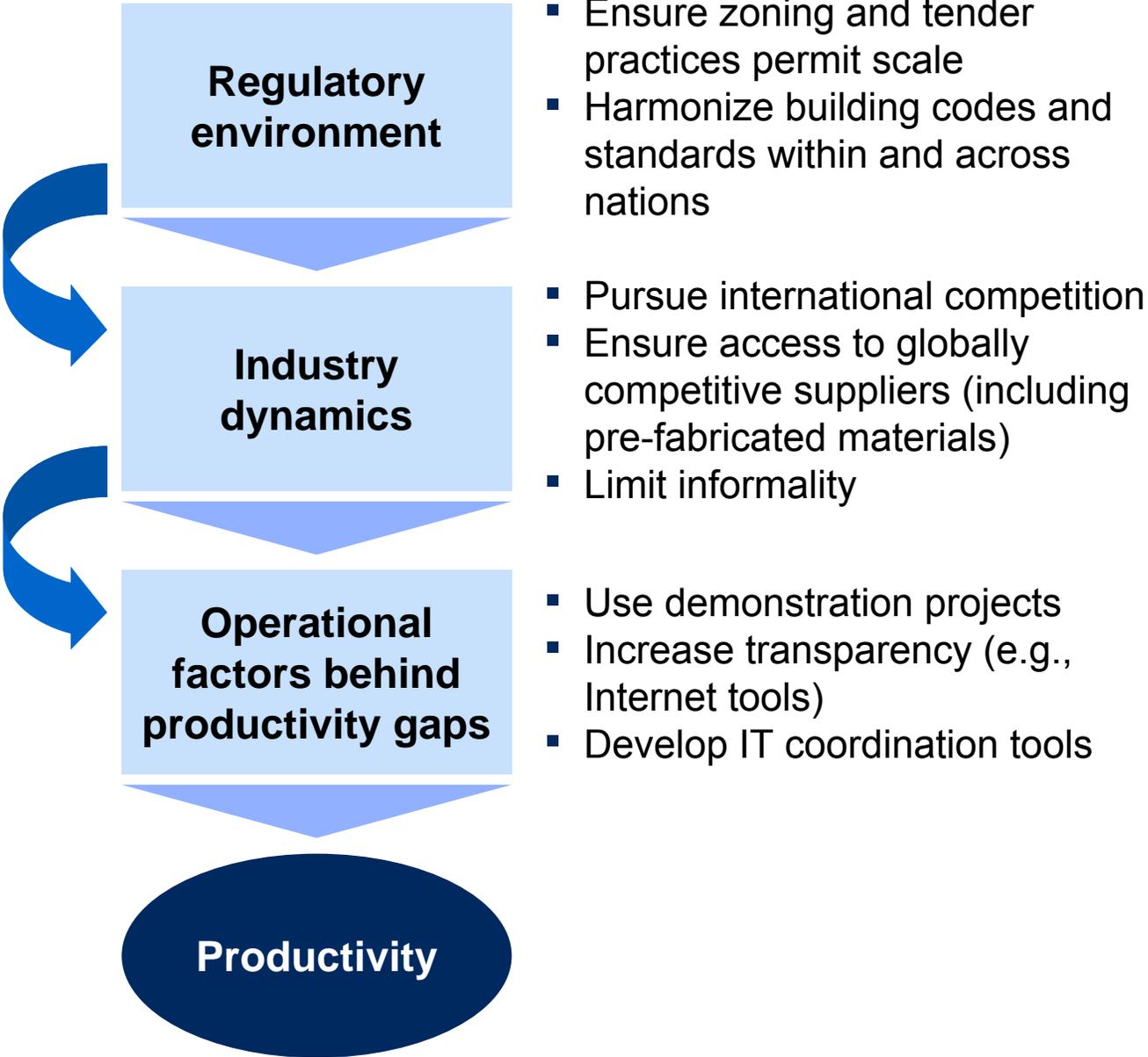
Building a bathroom

Phase	Task	Worker
Pework	0 Construction design	Contractor/consultants
	1 Work plan/coordination	Project leader
1st building phase (frame)	2 Insert heating and plumbing pipes	H&P worker and electrician
	3 Concrete form	Concrete worker ¹
	4 First half inner wall	Wood worker ¹
2nd building phase (installation)	5 Ventilation	H&P worker
	6 Electrical installation	Electrician
	7 Inside heating and plumbing	H&P worker
3rd building phase (inner walls)	8 Second half inner wall	Wood worker ¹
	9 Paint/paper board	Painter ¹
	10 Frames	Wood worker ¹
	11 Water proof layer and tiles	Tile worker ¹
4th building phase (installation)	12 Heating and plumbing	H&P worker
	13 Interior	Wood worker ¹
	14 Electrical installation	Electrician
Finalizing phase	15 Cleaning	Cleaner
	16 Inspection H&P	H&P inspector ²
	17 Inspection Ventilation	Ventilation inspector ²
	18 Inspection Electricity	Electrical inspector
	19 Inspection Building	Building inspector

