The Nolan Newsletter

People, Process, Technology

NOLAN

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

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Nolan is an operations and technology consulting firm specializing in the insurance, health care, and banking industries. Since 1973, we have helped companies redesign processes and apply technology to improve service, quality, productivity, and costs. Our consultants are senior industry experts, each with over 15 years of specialized experience. We act as trusted advisors to our clients, ultimately expediting and magnifying improvement initiatives and we are committed to delivering measurable and sustainable results. Visit www.renolan.com to download articles, client success stories, and industry studies.

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- Updates on industry, business, and technology trends
- Client case studies
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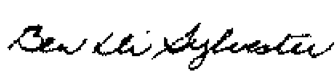
DISRUPTIVE INNOVATION IS IN OUR FUTURE

The beginning of the New Year is always an opportunity to reflect on the previous year and think ahead to what we can expect in the future. At several 2004 industry meetings we participated in, there was much talk about innovation being a key issue for 2005 and beyond. Yet this subject of innovation proves to be elusive when it comes down to individual companies. What is innovation to some is “been there, done that” to others.

There is an inextricable trend that, over the long term, affects everyone. That trend is referred to as “disruptive innovation.” These are innovations that change the course of industries in a fundamental way. Frequently cited examples are steel making, airlines and disk-drive manufacturers.

A potentially disruptive innovation we see emerging in the financial services industry is what we call “going virtual.” We are not referring to the Internet. Rather, some individual companies are taking the combination of technology and outsourcing to the ultimate by using outside services to do all of their marketing, sales, underwriting, claims and other services, rather than having these functions done in-house. While just an emerging trend, we have been surprised at the number of new and previously unheard of organizations offering these services. If these organizations continue to have success, they will shake up the financial services industry in fundamental ways.

Whether virtual or real, quality service and well-designed processes are essential for success. While some are at the top of the innovation scale, other organizations are just finding their way out of fragile legacy systems, outdated processes or expensive, low-value service models. Wherever you are on the innovation scale, the Robert E. Nolan Company wishes you much success in 2005—and stands ready to help you grow the top line and increase the bottom line, as always. ■



Ben DiSylvester
Chairman

P&C: Reflections on 2004 and Prospects for 2005

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After the P&C industry's difficult experiences in 2001 and 2002, the market environment over the last two years has been more encouraging. Increasing signs of stabilization and recovery share headlines with signs of continued uncertainty. The trends point to signs of continued recovery, but there are always the wildcards. So, though things are clearly better, our outlook can be upgraded to "sober optimism."

As we begin 2005, we would like to share with you a few thoughts about what lies ahead for the P&C sector. We have observed five key trends that we believe will have measurable impact on industry growth, competitive structure, innovation and investment decisions:

1. Clarity emerges around priorities—particularly growth
2. Expense management remains key
3. Don't take your eye off the customer
4. Leveraging and addressing mature technology portfolios
5. Paperless and Business Process Management take flight

While each of these trends applies in varying degrees to specific markets, from our perspective, each demonstrates a broader theme: Only those insurance companies capable of nimbly managing complexity in an environment of persistent change are likely to prosper in the long term. We believe that the critical challenge for business leaders will be the creation of the management environment and culture that can respond to a full range of business surprises, both positive and negative.

1. Clarity emerges around priorities, particularly growth.

The environment over the last several years has created a state of indecision for many. This is particularly true around program investments and how to deliver quality earnings growth. As such, growth has been more erratic and challenging to capture. Recent survey observations and results from our

2004/2005 P&C Survey suggest we are coming out of a confusing point in the cycle. For example, organic growth is consistently the top priority for over 120 recently surveyed insurance executives. Insurers are also focused on continually improving risk selection and are evaluating moves towards risk-based pricing models. Expect to see "growth and how it's captured" at the top of the management agenda.

2. Expense management remains critical.

Expense management is not a one-time fix, especially for insurance and financial services. Many times business managers endeavor to address expense issues, but end up with one-time cost reductions, due in part to time and scope limitations as well as cultural hurdles and management-domain boundaries. While satisfactory for a period, these efforts do not address inherent cost structures which inevitably grow back. This, along with lagging investment returns and continued pressure on improved combined ratio (with some well below 95 percent), will keep expense management as a top priority.

