The Nolan Newsletter

People, Process, Technology

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

Third Quarter 2009 *Volume 36, Number 3*

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

The Nolan Newsletter

People, Process, Technology

Table of Contents

Vol. 36 No. 3 *Third Quarter 2009*

No Time to Be Stuck in Neutral

What a wonderful mess we've gotten ourselves into. The financial services industry is scrambling to get back into the mainstream. Health care is facing its greatest financial and policy challenges in two decades. Yes, we did some things that contributed to our current business environment—some want to blame it on greed, and others want to blame Wall Street. Both are probably valid points of view, but the fact is that we are here now and it's no time to sit back and wait for the dust to settle.

You can't be "stuck in neutral," afraid to make a move. We all have businesses to run, and those fundamentals are still the same. Yes, we have to be aware of the cost of capital imposed by the external environment, investment income, and customers' new buying patterns. But that is no different from any other time. Listen to your customers, adjust your business model for service delivery, tighten your belt where it needs to be tightened, and get on with running the business.

The health care and financial services industries are looking for innovation and executives who are listening to their employees and finding new ways to implement in this environment. For companies that see this time as an opportunity for growth and renewed profitability, the path is open. During economic slowdowns, caution sets in, decisions are delayed, and risk-taking gets put on the back burner. But why? Now is the time to critically evaluate your old business model, to find out what your customers consider most valuable in your relationship, and to look to your employees for new, creative ways to give better, more accurate, cost-effective service.

We became greedy and lazy when the market rallied after 2001, and we took our eye off the ball when our investment returns masked our operational shortcomings. Well, it's time to get back in the game. Companies willing to take an aggressive first step at revamping their service delivery model to better leverage their existing technology and reduce overhead and operating costs will be the winners in the next decade. Be a leader and drive your company to the front of the line in your industry. ▪

Dennis Sullivan
Chief Executive Officer

The *Process* Part of "People, Process, and Technology"

Kim Wilkes
Senior Vice President
kwilkes@renolan.com

The foundation of a successful company can be described as a three-legged stool: People, Process, and Technology. Countless books, seminars, and training address the people and technology legs of this stool, but the process leg is too often overlooked. Through years of growth of a company, one may assume that the processes to conduct business are documented, consistent, understood, and efficient. Far too often, this is not the case.

In most redesign efforts, the first step is mapping the current processes. Many times, this initial effort will reveal the following results:

- The current process is not *documented*. You may find handwritten notes or an outdated procedure manual, but a clear description of the process, with steps of activity, handoffs, systems used, service cycles, etc., does not exist.
- Among employees completing the work, the process does not follow *consistent* steps. As the mapping process is initiated and verified, there are discrepancies between employees as to the correct steps or sequence of the steps, in the process.
- Employees do not *understand* their role in the overall process or why they complete certain steps. Therefore, they do not understand the value of their role.
- An employee will develop a shortcut or more *efficient* method of completing the task but will fail to communicate the improvement with fellow employees.

Documentation of processes and regular updates yield the expected results of consistency and efficiency as well as a superior training medium. If your processes are not well documented, you will find other benefits in initiating this effort. "Low hanging fruit" is discovered in most all documentation efforts. The "low hanging fruit" is the efficiency gained when, through documentation, you find steps in a process that can be eliminated, modified, or more efficiently done. So when you think of the people, processes, and technology in your company, never underestimate the importance of maintaining well-documented processes that are being completed in a consistent manner by all employees involved. ▪

Not All Customers Are Created Equal: The Case for Differentiated Service

Steve Discher
Senior Vice President
steve_discher@renolan.com

Companies across several industries have demonstrated the power of differentiated service in attracting and retaining profitable customers. And while some insurers have begun to emulate the successes of airlines and package delivery companies, far too few have developed the capabilities necessary for effective differentiated service.

Framing the Challenge

The rewards of differentiated service flow like this: first, the carrier develops a solid understanding of where added value can be created and then it applies appropriate operational design and technologies. For most carriers, revenue, profits, and associated service requirements vary substantially by customer segment; yet the prevalent strategy remains a one-size-fits-all service model. The typical result? Over-servicing unprofitable customers while under-servicing the more valuable ones. As an example, long-term customers who rarely file claims are usually serviced the same as price-shopping customers with lower loyalty, higher service needs, and higher service costs.

All customers are important. Still, good fiscal strategy suggests that service be differentiated based upon customer segments that generate distinctly different needs and profitability. This makes knowing what creates value from the customer's perspective a foundational prerequisite to focusing resources on the right solutions. The following simple framework can be used to identify customer segments and their optimal servicing strategy:

Service Segmentation Model

	Is this a Service Differentiator?	Is this a Service Table Stake?
Advantaged compared to Competitors	***FOCUS*** **Create an Advantage**	**No Opportunity**
At Par compared to Competitors	***FOCUS*** **Keep the business you have**	***NECESSARY*** **Prevent over-servicing**
Disadvantaged Compared to Competitors	***AVOID*** Lose existing business	***AVOID*** Drives customers away

Applying analytical rigor to customer segmentation drives more targeted, near-term technology decisions. It also lays the foundation for a longer-term technology strategy that will enable the envisioned service model.

At the core of this model are capabilities that are either necessary table stakes or competitively differentiating. Web services, online payments, e-bill presentment, and 24/7 service are often deemed *necessary* parts of today's business model. Differentiating capabilities, seen as critical to sustaining competitive parity, often include a unified customer view and integrated communications that allow seamless hand-offs between the contact center, agents, and multilingual service.