1 In small houses the same worker could do concrete, wood, tiles, and painting.

2 Can be the same Inspector.

Policy tools for improving productivity in construction

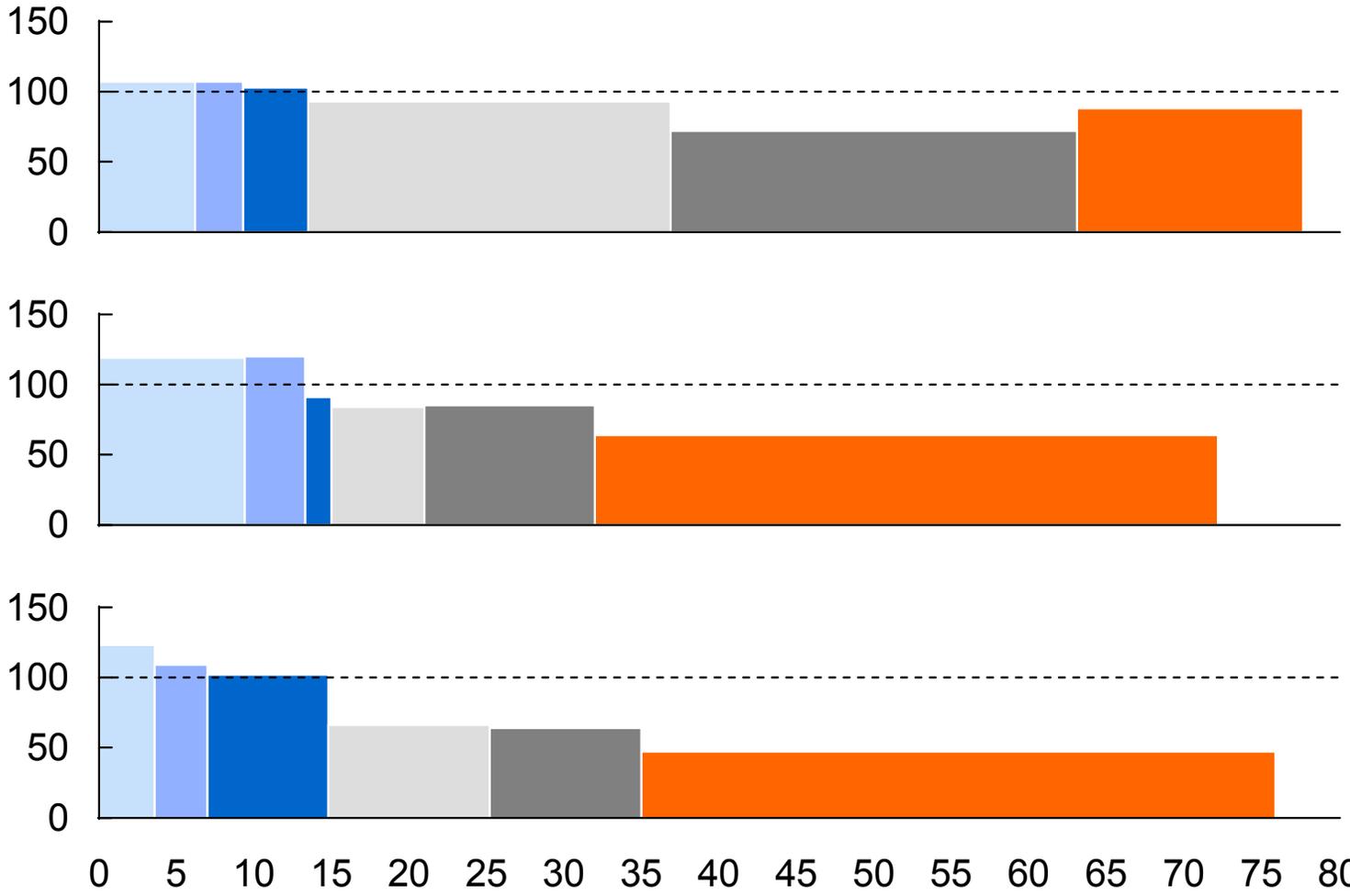


In retail, mix of store formats is the main factor explaining productivity differences