3. Don't take your eye off the customer.

This year's executive agenda is full, to be sure. With the focus on growth, expense management and compliance, it's often easy to lose sight of the customer. Improvements in technology and increasing channel competition are creating better service and more options for customers. Insurers will need to effectively operate within this environment while holding the line on retention rates. Just a reminder: Don't take your eye off the customer.

4. Leveraging and addressing mature technology portfolios.

Nearly all insurers today are faced with an aged legacy technology environment which is large and complex—and sprinkled with newer technology for good measure. Few will replace their core systems due to an unattractive business case and considerable risk. Most clients will continue to invest in their existing base systems while layering on additional functionality with new technologies (e.g., BPMS, imaging and content management, multi-channel self-service, etc.). That said, systems themselves can only deliver a certain degree of improvement. Insurers will continue to look for ways to extract value from existing systems through tightened business and IT alignment, along with improvements in IT investment decisions. IT governance, prioritization processes and ROI will remain critical.

In addition, many insurers have been stretching out the life of their existing technology infrastructure and will be faced with the necessity of upgrading to more modern technologies, despite the costs and risks. Maintaining older systems at some point becomes more costly and risky than implementing a replacement. In this case, insurers who know the drill will plan diligently and leave themselves plenty of lead time, take steps to mitigate inherent risks of system replacements, and make selective investments to address their aging technology portfolios.

5. Business process management and paperless processing take flight.

For a variety of reasons, many technologies in the past have over-promised and under-delivered. It appears by all accounts that business process management systems and paperless processing are two of the exceptions (at least when implemented correctly). The need for paper documentation, along with the inherent process nature of the industry, has created a need for technologies which are now starting to take hold. BPMS, workflow and imaging vendors have matured to a point where the solutions and the need are converging. Expect to see more investment in these technologies and a beneficial partnership between business and IT. In fact, that's the key to achieving results: Be careful not to consider these as IT projects. BPM and image-enabled process improvement efforts must be driven by the business and enabled by IT.

As we enter 2005, we look forward to the opportunity to continue to support our clients as they pursue their strategic and operational agendas. 2005 appears to be shaping up to be an exciting and interesting year for all. ■

CRISIS = DANGER AND OPPORTUNITY

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"The Chinese use two brush strokes to write the word 'crisis.' One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger, but recognize the opportunity." – Richard M. Nixon

The recent actions of Eliot Spitzer, New York state's attorney general, have created somewhat of a crisis in the commercial P&C and Group Life & Health marketplace. A long-standing producer compensation practice is being held up to a new light and examined from a different perspective. This is causing a dilemma for insurance companies in these markets. What will the impact be on distribution? How will clients react? What will happen to profitability? These are questions being asked.

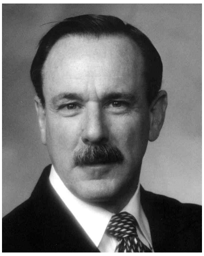
Here is a question we are not hearing: How can we use this crisis to reinvent ourselves to take advantage of this opportunity? If your organization serves these markets, are you looking at reinventing distribution models, compensation strategies or acquisition processes to gain competitive advantage?

In the face of a crisis, a wait-and-see approach is more common. Many organizations do not have the methodology, experience or culture that supports this type of deep change. They have not made a practice of routinely rethinking critical dimensions of their operations. Because of this, it is difficult to gain organizational support for doing so in the midst of a crisis.

Companies that embrace rigorous continuous improvement are positioned to find the opportunity in this crisis and exploit it. They have developed a proven methodology; they have employees experienced in creating new ways that are truly innovative (not just improved); and they have built a culture that expects this type of change.

There are companies positioned to find opportunity in this crisis. We know because we have worked with them to build the process, experience and culture for meaningful and continuous improvement. Are they your competitors? ■

Two Trends in Member Services Are About to Collide



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Trends are funny things. They seem to have a life of their own. Many times one trend seems to make use of a prior trend. One thing adds to another and extends the impact of a prior development. Trends evolve in ways like Mark Twain defined history: One thing after another.

Think about how service operations are internationalizing. Have you ever called your credit card company to resolve a persistent service problem and found yourself talking to someone half a world away? Chances are quite good that you will resolve the problem (at least until next month). And chances are also quite good that you won't dwell too long on all the things that came together when you and the customer service representative were talking.

Some of the trends beneath such a phone call are so long-term and large that they are almost global or historical in their sweep. Here's such an example: The evolution of English as a language that truly spans the globe and allows conversation between two people with vastly different backgrounds and situations. Other trends that helped create your international service experience are technical in nature. The Internet and satellite-enabled telecommunications technology bring your phone call, your bill and the service representative's screen to pop together twelve time zones away.

