The Nolan Newsletter

People, Process, Technology

NOLAN

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

92 Hopmeadow Street
Simsbury, Connecticut 06089
(860) 658-1941
(860) 651-3465 fax

17746 Preston Road
Dallas, Texas 75252
(972) 248-3727
(972) 733-1427 fax

Toll-free (877) 736-6526

www.renolan.com

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.

Through the Nolan Newsletter we share with our readers:
- Updates on industry, business, and technology trends
- Client case studies
- Information on speaking engagements, conferences, and web seminars

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Are You Getting Ready?

It is possible that 2008 will be remembered as a milestone business year, more significant than any of the recent past. More important than symbolic years that herald in new millennia or decades, 2008 is important because we are entering what strategists call "an inflection point" from which companies and industries will change dramatically due to external forces beyond their control.

What is causing this inflection point? Simply put, the first wave of baby boomers—13 million of them—will turn 62 this year. In just 14 short years, all 76 million baby boomers will be 62 or older. Interestingly, during this same period, the next population group—Generation X—will begin reaching age 43. However, there are only 43 million Gen Xers. A quick calculation shows a 33 million shortfall in potential replacements for the retiring boomers.

How will your organization respond to the challenges of an evaporating talent pool of experienced executives, managers, and staff, along with the mechanics of supply and demand driving up the cost of human capital? Certainly, with scarcer human resources, business processes and technology will have to be further streamlined for peak performance. Technology that supports straight-through processing—applying business rules that currently reside in employees' minds—will be not only a customer desire but an organizational imperative.

There is no quick fix for these challenges. However, with a 14-year window, getting started now is important. We recommend a four-step, top-down, data-driven process. It consists of 1) assessment, including an analysis of your specific customer base and your staff, to identify your vulnerabilities; 2) gap analysis to measure the magnitude of the issues your company faces; 3) design, consisting of detailed actions needed to address the gaps identified; and 4) deployment, consisting of specific implementation plans with milestones, time lines, and reporting processes to your board of directors.

The time to get started is now. ▪

Ben di Sylvester

Ben DiSylvester
Chairman

Teri Mullaney Joins
Nolan's Health Care Practice Group

Teri Mullaney has joined the Robert E. Nolan Company as Vice President in the company's health care practice. She is responsible for developing and managing business improvement initiatives for Nolan's health care clients.

Teri has an extensive, 20-year background working within the health care industry. She possesses a broad range of expertise and functional knowledge that encompasses health plan operations, medical management, acquisitions and alliances, IT management, marketing strategy, decision support and analytics, quality improvement, and portfolio management.

Prior to joining the Nolan Company, Teri was Vice President, Strategic Solutions for Adaptis, a business process outsourcing company serving the health care industry. In that role, she developed outsourcing programs and managed business relationships with health plans. Teri also served as President and CEO of Q Mark, a national provider of analytical solutions supporting health plan and pharmaceutical company quality initiatives. She also worked for EDS for four years, including the role of Vice President, Commercial Health Care, where she provided business leadership and product direction for EDS' suite of offerings aimed at the commercial health care market.

Teri holds a bachelors degree in Psychology and Management from St. John Fisher College in Rochester, New York.

You may reach Teri in the Dallas office at 972.248.3727 or by email at teri_mullaney@renolan.com. ▪

CULTURE AND THE CHANGES IN
BANK SERVICES DELIVERY SYSTEMS

Bob Grasing
President
bob_grasing@renolan.com

This past month, my wife Nancy and I saw a play, A. R. Gurney's The Dining Room, which uses the vehicle of the dining room in a series of vignettes to depict changes in upper-class family culture during the 20th century. Each scene ran into the next almost seamlessly as unconnected events, but you quickly found yourself understanding the time period based on the dialogue and characters' behaviors. In the early part of the century, the dining room was so formal that children would be rewarded with an invitation to share dinner with the adults. As the century unfolded, it became a point of conflict, where younger family members came to dread the rules of the dining room and actually felt tortured by it as a vestige of old-world decorum. Later in the century, it became a holiday dining room, and everyday dining in larger, open kitchens supplanted "the room" as the norm. The play pointed out how difficult the cultural changes were for some families and made us think about the impact of continuing cultural changes.

We also discussed the play as a metaphor for business, and it led me to think about the branch banking system. When I started banking in the early 1970s, we referred to the teller line as "the cage" (safe money distribution) and, of course, the new-business area as "the platform." Customers needed to use the branch to make deposits, cash checks, pay bills, learn their balances, withdraw funds from their accounts, apply for loans, and get things like passbook replacements when that critical document was lost. Sales and service were interchangeable as the purposes of this institutional delivery channel.

Over the next 30 years, the delivery channels evolved. ATMs and national networks have virtually eliminated the practice of withdrawing cash at branches. In fact, new ATMs will take cash deposits (no envelope is needed) through scanning devices. Loans can be obtained through the Internet or a call center, with the funds deposited directly into customer accounts. Bills are paid through online banking. Passbooks are long gone (or should be), and in fact the new culture of electronic banking has retail and commercial customers alike depositing checks remotely through scanning devices.

With all the alternative delivery channels available, the question becomes the relevance of the branch. When Nolan looks at customer behaviors reflected in transaction volumes and new account activity, it becomes evident that the efficiency of branch delivery will be challenged; particularly with the narrowing margins we have in the current environment.

