The Nolan Newsletter

People, Process, Technology

NOLAN

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

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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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Thirty-Five Years Young

The Robert E. Nolan Company marks its thirty-fifth anniversary during the month of April. Achieving this milestone puts us in a very special group of consulting firms in terms of longevity. More important than longevity, however, is reputation in the marketplace. That's where we owe so much to you, our clients. Thanks to your confidence in us and your commitment to implement strategic changes, our reputation for results and our collaborative working style are unparalleled in the industry.

We are also proud of our experienced staff. Fifty percent of our staff has been with us for 15 years or more, with 16 Nolan members marking their twentieth anniversary or more with the firm. However, tenure alone doesn't mean much if we don't stay ahead of the curve in terms of knowledge and performance. Our staff's constant quest to identify and understand what drives success in our specialties—the insurance, health care, and banking industries—continually add to Nolan's intellectual capital. This results in new and more effective approaches that our consultants use to help clients address increasingly complex challenges.

A few years ago, one unnamed consulting firm exclaimed, "We don't learn from our clients, our clients learn from us!" The Nolan Company believes this is a two-way street. We believe that our approaches to consulting are rendered more effective because of what we have learned from our life-long experiences in the industry. We have seen various forms of leadership, decision-making, vision, values, and teamwork. Our methodologies of structured analysis are applied in the context of these real-life work experiences. The patterns of achieving success and avoiding failure have become clearer over the years based on these experiences.

In future editions of this newsletter, we will continue to share some of the best of what we have learned over the years. You can be sure the Nolan Company looks forward to another thirty-five years of working and sharing knowledge with you to ensure your success in these interesting times. ▪

Ben DiSylvester

Ben DiSylvester
Chairman

2008 P&C SURVEY
HIGHLIGHTS INDUSTRY EXECUTIVES' PRIORITIES

In the fourth quarter of 2007, the Robert E. Nolan Company surveyed executives in the property and casualty insurance industry. This survey, titled "Property and Casualty Operations Opportunities for 2008," gave executives the opportunity to describe the issues that are receiving their greatest attention. It also asked respondents to weigh in on a variety of operational topics and challenges that they face in 2008. More than 100 executives participated in this survey, representing a broad spectrum of companies—large and small, stock and mutual, agency and direct writers.

The survey collected information for five key operational areas: Personal lines underwriting; Commercial lines underwriting; Customer service contact/call centers; Claims; and Claims contact/call centers.

Within these categories, several key priorities and perceptions emerge:

- A continued emphasis on underwriting profitability, with growth, customer service, and implementation of technology at a lower tier of importance.
- Expansion in the use of customer service (non-claims) contact/call centers.
- Slow growth in the use of the Internet for customer-facing activities and transactions.
- An emphasis by claims functions on control of loss costs, with more priority given to litigation management and the improvement of staff skill sets.
- A continuous (but slow) increase in the use of claims contact/call centers and gradual expansion of duties and responsibilities.
- Satisfaction with employees' understanding of organizational visions, missions, and value propositions. Less confidence, however, in the quality of work product, project management skills, and the organizations' ability to find and develop the talent required for the future.

The detailed findings report elaborates on the issues and solutions of these and other priorities of participating companies. It explores the responses and their implications by company type, size, distribution channel, and split between personal and commercial lines. It also examines similarities and differences in responses compared to the most recent Robert E. Nolan Company P&C survey, released in 2005. The findings offer thought-provoking perspectives and suggestions for attaining higher levels of performance and success amid the turbulence and competition.

The full report will be provided first to survey participants. In mid-April, it will be available to others. To receive a complementary copy of the complete survey results, visit www.renolan.com/pcsurvey. ▪

Expense Management: A Necessary Evil?

Dennis Sullivan
Chief Executive Officer
dennis_sullivan@renolan.com

In the last three years, I've managed and been part of three significant expense management initiatives with different Nolan clients. (For a point of reference, I'll define "significant" as $60–100 million of expense reduction on budgets ranging from $750 million to $1.2 billion.) In each case, the timeframe for implementation ranged from three to five years and the project was under a corporate strategic initiative that forecasts administrative expense levels for planned business. You might say, "So what? We're only dealing with reductions of about 10 percent." What the strategy folks projecting the numbers fail to understand is that typically, only 60–70 percent of the budget is variable and subject to necessary reductions. That increases the reduction to the 13–15 percent range. With people costs being roughly 60 percent of the operating budget, headcount reduction can sneak up to 20 percent. Now that is *significant*.

So when these expense management initiatives are started, it is no secret why front-line managers struggle to meet their objectives. Everyone starts pointing to other areas that need to be reduced. Operations pushes the reductions to staff areas, and staff areas say IT is the culprit. It is a familiar story and not a pleasant environment to work in. At the Nolan Company, we have applied some core strengths to help companies implement "active" expense management programs, tying clients to a strategic plan that typically operates at 30,000 feet. This can be a high-wire act initially, but with proper senior leadership the process can be helpful to many, enlightening to some, and challenging to others. There are a few guiding principles that help organizations "get after it" when it comes to real expense reduction.