APPAREL EXAMPLE



Productivity index
100 = US average

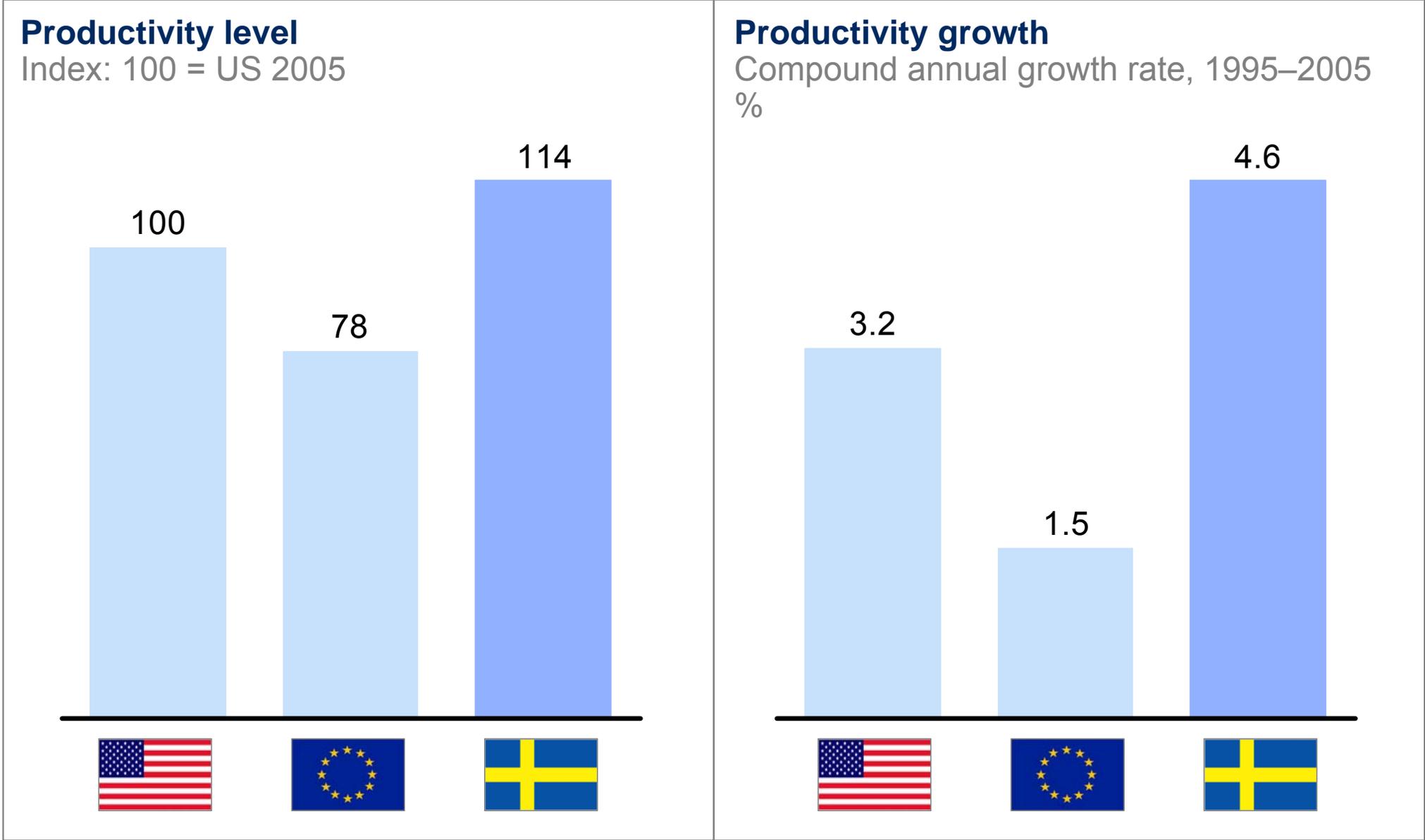


- Small-format specialists
- Discounters
- Large-format specialists
- Department stores²
- Mass-merchandise generalists²
- Traditionals

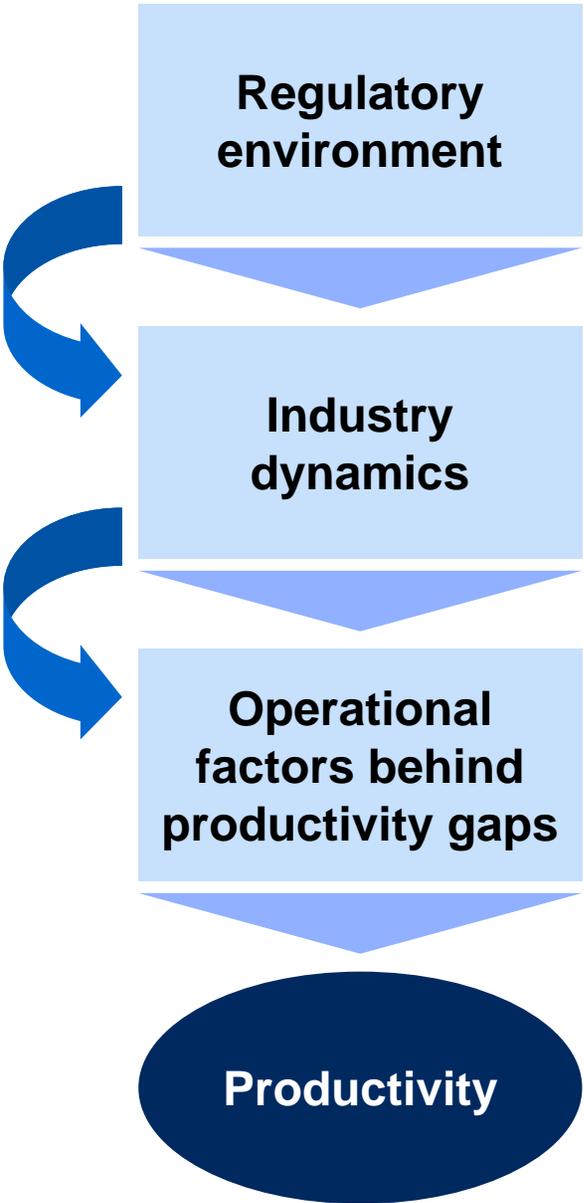
Labor share¹
% of total apparel market

¹ Labor shares state shares of low productive players higher than market shares.
² Department stores and mass-merchandise generalists show productivity of total operations.

By embracing reform, Sweden has achieved the highest productivity growth in Europe in the retail sector



Policy tools for improving productivity in retail



- Remove zoning barriers to new and large formats
- Limit opening hours regulation
- Enforce competition at the local level