Underneath a simple international service experience is a complex web of trends that interacted in a way to create the experience. The "simple" experience is really not simple at all. Many things had to happen to create the simple experience. Simple service well delivered isn't simple. Such is the nature of trends when they come together.

Some trends don't flow together in neat and intellectually tidy ways. Sometimes they collide; they just smash into each other. And the result is very untidy or unpredictable.

I think the managed care industry is about to experience one of these collisions. Let me explain.

Over the past several years, managed care plans have spent hundreds of millions of dollars on “self service.” This isn’t a surprise. In an industry where an in-bound phone call might cost $6.50 and a self-service interaction costs fifty cents, it is easy to see what might happen. (For our purposes, “self service” means using the Web or interactive voice response units.)

Now, having built the infrastructure for these self-service transactions, health plans worry about how quickly their clients are adapting (or not adapting) to their new means of delivering service. The long-term result really isn’t in doubt: Service will move over a period of time to the more efficient and lower-cost channel. The types of service interactions that will move into the new channel are the least complex work that a customer service representative performs, such as dates, numbers, and when (or if) things happened. The routine, low-value information exchange that is the stuff of customer service will find itself being resolved via self service rather than by someone in New Delhi.

Meanwhile, outside of this trend is another emerging trend. The service content coming into member services units is changing. Self service is eliminating low-complexity calls, and improvement in the quality of service is also “drying up” many other low-value calls. The calls that remain are more complex and involve untangling things that have gone wrong. Remaining calls are longer. There is much less reading of a screen to a member. A call now may frequently involve correlating information into a pattern and then using the understanding of the pattern as the basis for a higher-value customer exchange.

The collision I see has a lot to do with another change in call content hitting customer service units. Just as health plans are busy fielding self-service capacity, they are also busy bringing account-based products to market. Here’s the simple idea behind the rush to account-based health care products. The central problem in American health care is the rate of growth in health care spending. If a member was spending their own money on health care, they just might spend less. So the new idea in controlling health care costs is to put discretionary health care purchases under the control of the member. Create a member account, put some money in it and make the member responsible for how they use it. The logic is simple: your money, your health, your problem. Great idea, one well founded in common sense and economic theory.

The problem is that members don't have a clue about managing their health and money. Health plans are placing the most difficult burden, the great un-resolved problem that some of the smartest minds in America haven't been able to solve, on the shoulders of members. Now I personally have great faith in the ability of average Americans to understand complex problems and create their own workable solutions to them. But I also know that they will need some help along the way. So if you are an executive responsible for a health plan call center, get ready.

"Health plans are placing the most difficult burden, the great un-resolved problem that some of the smartest minds in America haven't been able to solve, on the shoulders of members."

I'll bet you created your call center budget on the assumption of fewer calls per thousand members. And shorter talk time, too. And of course fewer CSRs will be needed as self service kicks in. Right. Now take this reality check. Create a pie chart of "call reason" for each of the fourth quarters for the last three years. Do you see a lot of change in the composition of the calls coming into your center? If you do, think about what it means. If you don't see too much change, don't get comfortable. Your data might be categorized too broadly to see important underlying trends. "Claims questions" don't really tell you what you need to know.

If you are a typical health plan, I'll bet your organization has plans to sell a variety of products that have individual account features. These features will drive up your call volumes, lengthen your call times and challenge your CSRs with more coaching and counseling calls rather than simple data exchange calls. Your economic model of customer service (your budget) might be quite unconnected from what is likely to happen in your call center as it begins to service the new products.

The trends related to customer service delivered via a self-service model are about to collide with the evolving information and educational needs of members who are beginning to use the next generation of products.

Can you see this collision in your future? What should you do? Without knowing the details of your situation, I can't claim to have a solution for you. I would suggest that an important starting point is to begin to have an honest, focused dialog between the management of your customer service units and the product developers. If you are changing the product, you may also be changing the information needs of the members who will use it. Your customer service unit needs to understand this potential problem and begin to reflect it in their plans and operations.

I can't predict how this collision of trends will play out. I can predict that organizations that are talking about it are more likely to be successful in dealing with it than those who don't talk about it. Pick up the phone and start the dialog. ■

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With the start of the New Year, I am once again passing along a few perspectives on technology trends that will impact financial services companies—maybe even yours—in the coming year.