> *...typically, only 60-70 percent of the budget is variable and subject to necessary reductions.*

1. Rely on your financial brethren to provide sound and accurate expense numbers that correlate directly to the short-term strategic targets for revenue growth (two-year to three-year projections are best; anything further out is too speculative). This is where you set the target so that the corporation has a single focus on the impact of its expense management activities.

2. Establish an "everyone plays" mentality. The actuarial area gets a review that's similar to the reviews performed on claims, contact centers, new business, and the other operations areas. Because so often processes are cross-functional and staff areas impact operations, it is critical to open up all potential avenues for improvement. These reviews become the foundation for a number of independent studies conducted every year, such as those on technology and systems investments, outsourcing opportunities, and product profitability.

3. Create a participative environment, fully engaging front-line personnel during the evaluation process, development of recommendations, and projections for potential savings. These group efforts expose front-line people to new tools and techniques, leverage their expertise, and create ownership of the potential changes by the area management team.

This is not your granddaddy's old cost reduction program...

Is it easy? No! Is it a necessary process? I'm certainly biased, but implemented effectively, this kind of initiative opens so many doors to new ideas and management development. All of these ideas are linked directly to corporate success. This is not your granddaddy's old cost reduction program— it's a fully integrated expense management effort linked directly to your corporate strategic plan.

So is expense management a necessary process? Given the uncertainties of the current market, the answer might be yes. ▪

ER BENCHMARKING STUDY IN PROGRESS

Nolan's 14th annual Efficiency Ratio Benchmarking Study is now underway. As management consultants to the banking industry for 35 years, Nolan is once again conducting its industry-recognized study. It is the only comprehensive, quantitative analysis of its kind for banks, thrifts, and credit unions in the United States. At the conclusion of the study, participants receive an extensive results package that provides concrete improvement targets.

Registration for participation in this year's study is now closed, as participating institutions are currently completing data input forms. However, if you missed this year's deadline, your organization can still complete the input forms at any time during the year. Although you will not get the benefit of being included in the pools, we can process your data against the pools prepared from participating institutions, and you can see how your data compares.

If you have any questions regarding this study, please contact Deborah Ayers in Marketing at deborah_ayers@renolan.com or at 800-248-3742.

CRISIS MANAGEMENT:
CONFRONTING DISASTERS HEAD-ON

Teri Mullaney
Vice President
teri_mullaney@renolan.com

Health plans are a major component of the health care delivery system, a fact that is often overlooked from a disaster readiness perspective. Much focus in previous decades was on how to prepare hospitals for a crisis—and many have worked hard over the years to ensure that they truly are ready to respond to disasters. With the events of 9/11 and Katrina, the entire health care delivery system was interrupted and insurers were faced with how to ensure that health care services were delivered to their members. Crisis management was one of the topics at several industry events I attended recently, and the conclusion is this: we might not be as ready as we could be.

Within the industry, thoughts on how to deal with disasters are evolving. Especially in the health plan sector, disaster readiness has traditionally concentrated on recovery of computer systems—how do we get our systems up and operational? This certainly may be the foundation of a disaster readiness plan. Most of us (hopefully) have this in place and test it at least annually. But this is only one of the three areas of planning that must be performed; it is crucial that the "people" and "process" aspects of recovery are designed as carefully as the technical piece.

Let's talk about process first. What needs to be done to sustain operations? Certainly, core functions must continue. For example, billing and claims payment impact the viability of health care delivery. Claim payment delays threaten access to care, and payors need to receive payments in order to maintain operations and pay their employees. During a crisis, normal business operations are replaced with a few core functions, among them, member/provider call center operations, network management, care management, claims payment, and billing. (Note that the processes in place for these functions may change. For example, prior-authorization processes might be eliminated, or advance payments might be made to providers. After Hurricane Katrina, members were able to go outside their provider networks for care.)

Another part of the process aspect involves definitions of alternative roles. What is the role of each organization, and what needs to be done differently during a crisis? Member services may normally be primarily an inbound call center. In a crisis, they might need to try to reach members to provide information regarding where to get necessary care and about expanded

benefits. The call center—and, one hopes, a Web portal—might become a part of the communication hub for staff, agencies, and stakeholders. Roles may also need to be defined at an individual level. Take into account anticipated staff availability and the amount of disaster preparedness training that employees have had. Sue's normal role may be as a provider relations representative, but she may be reassigned to work solely on advancing claims payments to select providers.

In terms of people, do you have a backup plan if your normal staff is unavailable or your staff is unable to work at their normal location? If the problem is with your building or its location, are there other places to easily get a core team operational? It may mean taking over part of a hotel or college campus or having people work from home temporarily. Consider, too, what to do if sustaining local operations is too difficult. If you are a national health plan with numerous operations centers, your options will be different from those of a regional health plan with a single operations center. Regional plans may need to have an arrangement in place for an outsourcing company to provide interim services during a disaster, such as claims receipt and payment, call center services, and billing functions. If you take this path, detailed procedures will need to be defined to ensure that the outsourcer can be ready as soon as possible.

Although much of this article has focused on what needs to be thought about to prepare for a major disaster, alternative processes should also be defined for incidents that are smaller in scope or duration, such as a flu outbreak or a phone bank failure.