We suspect that the 21st century will see continued evolution. Our children and grandchildren will be able to video conference with their bankers easily and will be able to link onto online applications as they talk from a remote location. How soon will this transition occur? When we realize that over the last 10 years the percent of assets controlled by the top 25 banks has increased from just over 30 percent in 1996 to nearly 60 percent today, it seems certain that change will occur at a more rapid pace once one or two of the 25 banks start to gain a competitive advantage with a new "financial dining delivery."

The second question: Will your bank simply react to the changes set by the industry leaders? Or, will you architect efficient delivery through carefully structured redesign built around your customers' needs, expectations, and behaviors, all while considering the current culture? Reengineering for efficiency, convenience, and lower cost was never more relevant than it is today, and we believe the banking industry will transform in the near future. ▪

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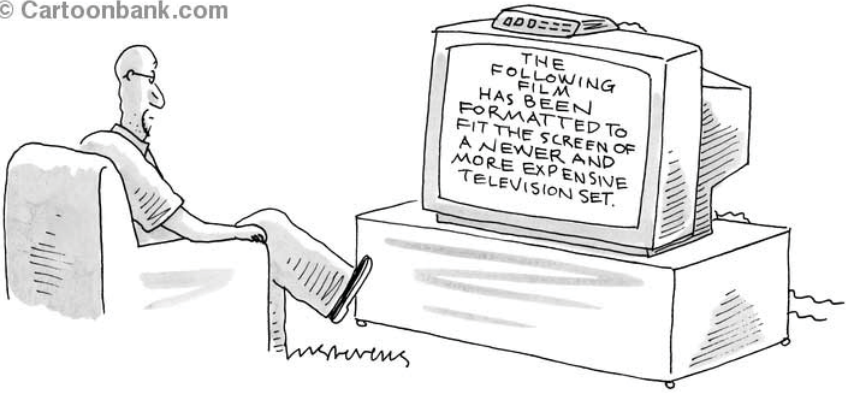
Skilled Project Leadership—
The Road to Success (or Failure)

Karen Sloat
Senior Consultant
karen_sloat@renolan.com

I recently found myself asking why some endeavors seem to almost implement themselves while others, no matter how much effort appears to be expended, seem to falter and/or take much longer than expected to achieve any measurable success.

As I thought about it, I could have listed a number of factors that impact how successful any given project will be. First of all, the project must have the appropriate management support at various levels throughout the organization. Without buy-in from the management group that will be impacted, implementing change will be an arduous process at best.

Second, there must be a solid project plan. This road map alerts the project team to the activities that must be done, time frames to be met, and dependencies that may exist. The project plan becomes the gauge as to whether the project team is on target to deliver on time and meet the stated objectives of the project. It should be the foundation for status reports that update management on the team's progress.

At this point, I realized that I have known of projects that have had the appropriate management support and what appeared to be a comprehensive and realistic project plan, but which still struggled with the execution of the plan. In retrospect, I can attribute this to project leadership.

The appointment of a skilled project manager is critical to the success of any major endeavor. Too often, the individual selected is someone who may be technically proficient in a given area, but who lacks the leadership skills needed to ensure project execution. Ask yourself some of the following when selecting someone to be your project manager:

1. **What is the individual's background?** If it is a technology-driven project, does the person also have an understanding of the business? If not, can the person work with the business to strengthen his or her understanding of the business process?

2. **Does the candidate possess strong written and verbal communication skills?** In any given project, much of the project leader's success will depend on his or her ability to communicate with team members, other affected departments, and the executive team sponsors. The ability to actively listen to the

project members to understand the requirements of the venture is also essential.

3. **Is the individual comfortable interacting with all levels of the organization?** Depending on the scope of the project, the leader may be called upon to give status reports and presentations to executive management. The same person may need to interact with the staff members who actually perform the work in today's environment. Selecting someone who understands the nuances of dealing with different personality types and job levels within the organization will increase the chances for success.

4. **Does the individual have experience in facilitating groups, meetings, or workshops?** Can he or she direct a multi-functional team of people toward a common goal?

5. **Finally, has the person demonstrated strong problem-solving, decision-making, and organizational skills?** Does he or she know when to be independent and when to escalate an issue to the appropriate individual? Is the candidate goal-oriented?

As an organization, you have probably invested significant time and resources in scoping and defining the business issues that lead up to the decision to go forth with a major technology or process-related project. Give it every chance to succeed! Take the time to ensure that you have selected a project manager who can lead the team to a successful implementation. ▪

"Did you think the ladder of success would be straight up?"

It's All About Price

Clay Ricord
Senior Consultant
clay_ricord@renolan.com

Have you had an experience where professional lessons learned and your personal life come together to really drive a point home? This is one of those stories. Recently, I had the chance to observe the same behavior from two sides of the call center phone—the consultant's side and the consumer's side.

In most engagements, especially those involving processes, a call center will be involved to some degree. Today, call centers are a central part of service and sales delivery, not just at insurance carriers, but in virtually every type of business. At their best, they pose challenges for businesses and create frustration for consumers; at their worst, they are a barrier to business. Call centers are a key customer touch point, one of the few occasions when you will actually have contact with many of your customers and prospects. Call centers have also become significant cost centers, consuming large investments in technology and staff.