Integration vs. Build. This trend is already well underway and continues to pick up steam. IT leaders are investing time and money to develop the system integration skills of their teams while de-emphasizing system design and pure programming competencies. This is happening as highly configurable "new architecture" applications are becoming more common, obviating the need for big "build-from-the-ground-up" projects.

What does this mean for you? Revise your staff development plans and hiring profiles to support the very real trend toward buy-and-integrate versus design-and-build. Get better at defining functional requirements, and get comfortable (and competent) at using outside assistance to help you.

Outsourcing. Commodity IT functions are increasingly being outsourced. These include data center ownership and management, maintenance of older legacy systems, security and desktop support, to name a few. Why? Because service providers can deliver these services less expensively and with higher quality than many average-performing IT departments.

What does this mean for you? Give serious consideration to outsourcing commodity functions, but do so with analytical rigor. Outsourcing is not for every company, and it is often not suitable for many functions, especially those that have a customer-facing aspect. It only makes sense if you can achieve improved results at the same or lower costs.

The Return of CRM. I find it hard to believe I'm actually suggesting this, since I have been a major critic of CRM since day one. CRM was sold as a magic wand and, therefore, it deserves all the bad press. But weary business and IT leaders have learned, for the most part, how to separate CRM hype from reality. They've come to understand that CRM is really 90 percent service model and process design, and 10 percent technology. Armed with that outlook and the reality that it is always less expensive to provide good customer service, business leaders are stepping up their customer focus and once again creating differentiation through superior service.

What does this mean for you? Your competitors are rededicating themselves to customer service. Are you?

"The dramatic increase in business process management (BPM) initiatives, which encompass both process design and technology, is paying large dividends for companies with complex business rules and processes."

Process Defines Automation. This is another trend that's been underway for a few years, and it won't be slowing down any time soon. The dramatic increase in business process management (BPM) initiatives, which encompass both process design and technology, is paying large dividends for companies with complex business rules and processes. Gone (or going) are the days of the monolithic black-box IT department.

What does this mean for you? If you are an IT leader, retool your IT function to focus on process enablement versus discrete application delivery. If you are a business process owner, recognize that you are responsible for the effectiveness of your processes, not technology. First design an excellent process and then automate it. Don't abdicate to technology. Seek out your IT counterpart and step up to the challenge of partnering to achieve the best possible business results.

Voice Over IP. This topic is a bit techie, so non-IT readers may want to skip these two paragraphs, but the convergence of voice and data through VOIP is a sensible evolution, especially considering the cost savings it will eventually bring and the relative simplicity it will create. Linking analog voice lines to otherwise digital computing platforms has always been a bit of technical spaghetti with practical limits. Voice over IP gets rid of most of the spaghetti and opens the door to desktop video conferencing, easier integration for contact center applications, and innovative customer service designs.

What does this mean for you? Take the opportunity to learn as much as you can about VOIP in 2005, and be ready to begin adoption in one form or another in 2006. Cisco, the world's largest network gear maker, is banking on it.

Increased IT Spending. There are lots of old systems and networks out there just hanging on by a thread. Years of bandages and baling wire are starting to show their limits. If Sarbanes-Oxley or HIPAA didn't already bring about the demise of your old system, then a catastrophic business interruption or security breach probably will. IT budgets will necessarily grow to address these realities, but IT spending will be more discerning than ever. Performance guarantees, SLAs and value-based pricing are just some of the ways IT and business leaders will mitigate the risks of major technology investments.

What does this mean for you? It's a buyers' market for new technology—take steps to become an effective buyer. Invest your efforts in developing bulletproof requirements, take the time to evaluate vendors thoroughly, and insist on pricing/fee models that are tied to measurable business benefits.

Perhaps you are seeing other technology trends impact your IT functions and business processes? If so, I hope you will share your perspectives with me. Please email me at rod_travers@renolan.com.■

SKILL-BASED CALL ROUTING AND BAR-CODING

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Years ago, one of our clients had a very complex new-business workflow. It was one of those paper-intensive processes in which the application paperwork was distributed to multiple people in multiple departments. It took about a month for an app to make it through this process, and whenever someone wanted to know, “Where’s my app?” the search began.

A technology vendor’s proposed solution to improving this process was bar-coding. The idea was to bar-code the app and every time it moved, a processor would wand it and the app’s location would be recorded. Fortunately, the client didn’t buy this solution.