> *...do you have a backup plan if your normal staff is unavailable or your staff is unable to work at their normal location?*

Surrounding all of the aspects discussed above is the maintenance of a detailed communication plan, the cornerstone to success. The ability to communicate with all internal and external stakeholders is essential. How will you communicate your plan and exchange information with your employees? With members? The provider community? Local, state, and federal governments?

Whether it is a health epidemic, major equipment failures, weather issues, or terrorism, health plans need to be ready. In all of these examples, a company must be able to "flip a switch" and implement a different workflow process quickly. In addition, the crisis

processes that you defined will still need to be modified based on resource allocation, nature of the issue, and so forth. Chances are that the plan will support only 80 percent of what is needed, so be prepared to define and implement new workflows on the fly. And don't forget, when the crisis is over, the company will need to be transitioned back to normal operations in a systematic fashion.

> *...a company must be able to "flip a switch" and implement a different workflow process quickly.*

A crisis management team can define potential risks to the health plan and stakeholders, determine the likely outcomes, and determine the processes and resources that need to be put in place. Once these processes and resources have been determined, technology can support alternative process mapping and flip-of-the-switch execution.

We recommend that health plans that have not assigned a task force for disaster readiness do so. Those who have done so need to review and refine their plans periodically. Please let us know if you need help. ▪

"But the weather looks great for the rest of the week."

THE ROADS TO BETTER PROFITABILITY

Bob Grasing
President
bob_grasing@renolan.com

Banks are responding to the pressures on profitability in the aftermath of the subprime mortgage lending morass in a variety of ways. Some of these practices have come to the attention of our legislators, and none are in the best long-term interest of the banking community or the individual banks. Let's look at some examples of short-term fee generation thinking at the expense of the bank's future.

First is the case of one top-ten bank that is currently in the headlines as the defendant in a class-action suit. The lawsuit claims the bank turned a blind eye to telemarketers who used their own accounts to perpetrate fraud on unsuspecting consumers. Allegedly, the telemarketers have been drafting funds from consumers' bank accounts and depositing them into accounts at the major bank. The complaint cites significant fees generated by those accounts as the basis of the bank's inaction, and it also accuses the bank of ignoring warnings from the Social Security Administration and other large banks, including Wells Fargo and Citizens.

Another top-ten bank is being cited for arbitrarily raising rates for credit card customers who are paying on time and have had no change in their credit rating. The bank claims to be using internal criteria that are unspecified and not made available to consumers. There are documented examples of customers whose rates were raised from 9.99 percent to 24.99 percent without any clear basis. Bank analysts claim that it is a move to shore up profits.

Another example claimed that the bank, complimenting certain cardholders' strong payment history, raised their credit limits one month, only to raise the rates in a subsequent month to 25.99 percent. The bank's explanation? The new balances were "too high" for the old rate. Further angering customers, the bank in question sent out notification of the rate hike in late January 2008, and cardholders who wanted to reject the new rate were required to respond in writing by January 29, and state that they "no longer use the card and will pay off the balance at the old rate."

Other problems have surfaced regarding the pay-and-charge philosophy that some banks have taken with debit card transactions and ATM withdrawals. Customers are taken unaware until they see the fees on their monthly statements—a $35 charge on a $3.50 item is not unheard of.

The intelligent alternative to these fee practices is to address bank efficiency, a long-term solution to profitability that helps banks understand the process from the customer's point of view. It also provides an avenue to review the fairness of fees and adjust them in either direction based on market and value. The banks that have routinely worked to redesign their delivery processes to effectively meet customers' needs at the right cost avoid the urge to find revenue in ways that are possibly unscrupulous.

> *The intelligent alternative to these fee practices is to address bank efficiency, a long-term solution to profitability...*

We believe, as do many bank analysts, that this commonsense solution is the best way to position any bank to thrive in the face of thin margins and lower fee income. We believe that short-term thinking may result in short-term survival. It is a matter of choice. ▪

"Let me get this, but keep in mind that you'll pay for it in other, more subtle ways later on."

BUILDING VALUE IN CHALLENGING TIMES

Ed Fenwick
Senior Vice President
ed_fenwick@renolan.com

The subprime-driven credit crisis, oil prices, and a few more nasty economic challenges have more economists using that "R" word that we all dread—recession. I won't attempt here to expound on whether the country is or is not in a recession. I always liked a quote by Paul Samuelson, the Nobel-Prize-winning economist: "The stock market has forecast nine of the last five recessions." I will forecast, however, that whatever it is and no matter how bad it gets or how long it lasts, financial services companies are taking a hard look at their 2008 budgets and plans and are starting to think about how to react.

In these challenging times, organizations need to take steps to not only get through the tough times, but also to be poised to triumph in what will likely be a more competitive marketplace on the other side. To do that, an organization has to start early, before sales and profits turn down, and have an effective way to think about enterprise cost reduction. The approach requires a surgeon's touch, versus a blunt X percent reduction in all budgets, because some parts of the business may require additional investments. For the organizations that manage to emerge from these challenging times better and stronger than they are now, we think that what will win the day is a value improvement approach. A value-driven approach to cost reduction has these fundamental elements:

- **Create a framework that your organization may not be used to looking at.** Budget and departmental structures may be right in some cases. But more often, a cross-functional framework around end-to-end processes that cut across functions is the richer approach. For example, a focus on value building across your business acquisition process is more likely to unlock greater cost savings and value improvement than focusing exclusively, once again, on the underwriting department.