Next is a set of differentiating capabilities that deliver more than what competitors offer; creating a unique source of competitive advantage. These might include customized services for agents and insureds, tiered by profitability and/or tenure. For example, as is done with platinum frequent flyers or credit card holders, inquiries might be routed to a team of dedicated, seasoned representatives who can provide the fastest and most extensive service—varying levels of access to licensed agents who handle comprehensive policy and coverage requests is a common differentiator. Another example is voice analytics that detect a potentially dissatisfied customer before he or she is lost; rerouting that customer to a live service representative at any time during an automated service.

Equally important in building the model are the services to avoid—these are often sub-par capabilities mistaken to be differentiating. In fact, they are creating a competitive disadvantage. A prime example in this category is the rudimentary online quoting application seen as an attractive step toward online service that, in actuality, is too simple to deliver a completely accurate or comprehensive quote. The result is a policy that does not resemble the quote which in turn creates rework, customer confusion, and added expense. All in all, a bad customer experience caused by good technological intentions.

Getting There

Creating a competitively advantageous differentiated service model requires that you:

- Segment your customer base by profitability and service characteristics;
- Identify value creation and retention opportunities by segment;
- Categorize those capabilities into difference makers, table stakes, and shortfalls;

- Streamline the differentiating service processes that you've identified; and
- Implement technologies that make more differentiating services possible.

Once you've created the differentiated service model, the critical components in maintaining and enhancing it will be a vigil on market evolution, high customer satisfaction, and technology advancements.

Summary

Solid products and pricing can attract customers. It's much more difficult to identify, delight, and retain the profitable ones. Growing the economic potential of these key customers requires differentiated service enabled by next-generation technologies. In these tough times, it is tempting to ask "Who can afford to invest in service?" For those companies seeking sustainable profitability and growth, the better question is "Can we afford not to?" ▪

Revisiting Response Planning

Clay Ricord
Senior Consultant
clay_ricord@renolan.com

There are two different work activities in the business world: operations and projects. When I ran departments for a major P&C company, I was responsible for the performance of ongoing efforts to meet customer and organizational requirements; such things as policy quality, time to service, call center performance, and FNOL handling. As a consultant today, I run projects with set goals or deliverables and end dates. Both operations and projects have risks which need to be dealt with and controlled. However, for ongoing operations, having response plans in place is of paramount importance if the carrier is to consistently meet their customers' expectations or CTQs (the Six Sigma acronym for "critical to quality"). Even without adapting Six Sigma, you can gain from leveraging the concept of response planning. So what is response planning?

We start with the premise that any and every ongoing process is going to experience variance. Over time, a process performance is going to drift and be subject to problems or variation. So, even that well-run call center or high-performing billing operation will, at some point, falter in its performance. We can determine if the performance shortfall comes from the process or a unique event or cause. For example, it could be that a change in the workflow had an unexpected consequence, the process itself is no longer meeting the customers' needs, or a specific event or change occurred. (The details of the causes and types of process variance are beyond the scope of our short discussion here. For our planning discussion, the key is that process performance drift occurs.)

If we accept that every process will fail or experience variance at some point, a predefined plan will allow for more rapid intervention and a return to a level that will meet the customers' requirements.

What would a response plan look like? There are six main components to consider in building yours.

1. What are the *few* process steps that are essential to meeting customer expectations or CTQs?
2. What performance must the process step meet? This requires that you articulate what the performance level must be.
3. How do you collect data and measure the results?

4. At what point will you take action? (How much variance will the customer allow? How much will you allow?)
5. What corrective actions will you take in given situations? (A table or decision tree helps.)
6. Who owns the response plan?

You are probably used to thinking of response plans for major events or crises, especially around the use of the media. However, response planning, because it allows you to respond before an outsider brings the performance to your attention, has a valuable place in the basic tool kit of your operation. If you would like to discuss response planning further, please drop me an e-mail. I look forward to hearing from you. ▪

Finding Gold in a Bleak Economy: Part 2

A. Craig Loughrige
Senior Consultant
craig_loughrige@renolan.com

In Part 1 of this series, I wrote about finding gold in the rich vein of IT contract labor services where typical companies can reduce expenditures by 20–35%. We cited one recent project in which savings of $22M on a $60M annual IT contract labor services expense were realized and additional benefits, such as better service and lower administrative costs, were gained. This was accomplished by reducing a large group of providers to a smaller stable of select vendors.

There is one more thing for you to consider—your attitude toward vendors. It helps if you adopt an attitude much like the one you have toward employees. You take care who you hire to work in your company; you don't just hire all the people who show up. You appraise their performance and give them objective feedback. You reward great performance with more work and dismiss the poor performers. While you should be mindful of independent contractor status, approach them as employees. This article outlines the steps to realize these savings.

First, do your homework. Start with a list of all vendors serving you today. Develop a list of all contractors by vendor, by supervising manager, and by skill and skill level. Note each vendor's rates. Analyze this data using a spreadsheet, look for rate differences by job, average rate by vendor, and number of junior versus senior consultants. The early analysis will lead you to further analysis and metrics. This gives you a peek at both supply and demand. You can then forecast demand by skill and level for the next year.

One of the byproducts of this exercise is a list of hiring or supervising managers you will want to talk to. Develop an interview guide and talk to each manager, explain your program, and ask them what *they* value in a vendor. Build a vendor profile by which you can gauge all vendors; this will help you gain acceptance of the decisions to come later.

Next, set your bid and vendor strategy, including the evaluation criteria. Collect any performance metrics you might have and factor them in. Do not include rate/price as a weighted factor—consider rate after all other factors are considered.

Lastly, prepare and distribute a Request for Proposal (RFP). Send the RFP to all of your current vendors plus two or three new ones—do not send it to every vendor in the area. Be sure to include large system integrators and minority firms in addition to the traditional contingent labor firms.

Don't worry about going to the vendors prior to sending the RFP; the vendors will come to you. They will hear about your program and will want to know all about it. You should be open and honest. An important message to deliver is that their "rate" will qualify them for the stable, however "quality" and "service" will keep them there.

