The Nolan Newsletter

People, Process, and Technology

NOLAN

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Nolan is an operations and technology consulting firm specializing in the insurance, health care, and banking industries. We help 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. Visit our Website at **www.renolan.com** to download articles, client success stories, and industry studies.

Through *The Nolan Newsletter*, we share with our readers:

- Updates on industry, business, and technology trends
- Client case studies
- Information on speaking engagements, conferences, and web seminars

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Listen, Learn, and Lead

As we embark on a new year, time for reflection and looking ahead is welcomed. There will be new self-help books out on topics such as strategies for succeeding in a difficult economy, how to grow your business, and so on. Well, here is some simple advice for the new year—listen, learn, and lead. I came across this catchy tag line a few months ago, and it struck a chord. It is simple but reinforces some of the basic principles many successful people follow.

Listen first! Whether business-related or personal, there is always something to learn if you listen to people. The sooner we realize we don't have all the answers, the more we begin to listen to others. Don't get me wrong . . . I suggest you apply a good, old-fashioned filter because there are plenty of people who just like to hear themselves talk—losing a wonderful chance to learn from others. Adding input to a subject you know well, or you have a passing knowledge of, is a great way to increase your own personal data warehouse. *The art of listening is critical in developing a successful organization.*

Learning from others requires good listening skills followed by the ability to evaluate what you heard—ask for more information, process that information, and possibly modify your own views. When you are the subject-matter expert on a topic, understanding other points of view allows you to round out your expertise. Listen and learn from peers and subordinates. With a broader knowledge base, you will be able to overcome unanticipated obstacles.

This brings us to leading. Leadership will be difficult if you haven't listened to alternative opinions or picked up the key points in others' perspectives. Understanding different points of view requires you to invest some time in fully understanding a business problem. Doing so will help you further develop your knowledge of a given subject and better position yourself to lead a small group or entire organization towards a solution.

In 2010, take a few extra steps to listen and learn before trying to lead. If you really want a challenge, try it at home with your teenagers! ▪

Dennis B. Sullivan

Dennis B. Sullivan
Chairman and CEO

NOLAN ANNOUNCES MANAGEMENT APPOINTMENTS

The Nolan Company is pleased to announce the following management appointments and additions to our Board of Directors:

Dennis Sullivan was named Chairman and CEO of the Robert E. Nolan Company. Dennis has been with the Nolan Company for 27 years and is instrumental in expanding Nolan's services to the insurance and health payer industries. With this appointment, his leadership role will now include strategic planning and services expansion. Dennis will also continue as Nolan's walking encyclopedia of sports knowledge and analogies. Congratulations Dennis!

Ben DiSylvester has been named Executive Director of the Nolan Company. Ben has been with Nolan for 35 years and has led the growth of the firm both in capabilities and geographic presence. Ben established Nolan's Dallas office in the early '80s, and he pioneered many of Nolan's services including several of our proprietary operations improvement methodologies. He will manage key industry and client relationships for Nolan and will continue his frequent speaking engagements at industry conferences as well as facilitating strategic management-team and off-site board meetings for Nolan clients.

Bob Grasing will continue as President of the Nolan Company.

Steve Discher, **Rod Travers**, and **Kim Wilkes** have each been named Executive Vice President of the Nolan Company. They have also been appointed to serve on Nolan's Board of Directors.

Steve Discher has been with the Nolan Company since 2003 and is responsible for leading the firm's client development and relationship management teams. Steve will continue those responsibilities as well as expanding Nolan's strategic service offerings.

Rod Travers has been with the Nolan Company for 24 years and manages its operations, marketing, and technology functions as well as industry relations. Rod will take on additional administrative and talent management responsibilities for Nolan.

Kim Wilkes has been with the Nolan Company for 30 years and is responsible for managing project delivery and staff development and will now expand his involvement in staff training and skills development.

Congratulations to our colleagues on these new appointments! ▪

THE COST OF QUALITY

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As I write this, near-term predictions are multiplying for improvement in leading indicators; however, the pressure on cost containment remains strong. How should quality play into this cost reduction discussion? That question is likely to evoke strong opinions.

