The Nolan Newsletter

People, Process, and Technology

NOLAN

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

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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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Juggling Today's Challenges

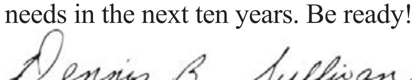
Today’s leaders are faced with a fast-paced business environment. It is filled with challenges and new decisions every time they turn around. Business magazines, management gurus, and anybody with a laptop or a microphone is willing to give advice. The problem is that most of them don’t have the responsibility or the accountability to deliver results to their customers, employees, or stockholders. So how do those at the top of any organization decide which direction to go, what change to make to their business model, or what strategy to follow?

Understanding the alternatives and knowing when and where to apply new business strategies is step one. Next is being able to relate those new concepts, and old ones with new names, to their unique business problems. That is the real challenge for today’s business leaders.

“Business analytics” and “business transformation” titles top the best-seller book charts these days. But haven’t we always measured things, tracked performance, and incorporated some form of predictive analysis in all projects? Yes, but today, with the ability to mine mountains of data and cut research time to hours instead of weeks, leaders can make better, faster, and more informed decisions.

Outsourcing and insourcing decisions become more than just a unit-cost analysis. Information is available around cost, customer satisfaction, and the impact of one product decision on the company’s overall profitability. This allows a better understanding of the impact of future decisions while giving the top decision makers a better chance of getting the “right” strategy in place the first time. With access to data-driven decision-making information and creative leaders who are able to blend experience with data, you don’t need a Ph.D. in math to make a good decision. New generations of leaders are emerging in the health care and financial services industries, and they are equipped with experience and data to help change the direction of industries that need creative thinkers.

With health care reform at our doorstep, it will take strategies with a wider lens to react to the potential impact in the industry. Changes in investment strategy and informed consumers with their own investment data at their fingertips will require the investment industry to ramp up service delivery models. New operational strategies are needed to better serve customer needs in the next ten years. Be ready! The change is just beginning. ▪



Dennis B. Sullivan, Chairman and CEO

Business Transformation: It's Not Just a Vision

Keith Glover
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"The last thing IBM needs right now is a vision."

That now-famous quote was uttered at a press conference when new CEO Lou Gerstner was being pressed for an outline of his plans for the beleaguered company.

IBM, the venerable giant of the computer industry, was being assailed on every front by upstart competitors like Microsoft and Apple and had become a ponderous, slow-moving bureaucracy. Plans were underway to break up the company when Gerstner, an industry outsider, was hired to turn things around.

What did Gerstner do? Within 16 weeks of his arrival, he reversed the decision to break up the company. He cut IBM's dividend in half and began to slash costs, laying off thousands of workers at a company where lifetime employment was the norm. He disbanded the five-man executive committee responsible for every major policy decision made at the company. He revamped the senior management compensation plan to reward executives for overall company performance rather than for the success of their respective divisions. He jettisoned OS/2, an operating platform in which IBM had invested hundreds of millions and which was the centerpiece of IBM's efforts to compete with Windows. The battle for the desktop was over, and the financial and resource drain was distracting IBM from efforts where the outcome was still in doubt.

The results were dramatic and immediate. Under Gerstner's leadership, IBM achieved one of the most remarkable business transformations in history, regaining its position among the world's most successful and admired companies.

Why did Gerstner succeed at IBM while so many others have failed at other companies? What message was he trying to send with his now-famous comment?

Let's be clear. It's not that Gerstner did not have a vision or a plan for how to achieve it. Rather, he understood that IBM's success hinged on the organization's ability to execute its plan swiftly and effectively. At Nolan, we believe that paying attention to the following principles can help leaders do just that:

- **Not all issues are created equal.** Three or four outcomes will usually make or break a plan. Understanding what they are and concentrating resources and attention on them to the deliberate exclusion of other things are vital. Smart people can always think of one more task that will add incrementally to a result, but returns diminish quickly.
- **Time is of the essence.** If you have the key outcomes right, delivering an essential part of the answer quickly is almost always worth more than going for a big bang. Early success creates momentum and gives others confidence that your plan is the right one.
- **Get the message right.** There should be no doubt as to where you stand on the main issues. Gerstner was unequivocal about the need for change at IBM and what he expected from others. You must be, too.
- **Reward the right behavior.** People will always act in their own best interest. Make sure the outcomes you are seeking are aligned with that reality.
- **Dare to be bold.** Slashing IBM's dividend was positively heretical when Gerstner did it, but he knew he had to get costs under control. Incremental change is often unlikely to produce the necessary results.
- **Look from the outside in.** It's easy to get too close to a problem or too committed to an answer. Find a way to add an impartial, independent point of view to your team.

Not every leader will be confronted with as precipitous a moment as Lou Gerstner faced at IBM. However, being tapped to lead a transformation effort is not uncommon and can be a career-defining experience. Today, the margin for error is smaller than ever, events move swiftly and unexpectedly, the rate and pace of change are accelerating, and the consequences of failure have never been as stark.

In these challenging economic times, many of our clients are asking Nolan to perform a quick, independent assessment of their plans and strategies. They are finding that an external perspective is helping them to crystallize their action plans around essential outcomes and ensure that the right actions are chosen to drive immediate results. As a result, they are achieving the early success that creates momentum and instills confidence.

Whether or not you choose to involve outside help, the ability to execute effectively is as important as your vision of where you want to go. Keep these important principles in mind and get moving! ▪

Business Intelligence: Moving from Tools to Applied Capabilities

Steve Discher
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Whether you call it *business intelligence*, *predictive analytics, artificial intelligence, neural networks,* or a *data warehouse*, the desired results all center around effectively using data and analytical tools to make better business decisions. Advances in technology and tools coupled with the demands of the marketplace have driven forward-thinking companies beyond the traditional reliance upon trends, ratios, and variances into the domain of sophisticated models and simulations. Today, BI, as many now call it, has quickly become the umbrella label covering most of the new and long-standing information-generating practices. Given the competitive advantages created by better-informed decisions, the big question is: Where is your company in the evolution of BI capabilities?