Analyze the bids using your spreadsheet by calculating the overall *average* rate (price) and list *actual* rates from the lowest to the highest. In the adjacent column, calculate a ranking using the non-rate factors. Now it's time to make the first of two cuts before you get to the final stable. If your goal was six vendors, make this cut to eight or nine. Here are some suggestions for making this cut:

- Consider the vendors' historical performance;
- Limit exposure in terms of percent of business with any vendor;
- Mix firm size (small, medium, and large) for access to talent pools and services (large) and personal service (small) creating internal competition;
- Create further competition for existing vendors by keeping new vendors in the wings;
- Look at the vendors' ability to meet undefined needs; and
- Have a minority set aside that all vendors must meet.

Once the preliminary cut is made, hold a vendor summit, and:

- Invite the successful vendors into a room for a half-day session; it is best if one or two new vendors have made the cut to send a further message that you are serious;
- Take note of *who* the vendors bring to the meeting; you are looking for people who can make it work and that's not normally the CEO;
- Explain the program and the plan to implement it; and
- Tell them that you will evaluate them over the next 90 days and will make the final cut then.

When you complete the transition plan, there may be some long-tenured contractors you don't want to lose. It's possible they can bill through one of the selected firms or you may grandfather them in as a last resort. If you do not have a performance metrics in place, develop one and give your vendors quarterly feedback. That's the program in a nutshell. It will produce the savings you seek and improve service at the same time. ▪

Positioning for Change: Learner Vs. Learned

Steve Callahan
Senior Consultant / Practice Development Director
steve_callahan@renolan.com

Renowned philosopher, author, and 1983 Presidential Medal of Freedom winner Eric Hoffer broke new ground in his time. His insights into the human condition covered the impact of low self-esteem on well-being, the role of fanaticism in mass psychology, and, relevant to my topic, society's adaptation to change and modernization. A self-educated man of simple background, Hoffer spent years on Los Angeles' Skid Row doing odd jobs, then sold fruit door-to-door, did migrant work across California, and finally settled into a life as a San Francisco longshoreman. An avid reader, Hoffer's own perspective on societal movements was shaped by the classics he read.

Hoffer offered hundreds of quotes throughout his books and other writings. Of particular note to today's challenges:

> "In times of change the learners will inherit the earth, while the learned will find themselves beautifully equipped to deal with a world that no longer exists."

Like many insightful quotes, there is depth to be found in the simplicity. Take the changes we face in the following:

- Technological innovation, where Moore's Law has led to the proliferation of computers in the home; virtual worlds like Second Life, where business is transacted between avatars; networks like Facebook and LinkedIn, which provide global connectivity; and "Googling," which gives everyone tremendous knowledge at their fingertips.
- Globalized economies where the ripple of credit defaults in the U.S. or a famine in India is felt across nations, with 24/7 financial markets arbitraging exchange rates to leverage the slightest price differentials, and a competitive landscape no longer limited to the companies down the street.
- Dramatic shifts in workforce demographics, a huge deficit in expertise created by retiring intellectual capital, globally low birth rates reducing the talent pool, increasing cultural diversity, and a series of political and societal firsts brought about by recent elections here.

Peeling the onion further and looking within our industry, we find:

- Expanding regulatory oversight crossing operational boundaries, introducing personal accountability and liability to responsible executives.
- An increasingly complex marketplace consisting of demanding and diverse consumers who bring individualized expectations paired with a wealth of competitive information.
- Converging product portfolios translating into a smaller competitive advantage from features and price, putting immediate pressure on service delivery and brand quality.
- Technological anchors in the form of legacy systems that impede progress and absorb investments that compete with advances in analytics, automated processes, electronic data exchange, and enhanced connectivity.

All of the preceding are layered on top of the normal operational and strategic considerations prevalent in competitive environments. No news to those in leadership roles attempting to navigate these turbulent times. Yet Hoffer was clear that the secret to succeeding in a changing world was not to rely upon existing knowledge, but to pursue new knowledge and new practices.

An excellent example of succeeding in change can be found in *Inc.* magazine's December 2008 article "Education of a CEO," which focuses on the transfer of ownership from father to son of the Koeze Company. What worked in the world of the founding father was not adaptable to the changing environment when the son took control. So through trial and error, the son became a learner who did not act on established practices, but built new expertise based upon new learning. The article highlights the experience gained by this entrepreneur, lessons that apply to any leader facing change.

- Trust your instincts, even when they conflict with current practices.
- Don't let your company's history become your destiny—be aware of what runs beneath the surface.
- People resist change, even if that change might be for the eventual better. Change requires effort.
- Change often starts at the top; in other words, sometimes the boss needs to change.
- How you run your life affects how you run your business. It's hard to swallow but true nevertheless.
- Critical thinking will win over time if applied consistently and diligently to the decision-making process.

- A smart business is more than just profitable; it has a coherently attractive culture and greater purpose to serve.

We are clearly facing change of a monumental nature, significant in both breadth and depth. To succeed, we must be willing to learn new practices, releasing the hold of tried-and-true habits. In 1532, even Niccolo Machiavelli, author of the political treatise *The Prince*, recognized the importance of adaptation when he stated, “Whosoever desires constant success must change his conduct with the times.” Or, as Bob Dylan’s title track to his third studio album proclaimed, “The times, they are a changin’.”

Interested in learning about the new practices being leveraged across the industry, or about the alternative leadership strategies that are challenging prior habits? Drop us a line on a topic that interests you, and we will be happy to share what we are learning as we adapt to these new times. ▪

Got a Swamp? Drain It!