- **Break it down.** Once you've chosen a framework, decompose it into its logical parts. Start by defining its essential purpose and parse that into components. Ask, "How do we currently achieve that essential purpose?" Then, list the ways. Next, take each of those and ask how we achieve them. In most cases, this second level of analysis will give you a viable framework for building value initiatives.

- **Focus on the customer.** For each element of the framework described above, get clarity around two things: How important is the element to your customers, and how reliably do you perform it?

- **Know where the costs are.** Departmental budgets are a wonderful thing, but they often mask where you are spending money in relation to what is important to your customers and what you do reliably. In most cases, this does not have to be a massive cost-accounting effort. You are looking for directionally reliable information, not perfect accounting. The goal is to know basically what each element of the framework costs. You want to be able to separate elements with low importance, low reliability, and high costs from ones with high importance and low reliability. To build value, reduce costs in the former group, invest in the latter.

- **Build value and lower costs.** At this point, you are ready to go for the improvements. Should your life be blessed, you find a not-very-important element with low reliability and a massive expense and you eliminate it. Good luck! In all our years of doing this, obvious candidates have been rare. The hard work is separating each element and creatively finding improvement opportunities based on where it lies in the customer importance, reliability, and cost mix.

Challenging your organization to both improve the value proposition and reduce costs will create some interesting conversations.

Challenging your organization to both improve the value proposition and reduce costs will create some interesting conversations. One you can count on is the question, "So which one is more important—value or costs?" Demanding both with a solid approach to do so will position your organization to build value in these challenging times, and you will be ready to compete effectively in the upturn.

This can be done. We have helped many of our clients over the past 35 years achieve measurable and durable results in building value while lowering costs. Let me know if you would like to receive case studies of our successes with this approach. ▪

CLIENT SPOTLIGHT

Project: An organizational and operational review

Client: NCAS, a large East Coast BlueCross and BlueShield TPA subsidiary operation

Industry: Health insurance for self-insured groups

Product Lines: Group self-insured health insurance, dental, drug, enrollment and billing services, stop-loss insurance, provider networks, and vendor medical management capability

Objective
The client engaged Nolan to do the following:

- Reverse the projected net revenue loss for the year.
- Restructure the organization and position it for growth, cost controls, and increased profitability.
- Review, document, and enhance primary process flows.
- Ensure SAS 70 certification, which was previously withheld.
- Create metrics for the organization to help it achieve performance in the upper echelon of the industry.

Current Environment
With over $21 million in revenues, NCAS had made several positive changes to reverse revenue loss: they had consolidated on a single platform, redefined selected roles and responsibilities, and made changes in how three offices in different cities were managed. However, the current assessment found the following:

- The management structure was not focused on the right issues and was in conflict.

- Accountability for budget results was not driven throughout the organization.
- Management-to-staff ratios were low.
- Processes were slow and manual.
- Operational performance standards were not met consistently.
- Employees felt that they had no understanding of the business objectives and what was expected of them.
- The company would end the year in a net loss.

Project Scope
Nolan interviewed more than 70 associates at all levels of the organization to better understand underlying operational and management challenges. We developed process flow documentation and individual performance assessments by spending time on the floor with the associates, and we reviewed industry service standards for cost and performance benchmarks. Nolan reviewed the company's metrics with the intent of improving workflows for increased efficiency and effectiveness and to place "stretch goals" on the organization.

The organizational structure was analyzed with emphasis on staffing ratios and accountability. During that analysis, Nolan determined that a major management restructuring was required in order to provide focus and accountability. The budget process was also reviewed. The project team determined that the manager/supervisor level should have budget data, enabling them to take ownership of costs in their areas. New cost centers were developed, a change to the prior model that used only high-level budget cost centers and held senior management responsible for costs.

The project team spent time in each of the three offices, listening to employees' issues and developing a plan for better communication and transmission of the company's objectives. Streamlined workflows and more effective controls were developed and implemented in the areas of customer service, claims, enrollment and billing, provider network, and account management. Nolan established new stretch metrics and implemented SOPs across the board. A new corporate management structure was put in place to consolidate responsibilities, focus accountability, and increase management-to-staff ratios from 1:7 to 1:15.

After a technology analysis found the current processing system to be functionally inadequate, costly, and slow, the team recommended a new system that could support the core goals of growth and increased productivity. Nolan worked with NCAS to assemble all of the analysis and recommendations and develop a practical blueprint for implementation.

Project Results

The improvement recommendations were endorsed by the CEO of the company and were implemented. The results were very positive:

- Reduced senior management positions by four but increased focus and accountability for results.
- Reduced FTEs in operations by 20+.
- Increased major cost centers from 2 to over 14, with assigned management accountability.
- Established new performance metrics that stretched the current organization.
- Received an unconditional SAS 70 audit approval report.
- Initiated a system conversion that will ultimately increase productivity but reduce system operational costs by $1 million.
- Net income at the end of the first year was positive, and at the end of year two exceeded $2 million.