A discussion of cost of quality is best divided into two domains. One is the cost of *good* quality (prevention and detection), and the other is the cost of *poor* quality (recovery from failure detected internally and externally). We will focus on diagnosis and prevention, whether detected internally or externally.

In the last 18 months, have you adjusted or changed how you manage quality? For many, the answer is yes, and often the change is unintended or not fully directed. Taking a broad view—be it in underwriting, claims, or support functions—we can easily predict that there is more stress and uncertainty in your processes today than 18 months ago. This can come from staffing change, reduction in overtime, process change, or your employees' stress levels. These

...maintaining control over quality should be your strategic objective.

factors can drive variance or poor quality, making the answer: "Yes, there is greater risk today." There is also risk from sabotage, which typically increases in times of higher stress and dissonance from leadership.

Very often, as cuts in the production workforce are made, line supervisors rely heavily on the QC or QA areas to maintain quality. This is a difficult situation; one with no easy solution. Do you get the carryover down (or down faster) by reducing or stopping quality checks, or should quality checks continue as planned?

Here are some things to consider if you find that cost cuts force you to choose between production and quality:

1. How stable has your quality been over the long term?

2. Are there parts of your organization that are stable, confirmed by consistent quality checks?

3. How is your team's morale?

4. Do you have clear procedures and understood workflows?

5. How sensitive is your organization to having errors found by others within the organization?

6. How sensitive are you to losing customers due to lower quality or mishandling?

7. Is quality your primary business requirement?

As you consider these questions, think about the options:

1. Go to a lower confidence level; reduce sample size.

2. Temporarily move to targeted selection from random.

3. Reduce the depth of the quality reviews.

4. Maintain the program with only slight focus changes.

While there is no easy rule to follow, today quality is clearly a bigger factor than it was only a few years ago. So maintaining control over quality should be your strategic objective. That means that any adjustments your company makes should not undermine your ability to consistently deliver service at your organization's goal quality level. ▪

"Which one do you want?"

WILL HEALTH CARE BE REFORMED?

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Will there be health care legislation? At the time of this writing, there is a House bill and a Senate bill. The bills are lengthy; running approximately 2000 pages. Reading the entirety of the proposed bills is a chore, to say the least. Some of those charged with debating and enacting this legislation have not actually completed that chore.

Being that there are many unknowns, radically divergent views, and vested interests, it is difficult to predict the final outcome with any degree of certainty. Adding to the uncertainty is the reconciliation of the House and Senate bills. Since there are significant variations between the House and Senate versions, this becomes a major hurdle to achieving final legislation.

Webster's Dictionary defines "reform" as "to change into a new improved form or condition, to improve by change of form, removal of faults or abuses." Whether any resultant legislation even approximates any of these definitions will depend on one's point of view, which is influenced by such factors as age, gender, health insurance status, occupation, political views, and individual suspicions of government motives. So the real question is: Will there be "reform" of the United States health care system?

There are major concerns about several of the components of the proposed legislation. Providers and patients alike are concerned about "practice effectiveness panels" that would develop and approve care guidelines which will affect coverage and reimbursement decisions. The fear is that this will lead to rationing of care by withholding certain expensive treatments or drugs in order to meet the administration's health care expenditure targets or to address cost over-runs. Critics have dubbed these "death panels."

Another publicly-debated component that has received considerable media attention is the so-called government-run "public option" for the purchase of health insurance. There is strong sentiment for, as well as against, this option being part of any final legislation. Given the government's record of managing considerably smaller enterprises, critics question Washington's ability to direct and manage the United States' health care system.

Physicians, hospitals, and insurers are concerned about President Obama's and his Administration's level of understanding of the health care system. The early rhetoric about physicians and insurers was woefully exaggerated and inaccurate, which resulted in multiple restatements and spins, all designed to support their point of view. The President's examples, reflecting his perception of physician practice and behavior, clearly demonstrate that he and the Administration do not understand the delivery of health care.