- Pursue international competition

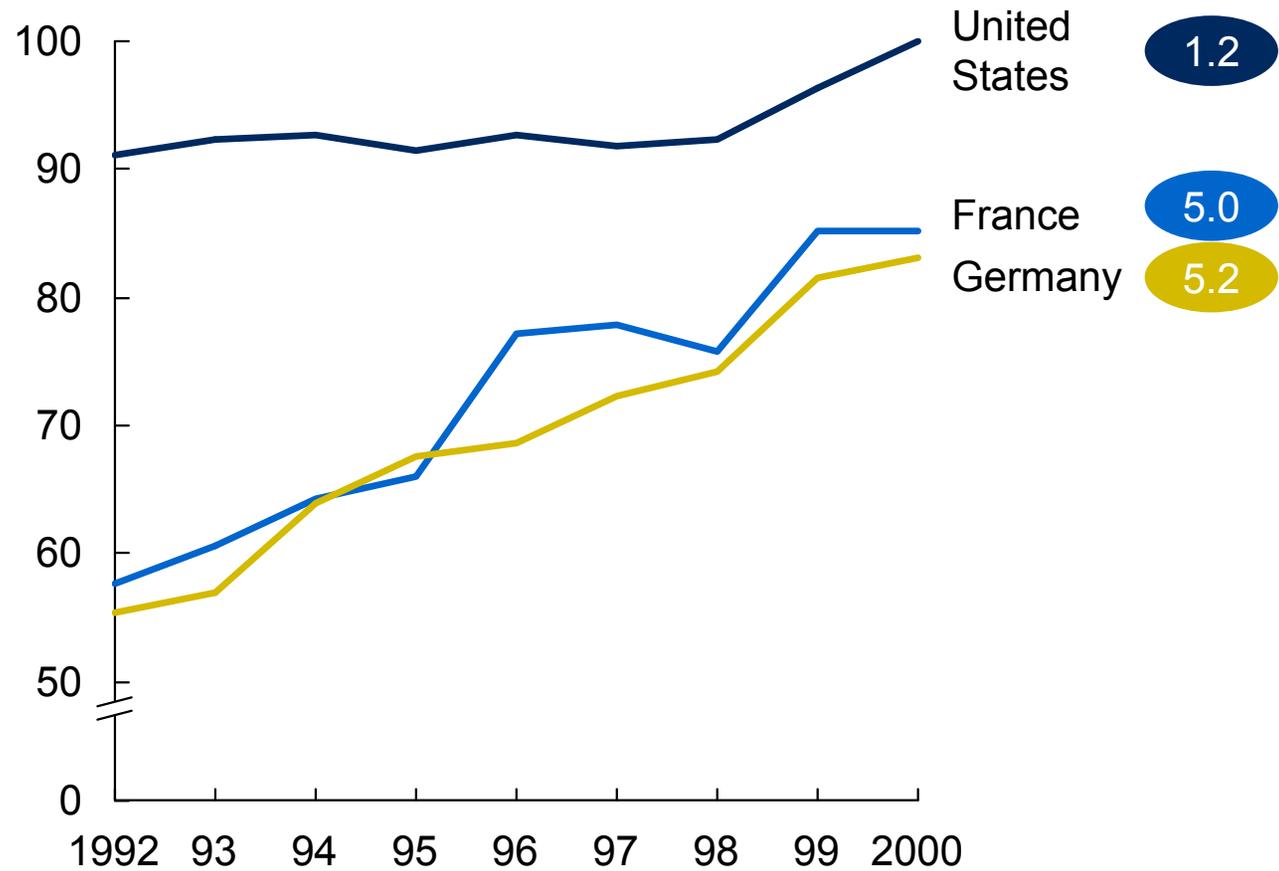
Liberalization of the road freight industry led to rapid productivity growth in France and Germany