Teamwork and focus were the keys to success in this important project. Corporate senior management carved out a specific goal and objective, then provided the necessary attention and resources to NCAS. That vision and leadership, coupled with Nolan's assistance, has positioned NCAS to compete effectively and to grow as the individual market continues to expand.

Painting the Golden Gate Bridge

Rod Travers
Senior Vice President
rod_travers@renolan.com

Managing information technology for a company can be much like painting the Golden Gate Bridge: just when you think you're finished, you have to start painting all over again. This dynamic presents some opportunities and challenges for IT and business leaders. Among the challenges are these: changes are mostly incremental; benefits/value can be difficult to quantify or articulate; and things are done the way they've always been done.

Among the benefits: risks are mitigated by continuity; change takes place in a controlled manner; and small improvements can make a big difference.

IT, like painting the Golden Gate Bridge, and like business itself, is a perpetual function that is continuously ongoing and should be continuously improved. Yet some IT functions tend to operate in the here and now, focus just on technology itself, and lack the essential goal of improving IT and business performance.

Perhaps the cause of the here-and-now management paradigm practiced by some IT departments can be explained by the aforementioned benefits. They're too safe. As I read them, I can't help but think "change averse." True, IT should definitely be "risk averse" because of its mission-critical nature. Terms like "uptime," "high availability," "business continuity," and "throughput" come to mind. But IT shouldn't be "change averse."

A good example might be the ongoing debate over COBOL. Many companies still rely on systems with a large COBOL code base. For some, that is just the reality of today and there are practical explanations as to why this situation exists—but it shouldn't exist forever. Why, then, is there a chronic reluctance to sunset aging systems based on COBOL? Reasons often include cost, complex embedded business logic, and lack of skills and resources. But the risks of not renewing systems may be even greater. In today's competitive market, who is willing to bet the future on old technology that is costly to maintain, difficult to change, and functionally inferior? At least there are those safe benefits to fall back on—for now.

Getting back to those benefits, the last one—"small improvements can make a big difference"—actually does hold some potential, especially in change-averse environments. For example, imagine the time savings that

were achieved when workers began using sprayers along with brushes to paint the Golden Gate Bridge. That's an incremental change with a big impact. And now bridge engineers are exploring the use of metalized coatings instead of paint, which will extend the time between repainting. They might actually finish the job without having to start over right away!

The same kinds of things can be applied in IT. For example, replacing an older mainframe with a new box can increase capacity, shorten cycle times, open up integration alternatives, and reduce operating costs without introducing risk. That's hardly revolutionary and I'm tempted to yawn, but it's a step in the right direction. Another incremental change would be the use of business process management (BPM) technologies to augment aging systems. While BPM won't replace core systems, it does allow some business logic to be liberated from COBOL, RPG, and so on, and instead be managed in a contemporary, highly configurable environment. And it can get an old shop on the path to modern models, such as service-oriented architecture.

The upshot of all this? Don't let a preoccupation with painting the bridge today keep you from inventing better techniques, better paint, and better equipment for tomorrow. Some of your "inventions" will be incremental, but at least a third of them should be innovative, bordering on radical (think of wireless technologies as an example). And—this is very important—the responsibility for funding and driving innovation falls equally on IT leaders and their business counterparts.

Here are some tactics that have helped others successfully push the IT envelope:

- Focus on sustainable business benefits, not technology.
- Design and build toward the desired state, not just to fight today's fires. For example: minimize the number of core systems you have and standardize on compatible technologies; reduce the amount of time and resources dedicated to break/fix activities (which requires the root cause to be fixed); invest in non-technology initiatives, such as process improvement and strengthening IT management practices; and consider outsourcing non-core and commodity functions.

Just as the Golden Gate Bridge is in a perpetual state of renewal, IT should always be pushing to improve, reinvent, and deliver more business value. Before you pick up that same old paintbrush, first define your desired state. Get ideas by comparing your operation to industry leaders. Then commit to the management decisions and investments that will make that desired state a reality. ▪

CUSTOMER CONSERVATION:
HOLDING ON TO THOSE YOU ALREADY HAVE

Steve Discher
Senior Vice President
steve_discher@renolan.com

As noted by my Nolan colleague, Ed Fenwick, we are entering increasingly volatile times (see "Building Value in Challenging Times" on page 12). There are countless approaches to weathering the economic uncertainty we all currently face. In addition to traditional expense and growth levers, one opportunity we are seeing for many of our clients is often overlooked—it is *customer conservation*.

Customer conservation, premium leakage, asset retention units...whatever label you want to use, the concept of keeping customers (and their business) tops executive agendas today. The logic makes sense: we are in a slow and uncertain market, we already have the customer, and we need to take every reasonable opportunity to keep existing customers and their interest in our products and services. We also know it takes at least 10 times the effort and money to find a new customer.

Some perceive conservation opportunities as less exciting or a relatively low priority. Frankly, that thinking is part of the problem. Those who are winning at the game are approaching the opportunity with innovation and vigor. Many companies with high retention rates are already making customer service a top priority and differentiator. We also know that those who are focusing on conservation are hanging on to as many as 40 percent of customers who would have left otherwise.