Speaking with clients about their company's evolutionary progress, we repeatedly hear a common set of questions focused around execution—specifically, applying the tools versus choosing the tools themselves. The most common ones include:

- How well are we applying the tools already in place?
- How is our company measuring the value of its BI investments?
- Are we getting the desired impact from existing tools?
- How do we prioritize future investments in BI?
- How advanced is our BI capability compared to competitors?

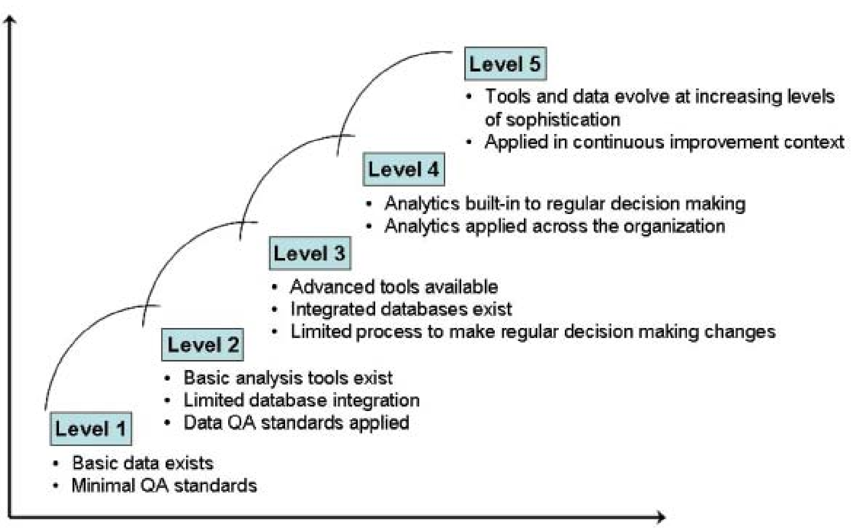
We have found that one of the most common challenges that companies face as they move further into the world of BI is the tendency to focus on the solution instead of the problem. This is especially true for newcomers to the BI game. Companies often center their attention on the quality and sophistication of the actual data and tools rather than the problems they want solved. How many data sets? How accurate is the data? How well is the data integrated? What supplemental data should be bought? What kinds of analyses can be generated from the data we have? And who are the vendors with the richest functionality? All good questions, but the focus wrongfully revolves around availability of tools and data instead of the problems to be solved and the decisions to be made.

At the same time, decision makers are looking for the information coming from better use of analytical tools. They typically ask questions that are similar to those just listed yet more specific to solving a particular business problem. For example: What trends and opportunities exist in claims losses, fraud, or subrogation? How can we better pinpoint underwriting and pricing opportunities by customer/product/channel segment or segment combination? What trends in claims litigation will lead to better outcomes? How do we explain a price change to a customer with our channel partners?

Unfortunately, aligning these two groups' efforts can be a challenge. More often than not, once the tools are available, people become dazzled by the "shiny objects" and their new analytical outputs. Process takes precedence over results, and the intended informing of decisions gets overlooked. A case in point; recently, a client conducted an enhanced analysis of claims that clearly identified material opportunities. Translating these opportunities into reality stalled because there was no change management in place for modifying claims adjuster practices.

Knowing where you are is the first step to getting where you need to be. Because not every company is at the same starting point in terms of leveraging BI, the Nolan Company uses a capability maturity model to assess how much an organization has evolved (see below). This framework can be used to determine how aggressively a client may want to pursue expanding their BI capabilities.

Business Analytics
Capability Maturity Evolution



Whether you work for a Level 2 challenged by database integration or a Level 4 struggling to operationalize continuous improvement into BI models, keep the focus on being a more effective executive. Remember, it's not so much *what* tools you use as how well you apply them. Keep that in mind as you continue along the competitively enlightening path of applying BI to your decision-making. And if you are interested in finding out where you are on the BI evolutionary cycle, drop me a line at steve_discher@renolan.com. ▪

> *It's not so much what tools you use as how well you apply them.*

Please visit Nolan's website at ***www.renolan.com/analytics*** *for additional resources on Nolan's business analytics capabilities.*

"Is it too late to add the client's wish list of features to the project?"

IT AND M&A: FROM SATISFACTORY TO SUPERB

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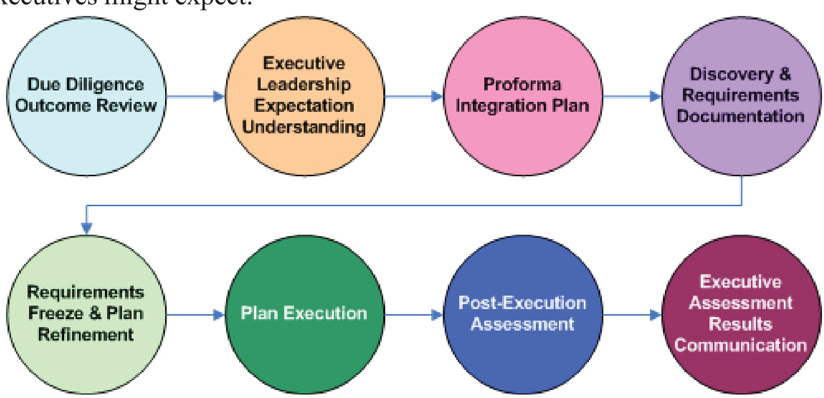
Every workday offers a series of opportunities and obstacles, most requiring little or moderate effort to effectively resolve. Only occasionally do opportunities rise to the level of strategic importance for which a thorough understanding, careful planning, and effective delivery of results can lead to career-changing outcomes. A prime example is a merger or acquisition. Whether one is a member of the acquiring or target firm, executives, directors, and managers have a rare shot at enhancing the strength of the combined companies, their divisions, and their careers. For IT leadership, the challenges faced during company integrations can be particularly daunting but commensurately rewarding.

While almost all executive teams consist of members extremely knowledgeable about their own functions, it's unusual to find non-IT senior leaders who broadly and deeply understand the IT discipline. However, all are keenly aware of the typical components of an IT project, particularly those of the large, visible variety. The following is an example of a very high-level process flow that many executives might expect:



Meaningful deliverables from each of these steps are expected and represent table-stakes, high-level project planning for a satisfactory integration outcome. And while effective execution of each of these steps might require immense work by IT—much of it unseen and affecting every aspect of the business—seamless management of the steps and the certain speed bumps encountered along the way is simply a minimum requirement.