Is mandating the purchase of health insurance constitutional? Does the current proposed legislation result in violation of the law prohibiting the use of federal funds to pay for abortions? These provisions raise concerns that may require legal review.

Cost is an issue for both those in favor of legislation to reform health care as well as those who oppose it. The concern is the cost of providing the mandated health insurance coverage for a significant percentage of the currently uninsured population and subsidies for low- and some middle-income groups.

The Administration asserts that the elimination of waste in the current system will result in a level of savings which will cover a major portion of the cost of insuring these groups. While there is waste in our health care system, the government has demonstrated neither the desire nor the ability to take the necessary steps to effectively address waste in the Medicare and Medicaid programs. The government's approach to managing cost of care in those programs has been to reduce payments to physicians and hospitals by allowing fees and payments to rise, but at a rate slower than major financial indices.

It is a virtual certainty that the cost of the health insurance mandate will be greater than predicted. Likewise, the thought that it will be budget-neutral and maybe even reduce the deficit is a fairy tale at best. So is the notion of a planned reduction in Medicare expenditures by $440 billion over 10 years. It is difficult, nay impossible, to think of a government project or program that has not experienced cost overruns, let alone saved money.

Many commentaries and predictions regarding the effect of any final legislation are dire and pejorative. Labeling the "practice effectiveness panels" as "death panels" is a prime example. However, in the end, the sheer extremes of opinions and strident objections—with the attendant politicizing—may significantly reduce the likelihood of meaningful change.

In any event, legislation is looming just ahead although the effective date for compliance is further downstream. Likewise, once enacted, the legislation will almost certainly continue to evolve. While all this provides time to understand the implications, it should not lead one to be complacent because

it will take some time to assess and implement changes and modifications to one's business offerings and operations. The most important part of all of this is how we react and prepare ourselves.

Not only is prediction of the final form of the legislation or its long-term impact difficult, but adapting to and complying with any new law will be equally challenging. Based on some of the previously outlined concerns, what can we expect without knowing the final legislative reform? It is prudent to expect that not only will there not be more money in the pot for physicians, hospitals, and insurers, but less. The current economy already weighs heavily on funding for the Medicare and Medicaid programs. For Medicaid, which involves shared state and federal funding, the response choices are to reduce reimbursements, institute more stringent eligibility requirements, or both.

Regardless of the final legislation or our preconceived notions, cursing the darkness will not help in determining how to respond. Don't wait for the final legislation or temporize in making adjustments and modifications to your business strategy, operations, and programs. Do what works in all situations— good times or bad, a stable or unstable environment, rain or shine—manage your expenses and health care resources. At the same time, keep a vigil on the legislation as it undergoes reconciliation. You will be that much better prepared if you begin to formulate specific action plans and communication plans as key aspects of the legislation are solidified. (Please see my colleague Jim Dean's related article on page 26).

You should also manage expenses and staffing levels so that employee productivity is maximized. Evaluate operations and modify or change so as to achieve maximum efficiency. Give serious consideration to new and innovative approaches that may differentiate your services and provide a sustainable competitive advantage. This becomes more important as there is limited opportunity to gain competitive advantage since all proposed legislation requires a standard set of benefits, community-rated premiums, and prohibits declining coverage based on any pre-existing conditions.

Whether physician, hospital or insurer, it is critical to manage scarce health care resources effectively and efficiently so as to achieve optimal health care for patients. "Optimal care" is by definition cost-effective and is uniformly of high quality and results in better care for the patient. To achieve optimal care will require a degree of collaboration and integration of care delivery among physicians, hospitals, and insurers that we currently rarely see.

Responding to what could result in wholesale change of the health care system takes time and, in the end, could be much ado about nothing. Therefore, it is important to get out of the block quickly. The starting gun is in the air! ▪

Schedule Alignment

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As a consultant, I travel . . . a lot! Therefore, I take advantage of the on-line check-in system and print my boarding pass at home. With a carry-on, I'm through security and on my way. However, a couple of weeks ago, I was unable to utilize the on-line check-in or the self-service kiosk, necessitating a trip to the ticket counter for assistance.