Here at the Robert E. Nolan Company, we would tend to view this as a process redesign opportunity. Absent automation, one key element of the solution would be to have fewer people involved. Instead of people performing only one or two process steps, they would perform several steps. It’s usually not difficult to train staff to learn the additional process steps, because those steps are very similar to the process steps they already perform.

So, what does this have to do with skill-based routing?

In our work with call centers, we frequently see incoming calls separated by type of caller and/or by the nature of the inquiry. There are many valid business reasons for segregating calls this way, including demands for dedicated service from prestigious accounts and routing easier calls to newly trained agents. Most call management systems and ACDs have skill-based routing capabilities, and some are quite sophisticated. Skill-based routing allows the call center to match the incoming call to the skills of the agent.

On the surface, this all sounds reasonable, but when you look at a large call center that’s organized this way, you’ll see many small agent groups that only handle selected call types. In fact, it looks very much like that complex paper workflow with a lot of people who can only do a very limited number of tasks.

Workforce management vendors have designed software with sophisticated forecasting and staff scheduling algorithms to improve call center management in centers with extensive skill-based routing. This solution can be much like the bar-coding solution, where the process doesn't change; we just use technology to manage it better.

A simpler and more effective solution may be to reduce the number of call groups or train agents to handle multiple call types. Call centers with agents who can handle any type of call are far less costly than those with specialized agent groups. They are also easier to manage.

"Skill-based routing can be a valuable technique, but you need to ensure that you have valid business reasons for segregating the calls."

Skill-based routing can be a valuable technique, but you need to ensure that you have valid business reasons for segregating the calls. When you see small agent groups, you need to seriously question whether or not they are truly necessary. If two or three small groups could be combined into one larger group, that is almost always the better approach.

When designing call centers, it's ideal for all agents to handle any incoming call. This is sometimes referred to as pooling. Even though that ideal may not be practical, creating large groups of pooled agents should always be the goal. So take a broad, objective view of your call center design, and if you see several small-agent groups, challenge yourself to find an alternative approach. You may find it much easier and more cost-effective to manage with less complex call routing. ■

The Inefficiencies of Electronic Banking

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Electronic banking, the facility provided by bankers, allows customers to complete transactions using credit cards, automated teller machines, debit cards, automated clearing house deposits and bill pay services. And now, with Check 21, paper checks can be cleared using electronic images instead of the exchange of the paper check. This may cost banks money instead of increasing efficiency. Sound hare-brained? Consider the following:

REG E. Federal Reserve Regulation E insulates consumers from losses as a result of someone gaining unauthorized access to their accounts through electronic means. If a consumer does not recognize an electronic transaction, they have the ability to report it to their bank and receive credit if the bank cannot prove that the transaction was indeed theirs. This is great for consumers, who bear only $50 of responsibility if they carelessly allow others access to their cards, user names, passwords or personal identification numbers.

But banks have to investigate every case and unlike other technological advances in the industry, the investigation is not automated. So, for example, every time one joint account owner does not recognize a debit card transaction completed by the other joint account owner and reports it to the bank, the bank is required to investigate and then break the news that the transaction was indeed legitimate (this example is all too common among the REG E claims). The bank bears the cost of the investigation.

Credit/ATM/Debit Card Fraud. Instant electronic transactions, computer hackers and Americans' expanding participation in the global economy, which includes living and working outside the United States, can individually and collectively wreak electronic banking havoc.

This is not to say that check writing is without fraud, but now fraud occurs at the speed of light rather than at the speed of paper. Banks provide Americans a tremendous convenience by enabling them to access their U.S.-based bank and credit card accounts from almost anywhere in the world and through the Internet. Unfortunately, one of the most common indicators of fraudulent activity is the unusual attempt to gain access to U.S. bank accounts from foreign terminals or merchants.

Another common problem arises when the card security codes—those extra numbers on the card that are not part of the account number, placed there to ensure that the person using the account is in possession of the card—are entered incorrectly or transmitted by the E-merchant incorrectly. Both of these scenarios have been known to be symptoms of hacker activity, but are also the source of legitimate customer transactions and simple data entry errors.

Regardless, they raise significant concern for the card-issuing bank, which then manually intervenes with their fraud prevention resources to protect both the customer and the bank from losses. Again, the bank must bear the cost of the investigation.