IT executives are presented with many choices during an integration, but one of the first and most fundamental is whether a “satisfactory” integration is, well, satisfactory. Often, the integration offers a strategic platform upon which to advance the company, the IT executive, and all members of the IT division. Both paths bring risks, stresses, and rewards. However, we’ve found that when executives elect the path with greater improvement potential for their firm, division, and career, six blended elements help ensure that IT integration results are not merely satisfactory and appreciated, but superb and long remembered.

1. <u>Develop and exercise bilingual fluency</u>: Technical competency is too often the IT executive’s only language. All members of an IT organization—and particularly its executives, directors, unit managers, and project managers—should understand the business and be fluent in that language. “Business” should be the primary language spoken by IT during inter-functional integration meetings and in inter-functional communications.
2. <u>Inject expectations management</u>: Far more than simply guarding against scope creep, this process, which is not a single event, begins with a clear, detailed understanding of the results of pre-merger due diligence and a crucial discussion with the CEO. The handful of quantitative and qualitative measures defining integration success are identified and documented during this conversation, the importance of which can’t be overemphasized. A solid understanding of the CEO’s vision for the post-merger company is critical to IT’s success. The IT executive has an opportunity here to clarify the typical merger outcomes of increased market penetration, geographic coverage, and broadened product diversity. The almost certain expectations surrounding operational scalability and IT expense ratios can be articulated here, too. This initial discussion with the CEO is the first step in a series of communications with executives, line organization leaders, and key stakeholders across the companies, which tend to be heavily front-loaded during the early phases of the integration effort.
3. <u>Engage line management</u>: Subject matter experts and, ideally, designated decision-makers from each affected line area should be core members of IT integration teams, beginning with the early discovery phases and extending through implementation and closure. The routine presence of these important people helps ensure buy-in to the ongoing process, an understanding of how team activities fit into the overall integration strategy, a consistent presence of detailed operational understanding, and a ready conduit of two-way communication between the teams and leaders of affected stakeholders.
4. <u>Display executive-level tactical leadership</u>: Because the IT element of the integration typically touches every division of both firms, the IT executive

is in a unique position to provide options and recommendations related to the CEO-stated strategic expectations. The IT executive can also influence the end-state capabilities of the merged entity. By dispassionately framing integration progress discussions in terms of timelines met, in jeopardy, or missed; economic improvements achieved; critical capabilities installed; and upcoming milestones and events relevant to peer executives, the IT executive can boost his or her reputation for technical competence and business savvy.

5. Conduct intra-IT division integration progress meetings: Despite the best planning efforts, and even when integration progresses smoothly, the overall management effort is significant. The complexity requires IT leaders to be conversant with not only their own integration accountabilities, but also those of their peers, particularly because peer activities often affect the quality or timeliness of others' integration results delivery. It is also important to understand each IT group's methods and tools, agreeing on specific ideas as to how things will get done, not just what.
6. Illustrate and communicate IT organizational designs: These designs should address the integration period, detailing existing skill sets and staff capabilities and existing resource levels. This includes the resources needed to effectively complete the integration and a quantitative statement of when such temporary, targeted resources will be required. The organization structure of the integration period should also be clearly drawn and communicated, ensuring effective spans of control and, if needed, temporary shifts of roles to accomplish integration goals within specified timelines. The final portion of this element is a design of the post-integration IT structure, supporting going-forward business requirements surrounding applications, development, testing, infrastructure, project management, reporting, and quality checks. A clearly visible element of this post-integration design should be an economic assessment of IT's expenses against value achieved from the synergies of the merger.

Weaving these considerations into a standard merger process plan requires significant reflection and care. We believe expending that effort is worthwhile because it will produce at least three important outcomes: 1) an inclusive, effective tactical IT integration; 2) an enhanced IT integration model that can be used again in future integrations to yield results greater than would otherwise be expected; and 3) a chance for the IT executive to elevate his or her game around the executive conference table, increasing influence not only for the tactical integration at hand, but as a strategic-thinking partner for the organization.

Should you be presented with an integration opportunity, please feel free to call upon us. We would be happy to discuss possible approaches. ▪

Defining Process Architecture: Why It Matters to Health Plan Operations

Scot B. McConkey
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Productivity in many administrative functions in health plans has increased four- to five-fold over the last 20 years. For example, whereas in the early ‘90s there was approximately one claims examiner for every 4,000 members, today it is not atypical to see one claims examiner for every 20,000 members. Although the increase in productivity has driven administrative expense down, it has limited the ability to shift resources around when organizations are under stress or executing change programs.

Although it isn’t clear exactly how health care reform will impact operations, few disagree that the health care industry will undergo massive change over the next several years. To help minimize the disruption and cost associated with the upcoming change, health care organizations should find ways to maximize the efficiency of their change programs, therefore minimizing the draw on scarce resources to deal with temporary productivity losses and to execute the change programs themselves. To do this, operational areas can borrow a technique that has been employed by IT organizations for many years—developing and maintaining a centralized repository of documentation.

Health care organizations should find ways to maximize the efficiency of their change programs.

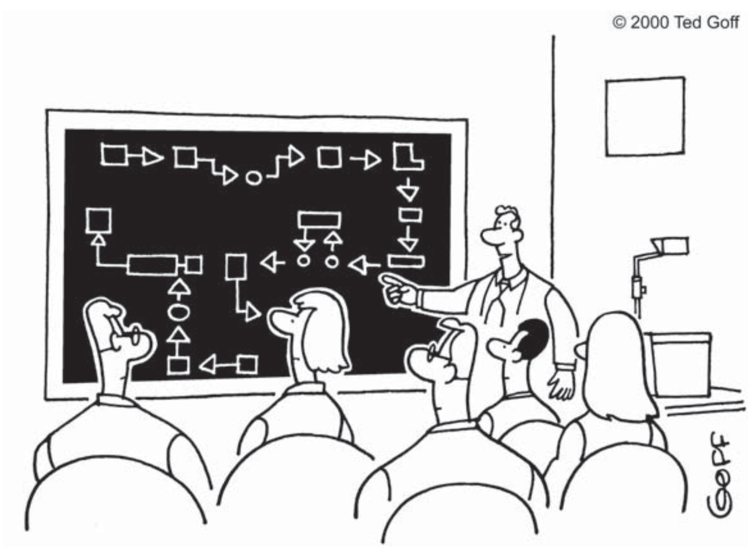
IT organizations generally create “run books” to document individual programs (or applications) and overall application architecture diagrams that define how all applications interact with each other. Operational organizations should do the same thing by developing an overall *process architecture* that includes *process plans* and *process maps*.