As luck would have it, this was a Monday morning (the busiest business travel time of the week) and there were 20 people in line ahead of me and only *one* ticket agent. The gentleman behind me who was a regular business traveler volunteered that this was usual for a Monday morning. After finally receiving my ticket, I inquired as to why the counter was so understaffed. The agent responded that there were four agents; one was sick, one was on break, and one was currently attending to a luggage problem. Pondering this, I asked her how many agents were scheduled for Tuesday, and she answered "Four . . . it is always four." Shaking my head, I took my ticket, cleared security, and ran to catch my flight.

When I arrived at the gate, I had the chance to talk to the gate agent about my check-in encounter. He informed me that the airline had trouble getting people to work the early shift, in part because Monday mornings were so hectic. He admitted that they had approval for a set number of positions which would be lost if they were not filled. Therefore, they had more staff than needed at other times during the day.

Once I settled in for my flight, I started thinking about the check-in experience and what the gate agent had told me. As is my nature (as well as my profession), I started analyzing the situation to identify the root cause and subsequently a solution. In this case, it wasn't hard to determine that the airline had failed to forecast demand or, in the best case, did not schedule staff to meet the forecast, failed to plan for absences and breaks, failed to align schedules with customer needs, and was unable to hire full-time people to work Monday mornings.

To be fair, I am basing these assumptions on hearsay, innuendo, and a very limited sample of the airline's operations. Therefore, it may be more accurate to say the airline failed to execute an effective business strategy to meet customer expectations at that particular airport. Regardless,

under-staffing during some periods and over-staffing in others resulted in inconsistent and poor customer service.

The failures outlined above are not unique to this one airline's staff in this one airport. There are many service centers today that face the same challenges, *and* on a much larger scale. How many times have you called a service center and had to wait several minutes to talk to a customer service rep only to call back later and have your call answered immediately? This is often a symptom of misaligned scheduling.

...misalignment results in over-scheduling during the main business hours which may mask the inefficiencies during fringe hours.

In many cases, this misalignment results in over-scheduling during the main business hours which may mask the inefficiencies during the fringe hours. Many of the service center executives I have talked to know they have a problem but are unable to put their finger on the cause or the solution. Typically, this is because they are looking at it as a resource supply issue (quantity), not a resource allocation or workforce management issue.

The Nolan Company has helped many clients improve their service center operations over the past 35 years by:

• Developing effective forecasting and scheduling processes

• Implementing workforce management practices

• Leveraging cost-effective overtime

• Developing part-time/temporary worker strategies

• Developing and deploying work-at-home strategies

• Improving service center planning

If you would like to discuss ways to improve your service center, call or e-mail me with your questions. ▪

Elegant Design Speaks for Itself

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Anyone who has studied computer science is likely to be familiar with the unique connotation of "elegant" in the vernacular of technologists. It does not connote luxury or glamour or lavishness. It means, roughly, "the simplest, most intuitive, most technically economical design." Programmers and designers have contests to see who can write a program using the fewest and most ideal lines of code. The winners are admired and envied, sometimes a little grudgingly.

The business world is filled with examples of elegant design, most of which are rousing commercial successes. Examples include:

- The iPhone and iPod. These devices are highly sophisticated, yet their user manuals are just a few pages long.

- Southwest Airlines' complex business model continues to evolve, yet customers consistently rave about the simplicity of traveling on Southwest.

- Amazon's One-Click online buying process is the simplest way to make an online purchase. Not enough time to change your mind!

- While we may not like paying highway tolls, toll tags and their underlying commerce model are delightfully simple.

- Twitter is just a text-message rebroadcaster. It doesn't get much simpler than that. Millions use it.

One common thread among these examples is widespread popularity. Make something that solves a common problem which just about anyone can use, and you have a hit on your hands. You also have a market differentiator.

In financial services, particularly in banking and P&C insurance, we have a tremendous opportunity to incorporate elegant designs into service processes, including self-service and agent-service processes. Several high-profile players have done just that, and the impact on their market presence has been predictably phenomenal.