James R. Strebler
Senior Consultant
jim_strebler@renolan.com

Much earlier in my career, I had many conversations with a friend who I'll call "Fred" (I call him that because that's his name) about problems in organizations and what to do about them. Those conversations often lasted well into the night. We didn't solve world hunger, but we did solve many organizational problems. Even though our discussions took place almost 20 years ago, they are just as relevant to business today as they were then.

Fred had a name for things that didn't work the way they were supposed to and which forced people to find ways around the problem. He called them "swamps." Swamps could be processes, computer systems, bottlenecks, policies, or people. The common ingredient was that everyone had to find ways to navigate past them.

A department that is too backlogged to get work done in a timely manner—resulting in customer service calls and complaints—is a swamp. A computer program that doesn't handle a certain transaction correctly and causes a workaround is a swamp. A procedure that requires the signature of someone who isn't always available or who sits on the paperwork is a swamp. Most people have no problem identifying swamps; every organization seems to have some hanging around. Many times, organizations become so used to working around an issue that they accept it as the norm, not a problem.

People just learn to deal with swamp problems unthinkingly. Here is a shameless plug for the value of outsiders like Nolan consultants: they can quickly identify the swamps and the impact they are having on organizational performance. Also, outsiders can prescribe fixes that might be too politically unpopular for others to suggest.

> *Outsiders can prescribe fixes that might be too politically unpopular for others to suggest.*

Fred and I believed that each time an organization created a workaround or revised their activities in any way to accommodate an inefficiency, they were building a bridge over the swamp. When they did something different to avoid the swamp, they were building a path around it. The real solution, we agreed, was to stop building those bridges over and paths around the problems. Instead, drain the swamp—just fix the problem.

It was surprising then—and is still surprising now—that the stroke of the pen can almost entirely fix many swamps. Sometimes, it is as simple as someone saying "Let's stop requiring a second signature" or "Let's stop filing an extra copy of those documents." Not all swamp issues have stroke-of-the-pen resolutions, but many have solutions that are not that difficult to implement.

Whether draining the swamp involves a little re-engineering or revising an outdated policy, the results are worthwhile. People's jobs become easier, more work is accomplished, and the work is done faster. A side benefit of swamp draining is a new operational tone that conveys 'We're here to do things right—and we will!'

The steps to fix swamps are easy to follow:

1. Identify the swamp issues.
2. Document how the swamp is being bridged or worked around.
3. Determine how often they occur (every transaction or only once in a while?).
4. Find the low-hanging fruit (things that can be fixed with minimal activity or by just stopping something).
5. Drain the swamps that are easy to fix, that really impede accomplishment, and that impact a significant number of transactions.

Draining the swamp is not that hard, and it pays great dividends to the organization. It allows you to get rid of those "muck boots" people have to wear to get things done. And, you just do business better. ▪

CLIENT SPOTLIGHT

Project: Operational Redesign of Underwriting and Policy Processing in Commercial Lines

Client: A Regional Midwestern Mutual Company

Industry: Property and Casualty (Personal and Commercial Lines)

Product Lines: Extensive Variety of Commercial Lines P&C Products

Objective

The client had several critical objectives for the engagement:

- Develop a business vision and process models for underwriting and servicing, assuming a new system would be available.
- Provide detailed future-state processing and business requirements, including defining and documenting future-state business rules.
- Provide near- and longer-term capacity improvements through quick-hit recommendations substantiated by staffing models.

Current Environment

The commercial lines strategic goal is to substantially grow premium while holding expenses flat by dramatically improving productivity. Many existing strengths were available to leverage in accomplishing this goal:

- Strong relationships between underwriters and agents proactively maintained.
- Full ownership and individual responsibility of underwriters for the cases written by their assigned agents.
- Underwriter breadth, with individuals covering multiple lines for their agents.
- Extensive, rigorous training provided each underwriter throughout his or her career.
- A performance appraisal process based on portfolio results of profit, growth, and service rather than activity.
- A cultural commitment to "exceptional service" in underwriting and processing.

Existing limitations inhibiting the ability to maximize productivity included:

- An antiquated legacy system difficult to modify for streamlining, user-unfriendly, and hard to learn.
- Inconsistent processing methods reducing efficiency combined with a rigid structure that made it difficult to shift resources from team to team.
- An organizational structure unable to effectively support growth and expansion into new states.

Project Scope

The project focused on the commercial lines core business functions of underwriting, policy servicing, and administration. The process included a thorough review of the involved organizational structure, processes, strengths, and limitations.

Regional underwriting, policy processing, premium audit, loss prevention, customer service, and support all provided resources for a series of participative workshops focused on redesigning processes to improve productivity.

Project Approach

Staff from the key areas were interviewed and current processes were directly observed and documented. An outcome of this effort was activity-based staffing models were created via interaction with the employees of the various disciplines and approved by the participating employees and management.

The completed models were adopted as a management tool for determining staffing needs and productivity levels and for identifying the impact of any process changes. The initial results identified excess capacity even before implementing any process improvements.

Next, consultant-facilitated workshops guided the Steering Committee in creating a five-year processing vision from the perspective of the customer (insured), constituents (agents), the consumer (employees), stakeholders (company management and directors), and associates (commercial lines staff). The vision required that all new processes:

- Include multiple delivery methods
- Deliver quality products, coverage, and information
- Provide for flexibility in process and output
- Meet or exceed the expectations of the customers and constituents
- Be cost-effective
- Promote accountability
- Enhance productivity

Based on the Steering Committee's vision and objectives, two participative workshops with selected associates were used to develop a future-state design. The first workshop focused on the processes that occur when acquiring business. The second workshop focused on the processes that support customer retention. The resulting future-state model was used as a guide in developing recommendations that could be implemented immediately without major technological investments. Each recommendation moved the department towards achieving the vision and future-state model.