To get started, operational organizations should develop standard *process architectures* that define *what* will be documented and *how* it will be documented. It is also important to determine where documentation will be stored and how it will be kept fresh; one technique we’ve used is to link process plans to the capital budgeting process. Once standards are defined, it becomes a matter of actually documenting processes, mapping them, and indexing them into the repository.

Develop an environment that facilitates efficiency in major change initiatives to minimize organizational disruption.

A key consideration in adopting a standard *process architecture* is to make sure that this initiative doesn't become a major change program within itself. The point of a *process architecture* is to develop an environment that facilitates efficiency in major change initiatives to minimize organizational disruption; and, if not carefully planned out, could become a drain on the organization—which obviously defeats the original purpose. If an organization has standards that can be leveraged and an experienced team, major process areas can be documented in a matter of a few weeks.

This technique is being used, or is in the process of being implemented, within major health plan organizations. It has proven successful and can reduce the effort associated with change by an estimated 20–30%. Organizations should start now so that the benefits of implementing a process architecture can be realized during the planning, design, and implementation of upcoming reform-related initiatives. ▪



"If we process the work this way, everyone will get more exercise."

Buying While Blindfolded

Rod Travers
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A phenomenon is unfolding across corporate America, especially in financial services: the rise of procurement and vendor management functions. Once found only in larger organizations and government entities, these departments are now part of companies of every size. What concerns me is how many companies are getting this important function absolutely wrong.

Nolan experiences this as both a supplier of services and from the inside. One of our services, in fact, is to help companies build procurement functions—and fix broken ones. Companies implement such programs with the best of intentions: manage spend, reduce cost, improve negotiation, strengthen contracting, eliminate fraud, and guarantee outcomes. Unfortunately, many programs quickly deteriorate into a robotic process that effectively isolates buyers from sellers and focuses on a checklist instead of the ideal solution. Sound familiar?

One common problem is that business-side buyers of specialized solutions (for example, an analytics tool or related service) cannot freely communicate with suppliers. Likewise, suppliers must operate in a cone of silence and avoid contact with buyers, or face disqualification. Sellers must therefore prepare a specialized proposal based on an RFP and perhaps a brief Q&A session. Making matters worse, procurement staff find themselves in an untenable situation when they are unfamiliar with the specialized solutions and services they are asked to procure.

Procurement staff find themselves in an untenable situation when they are unfamiliar with the specialized solutions and services they are asked to procure.

An example of a procurement tool stifling common sense is Ariba, a procurement management system that many suppliers are required to participate in by their buyers. Once a day, the system sends buoyant "opportunity notifications" to suppliers, letting them know that eager buyers are looking for a product or service. Unfortunately, these notifications have no details about the buyer or what they are looking for. Important specifics—such as industry, size of buyer, and required skills/capabilities—

are nowhere to be found. The unintended consequence is that suppliers don't respond because they quickly learn that their efforts seldom yield business. Buyers likewise end up getting half-hearted responses, often from less-qualified suppliers who are taking a shot in the dark.

A successful procurement program should do these things:

- Focus on finding the most suitable solution, not on simply following a checklist or finding the lowest cost. Every solution and procurement situation is different.
- Foster business relationships and trust between business-side buyers and solution providers, whether or not a purchase ultimately takes place.
- Bring best practices to the negotiation and contracting steps.
- Help manage risk; ultimately, the business-side buyers should own the risk, not the procurement function.
- Avoid abdicating responsibility to tools and technology. Buying and selling are based on relationships and personal trust.
- Measure and report the value delivered.
- Keep it simple for buyers and sellers.

If your organization has a procurement or vendor management program, don't allow the program itself to become the focus. Find the best solutions, taking into account a range of business-decision factors. And don't allow your procurement program to isolate your business people from the solutions they are seeking. In other words, don't buy while blindfolded!

The Nolan Company is pleased to participate in the IASA Chief Operating Officer Roundtable being held June 6, 2011 in Nashville. Nolan Senior Consultant and procurement expert Craig Loughrige will co-present on a session titled "Procuring Success: Maximizing the Value of the Buying Function" which offers guiding principles and best practices for operating a successful procurement program. If you would like to receive the presentation materials from this session, please send me an email at rod_travers@renolan.com. ▪

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CLIENT SPOTLIGHT

Project: International Life Operations Redesign

Client: A large international stock company with a dominant market share, offering financial solutions including insurance, investments, retirement planning, and money management.

Industry: Insurance

Our client is a major life and annuity provider with operations spread across over 14 international regions, supported by an extensive branch office network of staff operating within each jurisdiction. Expense management and revenue enhancement are a critical focus of the over 400 employees servicing nearly 500 agents and brokers associated in the life insurance operations. The stated strategic goal was to achieve market share growth with increased operational efficiency.

The stated strategic goal was to achieve market share growth with increased operational efficiency.

Project Objective

The client's primary objectives for the project were to:

- Improve service quality, timeliness, and consistency across the various jurisdictions.
- Reduce operating costs at a unit and total level.
- Close an existing performance gap with competitors and industry norms.
- Validate and determine best application of select strategic technologies.
- Plan out an organizational structure that would adapt with the forthcoming changes.

Key Issues

Some of the client's key issues were:

- Life operations were spread across multiple regions working with policyholders of whom over 50% prefer to make payments and transact business in person.
- Key benchmarks were all below industry norms, including cost per policy; operating expense per policy; corporate overhead ratios; and premium per dollar of salary.
- Service standards and productivity measures revealed significant opportunities for improving competitive position.
- Increased competition was adversely impacting profitability and driving a pressing need for improved efficiency and effectiveness.