Take a fresh look at your most frequently used service processes. Reduce steps, eliminate complexity, increase responsiveness. Customers will notice, they'll tell others, and your bottom line will portend success. ▪

SOCIAL MEDIA MEET CUSTOMER SERVICE: CAVEAT VENDITOR

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As the market turns for the better and industries look to a gradual recovery from some of the most challenging of times, keeping an eye on the customer has become more important than ever. While many articles have emphasized the importance of differentiating customer service, there is another fast-paced development hitting unaware companies. Recall the adage of how one unhappy customer can tell his or her friends, and they tell their friends? There was a ratio of the number of people that would hear about that one customer's complaint which added up to about 800 negative impressions.

The world has changed, and the old ratios no longer apply. Take, for example, Dave Carroll, a traveler on United Airlines whose $3500 Taylor guitar was apparently damaged while it was loaded on the plane. In pursuing approximately $1200 in compensation for the damages and after ten exchanges, Carroll ended up getting the answer: "This is the last exchange we'll have, and I'm sorry, but nothing's going to transpire with this." Short, sweet, to the point, and typical of the decisions made by the over-worked and rules-bound front-line service employees spread across most industries. Carroll, a songwriter and singer, did not let it drop. He wrote a song called "United Breaks Guitars," which he put on YouTube. The video went "viral" as they say in today's world of social networking, and more than four million people viewed it by July 2009. (You can find the video at www.youtube.com/watch?v=5YGc4zOqozo.) Talk about the impact of customer word-of-mouth.

Dave Carroll's YouTube video is not the only example—not by a long shot. Here's another one of the many similarly interesting examples of leveraging social media to communicate a customer's view of service problems. A customer of an internet support company that had been waiting (what he felt was too long for a callback) to set up a business account, sent out a frustrated tweet which included a curse word. The company responded by telling the customer his business was no longer wanted and that he had one week to find an alternative solution. The company's position was that this customer was abusing staff members. Despite what would seem like the rather private nature of this exchange, it went online via blogging and created quite a stir of exchanges regarding

the company, the customer, and their actions. The company did eventually post a response that pointed out the account closure was due to this last in a series of issues and as a business, they should have the right to refuse service, just as a customer can change companies. What is interesting and relevant to all businesses about this exchange is the part of the company's blogged response stating: "Businesses are now treading the double-edged sword that is social media. Due to respect for customers' privacy, businesses defending themselves online is akin to standing in court with tape around your mouth without a defense lawyer."

Thus, therein lays the challenge as we enter the age of customer-differentiated service combined with the power of social media. No longer is a simple customer transaction an event that is unlikely to damage a company's reputation and brand. In the past, customers would express their dissatisfaction to their friends and perhaps even change companies, but business would go on as usual. With the advent of social media, the impact of customer voice has been amplified dramatically. Today, the expression of dissatisfaction over a single, poorly-handled transaction can go "viral" in blogs, tweets, YouTube videos, Facebook posts, or any number of related choices; exposing the customer's dissatisfaction over the company's service to tens of thousands, even millions. It's caveat venditor: let the seller beware!

No longer is a simple customer transaction an event that is unlikely to damage a company's reputation and brand.

Imagine . . . a single transaction is handled poorly out of the thousands to tens of thousands every day that are handled well, and the company gets publicly lambasted on the internet to the point of potentially damaging their brand and reputation; all as a result of one now-dissatisfied customer. What an opportunity for the competition to step in and directly appeal to that same audience.

At the same time, social media represent a significant opportunity to involve and educate customers and win over their loyalty, even as it provides a voice to all customers. Companies must recognize that through the power of the internet, the tide has turned. Today, even the least significant customer can have an extended impact if they are dissatisfied with a company's treatment or service. Unfortunately, the insurance industry is somewhat slow to move in addressing social networking opportunities and challenges. A recent Insurance Marketing and Communications Association survey indicated that only one in ten insurance companies had integrated social media into their strategy.

Fortunately, according to the survey results, "many more had begun to study the issue."