Upon approval of the recommendations, a team consisting of associates from across the department was formed and charged with implementing them. The Implementation Team first separated the recommendations into "quick hits" that would take one to three months and longer-term actions that would take more than three months. Each team member was then assigned direct ownership of a subset of the quick-hit recommendations. Using this quick-hit approach put the changes in place quickly while still allowing for the training necessary to ensure associates were comfortable with the change.

Throughout implementation, the team systematically tracked each recommendation and provided weekly updates on progress and impact to the Steering Committee.

Project Results

Management's goal was to identify excess capacity to use in expanding into new states; increasing premium without increasing expenses. The models supported optimizing staffing and productivity without sacrificing quality, service, profit, or growth—a major breakthrough for the department. The total capacity savings ended up to over 40% of the salary budget.

Throughout the project, commercial lines management fully supported the project. Their leadership and cooperation contributed significantly to the success and continues to contribute to the ongoing realization of savings.

Measures That Matter: Insights to Process Improvement

Bob Grasing
President
bob_grasing@renolan.com

Thirty years ago, when I joined the Nolan Company, we were known as an organization that measured performance. As the saying goes, "If you cannot measure it, you cannot manage it"—and, certainly, you cannot evaluate the need for improvement. Measurement is the starting point for most meaningful improvement initiatives.

Putting a stake in the ground to understand each client's current performance is part of the DNA of the Nolan Company. Our fact-based approach has not changed. We have added annual industry studies to generate meaningful comparative data to help management establish improvement targets and, in cases where more specific measures are required, we conduct flash surveys among like-sized organizations.

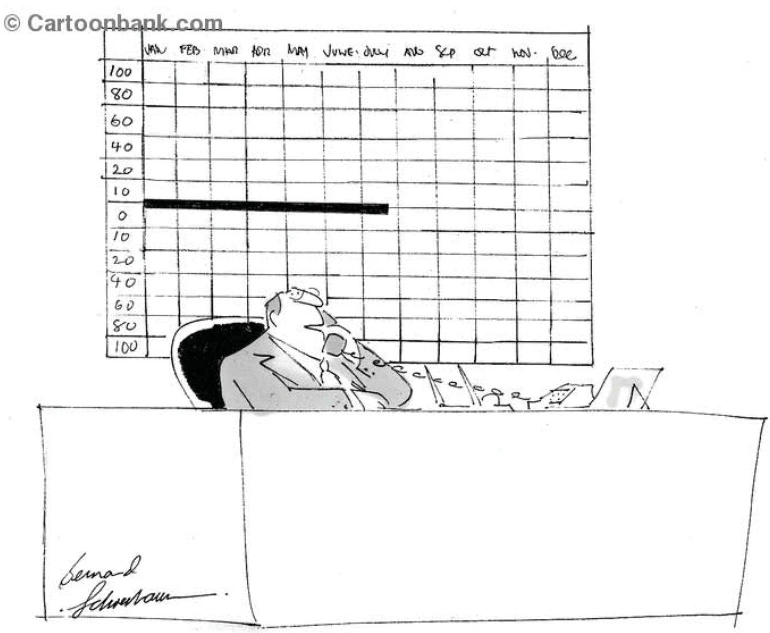
In banks and other financial services organizations, the measures that matter most help management understand the company's:

- Productivity (work volumes per employee per day/week/month);
- Cycle time (the length of time between when a customer asks for a product or service and when it is completed);
- Error rate (the ratio of work completed to rework);
- Unit cost (the operating cost of the area performing the work compared to the volume of work completed);
- Customer satisfaction (measured directly—through recorded complaints, customer surveys, or focus groups, or indirectly—through customer attrition and changes in call center service requirements); and
- Sales volumes or achieved levels. It is important to concentrate on measures that matter, so we are careful to compare net new business in addition to top-line growth.

So how does a management team use the measures to make decisions? The line-of-business performance data establishes how any bank compares to like-sized and structured organizations. We collect and analyze measures from high-performing banks and average organizations alike so that management can see the potential for improvement. Initiatives can then be prioritized and specific goals can be set in real terms (for example, a reduction in error rate, cycle time, or unit cost or an increase in capacity or net new business).

The assigned improvement team can then examine its bank's process measures to evaluate ideas for change. Measures help to advance the process objectives. This check in the creative process encourages the team to stay on task and work toward a common goal. A fact-based case can be constructed for recommendation. Upon approval, the implementation team uses the expected new measures as a check on their effectiveness.

Industry knowledge and measures that matter are indispensable to realizing substantial improvements and managing growth effectively. ▪



"Not much. What's new with you?"

We Are Not Where We Hoped To Be

Ron Zimmer
Senior Consultant
ron_zimmer@renolan.com

"We are not where we hoped to be." When I hear these words, I have to cringe a little. The speaker is intelligent and well-meaning but doesn't understand that hope is not a strategy. A successful business strategy is usually the result of a well-thought-out plan to capitalize on an opportunity.

So how should you start to build a powerful strategy? First, know your customers—extremely well. Customers might include individuals (the potential policyholder), commercial clients, employers, or agents. Do the research to learn about their needs, wants, and behaviors in order to understand their buying requirements. Then divide each customer group into segments based on meaningful differences. For individuals, you can segment them by age, education, occupation, ethnic background, family status, or lifestyle. For businesses, start with size, location, years in business, number of employees, or type of business. The objective is to accurately understand their requirements so that you can: 1) select your target market, 2) identify the opportunity and quantify it, and 3) design a product and/or service that they can't wait to buy.

It seems obvious—but note the win-win here—you sell a product (make a profit), and they get something they really want. But creating a good product is not enough. How your customers buy is also important. Do they like to do their own research, or do they prefer to rely on a knowledgeable representative? Is convenience more important than price? Are they internet shoppers? Do they understand enough about the financial product to make a decision?