Labour productivity performance (ton-km per hour worked)¹

Index: 100 = US level 2000

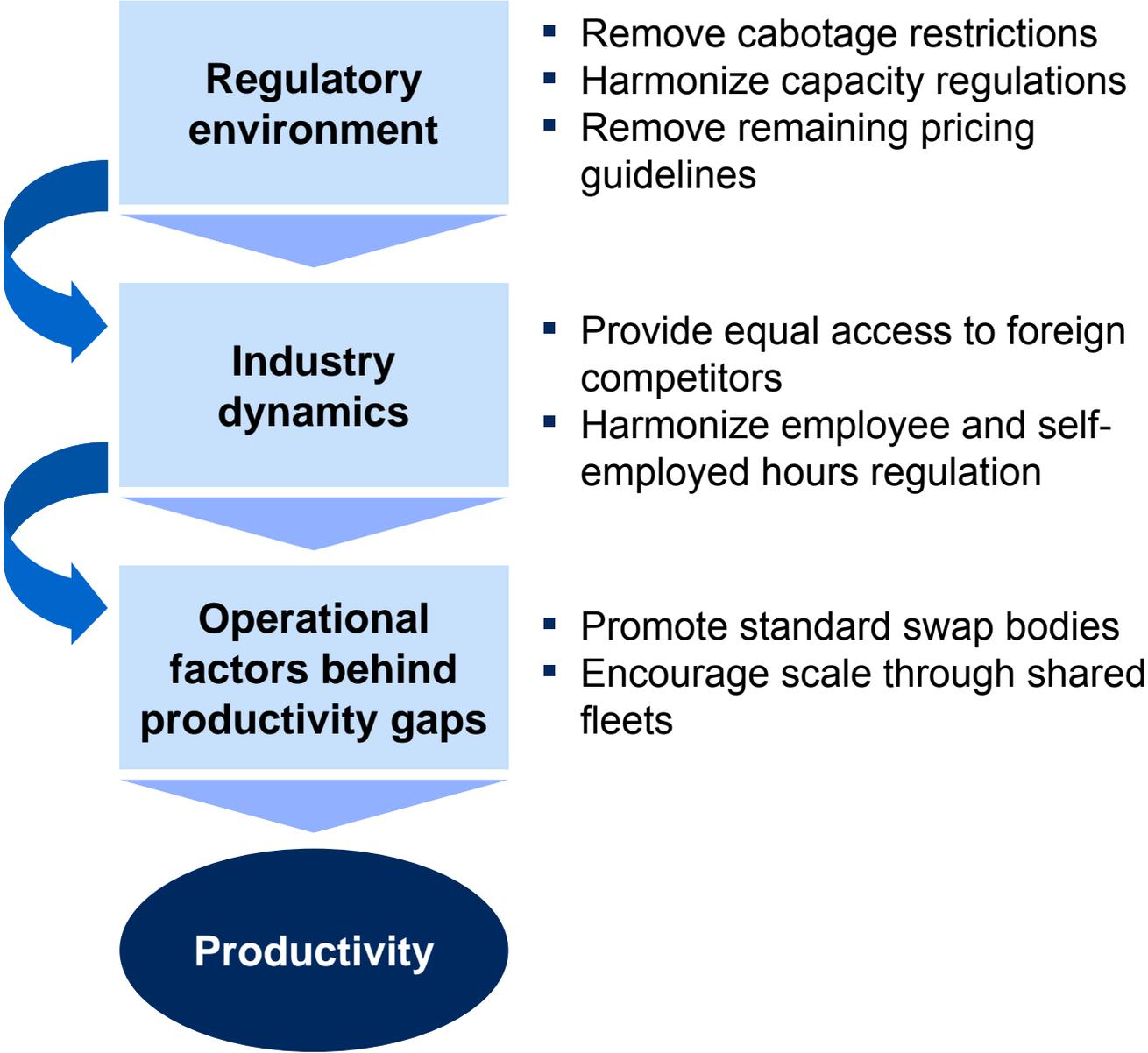
Compound annual growth rate, 1994–2000

%



¹ Adjusted for time-definite and guaranteed services based on price differences.

Policy tools for improving productivity in road freight



Professional services remain among the most regulated services today

Healthcare services (e.g., pharmacists, dentists, doctors)



- Ownership restrictions
- Exclusivity and other entry restrictions
- Size restrictions
- Fixed price regulations

Advisory services (e.g., legal, real estate, engineering)



- “Right to practice” regulations
- Fixed price regulation
- Fragmented purchasing
- Country-specific building standards and norms

Business services (e.g., R&D and IT services; marketing)