A few questions to ask yourself:

• How well do you understand the reasons customers are leaving or lapsing their business? All of our clients have retention rates, lapse rates, and so on as key measures, and most conduct customer service surveys. The problem for some in the industry is that they look at historical trends and say, "Well, that's just the way our business works," or "Those levels are acceptable." Those who are making a difference are questioning historical expectations and digging deep to find the insights behind why customers leave.

• Who do you have dedicated to conservation? Do you have someone who owns the conservation issue? Do you have a dedicated unit with the look and feel of a can-do sales organization, or is the unit staffed more along the lines of an administrative department?

- How innovative and motivated are those working in the conservation unit? Often, customers are deciding to leave because the product they bought was not the right fit for their needs. In many cases, it just takes someone to place them into another product that better suits the customer's needs. This is especially true for the Baby Boomer market as they move from one stage of their life to the next.

- How well do you tie the lessons from conservation efforts back into your core business operation? There is a great deal you can learn from the customers who leave (or were thinking of leaving). Product design, sales techniques, commission structures, product awareness, and billing practices are just a few examples of areas that are improved by increasing the communication between conservation and the core business.

Ultimately, there are no silver bullets to solving the customer conservation problem. Done well, however, the answers to these questions can add up to much more than you might think. Good luck, and let us know if a conversation on the subject would be helpful. ▪

"We've just been given a new Mission Statement, and it doesn't say anything about customers."

A Case for Evidence-Based Management

Steve Callahan
Practice Development Director
steve_callahan@renolan.com

Society has benefited tremendously over the last 200 years from evidence-based medicine, where physicians' actions are guided by solid research. Starting with Pierre Louis' elimination of bloodletting as a standard treatment in 1836 (George Washington died after five pints of his blood were drained to treat a sore throat), evidence-based medicine has carried forward, with doctors like David Sackett of Canada's McMaster University its contemporary exemplars. The rigors and discipline placed on medical research have ensured a constantly improving quality of life.

Despite the portability of the relatively straightforward concepts involved, the discipline involved in evidence-based methodologies has not made its way from medicine, science, and engineering to the business world. Instead, the business world relies more upon individual expertise, prior practices, and strong belief systems—in part due to the demands for expediency and the apparent lack of complete information. Some of these misleading approaches and their inherent risks and pitfalls are:

1. **Casual benchmarking.** Benchmarking is an excellent practice. But unfortunately, the need for quick results often drives superficial analysis that results in imitating practices that might not be the real source of advantage. Is the practice really the cause of the result? Why? What are the potential disadvantages and costs of change?

2. **Doing what seems to have always worked.** Like evidence-based medicine, the treatment needs to fit the specific disease, but treatments evolve. Proficiency and efficiency are admirable goals, but they are bound by the specific situation. Change a variable or a condition, which happens all the time in today's dynamic environment, and the underlying, once-reliable practices need to be revisited, too.

3. **Succumbing to entrenched but unchallenged beliefs.** Among the hardest things to change are management practices based on deeply rooted beliefs about what creates success or advantages. One example is stock options as an incentive: they were responsible for a decade of bogus results and bankruptcies, yet many people still believe in their effectiveness. Another controversial belief that studies have been unable to support is that being a first mover creates a market advantage. (Most first movers are replaced by fast

followers.) Be sure practices are not based on preferences, intuitive fits, or untested beliefs.

Evidence-based management involves collecting the facts, validating the evidence, and then using the results to drive decisions. It represents a new way to think about management: learning to face the hard facts about what does and doesn't work while weeding out the anecdotal lore that often passes for conventional wisdom. Contrast this studied approach with the parochial process in which personal experience, anecdotal information, historical practices, business advice books, and intuitive solutions are combined like a managerial stew. Clearly, decisions based on reality are more strategic and less risky than those guided by perceptions, beliefs, and prior practice.

To be effective, an organization must be willing to accept the discipline that comes with converting from interpretations into evidence-based decisions. What does evidence-based management look like in practice? Here are some indications:

- Old ideas are treated for what they are: old ideas, not necessarily the best ideas;
- Everything is subject to critique and hard review, including "breakthrough" studies;
- Collaboration is used in lieu of conclusions dictated unilaterally;
- Openness, directness, honesty, and non-personalized critiques are integral to the process;
- Failures are viewed as learning opportunities—starting points for the next effort; and
- A neutral and objective view is maintained throughout the process.

For companies willing to venture into this more disciplined decision-making process, choosing to exchange unsubstantiated beliefs for an unrelenting commitment to facts and evidence, the benefits can be significant. Fact-based decisions underpin opportunities to improve performance and competitive positioning as strategies become more apparent, viable, and reliable. Leveraging the knowledge gained in a manner not easily imitated by competitors leads to advantages such as higher-product margins, better pricing, and powerful service differentiations. Through evidence-based management and the knowledge base that results, a sustainable, profitable competitive advantage is built.