A distribution strategy might include direct sales, internet marketing, and/or agents. Keep in mind that to create an effective distribution strategy, it is not about how you want to sell; it is about how they want to buy. Even with a great product, your potential customers need to know you have it for sale. The marketing strategy includes developing brand recognition, advertising, positioning, and collateral. One of my favorite quotes explains this: "Doing business without advertising is like winking at someone in the dark. You know what you're doing, but nobody else does."

Our product and service deliveries are almost never just a single transaction. Ongoing service is required and may even be a critical part of the buying requirement—you have to develop the supporting service strategy, including use of people and technology, before you go to market. Service can still be a differentiating strategy, so it is important to match the service delivery to the customer requirement; just like in the product design.

You are not out there alone. You have a host of environmental conditions to deal with, from a changing economy to new regulations. Understanding the current situation and anticipating the changes that are likely to come will help you design an effective product/service for both today and tomorrow. Also, you probably have competition. Just like knowing your customers, you must investigate your competition. At a minimum, outline their strengths, weaknesses, and key strategies.

Service can still be a differentiating strategy...

Take all of this into consideration as you refine your options and develop innovative strategies. The goal is to create an offering that is exactly what the customer wants which differentiates you in a busy marketplace.

Now you have it—a coordinated set of strategies (product, distribution, marketing, and service) that are designed to meet the exact requirements of an identified market segment. To fully implement the plan, add a few more components like a financial strategy and an organizational strategy.

Developing a comprehensive strategy can be complicated, but it is far more effective than just hope. A strategy clearly defines how you are going to reach your goal. ▪

We Have a Wicked Problem on Our Hands

Merit Smith
Vice President / Director, Health Care Practice
merit_smith@renolan.com

We are in a historic debate about how and whether to reform the national health system. Of course, 'reform' is in the eye of the beholder. What some consider a rational, measured element of a wise reform proposal will appear to others to be a sell-out or, at the other end of the spectrum, 'socialized medicine in disguise'.

I don't want to write today about my position on reform. You can get what I think can—and should—be done by e-mail or phone. What I want to explore is how the reform is being done. In other words, I want to talk about *how*, not *what*. I want to apply Nolan's experience in working with "wicked problems" to how Congress and the Obama administration are dealing with reform of a major sector of our economy.

Here are the characteristics of the class of complex problems that earn the title "wicked." A wicked problem has:

- No agreed definition of what the problem is;
- No common definition of what a solution would be;
- Players who have radically different views of the world and the problem;
- Continuous change: the symptoms, resources, and constraints of the problem move and change; and
- No possible solution—but it is possible to get to a point of acceptable temporary discomfort or temporary agreement.

Does this sound like the American health care system? I think it does, and I consider health care reform to be a truly wicked problem.

There is no well-defined theory or strategy for solving wicked problems. In fact, that might be another characteristic of them. Although there isn't a solution strategy, there is a body of experience about how to work with wicked problems. This body of experience is practitioner knowledge, gained directly from experiences. And as you would expect in 35 years of working in health care, Nolan has practical experience and scar tissue from working with our fair share of wicked problems.

When dealing with a wicked problem, use the following list and apply it to the national health care reform debate by scoring each one a -1, 0, or

+1. If you think the national dialog doesn't reflect this experience factor, rate it a -1. If you can't tell, mark it a 0. And if the reform debate seems to reflect the experience factor, give it +1. Total your score, e-mail it to us, and we'll send you a summary of what you thought compared to rankings by other readers. Here we go!

Facilitate openness. Is there an open or public debate where different stakeholders can voice and explain their ideas? Or are there restrictions in setting, time, or topic that set limits as to which parties can talk about their ideas?

Allow time. Wicked problems take time to be understood or observed and to play out. Is the problem's solution compressed artificially? Realistically, is there enough time to gather data, form arguments and rationales, and dialog the issues?

Focus on principles before solution tactics. Our experience is that developing agreement on the characteristics of a good solution before jumping to implementation tactics improves results. This gives people with radically different views of the problem and solutions a chance to realize that, in some cases; both parties want the same thing but call it different things. Focusing on principles helps us find a good solution.

Talk about assumptions. Taking time to identify and discuss the assumptions each party has is a good way to air differences and build momentum toward a better understanding. The idea here is not to agree with the assumptions but to understand what they are.

Talk about what has made prior solutions difficult. This gives the different stakeholders a chance to recite their history and world view. And it gives everyone a better understanding of why a reasonable person can hold such a silly idea. Talking about solution history can help identify assumptions, constraints, and resources that may influence the ability and willingness to move forward.

Implement those things for which there is agreement. Implementing a small solution to an aspect of a big problem gives the competing parties a chance to build trust and a common achievement. Frequently, a small implemented agreement can change the parties and the problem.

Plan on repetition. By definition, wicked problems are not solved, but they can be improved to the point of tolerance—this takes a willingness to work on workable issues and to repeat the process as the problem changes. Does the current approach allow for future progress or is the process oriented to a one-time, all-or-nothing, big bang solution?

What’s your score? Send your scoring of the factors to me at merit_smith@renolan or take our short online survey by pasting this URL into your browser - http://tinyurl.com/renolanQ3. It will be interesting to see what you are thinking. Perhaps we can share our collective thoughts in a way that helps the national debate. ▪

“You’re in luck, in a way. Now is the time to be sick—while Medicare still has some money.”

Strategy is Not a Project

Ed Fenwick
Senior Vice President
ed_fenwick@renolan.com

Do you remember, not too many years ago, that a hot topic in the industry was the high failure rate of major projects? Blown budgets and timelines, missed requirements and functionality, and failure to deliver the expected results had become the norm.