Project Approach

Nolan's approach was to:

- Conduct employee interviews, brainstorming sessions, and fact-based analysis to identify opportunities for expense reductions and improvements.
- Develop activity studies and staffing models to identify savings opportunities and impacts.
- Create process maps of current-state and future-state flows for key service transactions.
- Determine optimum placement of branch office functions versus centralized functions.
- Redesign core business processes in the individual life and annuity functions.
- Establish an ideal organizational structure for future efforts as well as a transitional one during the improvement phase.
- Develop implementation guidelines and plans to assure near-term achievement results.

Expense reductions of 10% of the total operating budget were identified.

Project Results

Expense reductions of 10% of the total operating budget were identified. The primary approach was to focus on leveraging the established branch office infrastructure to move select activities and new business processes closer to the customer. Standardization across jurisdictions, where possible, resulted in additional work simplification and consistency of operations, further reducing costs while improving quality. Selective consolidation of high-volume financial and contractual transactions drove organizational changes that provided economy of scale and enhanced governance. In addition, detailed mapping combined with brainstorming identified a number of specific process improvements that could be implemented with minimal technological investment, providing immediate returns and improvements in service turnaround times and accuracy.

Working with Nolan, this respected insurer has achieved material reductions in cost combined with major improvements in service and operational effectiveness. In addition, the engagement effort has laid the groundwork for ongoing improvements which are expected to yield significant, additional benefits in the months ahead.

Steve Callahan
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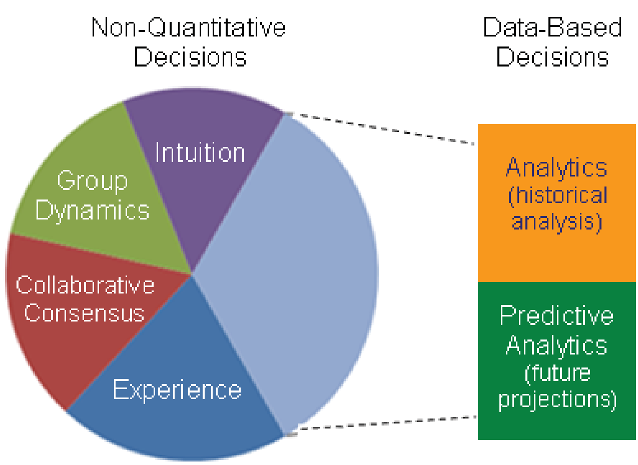
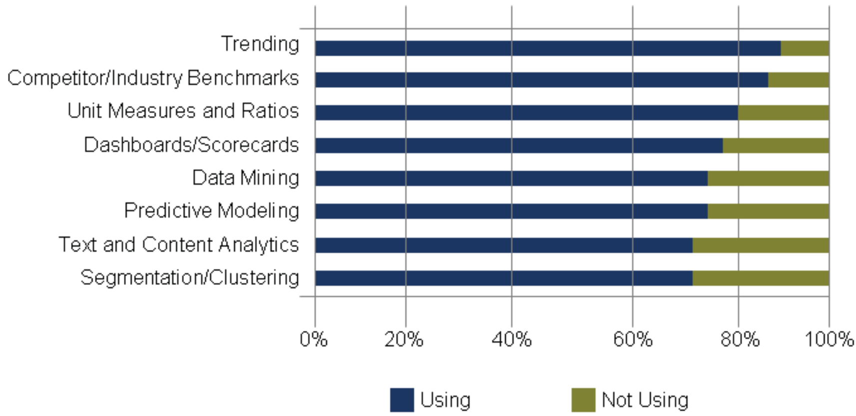
The importance of analytics has become increasingly apparent over the last few years as the complexity of the market, demands for customer differentiation, available information, and technological advancements have converged. While many companies have used a variety of business intelligence and analytical devices extensively to manage their business, the recent convergence has shifted the focus from a predominantly historical perspective to one incorporating multivariate modeling predicting the outcome of complex scenarios. To what extent are today's companies integrating the various forms of analytics available into their decision-making process? The answer can be found, at least in part, in a recent survey conducted by Nolan and *Tech Decisions*.

Figure 1. Basis for Decisions



Not surprisingly, the most common element in the decision-making process across more than 200 companies surveyed was experience, outranking any form of analytics or group dynamics. While there is no replacement for practical experience, the risk organizations take in using this approach rests in assuming that the future can be based upon a subset of data used to make past decisions. Experience provides an excellent benchmark against which to measure progress but might not be the ideal source of directional information to use in determining future actions. The 87% of respondents whose use of analytics consists primarily of trends, scorecards, performance reports, ratios, and comparisons are missing the opportunity to find relevant patterns in a vast array of interdependent variables. And it is within these patterns that future outcomes can be more accurately determined.

Figure 2. Relative Frequency of Use by Analytics Type

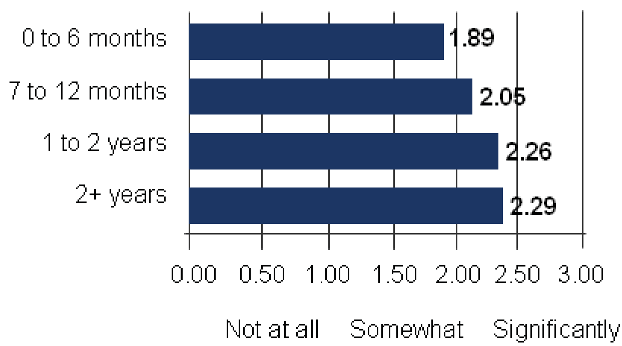


Unfortunately, according to the respondents, investments in these capabilities will be limited to a range of “not at all” to “limited” over the next two years, even though the opportunity for effective differentiation and profitability would probably require significant investment. It could be argued that for the sake of a penny’s savings, a pound of opportunity is being lost.