Take a pulse check today. Are your strategic decisions based on validated and well-developed data, or is your organization subject to some of the distractions of anecdotal evidence? The difference can be the basis for substantial future growth. Contact us to learn more. ▪

Planning—Not the Plan

Hayden Jones
Managing Consultant
hayden_jones@renolan.com

I'm a sailor wannabe. Oh, I do sail, but I keep proving to myself that I haven't mastered sailing. I can raise the sails, tack the boat (turn it around), and in general, get the boat to take me to some place I wish to be. But I've done things like snap the mast in half because I forgot to attach the stabilizers before I started raising it. I yell at the boat for not listening to me when I'm frustrated. What I have learned in sailing is the need to plan—not just for the long-term events, but also for the things that will occur in the next few minutes.

Several years ago, I came up with a sail plan for an upcoming circumnavigation of the Chesapeake. It was to be my first extended sail, and I attacked it like a management project. I spent hours developing a very detailed plan as to exactly where I would be and when I would be there. I had latitudes and longitudes for each waypoint. I determined distances in miles and nautical miles. I knew not only to which ports I would sail, but also the "gunk holes" (small protected harbors) along the route that would provide shelter if the weather turned bad.

Once the sail plan was complete, I assembled all the things I figured I'd need on the trip: clothing, food, fuel, spare parts, reading material, and Jimmy Buffett CDs. This preparation took many hours and drove my wife (and a few friends) nuts while I went over every detail again and again. Finally, I announced I was ready for the "Big Sail."

The trip was to be a single-handed sail (one person per boat) with two boats participating. The other boat was manned by a sailor with 40 years of sailing experience. When I gave him a copy of the plan, he thanked me and walked away chuckling. I would soon understand why.

I believe it was General Eisenhower who, when asked about the plan for the D-Day invasion, said, "The plan is good until the first shot is fired." I found out what he meant an hour after we launched the boats in the Chesapeake. The wind had picked up, and as I was pulling into the slip for my first night on the water, the wind caught the bow, pushed it against the dock, and smashed my bow running lights. With all my planning, I did not have the spare parts needed to fix the lights. But I had determined where there were marine supply stores along the route and was able to replace the lights several days later.

The next morning, we set sail. I pulled out my sail plan, my GPS, and a chart and tried to sail to the first waypoint. Unfortunately, the wind was on the bow of the boat and sailboats do not sail into the wind. As a result, the plan would not work. The first shot had been fired. The planned sail was modified to meet the circumstances at hand.

For the next 22 days, we sailed about the Chesapeake following the spirit of the sail plan, which was now stored below, not used since the first day. We did stop at most of the ports of call I had planned to see, but wind direction and other factors forced me to rethink the plan I had made. When we finished the trip, we had sailed 350 nautical miles over 22 days and accomplished what we wanted to do.

Many people might think the hours spent developing the sail plan were wasted time. I don't. It's the planning that is critical, not the plan itself. Planning provides vast amounts of information that may never become part of the plan. That information yields alternatives once "the first shot is fired," functioning as a safety net when the plan fails. Although I didn't have to use them, I knew where to find gunk holes. Planning taught me in advance what to look for as I entered a harbor for the first time. I even learned the location of the only pay phone on Tangier Island. (Cell phones don't work out there, and I called my wife every night of the trip to tell her not to file a missing person report.)

> *...planning, not the plan, is often the most important part of any adventure, project, or day-to-day management opportunity.*

I believe that planning, not the plan, is often the most important part of any adventure, project, or day-to-day management opportunity. Remember, it's usually too late to plan once the first shot is fired. ▪

Slow Down or Speed Up?

Tim Lauer
Senior Consultant
tim_lauer@renolan.com

The economy seems to be front and center in most people's minds these days. The consensus is that most sectors of the American economy will slow down this year. Smart businesspeople, though, will look for opportunities in an economic slowdown and act accordingly. They don't play only when the sun is shining. Some careful reprioritizing and planning now may pay off handsomely in the future with increased market share, lower costs, stronger presence, higher profits, or some combination of these things. For some, merely riding out the storm will be good enough. But those management teams who seek the opportunities in an economic downturn and are willing to plan a lot and invest a little may emerge as industry leaders when the inevitable upturn comes.

Recognition and Planning

Economic downturns are rarely forecasted and budgeted. No one is sure of the extent and length of a downturn in advance. However, once a downturn is evident, management teams should have a disciplined method to plan activity at a high level. At the very least, new quarterly budgets should be created with best case, worst case, and expected case performance criteria. A capital plan and a key activity plan should be developed that reprioritizes the entity's operations to make the best of the downturn.

Each department in a company performs dozens of important tasks every day. The key in a downturn is to understand what is essential. Separate the important from the essential, and perhaps put the important on the back burner in order to make sure that the essential tasks are executed as perfectly and efficiently as possible. For example, is that new IT system essential or important? Is building a new headquarters essential or important? My bet is that your list of essential activities will be much shorter than your list of important activities, which will give you the clarity to focus and develop the core of the business.

Current activities should be reviewed for fit in the downturn model. Should this activity be delayed or accelerated? Should that acquisition go forward or stop? Is there a market that we can target that was impossible before the downturn? Which competitors are the fastest-growing, and which are economically strongest? Can we leverage ourselves ahead of them in selected markets?