We think the industry, in general, has responded quite well to this challenge. First came an enhanced discipline around project management methodology. That was followed for many with a formalized organizational approach to managing change, which typically carried the name Program Management Office (PMO). In many of our clients, we can see that this disciplined process and organizational approach has yielded the intended results. Projects in these organizations routinely get done and delivered successfully—as planned and expected.

As with many human endeavors, success can have unintended results. There may be early warning signs on the horizon that the focus on improving project success rates is creating some unintended consequences and, in fact, some of us are noticing emerging warning signs as organizations move into the early planning season for 2010.

The current global economic crisis has had major impacts on financial services organizations. For most, the path to success they had been pursuing has shifted. Where planning in prior years had a heavy emphasis on singling out the right projects that moved the organization toward its strategic goals, this year is different. Management teams are finding that they need to reset their strategic direction. What are the early warning signs that we are seeing from the unintended consequences of improved project execution?

- The next generation of leadership talent in many organizations is the key resource in PMOs. They have been in it long enough that they are developing a language, perspective, and approach that is obviously project oriented. Previously, this same talent was often developing in general management positions and building broader perspectives.
- When it comes to thinking broadly about the business, its markets, and its operations, planning teams have a lack of experience, vocabulary, and framework.

- Planning teams have a deeply engrained mindset, vocabulary, and framework for talking about projects.

We are not suggesting that all PMOs should be dismantled. They are adding an important capability that needs to be maintained and strengthened further. If you think that you are seeing some of the early warning signs mentioned, you might want to consider doing the following:

- Be sure that your talent development path includes your PMO as an important point but one that it is not an endpoint; and
- Take a look at your planning process to see if it needs to be re-shaped and re-populated this year to better handle your business strategy.

Getting your strategy right for 2010 will be more important than ever. Success won't be about what projects get approved and funded. And remember, strategy is not a project. ▪

"Of course, if this one flops we're done."

Weak Economic Times? A Good Time to Bolster Fraud Detection

Diana Kelly, CPCU, PMP
Senior Consultant
diana_kelly@renolan.com

Tumultuous economic times bring about an increased incidence of fraudulent activity. Personal financial crises cause otherwise honest people to justify decisions that result in exaggerated or clearly fraudulent actions. Increases in auto and workers' comp fraud are the most prevalent, although fraud in all lines is increasing. In auto, vehicle owners are fraudulently dumping or destroying their vehicles in order to obtain the insurance money. In workers' comp, claims are exaggerated in terms of extent of injury, duration of the condition, and medical services rendered.

Companies continue to invest in the fight against fraud. Some companies find that, in times of flat premium growth and heightened competition, effective fraud handling can positively impact the bottom line.

In its most recent analysis, the National Insurance Crime Bureau reported that the largest percentage increase in questionable claims reported by member companies is in the areas of hail damage, catastrophe claims, and slip-and-fall injuries. The largest number of questionable claims continue to be in the areas of suspicious thefts for both property and auto, inflated damage, fire/arson for property, and faked or exaggerated injuries.

...companies of all sizes are recognizing the need to join the fraud-fighting campaign.

The first line of defense in all fraud investigation is the work done by the front-line claims adjuster. Well-trained adjusters recognize indicators that, individually or in combination, might be signs of fraud. Information concerning these indicators should immediately be passed to a specialized unit for further, more detailed investigation.

While larger companies are more likely to have established anti-fraud programs, companies of all sizes are recognizing the need to join the fraud-fighting campaign. The most common investments include fraud awareness training, manual red flag indicators, and external database searches. However, more companies are looking into or are already using automated tools, such as automated red flags, data mapping, and predictive analytics.

Effective metrics should be put in place to make sure that results are cost-effective and meaningful. Specific metrics include: percentage of claims referred to the specialized unit, percentage of claims actually investigated, the number and percentage of claims that are mitigated as a result of investigation, and some measure of financial impact.

Industry-wide potential fraud referral rates are between 2% and 3% of reported claims, and they're rising. Other potential problem areas—such as applicant, agent, and employee fraud—usually don't get the same attention as claim-related fraud, but they are areas companies should include in their fraud-fighting efforts.

Every company must recognize and aggressively pursue potentially fraudulent claims...

Every company must recognize and aggressively pursue potentially fraudulent claims, balancing that offensive with excellent customer service and timely claim handling for meritorious claims. If your company does not have a well-established, effective fraud-fighting program, now is the time to develop and implement one. Without it, your company is, or will be, actively targeted by organized fraud rings that use new and increasingly effective schemes as well as otherwise honest individuals who see an opportunity for financial gain. Ignoring fraud wastes your company's financial resources. ▪

Maximizing the Clinical Professional Component

Jack Sizer, MD
Senior Consultant
jack_sizer@renolan.com

The management of clinical professionals can vary from challenging to daunting for health insurers and medical management companies. In many instances, the clinical professionals report to a non-clinical manager, which can magnify management difficulties. Therefore, in order to minimize any friction related to the inherent differences in the backgrounds of clinical and non-clinical personnel, it is helpful to focus on the outcomes expected from the clinical professionals' work product rather than the unique nature and qualifications of the clinical personnel.

During disagreements, clinical professionals might seek leverage in the relationship by differentiating themselves from the non-clinical manager and other staff by taking the stance that "I am clinically trained and you are not." Or they'll say, "Take my word for it," implying that you cannot possibly understand. This behavior tends to occur when clinical professionals are having difficulty achieving the desired performance outcomes or feel that the requirements are unreasonable or too stringent.

Establishing measurable outcome targets along with an independent audit program is an effective way to eliminate these internal management issues. Some examples of appropriate measures are inpatient admissions per thousand, inpatient days per thousand, average length of stay, and per-member per-month (PMPM) costs by specific health services category.