ATM Cash Differences. Like humans, ATMs are not perfect. They have been known to dispense the incorrect amount of cash from time to time. Whenever this happens, most often when the user has been shorted, banks kick off a manual process to check the machine transactions and come to some conclusion about the validity of the claim. Also, depending on the amount of the claim, a manual count of the cash in the ATM may be required to resolve the issue and settle the claim. This is another case of the bank bearing the cost of investigating a customer's claim.

Processing Capacity. By establishing electronic distribution channels for banking transactions, banks have purchased significant, if not infinite, transaction processing capacity. Ironically, paper-check processing capacity will continue to be needed even though check volumes are expected to decline as Check 21 is fully implemented. The marginal fixed cost for establishing electronic transaction channels, therefore, has not been offset by the “selling off” of check processing capacity, resulting in another added cost for electronic banking.

Non-Integrated Technology. Unless banks have been on the leading edge of available technology, they must add staff to support the lack of integration of electronic banking systems and their core banking applications. System providers are just now beginning to effectively integrate customer banking relationships so that customer enrollment in card and Internet services is as seamless as the opening of a checking and savings account.

One might ask: Given the need for manual intervention to support electronic access, the incremental investment required and the lack of integration of core systems, how can electronic banking be efficient? Does fee income generate an adequate return?

Banks should consider the inherent inefficiencies of electronic banking as they market these services. They must shift traditional check processing capacity to electronic channels and recapture the cost savings afforded by more integrated technology. At the same time, banks should be aware that the costs of controlling the risks imposed by the laws governing electronic banking, and by the nature of doing business in cyberspace these days, will continue to be required but difficult to predict.■

TARGET IMPROVEMENTS THAT WILL BENEFIT YOUR BANK!

Do you know how your line-of-business efficiency and productivity compare to peers of similar asset size? Do you have a structured process in place for identifying, quantifying and prioritizing departments and lines of business that have the greatest opportunity for immediate profit improvements?

Now you can! Annually, the Robert E. Nolan Company conducts the Efficiency Ratio Benchmarking Study with banks, thrifts and credit unions over $1 billion in asset size. The study is a unique survey of income, expense, staffing levels and productivity by line of business.

Take Steps to Improve Efficiency and Effectiveness

At the conclusion of the study, participants receive a detailed executive summary and research report containing more than 1,100 performance ratios showing their efficiency and effectiveness directly compared to benchmark (top quartile), median and average performers in each business area.

Participants can use this information to:

- Target improvement initiatives to reduce expenses and increase revenue.
- Identify improvements in customer service.
- Analyze employee productivity by department.
- Identify performance gaps in business processes and technology.

Walk Through the Online Demo

Browse the free online demo to get a feel for the valuable results that participants receive. You may view a sample executive summary, read the survey methodology and browse line-of-business charts.

Pre-registration for the 2005 study is underway. To register your institution, please visit www.bankbenchmarks.com. Registration in the study is free.

Alternatively, if you don't have the resources to participate, give us a call at 972-248-3727 to learn how you may be eligible to purchase the 2004 Study Results CD for $999.■

THE LANGUAGE OF WINE AND PRODUCTIVITY

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Many pursuits in life have their own vocabulary. A specialized language is intended to communicate with clarity, but is often viewed as a way for “the experts” to distinguish themselves from outsiders. The vocabulary is regarded by the rest of society as a kind of secret handshake that only club members know.

Oeniphiles, connoisseurs of wine, have a language that seems somewhat unapproachable. A wine’s *acidity* and *tannins* are measurable elements based in the grape and its skin and will ultimately define the longevity and depth of flavor of the wine. The wine’s *backbone* refers to how well-balanced and full-bodied the wine is. The *bouquet* is the aroma (or nose) of the wine which develops with age, sometimes described as *perfumed* if it is characteristically *floral* (aroma reminiscent of flowers).

When it comes to taste, *oaky* refers to the flavor introduced from the aging process in wood casks, while *earthy* describes the flavors that are derived from the minerals in the soil. Other flavor indicators often mentioned are *buttery* (smooth as butter) and *astringent* (a taste from an aggressive wine). Terms like sweet, dry, rich, soft and spicy seem self-evident but may not be fully understood by the uninitiated. The only way to gain a personal understanding of these terms is to participate in wine tastings (organized or informal), try lots of different wine and discuss the differences with others. In this way, comparisons can be made from experience.

You may wonder what the language of wine has to do with productivity.

Consulting firms use their own vocabulary that refers to improving performance in organizations. And I suspect that, in an effort to be clear, we oftentimes do not communicate differences in approach any better than wine connoisseurs do when speaking of their products.