Let's talk about the consultant perspective I saw in a recent assignment with an inbound call center. The review involved looking at the processes in place and finding opportunities for improvement, and the call center was one of the areas in scope. That meant looking at those things that present a barrier to the purpose of the call center and that increase the effort (expense) to reach the goals. There were a number of call flows, documentation processes, queuing practices, and behaviors that could be changed to provide better results and reduce total call time and operator work time. These actions would improve the call center productivity and improve the results, but what was most striking was what was missing— and it was consistently absent across agents. It was the message of how the client company adds value, how it is different from the next name on the list.

This client had a powerful story of differentiation to tell. They did, indeed, add a lot of value for the consumer, but this was largely unpublicized. The typical caller is confused about the factors that make up an insurance product, and as a result, consumers view it as a commodity; there is no question that price is a driver for the consumer. I would suggest that value is also a driver, especially in cases where the price difference is small. The call center representative did not attempt to interject value features into the conversation. The conversation basically covered qualification, data

gathering, and a price quote. Many prospects said that they would call back. A small percentage asked questions about coverage and service.

Now, on to my own experience as a consumer. We recently purchased a condominium in a different state and needed insurance. We did what most consumers would do: we applied online and by phone. We contacted about seven different insurance providers—direct writers, captives, and independent agents. We explained that we wanted to get insurance and supplied the particulars. Yeah, you guessed it: we received prices, but no one offered any reason to buy from them other than price. When we asked about coverage and service, the responses ranged from really good explanations to silence followed by an admirable attempt, but there were no compelling answers.

Clearly, this is not a reflection on any of the call representatives or call agents; they are doing what the instructions prescribe. They qualified the risk, got the information they needed, and offered a quote. But adding value has always been the crux of every successful business model. How that value is added can be different, but having a reason for customers to pick you over the next company seems to be a fading art. It would be worth a listen to your call center's calls to see if this is being played out in your organization. ▪
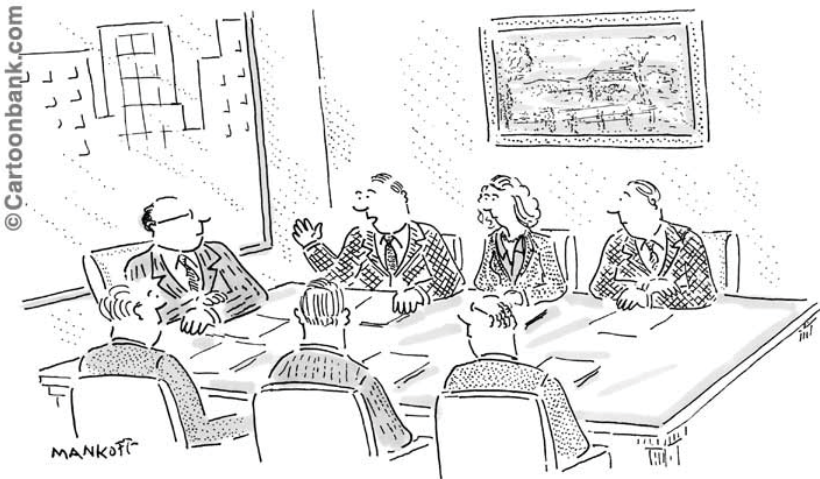
"On the one hand, eliminating the middleman would result in lower costs, increased sales, and greater consumer satisfaction; on the other hand, we're the middleman."

Gaining Perspective

Greg Madsen
Senior Consultant
greg_madsen@renolan.com

Those who are working to improve their business need a perspective on the issues and situations they face—a simple and obvious statement with the core phrase being "*need a perspective*." We *need* perspective in order to form, develop, and strengthen our beliefs. We *need* perspective in order to rationalize our actions. Frankly, we *need* perspective in order to adjust our attitudes. We *need* perspective so that we can get on with the business of improvement.

Without perspective, we might form unsupportable beliefs, make irrational decisions, draw irrational conclusions, and go off half-cocked. We might believe that the underlying cause for low productivity is a software application when, in fact, the software may be fine but the work processes are inefficient. We might authorize a large expenditure to fix a problem and when the problem remains, rationalize the expenditure as needing to be made anyway. We might form a negative attitude toward a suggested course of action simply because we do not understand the reason for the action in the first place. All of these misdirections are the result of a poorly formed or incomplete perspective.

Without perspective, we might form unsupportable beliefs...

So how does one go about acquiring a perspective shaped by minimal bias and maximum observable facts? There are at least six ways to acquire this type of perspective:

1. **Read from a variety of sources.**
    Different sources all talking about the same topic will spark new thoughts and ideas. These ideas tend to motivate readers to seek more information—information that will foster a fact-based perspective.

2. **Talk to an expert.** Experts can be biased, but they can also save you years of knowledge building. I have found that once I know enough to be dangerous, talking to an expert helps me discern whether further discussion will give me additional useful information. In those cases, I listen and learn.

3. **Gain experience.** Sometimes trying a particular course of action while tracking results will yield information that is useful in

gaining a perspective. But be ready to check your ego at the door—not every action produces positive results.

4. **Compare and contrast.** Look for ways to compare your current perspective with another similar environment. For example, if there are two similar bank branches or two insurance claims units, look to baseline, measurable data to help formulate a perspective. Ask yourself, "Why do the two units perform differently?" and "What are the important variables?" Alternatively, set a baseline and measure changes over time. Keep track of the changes that have occurred and note their effects.