We found that while the reliance upon experience and historical data provide some comfort in the decision-making process, several other common barriers stand in the way of the industry expanding the use of analytics. The number-one identified barrier is inaccurate, fragmented, and insufficient data spread across multiple disparate and often antiquated systems. Without quality data, the ability to leverage analytics is clearly limited, requiring companies to first overcome a broad range of challenges associated with cleaning up and keeping clean the relevant data. Related to the data quality challenge is the reality of inadequate technology resources, compounded by the fact that these same resources are required to clean up the data, maintain transactional systems, and assist in the implementation of analytical models. Without the necessary resources, companies are somewhat trapped by their current processes and information, a problem clearly identified by the survey participants. Still, it is worth recognizing that several vendors and service providers have specialized resources available to assist with data cleansing and toolset implementation. Assuming an appropriate priority and willingness to invest, companies have options to leverage these resources as part of a quick-start program that incorporates knowledge transfer and training with resource supplementation.

This brings to the forefront some of the less explicit but more ingrained barriers to implementing advanced analytical systems and solutions. In particular, a perception that the costs of these solutions actually outweigh the expected benefits persists. Whether the result of a previously failed project or the inability to effectively project the business value, a good portion of management still questions the returns that could result from investing in the expansion of analytics beyond the historical models currently used.

Figure 3. Likelihood to Invest



Given our industry's current expense sensitivity, failure to be able to project a satisfactory ROI is often the death knell for proposals. Not surprisingly, this barrier is often paired with the next most common one identified by survey respondents—a lack of executive sponsorship for the projects. Absent sufficient returns and executive support, rolling out new analytical toolsets and models proves difficult to impossible. Compounding these barriers are the final two identified: a lack of business expertise and the consistently present cultural barriers to data sharing and ownership. Taken in total, these organizational constraints represent a much more difficult field of hurdles to surpass than the more technical resource or data ones. These issues represent the need for understanding, collaboration, education, and trust that are integral to any cross-organizational process that leads to change. Recognizing and directly addressing these hurdles should be a foremost consideration in any implementation planning.

Where does this leave us? Despite the challenges that surround the expansion of analytics within our industry, the opportunities for increased profitability are making more companies take a closer look. Over 35% of those surveyed described the growth in use of analytics over the next two years as:

Recent meetings involving the Society of Actuaries have looked at the use of external data elements in multivariate models for underwriting and mortality management, recognizing that for most companies, a mortality improvement of 8% would represent tens of millions in saved claims. Other industry associations working in conjunction with companies and analysts have begun to measure the potential impact of applied analytics in marketing, agency management, and customer segmentation as the drive for greater profitability by customer shifts the industry's focus from broad-based to finer levels of differentiation. Although the PC industry has proven the value of analytics in the specific areas of pricing—through credit scoring models, claims, better management of exposure to fraud, underwriting, and more complex risk rating profiles—there remain ways to expand into new areas for PC and, in general, for Life and Annuities. As best put by one of the survey respondents, "Those companies that do not embrace technology and analytics will be left behind in the dust by those that do."

Interested in learning more about the role of analytics in the insurance market, and especially recent advances in the application of these powerful tools to specific needs? Please check out our analytics information page at www.renolan.com/analytics, where you will find this information as well as the complete survey results and relevant articles on the subject. And if I can help you determine how best to approach integrating and implementing advanced analytics into your organization, drop me a line at steve_callahan@renolan.com. ▪

Executive Leadership: The Next Generation

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Experienced executives are often called upon to identify and/or groom the younger managers who are the future leaders of our organizations. Stop for a second and think about the best boss you've ever had. That's right—stop right here and visualize that person. (Pause. I'm waiting.) Now that you are picturing that person, I am going to tell you what he or she has in common with the best boss that every other reader of this article remembered.

Your best boss, the one who made the strongest impact on your business life, had a healthy ego. Not strong, not pushy—but healthy. Your best boss was not afraid to share credit for good work or accept the blame for poor work. Because of his or her healthy ego, he or she was able to work as part of a team, as a leader or follower, based on the business need.

As future executive leaders are identified, groomed, and mentored, it is important to know the traits that must be innate and those that can be developed through coaching and planning. A strong, healthy ego is obviously an internal trait that usually cannot be coached into an adult. Two other internal traits can't be externally provided to a potential executive: intelligence and energy level. However, once these internal characteristics have been identified, there are ways to develop other key leadership skills.

Understand the building blocks of the business. Few young people can walk out of business school into an executive post with a successful insurance company without an understanding of the core issues. This means knowledge of things like underwriting guidelines, the claims process, or the impact of system development expenses on the income statement. In the past, this knowledge was accumulated through time and experience. Today, time can be an expensive luxury. Training and mentoring programs should be put into place to provide this basic knowledge quickly.

Learn to set goals and achieve them. Goals serve as milestones by which to measure success. Whether managing to annual budget targets or project deadlines, it is always useful to be able to gauge your progress and then look back and rate effectiveness.

Be charismatic. Leaders need to inspire followers. It helps to be tall, attractive, and have a commanding presence. But that does not guarantee success. We all know successful executives who have less-than-star-quality personalities. It is possible, however, to conjure up charisma by being an effective communicator. And how does one become a great communicator? Once you have an intimate knowledge of the key aspects of the business (see above), you simplify. Few things make as strong an impression as the ability to explain complex concepts or problems in a simple manner. Once you have identified the problem and/or solution, spend extra time to simplify your explanation.

Look for and accept responsibility. One trademark of successful leaders is impatience. They may not feel that they are the most qualified or capable, but they cannot stand to wait around for someone better to show up. As a result, they take on the task or volunteer for the project just to get it done. That willingness to attack a problem is the first step in solving it. This impatience might also be viewed as naked ambition, but the end result should be the same.

Get the vision. It is not enough to understand tasks, activities, and processes. They must be tied to the overarching view of what the organization is about and what it is trying to achieve. This global picture is vital to ensure that individual tactics are consistent and moving the company in the right direction.

> *In today's corporate environment, successful executives are those who can pull together a team with varied backgrounds and skills and lead it to meet aggressive goals.*

Have a big heart. No one becomes a success alone. In today's corporate environment, successful executives are those who can pull together a team with varied backgrounds and skills and lead it to meet aggressive goals. Building that team requires an understanding of the skills, desires, and motivations of the individual team members. At its best, this understanding leads to empathy, a sense of the feelings of others.