We talk about improving the *effectiveness* or *efficiency* of the *process, workflow, procedure, function* or *operation* through *redesign* or *reengineering* in order to result in additional *capacity,* lower cost or increased *scalability,* while conducting *initiatives* in a *participative* manner.

Transformation through *business integration* results in an *empowered business* and *increased operational performance. Change management* and *human capital transformation* directed at becoming a *world-class service performer* will only advance your bottom line if you have *strategic performance measurement* in place to monitor the ongoing results.

The point is that if consulting firms all talk their own language, but do not address the specific needs of each prospective client, then it is terribly difficult to distinguish one firm from another. The "wine" approach of "trying many" is not always the most effective when it comes to selecting a consulting firm.

"The point is that if consulting firms all talk their own language, but do not address the specific needs of each prospective client, then it is terribly difficult to distinguish one firm from another."

If you choose to talk with us about potential projects, I pledge to you in this New Year to clearly describe how the Robert E. Nolan Company differs from our competition with regard to knowledge, ability, hands-on approach and tangible results. I will make sure that our language is in clear terms so that you need to try only one consulting firm. We will be happy to demystify the wine, as well.■

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The past few years I've seen many organizations ramping up their improvement efforts. After two years of companies standing pat, it appears that some are making strides in the operational improvement arena.

It may be leveraging technology which is in place, or it may be aggressively looking at new tools to improve managing the workforce. There has been a renewed interest in lowering unit costs and separating customer-facing operations from back-office operations. The goal here is to make the transaction environment the fastest and most efficient part of the process.

What I've noticed is that the companies and front-line managers who are most successful are those who are passionate about improvement, systematically execute, and have the patience to realize the gains. The most successful managers understand that metrics and workforce management tools (staffing models, call center predictive modeling, workforce management techniques, etc.) allow them to better manage their operation and squeeze cost out.

Facts over "feel" allow for smooth execution. A passion for data and ways to measure performance and improvement are what separate the winners from the also-rans. Everybody talks about performance measures, productivity and quality improvement, but many are not willing to put forth the time and effort to develop the facts, implement the tools and execute the necessary changes based on the information received.

Change may come more slowly than you wish, but there is benefit to staying the course. Observe your improvement trends and make the adjustments which allow you to recoup the benefits you expect. Make the tough personnel decisions and implement the needed stretch performance goals. Expect excellence from your staff, don't just hope for it. Hope is not a method! Execution is critical, and it is the step where many fall down. Executives want instant results. Except for a new system fix to an old known problem or a design change in how work is received or processed, change requires time to implement effectively. Jobs can change, learning is required and comfort levels are disrupted. All take time to settle in, and it becomes about execution.

Evaluate your processes, measure them and track results. Adjust your process and organization to meet expected goals. Be relentless and manage, with data, not just feel. Execute your changes, and then be patient and guide your supervisors and employees through the change. It is about a passion for improvement and the patience to see your changes generate results.■

"In my view, management overrates the motivational appeal of mackerel."

GPS FOR PROJECT IMPLEMENTATION

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I now rent cars that are equipped with GPS (global positioning system) navigation. On a small screen it shows me the equivalent of the mall sign "You Are Here." If I key in where I want to go, a pleasant voice gives me directions.

The problem is that sometimes it's wrong and I don't know it until it's too late. So now I try to at least get my bearings of direction and distance before I let this voice lead me blindly down the road. If I think it's about five miles to my hotel and at the five-mile mark I'm driving through cornfields, I do the unthinkable: I stop and ask for directions.

So what's the point? Many projects undertaken by companies, especially ones with multiyear implementation timeframes, head down the road with their GPS (the project plan) pleasantly voicing the way. What is too often missing is an awareness of where the project is headed, and the milestones. Not only that, but the driver or project manager has probably never been down this road or leg of the journey and is too proud or preoccupied to pull over, stop the car (project) and get new bearings. I have witnessed projects running at breakneck speeds with budget overruns and faulty (or no) testing result in sub-optimized results or pure failure.

All stages of a project should have clear "continue/stop" decision points made by an evaluation group or board. The size of the team and the calendar dates for progress review are the real ways in which the "burn" rate of dollars and people on a project are controlled—so someone needs to have confidence that the GPS is working and, if in doubt, have the fortitude to seek the true answer before progressing.