5. **Understand and use Pareto.** My personal favorite, the Pareto Principle (also known as the "80/20 Rule"), basically says that when two variables are revealed, there will be an unequal distribution of results. This unequal distribution occurs in almost every environment and seems to be a basic law of nature. Recently, I was looking at a unit that had 10 different systems. Three of these systems process 84 percent of the work. Guess which systems I looked at first to find improvement?

6. **Engage group think.** When properly set up, a group will almost always have a better perspective than a single individual. A group will develop better plans, determine better solutions, and generally have better approaches to solving a problem than an individual—all because they have a broader perspective. You can use group thinking to help develop your own ideas.

All of the approaches listed above will push us toward gathering more information. Some of the information will be objective and fact-based, while some will consist of opinions based on experience and bias. In each case, thinking through the implications of what is learned will lead to a better-formed perspective.

Gaining perspective takes time and effort—and both are well spent when one is striving to make improvements in their work environment and life. ▪

The Unsqueaky Wheel Might Need the Grease

Hayden C. Jones, FLMI
Managing Consultant
hayden_jones@renolan.com

A history major in college, I was privileged to have Dr. Serf, the department chairman, as one of my professors. In one class on American history, we discussed the pioneers and the difficulties they faced each day as they trekked west. After walking and riding all day, they would stop at night to eat and rest. The children would gather firewood, the women would cook, and the men would tend to the stock and prepare for the next day's travel.

The men would pull out buckets of some slimy goo and use it to grease the wagon wheels. They greased the wheels each evening, even though the wheels were not squeaking. They did this not to fix a known problem, but to prevent a serious problem from occurring at a most inconvenient time—imagine a wheel falling off or breaking while trying to outrun a buffalo stampede or an Indian attack.

In today's work environment, I often hear management questioning why we consultants want to look at a process when it's "running so well." Having spent 22 years in operations, I can understand the question. In most organizations, the front-line, second-line, and often third-line managers spend most of their day dealing with crises. With broader spans of control and, many times, a lack of technical knowledge about what their people actually do, they have only enough time and desire to address problems at hand—not look for others. The old adage "It's hard to drain the swamp when you're up to your butt in alligators" seems to apply.

Just like those pioneers who crossed the plains, we need today to think in terms of preventive rather than reactive management. Manufacturing has recognized the need to keep the production line moving; not only that preventive maintenance is necessary, but it is more cost-effective than waiting for something to break and shutting down the line when it's least convenient. For some reason, the service industry seems to have ignored the concept of preventive maintenance.

Now you ask, "What can I do when I have so many problems to fix every day?" Since I like to make lists, here is my list of things you can do to prevent the wheels from falling off at a most inopportune time:

Addressing the Unsqueaky Wheel...

1. Don't try to look at everything at once. This leads to overload and, soon, nothing gets done. Try picking one well-running process each month and look at it a little each day.

2. Prioritize—decide which process will be reviewed first:
- How many widgets do we run through this process each year?
- How often do we use this process (hourly, daily, weekly, monthly)?
- How many of my people (hand-offs) are involved in the process?

Remember, the larger the volume, the more frequently used, and the more people involved in the process, the greater the likelihood of big problems when things go wrong.

3. Don't do it all yourself. Enlist the aid of your people, your peers, and if appropriate, your customers. They will often hear a squeaky wheel long before it comes to your attention. Often, they can offer solutions to future problems.

4. Develop a list of key indicators, both good and bad, that will help identify a change in the process:
- The time it takes to produce a widget
- The number of customer service calls received about a process
- The ratio of widgets produced per employee
- The cost per widget
- The volume and age of the backlog

These indicators will often clue you into a developing problem before it becomes a crisis.

5. Don't wait for major problems before you ask a consultant to review your operation. They have no vested interest in your operation other than to provide you with information that will help you fix the broken wheels, and they will also identify the unsqueaky wheels that will become problems if not addressed.

We take preventive action every day. We paint houses before the wood rots, get our cars serviced to prevent breakdowns, and submit to flu shots. Why not apply the same practice to our professional lives? Now, go grease some unsqueaky wheels. You never know when the buffalo will come. ▪

CLIENT SPOTLIGHT

Project: Underwriting Process and Infrastructure Redesign

Client: A Large National Underwriter of Commercial P&C Lines

Industry: Property & Casualty Insurance

Product Lines: Commercial Auto, General Liability, Property, Umbrella, and Workers' Compensation

Objective

The primary objective was to redesign the long-term, end-to-end underwriting vision and infrastructure to:

- Build capacity;
- Increase efficiency;
- Improve the ease of doing business for customers; and
- Help retain, develop, and attract underwriting talent.

Current Environment

Historically an industry leader, the client's strategy had been to develop sustainable growth and profit through line-of-business diversification and joint agency appointments with its other internal companies. Existing processes and systems focused on existing lines and industry segments—not on diversification or its agent base. Service and cycle times were well below industry standards and agent expectations.

The processes and current structure in place resulted in: extensive cycle times; limited ownership at all levels within the organization; multiple and confusing contact points for agents; internal underwriting focus to the exclusion of the agent; and extensive hand-offs and "non value-added" tasks. Poor processes contributed significantly to unacceptably high employee turnover, unacceptably high expense ratios, and inconsistencies throughout the organization. These factors made performance

and process management difficult, at best. The underwriting process focused on the lines and industries, resulting in a single line-oriented process rather than a diversified, agency, or policyholder focus.