People

News of an economic downturn strikes fear in the hearts of most employees. The best management teams address employees' concerns about job security and the welfare of the company on an ongoing basis, and especially during slow times. Fearful employees are not focused on the customer; they may cut corners or begin to look for more stable employment. Keeping everyone watching the ball is critical during hard economic times. A carefully planned communication effort will help lower the anxiety of front line personnel and will help in getting their buy-in for activities that may not be the norm.

People-related opportunities abound in an economic downturn. Some companies will announce layoffs, some will offer early retirement, some will go out of business. College graduates will be looking very hard for employment. All of these activities release talent to the job market—talent that is not available when times are good or may not normally be available. Considering the competitive environment for talent, "skilling up" and retaining key employees should be top priorities. Companies who do not do this may find themselves too far behind in the talent war to progress in their industry after the downturn.

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Keeping Key Suppliers and Accounts

Tough times strain business relationships, and long-term relationships are more easily overturned when suppliers and customers shift to survival mode. Desperation may supplant rationality for a longstanding customer who has just been offered a short-term discount or a cheaper product with fewer benefits or features. A smart management team will be out in front of this thinking, continually working with key accounts and suppliers to prevent attrition. A carefully worded message that is linked to the new circumstances and the company's plan to meet those circumstances should be repeated to important customers and suppliers, just as it is to employees.

Process Improvement

While times are good, companies focus on sales volume and new product launches, with efficiency and cost control distant seconds. In a downturn, the order is flipped. Plan to use the time to evaluate processes and efficiency. Write down the firm's ten most essential activities, and begin a

careful review of them from a process and efficiency standpoint. Scrutinize outsourced functions for potential in-sourcing. The front line can tell you what is needed and what is not, and how a process can be improved. And in some cases, technology can help eliminate backlogs or improve distribution channels.

The Robert E. Nolan Company has extensive experience in assisting companies through downturns and upturns. Our 35-year history of process improvement, strategic planning, mergers and acquisitions, and IT and capability management assistance encompasses many clients that are now household names. We would be pleased to come to you to discuss how we can help your company pull through the downturn with strength and viability. ▪

"Sorry Humpty, with all of the cutbacks in horses and men, the kingdom cannot afford to keep picking up the pieces and putting you back together again."

Is Your Department Management in Sync?

Kim Wilkes
Senior Vice President
kim_wilkes@renolan.com

I've sat in many meetings where the manager of an area had his or her supervisors go around the room and give an update on their departments. This is typically time-consuming because each supervisor gives a recap of everything going on so the manager will have a thorough understanding. In many cases, what is really happening is that the manager is seeking nuggets of information from all the details the supervisors are giving in order to do a health check of the area.

Good managers know the critical outputs/measures/control points of their areas of responsibility and seek management information with acuity. The people who report to them should also be aware of what the manager deems important and always have this information at hand.

This sounds so simple, but in reality, it too often does not happen. Why? Multiple reasons. It's common for a new manager or supervisor to come on board with no clear explanation of how the manager manages or how the supervisor supervises. True, through time and osmosis, most will learn the other's method of supervision, but so much time could be saved if the manager would share specific needs for information up front.

No one operates by the seat of his or her pants for long and continues to be successful. Whether it is formal or not, a manager seeks some type of balanced scorecard or key output for managing an area. Without the information, it would be like driving a car with no instruments on the dashboard and hoping that you are doing the speed limit and have enough gas, all the while listening for any odd sounds to gauge the performance of the engine.

Good managers will define the metrics they use to oversee the department and expect the employees to report the same. When this happens, everyone is on the same page, focused on obtaining the same results. It goes without saying that some form of quality, service, and productivity measures should be on the radar screen.

Are you in sync with your manager or supervisor? I've used this analogy before, but try this: Imagine that you could manage an area only by standing outside the office at closing time. As your employees come out the door, you can ask them five questions to determine the state of the area. What would those five questions be? Would your manager or supervisor ask the same five questions? If not, the two of you need to sync up. ▪

Nolan Events

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

Ben DiSylvester, Chairman of Robert E. Nolan Company, and Michael Kaster, Senior Consultant at Watson Wyatt, will co-present at concurrent sessions on the topic of Trends in Life Insurance Products—April 8 at 10:30 a.m. and 1:00 p.m. This session will provide an overview of life insurance product development issues that have arisen over the past year. *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 in the Loan Operations session at this conference to be held at the Gaylord National on the Potomac. *www.bai.org*

ACORD LOMA Insurance Systems Forum
May 13-15, 2008: Las Vegas, NV

Two Nolan clients will give presentations at this year's conference. Tom Thompson (Senior Vice President-Client Service Center) of Unum Group will present "Strategy Driven Operational Change." Jeff Bosco (COO and Vice President of Life, Variable Products, and Health) of American Family Insurance Group will speak on "Creating a Call Center: A Straightforward Approach." Session dates/times will be announced soon. *www.acordlomaforum.org*

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

Nolan Senior Vice President Rod Travers will speak at the IT Session presenting on technology trends. Nolan Senior Vice President Steve Discher will present a scorecard project in a concurrent session at this 62nd annual conference. *www.aaic.com*

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 at 3:30 p.m. Nolan Senior Vice Presidents Steve Discher and Rod Travers will also serve as panelists and moderators for other sessions. Nolan will also sponsor the conference's keynote address to be given by John Glenn. *www.iasa.org*