It is essential for clinical personnel to clearly and appropriately document their certification review decisions. Their review notations should always provide detail beyond a simple approve or deny. From the insurer's or medical management company's perspective, this is particularly important when making an approval certification. The documentation should provide the clinical detail necessary to ensure that the requested or provided service meets evidence-based guidelines while adhering to applicable member plan benefits and exclusions. This level of documentation validates the decision; a simple "approve" or "okay" is insufficient.

Denial of health services requests, while requiring the same documentation to support the decision, enjoys the additional safeguards of state and federal statutes and a formal appeal process. This brings additional scrutiny to the clinical professionals' decision to deny.

The clinical information gathered and upon which the approval or denial decisions are based must provide measurable data. Examples are: a patient being short of breath vs. the actual respiratory rate, hypoxic vs. a pulse oxygenation of 86%, febrile vs. a temperature of 102°F, tachycardia vs. the specific pulse rate, and hypotension or hypertension vs. the actual blood pressure. Clinical information that lacks specificity will be interpreted differently by different evaluators and does not allow the necessary comparison to evidence-based guidelines when making a certification decision.

An independent clinical audit program serves several functions. It validates the appropriateness of certification approvals, and it ensures that the health services approved meet evidence-based guidelines and are plan benefits, not exclusions. This is important since underwriting develops a premium based on the benefits to be provided. For any denials, the audit program ensures that these decisions are not arbitrary and capricious. An effective audit program identifies clinical areas as well as individuals who require additional training, which in turn improves consistency and accuracy of decision making by increasing inter-rater reliability. In the extreme, the audit program identifies individuals whose temperament renders them unable or unwilling to effectively debate and adjudicate medical management issues.

Establishing and implementing performance outcome targets and an independent audit program result in improved management of the available health care resources. This produces high-quality, cost-effective health care for the insured members and helps to moderate the rise in health insurance premiums. This approach invariably results in less tension and conflict between the clinical professionals and non-clinical managers.

At Nolan we have experience establishing and implementing performance targets and effective audit programs. We also have experience training clinical professionals, with the goal of better health care management outcomes.

Please contact me at jack_sizer@renolan.com if you have questions or wish to discuss this in more detail. ▪

THINKING *INSIDE* THE BOX

Ben DiSylvester
Chairman
ben_disylvester@renolan.com

Everyone is familiar with the concept of "thinking outside the box." However, at the recent IASA Conference in Orlando, keynote speaker Michael Eisner (sponsored by the Robert E. Nolan Company and introduced by Nolan CEO Dennis Sullivan) offered up a completely different perspective on how to best spur creativity. Eisner's approach is to think "inside the box." He begins by determining how big "the box" should be—for example, a not-to-exceed budget number. That becomes the size of the "box," or project. The creativity part comes by doing whatever is necessary to get the intended result while not exceeding the size of the box.

This concept seems most useful not just for running organizations, but also projects. When the inevitable unexpected challenges, delays, or roadblocks pop up, rather than just living with them or throwing money at the problem, expect the people involved in the project to get creative about finding a solution that keeps the project on time and within budget. However, to do this, the executive in charge must fully understand what is going on in the day-to-day aspect of the business or project. Eisner called it "micromanaging," a term that usually carries a negative connotation. "Executives must execute," says Eisner, and to do that they cannot allow themselves to become disassociated from the business details. Interestingly, the evening before his address, a group of people were having a conversation with Mr. Eisner, during which he impressed everyone with his clear vision and understanding of his latest business ventures, both at the strategic and execution levels.

In this current difficult environment and beyond, following Eisner's approach to fiscal responsibility by determining "the size of the box" and then expecting people to use creativity to stay inside that box is a concept that every organization, department, and project team can and should use. ▪

Nolan Events

NAVA Operations & Technology Conference—June 28 - July 1: Boston, MA
Nolan client, Jackie Brabham, Senior Vice President, AXA Equitable, will be a panelist at Elective Session I, "Meeting Client Needs in a Difficult Market," moderated by Sun Life Financial on June 29 at 11:15 a.m. at the Westin Copley Place in Boston, Massachusetts. - *www.navanet.org*

ITFMA Information Tech Conference—July 13-17: Charleston, SC
Nolan President Bob Grasing will present "Project Management Business-IT Alignment: Financial Implications" on July 16 at 10:15 a.m. at the Francis Marion Hotel in Charleston, South Carolina. This session will explore the cause and financial implications of the misalignment of business segments and IT. - *www.itfma.com*

NAMIC/Nolan Webinar—July 22: Webinar - 2 p.m. EDT
Nolan Senior Vice President Steve Discher and Nolan Senior Consultant Steve Murphy will be presenting at a webinar co-sponsored by NAMIC and the Robert E. Nolan Company. The webinar, "Strategies for Achieving Service Excellence," will be conducted on Wednesday, July 22 at 2 p.m. Eastern Time. To register, go to *www.namic.org/seminars*

IASA Executive EDGE—September 13-15: Grapevine, TX
Nolan Senior Vice President Steve Discher will serve on the "Results-Oriented Technology Solutions" panel. As a silver-level sponsor of IASA's Executive EDGE program, Nolan looks forward to your participation and meeting you onsite at this event. - *www.iasa.org*

LOMA Policyowner Seminar—September 16-17: Orlando, FL
Nolan Senior Consultant Steve Murphy will present "Creating A Culture of Service Excellence" on September 16 at 1:00 p.m. at the Hyatt Regency Grand Cypress in Orlando, Florida. - *www.loma.org*

LOMA Contact Center Workshop—September 16-17: Orlando, FL
Nolan Senior Consultant Steve Murphy will present "Managing and Measuring the Metrics" on September 17 at 9:45 a.m. at the Hyatt Regency Grand Cypress in Orlando, Florida. - *www.loma.org*