Social media truly is a double-edged sword, particularly in today's age where service as a differentiating factor is more impactful than ever. The competitive advantage gained by those forward-thinking companies able to quickly and responsibly integrate social media into their strategic plans, particularly in our industry, will be felt across the market. There are already proven advantages in lead generation, customer satisfaction and retention, and consumer education. These advantages translate into enhanced brand awareness, satisfied customers, and greater market share. The takeaway is: don't get left behind—social media is here to stay, and its influence is powerful.

If you would like more information on the role of social media on the insurance industry or insights into how your company might leverage the power of the internet, e-mail me at steve_callahan@renolan.com. ▪

"We'll send a new wheelie bin, Mrs. Trubshaw, there's really no need to 'orchestrate a mass Twitter campaign'."

It's Time to Get Your Hands Dirty

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While the exact improvement in the U.S. economy remains unclear, several indicators are pointing positive. Investment markets are up, GDP is on the rise, and the broad range of business leaders we talk to are generally much more optimistic about 2010. That being said, we all know that unemployment is still a problem and health care reform is a wild card for many in the insurance and financial services sector. We are not out of the woods yet, but 2008 and 2009 are now behind us. Good riddance, some say!

As we emerge from this extended downturn, the opportunities for growth may not follow traditional patterns, nor are things likely to improve as fast as in previous recoveries. The executives of the companies we see best positioned to emerge quickly are keeping a firm hand on the wheel of their company. These leaders have a solid understanding of where and how to take advantage of future opportunities because they've debated and answered the important questions within their organizations.

- What trends and external changes are driving our business?

- How does our business model need to be positioned to take advantage and defend the business in this changing environment?

- How well are our internal business priorities aligned and focused on the growth areas?

- How clearly are the priorities defined up and down the organization?

- How well aligned are our people, processes, and technology with the needs of the future?

- What are we doing that gets in the way of these priorities, and what are we doing to clear the way?

The next wave of economic recovery will not be 'business as usual.' Leaders today need to have an especially intimate understanding of where they've been and where they are going. Are you close enough to it, or do you need to roll up your sleeves and get your hands dirty? ▪

CLIENT SPOTLIGHT

Project: Strategies for Increasing Premium and Market Share

Client: A Mid-Size Insurer Focused on Middle America's Needs

Product Lines: Individual Life and Group Benefits

Our client is a mid-sized insurer focused on serving the protection needs of Middle America by offering customers a broad portfolio of affordable and flexible insurance products. With Middle America defined as their chosen market, they distribute through independent brokers to individuals and businesses. Increased competition, expense reduction pressures, and product profitability market demands challenged our client to develop an effective strategy that would support profitable growth during competitive and dynamic times.

Project Objective

In order to provide a strong foundation for the development of a long-term strategy, the board of directors requested a competitive analysis of the company's industry and position within the industry. The information was to be used by the board in planning resource allocations, product and distribution priorities, and investments for the short- and mid-term horizons.

To address the board's stated and implied requirements, the project analysis focused on two distinct categories:

- Key trends within the industry

and the expected environment over the next five years, including:

- The greatest opportunities and threats, and
- The most likely changes in the industry.

- Key characteristics of successful small- and mid-sized companies, including case studies.

Following a thorough identification of these key components, a facilitated discussion of the underlying elements necessary to remain competitive as a mid-size company was conducted to assist in formulating the board's strategies.

Key Issues

Developing relevant plans to address the board's small- and mid-size carrier growth needs were best resolved via six specific analytical processes:

- Determine how to best address the risk of larger carriers entering the target market, which creates additional competition for market share.
- Assess the exposure to current competitors by effectively sub-segmenting the market and then differentiating methods to gain market share.

- Evaluate the likely influence of regulation on product development and policy compliance.
- Size and define the market niche opportunities available for leveraging new product ideas.
- Define how best to address the large market opportunity that exists with retiring boomers.
- Expand on continuous improvement programs, removing unnecessary complexity.
- Investigate additional opportunities for market expansion including alternative revenue generations businesses (e.g., TPAs) as well as merger and acquisition possibilities.