Project Scope

Nolan interviewed home office executives and field staff at all levels to identify potential process improvement ideas. Extensive data was collected and analyzed to objectively identify existing and future book profiles. We also conducted a series of process redesign off-site workshops to document existing processes, define the customer, and to develop the following:

- New processes that were customer focused;
- Supporting structures, including new position descriptions and performance criteria;
- High-level staffing models; and
- High-level process implementation plans.

We tested each new process using the walk-through method. A series of presentations and workshops were conducted with home office support groups—Underwriting Services, Systems, Loss Prevention, Marketing, Human Resources—to enable them to reorganize and coordinate their activities to support the new operational processes and structures.

Project Results

Through a facilitated, collaborative approach, cycle times for new, renewal, and mid-term transactions will be reduced by over 50 percent while increasing underwriting capacity by nearly the same amount. In addition, agent contact is streamlined with a single point-of-contact. The supporting operational and head office structures will foster underwriting talent development and retention (career-path development), improved underwriting discipline, multi-line (diversified) approaches, and agency management and development.

Why Are So Many Projects Late?

Linda Bambacus
Senior Consultant
linda_bambacus@renolan.com

"When a task cannot be partitioned because of sequential constraints, the application of more effort has no effect on the schedule."—Frederick P. Brooks, The Mythical Man-Month: Essays on Software Engineering

It's one of the harshest realities of project management: some things really just take as long as they take. And adding more people won't make things better—or faster.

Frederick Brooks' essay was prompted by the fact that many software projects are "late." He highlighted many of the chief reasons so many projects get behind (and stay behind)—changing requirements, inadequate planning, and ineffective communications. Faced with a high-profile project that is slipping behind schedule, many companies try to rectify the situation by adding more people. The highly-scientific phrase used for this problem-solving method is "throwing bodies at the problem."

In reality, adding more people often makes things worse, not better. If a project is already poorly planned or poorly managed, the application of more resources will likely exacerbate rather than alleviate the problem; in turn, even more time and effort to get things right will be required. In the end, devoting more resources to a failing project can actually accelerate the failure rather than avert it.

What if we could do a better job up front when it comes to estimating time and resources? Wouldn't that avoid the problem altogether?

The answer hinges on *three* important project realities:

1. Uncertainty: Even the most painstakingly prepared project estimates (of time and people) are only as good as the facts and assumptions upon which they are based. The earlier an estimate is provided in the project life cycle—before clear requirements or design decisions have been determined—the less precise the estimate will be. That's why defining what the project requirements are (and what they are *not*) sooner versus later is so important.

Continually refining estimates as project deliverables become better defined is crucial. Breaking big projects into smaller deliverable chunks can lessen risks associated with big deliverables and reduce the variability associated with estimates. That means there is a better chance that

estimates about time and resources will be more accurate and will enable you to staff your project appropriately.

Reducing uncertainty enables you to logically subdivide the work to be done and quantify the types and numbers of resources needed. Only then can you determine if your resource plan is appropriately balanced and, if not, what needs to be done to correct it.

2. All Work Is Not Created Equal: All work—and therefore, all project time—is not created equal. You can't necessarily take a one-person project estimated at six man-months, add one more person, and turn it into a three man-month project. Project math doesn't work that way.

The amount of work one person can do and the time it takes to do it depend upon the *specific* work involved, the *specific* skill sets required to do it, and the *specific* project circumstances at that point in time: whether scope is *defined* or not; requirements are *complete* or *incomplete*; key decisions are *made* or still *pending*.

3. Estimates Are Almost Always Biased: Most of the project estimates I've seen have been based on what are usually described as "most likely" scenarios. That sounds perfectly reasonable. But for a project that consists of many different tasks and a high degree of complexity (sounds like most of your projects, doesn't it?), this estimating method doesn't work. In fact, it tends to produce gross underestimates.

In your experience, how often have a set of complex items all been completed exactly on schedule, even when that schedule was deemed to be "most likely"? Not often, I'll bet. That's because it takes only *one* variable to exceed the "most likely" estimate and bingo—you are now behind plan and off schedule.

Estimating any task (regardless of its complexity) based on a "most likely" method is going to yield a project estimate that understates the total actual duration. Why?

We're back to item #1 above: uncertainty. When multiple tasks are being executed simultaneously (or in close proximity), it takes only one that exceeds its estimate to make the entire project late. As a result, the more tasks and the greater the complexity, the more chances that this will happen.

In the end, the most effective way to deliver projects on time is to focus on reducing uncertainty. Doing this produces more accurate estimates that take real-world risks into account. This can help you avoid throwing bodies at the problem when it's clearly too late to make a positive impact. And remember, common sense should always prevail. ▪

ER Treatment for Your Bottom Line

The Robert E. Nolan Company offers to all banks and financial institutions over 900 million in assets a free Efficiency Ratio analysis unlike any other available in the industry. This analysis allows participants to compare their bank to the competition on a line-by-business-line basis on: Income, Expenses, Staffing Levels, and Productivity.

With this detailed ER analysis, you can see how your bank's efficiency and productivity compares to a pool of other participants of similar asset size on over 80 lines of business. It gives executive management a structured process for identifying department and lines of business that have the greatest opportunity for immediate profit improvement. And best of all, it's free.

What Is in It for You?