We have all worked with admirable executives—people who are smart, charming, aggressive, and exciting to work with. With a little assistance, the next generation will produce its share of successful leaders. They will face their own challenges, but with proper coaching and support, we will be leaving them with solid foundations on which to lead our organizations into the future. ▪

Outsourcing, Insourcing and Rightsourcing: Which Way Do You Go?

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Outsourcing non-core processes in the '80s didn't work for you, so you insourced in the early 21st century. That didn't work out so well either, so now you are looking to rightsource.

Outsourcing, insourcing, rightsourcing…are these business options really more than buzzwords and consultant-speak? For any of these sourcing options to work, the organization has to understand the strategic nature of the decision. The most successful sourcing strategies work when they're done for the right reasons (process improvement, cost savings, increased service efficiencies), for the right tasks (software development, IT infrastructure, accounting, scanning, indexing), and at the right time (increase market share, corporate strategy shift).

Many organizations get caught up in the hype of the outsourcing/insourcing craze and forget that it is a complex business strategy.

Many organizations get caught up in the hype of the outsourcing/insourcing craze and forget that it is a complex business strategy. Lack of a strategy or top-level management commitment and failure to dedicate the best and brightest internal resources to the project will lead to sourcing disasters. Organizations that take a one-dimensional approach to a sourcing decision, such as a sole focus on saving money, take a big risk that could have long-lasting implications. The ideal process is to develop an organizational strategy, create an outsourcing framework, and seek professional help to handle the implementation and select the right match.

Successful organizations first understand the process that is being outsourced/insourced. They understand the critical drivers; the deliverables; and, most important, the main customer expectations. Rather than handing off a poorly functioning process, they strive to stabilize and perfect the process first in order to maximize the value of the relationship.

These organizations stay engaged with the process even though their employees are not performing the tasks. It is critical that the sourcing organization:

- Know the volumes being sourced
- Know the process being performed
- Know what resources are needed
- Know what the output is
- Provide specific service-level targets
- Provide crystal-clear training on the process
- Maintain ownership of the process and output

Just because an external entity is performing a function for your organization, doesn’t mean you abdicate all responsibility for the outcome. Remember, this is not a Home Shopping Club Handy Dandy Rotisserie product: you can’t "set it and forget it." ▪

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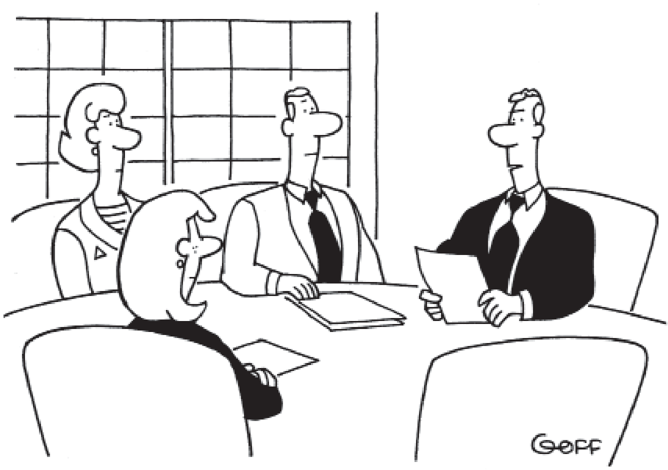

"We need to cut down on productivity, quality and customer service to save money."

IT Effectiveness: Applying Business Analytics to IT Organizations

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When you look at your IT organization, how do you know how well it is performing? What are the key metrics you use to measure performance? Are resources aligned with organizational goals? The metrics may only tell part of the story because typically they are internally and technically focused, as opposed to being business-result focused. The essential purpose of any IT organization is to enable the business areas to be more successful, so a deeper dive is required in order to link IT work activities with organizational strategy and business results.

Although no two IT organizations are identical, the typical insurance, banking, or health care IT organization consists of functions such as Network Services and Support, Application/Solutions Development, Data Management, System Availability, Enterprise Infrastructure, Enterprise Architecture, and a PMO or IT Governance group. Each of these areas will have its own set of performance metrics that provide insights into how well these functions are being performed. What is often missing, however, is a clear picture of whether IT resources are being allocated in a manner that delivers positive impacts to the business. This kind of measurement is, of course, not so easy to do. A very structured, focused, and objective effort is required.

The Nolan Company approaches this challenge by combining business analytics and activity-based management techniques to identify baseline performance levels and to reveal potential improvement opportunities. This forms the basis of a comprehensive IT effectiveness assessment. We start at the highest level, normalize the data, and calculate an IT efficiency ratio (Total IT Expense/Total Revenue = IT Efficiency Ratio) to establish a baseline. Our process then focuses on collecting, developing, and drilling down into IT expense data across functions and work activities. Business result and impact data is also collected and developed, and a link between IT expense and business impacts and results is established. This data then feeds an ongoing report-and-response process that prompts management actions based on key measures and trends.

My description here only summarizes the assessment and reporting process, but the benefits are considerable. Improvements in IT cost, effectiveness, and business impact are compelling. Among the most important impacts is the improved working relationship between business and IT—something many organizations don't expect. I'd like to hear how your organization has approached this important management issue. ▪

Operating Efficiencies: Redesigning Service Delivery for Current Customer Needs

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Retail banking customers are changing the way they use and obtain banking services. Mounting evidence has reinforced a need to think carefully about redesigning delivery systems to make the continuing shift seamless. It is startling to realize that more customers now prefer to handle routine transactions online than in a branch. The vast majority of bank customers look up their balances online, with some studies reporting the figure to be 85%. Most also prefer online funds transfer over a branch visit. Further, in working with current clients, we are finding a dramatic reduction in branch teller transactions year over year—on the order of 20% from 2010 to 2011, in some cases.

This shift in customer preferences is underway, and our delivery channels need to be redesigned to accommodate the current and imminent wishes of customers at each touchpoint. How do banks make this transition when, too often, decisionmaking on design does not involve customers' quantified preferences in the equation? It is time for banks to also rethink their redesign methodology.