There are many tools and techniques to assist with successful project implementation, but in the end the GPS has to be trusted and the "drivers" must know where they want to end up. ■

AN EAST COAST BLUECROSS AND BLUESHIELD ORGANIZATION: SUSTAINING COMPLIANCE IN AN INCREASINGLY REGULATED ENVIRONMENT

For decades, this BlueCross and BlueShield firm has been serving the health care coverage needs of its members through Individual and Group healthcare coverage, National Accounts and Medicare/Medicaid program servicing. Today, with significant market share in its service area, the company's employees provide sales, claim payment, customer care and medical management services to millions of members.

Project Objective

In mid-2002, senior leadership recognized an opportunity to build upon already achieved improvements in regulatory compliance and cost trends in member appeals and executive inquiry processing results. The creation of a centralized department in the second quarter of the previous year had not achieved the aggressive compliance objectives expected by the leadership team, and department productivity had plateaued at lower than anticipated levels.

With the publication of Department of Labor requirements, impending HIPAA privacy mandates and increasing attention from a host of state regulatory agencies, management reaffirmed its commitment to establishing and sustaining consistently high levels of production, time service and quality performance. The Robert E. Nolan Company was asked to review member appeal and executive inquiry workflows, design new processes, and create staffing models to allow department management to effectively align resources.

Approach

A two-month, four-phased project deliverable plan was developed and executed by senior leadership, front-line department management, department employees and Nolan consultants. Project phases included:

1. Discovery: Department managers, employees and Nolan consultants

- Current-state process documentation and baseline measures development
- Documentation of work composition profiles and historical metric trends
- Identification of activities and time allocation, by department job role
- Activity costing and review of regulatory agency processing requirements
- Documentation of process, technology, job role and organizational improvement opportunities

2. Collaborative Input: Three department workgroups representing key job roles
   - Validation of identified current processes and work composition profiles
   - Future-state process design, system enhancements and employee skill sets
   - Guided development of future-state production expectations across a three-level range of work complexity
3. Recommendation Development: Workgroups and Nolan consultants with department management review
   - Future-state processes—manual activities and system integration
   - Required skill sets, by job role
   - Future-state metrics and reporting
   - Appeals correspondence triage function to effectively identify and route work
   - Staffing levels, by job role—based upon work volumes, type of work, and work complexity mix and time service constraints for new and pending work volumes
   - Organizational redesign to support the compliance requirements and employee development needs of future state
4. Implementation Planning: Department management and Nolan consultants
   - Development of implementation/success metrics
   - Required activities for each recommendation
   - Integration of all activities into a single plan

- Recommended timeframe staging of individual recommendation implementation, recognizing other concurrent initiatives within and outside the department

Results

For less than 15 percent of the anticipated first-year economic benefits of the project, and working closely with department front-line management, Nolan consultants helped deliver solutions that:

- Have reduced total member appeals case pending levels by 30 percent in two months
- Have placed appropriately skilled resources at points in the process, ensuring consistent achievement and maintenance of time-service compliance requirements
- Have achieved and sustained member appeal receipt acknowledgement and resolution compliance ratios greater than 99 percent within six months of project completion
- Have modified processes and developed staff models which will guide the achievement of $700,000 in net, hard-dollar savings when all recommendations are implemented
- Provide an organizational structure with effective management spans of control and sufficient flexibility to facilitate further, future organizational combinations
- Provide the tools to identify and close department member skill-set gaps and apply appropriately skilled resources to future-state department activities
- Have created automated reporting of work volumes, aging and time-service results

The accomplishments of the company through this project are a direct result of its senior leadership's effective management of the five critical project success elements:

1. Superior senior leadership planning.

2. Clear communication of goals to the project team and all department employees.
3. Identification of necessary internal and external resources to execute the project plan.
4. Meaningful, routine participation by department employees in the development of future-state models.
5. Consistent follow-through by senior leadership and front-line management.

Implementation is nearly complete, annualized savings of more than $600,000 have been realized, and remaining recommendation implementation dates have been scheduled to allow the company to fully achieve identified economic benefits, while maintaining compliance with strict time-service and quality requirements. ■

NOLAN EVENT

February 23 – 25, 2005: LOMA Customer Service Conference

Together, Nolan and Horace Mann will discuss how companies can become more customer centric. Attendees of the session will gain insight into what it means to be customer centric and the benefits this approach can bring to your organization. To register for this conference, visit www.loma.org. We'll see you in Las Vegas!