The analysis will provide directional assistance that will quantify and prioritize specific areas where the greatest opportunity for improvement exists. The information provided goes well beyond the typical peer group comparisons with over 1,200 unique and exclusive charts showing how your bank compares to your peers with regard to top-tier (the top quartile of banks in each line of business), median, and averages. To maintain participant confidentiality, only aggregate top-tier (benchmark), median, and average data is reported.

Comparisons Beyond Compare!

Each participant will receive a customized CD that will contain:

- A Management Summary listing the best and the most likely areas for targeted improvement;
- A Detail Results Report that prioritizes opportunities;
- Over 1,200 charts within 12 major functional areas that contain 3 measures on each chart (over 3,000 measures) including benchmarks, medians, and averages. For multi-year participants, year-over-year comparative data is also included (over 4,000 measures); and
- A summary of participant opinions on vendors on over 70 system types (application processing, sales tracking, web hosting, etc.).

To see a sample of the output you will receive, log on to **www.bankbenchmarks.com.** Don't miss this valuable opportunity. Register today by contacting Deborah Ayers at 877-736-6526 or at **deborah_ayers@renolan.com.**
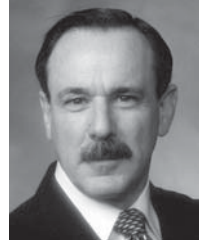
Registration deadline: March 12th, 2008
Input deadline: April 30th, 2008
Results: Distribution will begin late June 2008

Process Mining and Customer Retention

Tim Lauer
Senior Consultant
tim_lauer@renolan.com

Merit Smith
Vice President
merit_smith@renolan.com

Customer retention is an important business goal. Corporations design systems, purchase hardware and software, convert and upgrade applications, and deploy new telecom technology. They hire and train more staff, and they expand their managerial staff, too. All this in pursuit of better retention.

Sometimes, even with gigantic investments of time, money, and staff, improvements in retention prove elusive. Barring competitive issues, if we assume that the customer became a customer because she desired the value received, the retention process is not operating within design parameters or the design is flawed. How do we get to the truth so changes that result in improved customer retention can be made?

Some of the tools we use to evaluate processes are value mapping, face-to-face interviews, direct observation, inside and outside surveys, tracer objects, flowcharting, and simulation. Depending on the size and complexity of the process, the number of outsourced sub-processes, and the organizational span of the process, we may use any one or a combination of these tools to find truth. In some cases, we use the relatively new science of process mining in our discovery mode to diagnose automated processes, such as those defined and managed through automated workflow systems.

Process mining is a form of data mining applied to a specialized data set.

Process mining is a form of data mining applied to a specialized data set. Whereas data mining finds patterns in generic data, process mining finds patterns in data specific to processes. We can't identify market-related issues or product-acceptance issues with process mining, but we can tell if the activity in question is operating within specification or not. In cases where no formal design exists, process mining can be used to reverse engineer the design so management teams can consider changes and their potential impact on the activity in question and/or upstream and downstream processes.

For example, are customers receiving their policy before the start date? Why is it taking 45 days to underwrite a case when we hired up to achieve a 15-day turnaround? Where are the bottlenecks with our outsourced service providers? What is actually happening in our process compared to the original design document? Where is the best place to add a retention activity in our existing process?

Process mining is directed at finding unknown patterns from the data that are useful in decision-making. The data comes from the log files captured by Web sites, automated workflow systems, telephone systems, inquiry management systems, transaction capture, and other systems. If log files are not kept, tracer objects may be submitted with some form of data-capture mechanism attached. The results from these tracer items are used to create a pseudo log file that can serve as process mining input.

Most transaction systems use their log files to diagnose performance problems or to help rewind the system to a certain point in time after a system failure. Some log files are used by auditors when reviewing control or quality issues. Then, the log data is used to trace single instances of an activity to a single point in time or place in the organization. Process mining works differently: it uses log file data in a relational context by grouping similar objects by operator, activity, or location along a time dimension. From this, statistics are gathered, and inferences about the entire process can be made.

Process mining can differentiate types of activity by a specific identifier or by the activity's behavior compared to all other activities. For example, a request from a customer for a policy reprint might have a different routing than the same request from a broker. Process mining can also define social networks within an activity—who works together, who hands off work to whom, and so on. We can use this information to help guide interviewing and to determine the real-life activity within the process. Comparing this to the design or requirements of the process often reveals points for improvement.

In our business, results count more than concepts, and performance counts more than presentation. If you have a process that defies explanation or is not responding to management input, we can help uncover problems and implement corrective action. Is process mining the right tool for your company? We can help you find out and along the way, perhaps, find those change points in your process that will really improve your customer retention. ▪

Teamwork —It's Execution at All Levels!

Dennis Sullivan
Chief Executive Officer
dennis_sullivan@renolan.com

When the Red Sox recently won their second World Series, something one of the players said at the post-game celebration struck me. Granted, as a long-suffering Red Sox fan, several things about post-win celebrations interest me. After waiting my whole life for a Red Sox world championship (it came in 2004), I now have a different outlook. Gone are the days of screaming and jumping around my living room, and having my kids watch as Dad lives and dies with every pitch. Now, I'm able to actually listen to post-game interviews without having to call everyone who ever attended a Red Sox game with me going back to my college years.