In the early 1980s, under the banner of Quality Improvement, the customer became a central focus for improvement initiatives, with surveys, studies, and testing introduced into change processes. Over time, those labor-intensive techniques were replaced because of a need for "speed to decision." Well-meaning management teams returned to their previous approach of thinking that they know what customers want and designing to the standards and beliefs of the line or IT management.

Delivery channels need to be redesigned to accommodate the current and imminent wishes of customers at each touchpoint.

It is time to return to involving customers in the redesign process by studying their preferences and incorporating them into design. In our discussions with bank CEOs, the overwhelming strategic objective for 2011 is to reduce operating expenses through realized operating efficiencies. The new fee income realities brought about by regulation changes have mandated a closer look at operating expenses, creating an ideal opportunity to re-engage customers in the process.

> *It is time to return to involving the customer in the redesign process by learning about their preferences and incorporating that knowledge into design.*

The most recent J.D. Power study, which surveyed more than 48,000 retail bank customers across the United States, indicates a struggle to satisfy customers' needs. This represents a four-year downward trend, and it must be observed that traditional methods, such as greeting in the branch and cleaning up the branch experience, will not suffice for a customer base that is trending to online service. Here's a great opportunity to win customers back and lower operating expenses at the same time. It is time to go back to those quality principles that got so much attention in the early 1980s by designing according to customers' needs. ▪

THE OPERATIONS BEHIND THE BRAND

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The days of marketing and operations co-existing in a contentious relationship have gone the way of payphones and paper applications. This sea change in the industry is occurring because young adults (that is, today's new customers) demand it. This means that organizations must adjust to a new reality or risk watching their top-line revenues shrink.

In line with this thinking are the concepts described in Jonathan Baskin's *Branding Only Works on Cattle*. Baskin makes the case that buyer behaviors are paramount, and those behaviors are greatly influenced by the buyer's experience during the pre-sale interaction ("Should I buy from this company?") and post-sale delivery ("Should I remain a customer of this company?").

Here are five essential elements that organizations must have to achieve this singularity of purpose between marketing and operations:

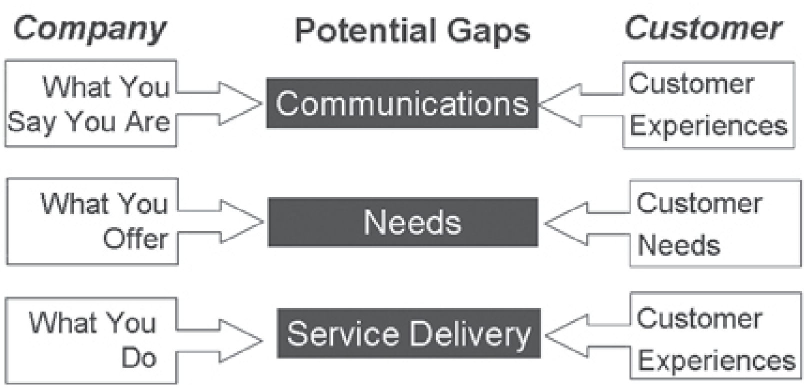
1. Understand the path customers follow to purchase your products and services, supported by a visual roadmap of the customer's journey through your organization.
2. Identify the most influential interactions in the customer's journey. Ensure that business structures and processes are designed to deliver the highest level of quality and service at those critical points.
3. Anticipate and plan how your company will respond to the variability and unpredictability of circumstances so that your brand is not harmed by unforeseen events.
4. Using the Capability Maturity Model concept of 1 (lowest) to 5 (highest) levels of performance, build metrics that measure gaps between what customers expect and what you are delivering in these three areas:
   - **Brand Communication**, ranging from Level 1, "Value proposition is not clearly communicated", to Level 5, "All areas of organization understand the brand message, train to it, and support their results with measures;"
   - **Service Delivery**, ranging from Level 1, "Processes are ad hoc and chaotic, with success dependent on the competence and

heroic efforts of the people in the organization", to Level 5, "Continually improves process performance through incremental, innovative and technological improvements."

- **Knowledge of Customer Needs**, ranging from Level 1, "Knowledge of needs is based primarily on anecdotal or second hand information," to Level 5, "Knowledge of needs based on ongoing formal data gathering from customers and analysis of marketing trends."

5. Monitor and report on your gaps, by presenting a simple chart of the levels achieved across the organization for all three of these areas.

Mind the Gaps



Although this article focuses on Marketing and Operations, actually all areas of the organization must be engaged in delivering on the customer experience. We suggest building a Linear Responsibility Chart, showing which areas are responsible for what aspect of the customer experience. This helps assure that all areas of the company are contributing toward adding to both the top and bottom line and delivering value. ▪

Nolan Events

63rd Farm Bureau Conference
June 3-4, 2011 - Nashville, TN
Nolan chairman and CEO, Dennis Sullivan, will be presenting at this event held at Gaylord Opryland in Nashville - *www.aaic.com*

2011 IASA Annual Conference
June 5-8, 2011 - Nashville, TN
The Nolan Company is honored to sponsor the keynote presentation and participate in IASA's annual conference (view Nolan's full conference participation at www.renolan.com/newsroom/events/iasa2011) held at Gaylord Opryland in Nashville - *www.iasa.org*

AHIP Institute 2011
June 15-17, 2011 - San Francisco, CA
Nolan senior vice president, Scot McConkey, and vice president, Merit Smith, will be attending this event held in San Francisco - *www.ahip.org*

AHIP Medicare & Medicaid Conferences
September 11-15, 2011 - Washington, DC
Nolan is pleased to be a sponsor of these annual conferences. Nolan senior vice president, Scot McConkey, and vice president, Merit Smith, will be attending this event held in Washington, DC - *www.ahip.org*

LOMA Policyowner Service Seminar & Contact Center Workshop
September 15-16, 2011 - Orlando, FL
Nolan senior consultant, Steve Murphy, will be presenting at this event held in Orlando, Florida at Hilton Walt Disney World - *www.loma.org*

IASA Executive Edge Program
September 18-20, 2011 - National Harbor, MD
Nolan is pleased to be a sponsor of this annual conference. Nolan executive vice president, Rod Travers, will be attending this event held at the Gaylord National in National Harbor, Maryland - *www.iasa.org*

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