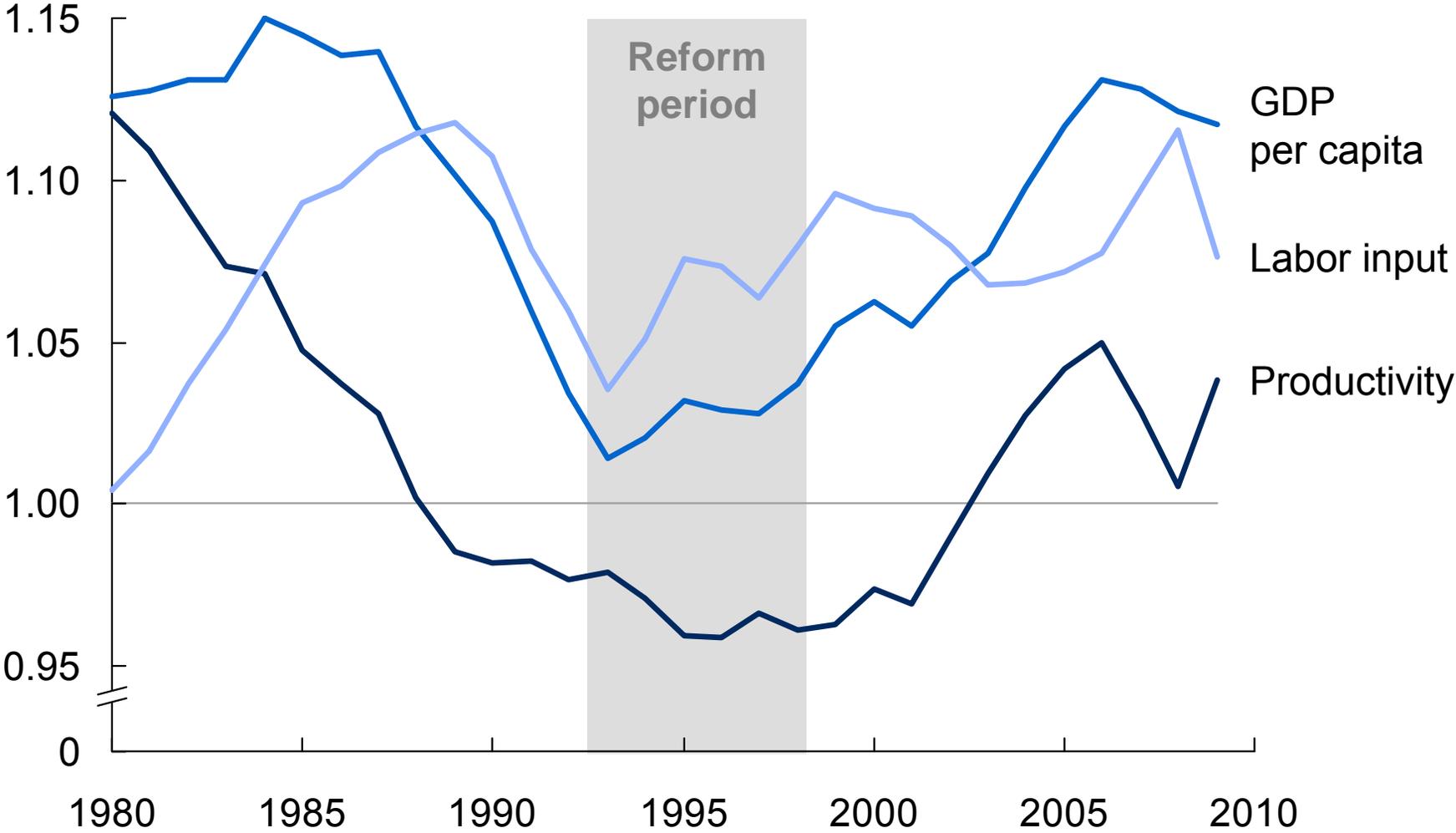
- Public sector demand
- Barriers to foreign and offshore entry



- MGI sector approach
- How competition improves productivity across services
- **Service sector reform as a catalyst for growth**

Under the pressure of a crisis, Sweden launched reforms that boosted productivity and employment growth

Sweden GDP per capita, productivity, and labour input
Index: 1 = EU 1980



SOURCE: Conference Board; IMF; Reforming the welfare state: recovery and beyond in Sweden; How regulatory reforms in Sweden have boosted productivity, OECD; McKinsey Global Institute

Regulatory reform of the service sector could be a catalyst for European growth



- Proven regulatory reform in service sectors can move the needle for European growth
- Need three-step approach
 - Identify and address current regulatory barriers to competition at a sector level in each country
 - Ensure opportunities for scale across European nations
 - Build the platform for ongoing innovation and improvements
- But success requires hard decisions – which may not be possible without the urgency of a crisis

Thank you

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