As many do in times of triumph, one of the players said, "It was a real team effort; all twenty-five guys had a part in this win." This is standard fare. What came next was a little surprising. He noted the contributions of the three owners (sure—they pay his salary) and their genuine interest in each player's family. But then he went on to thank the pitching coach, two little-known bullpen pitchers, a clubhouse trainer, and on and on. There was mention of the players' wives, the support the organization gives the families, and even one player who came to the team with 20 games left who had never been on a World Series team. This allowed me to see into this organization and how important everyone's contribution is to the success of a team, an organization, a company, or your department.

It was a unique look into the workings of an organization that had changed the face of Boston baseball in just four years. It was about recognizing everyone's contribution to the organization, like the office staff (who had their own float in the Boston celebration parade) and the number-crunchers who play such a significant role in today's personnel decisions. It hit home because I thought about our own company and the client companies with whom we work. How good are we at providing the resources, training, and support for all our employees? How good are we at recognizing the contributions of each person on the team?

> *It is about "teamwork."*
>
> *It is about recognizing*
>
> *everyone's contribution*
>
> *to the organization...*

Yes, at the end of the day, it is about executing a plan effectively. You need the talent. In baseball, it may be about the 25 guys on the field. In business, it may be about the salespeople on the street, the service center representatives on the phones, the claims adjusters visiting your home, or insurance agents helping you plan your financial future. But behind the scenes, it is the people in the back office; it is the technology support we provide our field people; it is material provided to communicate our product message. All these services are the result of people behind the scenes doing their jobs so the customer-facing parts of the organization can deliver on a promise that our product or service makes.

It is about *teamwork*. It is about working together to execute a plan, and it takes the recognition of everyone in the organization. No one does his or her job in isolation: that person needs the support of others. So maybe today—without the fanfare of a World Series championship trophy or a ticker tape parade—you can just say thank you to your support staff, your sales assistant, the underwriter who went the extra yard to help make a sale, and yes, maybe even that IT person who got your system back up and running when you needed to get a proposal to the home office. We don't have to wait for the World Series to thank and recognize those who are behind the scenes but still part of the team. ▪

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"Well executed, both of you!"

WHAT IS GOOD CUSTOMER SERVICE?

Larry Wood
Senior Consultant
larry_wood@renolan.com

Most of our clients pride themselves on the level of service they provide to their customers. During the course of our work with them, we often conduct surveys of current and past customers to get an objective view of service levels and customer satisfaction. Some companies are surprised by their customers' responses, while others consistently find that they have a good understanding of their customers' needs and expectations.

So what *is* good customer service? Based on our experience, there are some common themes. For example, good customer service *is*:

- Having an internal environment that is committed to customer service—a true service culture as demonstrated by the statements, actions, and behaviors of the organization's leaders.

- Being available to customers when they want to do business. Increasingly, this means longer business hours, often approaching 24/7/365 coverage. It also means being available immediately, without extensive delays, wait times, or queues.

> *Good customer service is being able to complete/resolve customers' requests and issues in one transaction a high percentage of the time.*

- Providing points of contact that are convenient to customers. Points of contact include face-to-face encounters, the telephone, the Internet, and the mail. The key here is not to select one means of communication as the sole strategy, but to provide access in all the ways your customers want to do business.

- Having access to all customer information and accounts at the point of contact with the customer.

- Being able to complete/resolve customers' requests and issues in one transaction a high percentage of the time.

- Having regular measures of customer service levels and customer satisfaction.

- Taking immediate action to resolve lapses in the customer service process.

Good customer service is *not*:

- Having a published but underachieved customer service strategy.

- Bending rules and policies to make customers happy.

- Handling problems and complaints very well. (Good customer service is about avoiding problems and complaints.)

- Apologizing repeatedly for service lapses.

- Trying to solve service problems with technology alone.

- Measuring the performance of services with anecdotal, complimentary letters from customers.

These lists may seem like common sense, offering few new insights. The fact is that many companies lose sight of these fundamentals when they implement new processes, technology, and policy changes. A good way to remain focused on customer service objectives is to measure the outcomes of customer contact transactions.

Measuring the effectiveness of the components of customer service entails a multi-level analysis. It includes measures of the mechanics of the process (such as call center metrics of wait time and call abandonment), review of technology performance (system availability and performance), monitoring of customer service representative interactions with customers, and periodic surveys of customer satisfaction.

Excellent customer service and customer satisfaction with service transactions are essential components of customer retention.

Excellent customer service and customer satisfaction with service transactions are essential components of customer retention. Studies have shown that small improvements in customer satisfaction translate directly into higher profitability because the cost of retaining existing customers is much lower than the cost of acquiring new ones.

In the financial services industry, product differentiation is disappearing. Service differentiation, however, is a different story: by delivering positive experiences to customers, it is possible to lock in customers and gain a competitive advantage. ▪

The Strategic Impact of Poor Data Quality

Eugene Reagan
Senior Consultant
eugene_reagan@renolan.com

This is part two of a two-part article. Part one appeared in *The Nolan Newsletter - Fourth Quarter 2007*

Overheard Conversation No. 2:

"Weren't we going to start marketing annuities to our loan customers?"
"We were, but pulling the data together turned out to be too much work."

The Approach to Data Quality

Complete data quality can be achieved only by understanding the expectations of each of these customer groups. Each audience must evaluate the current and proposed data in terms of quality factors that include:

- Accessibility
- Accuracy
- Completeness
- Ease of manipulation
- Objectivity
- Relevance
- Security
- Timing

The overall quality improvement must include the following steps:

1. **Define the dataset.** Everyone involved in the analysis must have a clear understanding of the sources of the existing data and its uses in the proposed new environment. This may include all the data produced in support of a particular process or task, all the data produced from a single system or set of programs, or selected data that will be pulled from various systems into a single database or data warehouse.

2. **Identify the customer audiences.** Who will represent the information collectors, custodians, and consumers? These individuals will provide subjective and objective evaluations of the data quality, both now and in the future.

3. **Develop analysis information.** Objective measures of quality—such as error rates, incident reports, and response time statistics—should be used when possible. It is important to remember at all times that data quality problems are not necessarily systems issues. High error rates may be related to employee training or turnover, and data quality may never be acceptable until those problems are addressed. Frequently, objective assessments of data quality will be difficult to obtain.

Therefore, subjective assessments must be developed through interviews and surveys of the different customer groups. This can be tricky, even when objective data is available. For instance, a 2 percent error rate may be satisfactory for the information collectors but absolutely unsatisfactory for the information consumers, who hope to use the data for specific, targeted purposes.

4. **Identify and evaluate discrepancies.** Identify the particular quality dimensions that are perceived as problematic by one or more of the survey audiences. Address these discrepancies as symptoms during the quality improvement process.

5. **Understand the "metadata."** When the data is to be used in a new database or data warehouse, there must be an understanding of the metadata, the data about the data. These are the conventions or standards related to format and content that will be used in the new application. For each data element, these characteristics include:

- Name
- Definition
- Description
- Field layout
- Processing restrictions
- Source system or program
- Target system destination

6. **Perform root cause analysis.** Attack the major categories first. Focus on specific data elements that seem related to the symptoms previously identified. These problems may not be related to the format or content of the data elements themselves; they may be the result of training issues or process flaws that had little impact in the existing environment but cannot be tolerated in future activities.

7. **Develop and implement solutions.** Specific implementation plans must be developed to address all of the data quality issues that are identified. These plans should outline definite responsibilities and detailed timetables.

It is vital that insurance companies address data quality issues in an organized, aggressive fashion. Such an approach maintains the credibility of all system development efforts and will reduce the time and cost required to deploy a system. Most importantly, it enables the implementation of key business strategies, which leads to opportunities for revenue growth. ▪

P&C Survey in Progress

Nolan's bi-annual property and casualty industry survey is now underway. As management consultants to the insurance industry for over 30 years, Nolan is again conducting a survey to better understand, articulate, and compare the issues that insurers face. The survey is valuable for participants and for the industry because the results often shed new light on the future and on the factors that will shape it.

When the research has been completed, we will distribute our findings, free of charge, to all participants. Our summary report will highlight key issues and resulting strategies that P&C executives will confront over the next couple of years. The results of this study will provide valuable information regarding underwriting, claims, and contact centers—information that is not readily available from other sources.

The survey is available online at **www.renolan.com/pcsurvey**. Please contact Deborah Ayers at deborah_ayers@renolan.com, or call 972.248.3727 with any questions.

Nolan Events

LOMA Emerging Technology Conference
January 28 - February 1, 2008: Tampa, FL

Nolan is pleased to be a Bronze-Level Sponsor. ***www.loma.org***

ICMG 24th Annual Meeting
February 5, 2008: Scottsdale, AZ

Nolan Chairman Ben DiSylvester will present "Strategies for a Changing Industry." ***www.icmg.org***

NAMIC Commercial Lines Seminar
February 28, 2008: Chicago, IL

Steve Discher (Nolan Senior Vice President) and Joanna Nelson (Wausau-Liberty Mutual Manager of Commercial Lines Process Improvement) will co-present "Radical Underwriting Redesign: How to Streamline Operations to Create Capacity and Improve Ease of Doing Business." *www.namic.org*

LOMA Customer Service Conference
March 4, 2008: Orlando, FL

Steve Callahan (Nolan Practice Development Director) and Kirsten Kaczor (American Family Life Insurance Company Services Team Manager of the Life Operations Inforce Contact Center) will co-present "Creating a Call Center: A Straightforward Approach." *www.loma.org*

Women Business Leaders Summit
March 5-7, 2008: Washington, DC

Nolan Vice President Teri Mullaney is a board-elected member of the Women Business Leaders of the U.S. Health Care Industry Foundation. Nolan is a Bronze Sponsor at this private event. *www.womenleadinghealthcare.org*

The Life Insurance Conference
April 7-9, 2008: Las Vegas, NV

Nolan is pleased to be a sponsor of this event. *www.loma.org*

BAI National Loan Operations Conference
April 28-30, 2008: National Harbor, MD

Nolan President Bob Grasing will present a Nolan Client Case Study on Staff Modeling. *www.bai.org*

Farm Bureau Annual Conference
May 30-31, 2008: Seattle, WA

Nolan Senior Vice President Steve Discher will present on technology trends. *www.aaic.com*

2008 IASA Annual Conference
June 1-4, 2008: Seattle, WA

Nolan Vice President and Health Care Practice Director, Merit Smith, and Thomas Newman, Executive Vice President of Operations at Foundation Surgery Affiliates, will co-present "Business Analytics: Unlocking Your Data" on June 3. Nolan will also sponsor the conference's keynote address. *www.iasa.org*