Project Results

Detailed industry research was provided to the board that included:

- A situational analysis of the industry, looking at growth, profit, productivity, and capital trends;
- Assessment of external factors impacting the industry and influencing key strategies;
- Implications of trends and external factors on the industry and the board's strategic positioning;
- Analysis of company characteristics essential for long-term success in the current environment; and
- Specific examples of individual companies and their strategies for addressing industry needs.

When we looked at our client's situation, we factored this research into the analysis. The end result was development of specific areas for focus and market development.

In addition to the market and situation assessment, several items specific to our client were analyzed within the context of the competitive landscape:

- Strategic implications to the analytical findings;
- Application of these implications to distribution, product, and market directions;
- Identification of the largest threats and opportunities; and
- Definition of other broad implications to our client's situation given the defined market conditions.

The board meeting resulted in profiling several areas where there was a need for better alignment of strategy across functions, providing the basis for a more focused utilization of limited resources to leverage optimal market growth and profitability.

Key product enhancements along with select target markets were identified as having the highest likelihood of supporting strategic goals. A clear direction was produced, supported by defined decision guidelines and measurable milestones. Finally, the board was provided with a method for ensuring a focus on premium and market share growth for the short-, mid- and long-term.

Knowing: It's a 'Magical View'

Robert E. Grasing
President
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Recently, a friend gave my family a debut CD of a local singer, and our enjoyment of the music prompted us to attend her performance. I offered to buy the CD for our children in advance of the concert—our daughter accepted but our son said he wanted to experience the music "fresh."

We all have a different view of life experiences. My bias is to know as much as I can in advance. Maybe that is why I was fascinated by Billy Pilgrim in the Kurt Vonnegut novel *Slaughterhouse-Five*. Those of you who have read this book might remember that Billy was disconnected from his life, popping up randomly at different points and out of sequence. One of the concepts presented in the novel is that life is permanent and can be viewed in its entirety; similar to looking down a path from atop the Rocky Mountains—seeing the beginning, end, and all points in between. Knowing what laid ahead gave Billy a 'magical view,' making him more at ease with each of his experiences as they played out.

At the 2009 BAI Retail Delivery Conference was a CEO's roundtable called "Changing the Dialogue." During that session, opinions were given on where the industry came from, where it is now, where it is probably going, and what leaders will need to do to change the current course. What was striking is that bank leaders know from history that sometime in the next ten years there will be another economic downturn. We can also expect new regulatory requirements that will limit the flexibility of banks to be innovative and meet varied customer needs—there will be banks that acquire and those that fade into memory.

The question is: what is the path through the Rocky Mountains of your bank look like? Can you see the twists and turns and anticipate how you will survive them? Have you gathered enough information regarding your customers' changing needs, the ways your competitors are addressing them, the technology that will be required in meeting them, the additional resources that will be necessary, and how well each of your lines-of-business will be able to perform in your marketplace? A good place to start is with the Nolan Annual Bank Performance Study.

Knowing as much as you can and acting on that knowledge to position your bank or credit union for success seems elementary, but there may be some who just like to experience it "fresh." ▪

Bank Performance Study 2010: Measuring Excellence

The Robert E. Nolan Company is once again offering the opportunity for all banks and credit unions with more than $900 million in assets to participate in our proprietary industry study, which is unlike any other. The analysis results in comparative line-of-business measures that help participating organizations identify gaps in income, expenses, staffing, and productivity. It is organized by 80 distinct lines-of-business and provides comparisons to the mean average, the benchmark (top-quartile) banks, and the median bank for each of 1,200 performance ratios calculated. And the great news is that there is no fee for participation.

What Participants Can Expect
The analysis will identify gaps in performance that quantify specific areas where the greatest opportunities for improvement exist. The unique approach ensures that each bank accounts for its income, expenses, staff (full- and part-time), outsourced activities, operational transactions, balance sheet items, and activities unique to each line-of-business. In this way, a directional view can be developed to determine the underlying reasons for identified performance gaps. The comparisons are organized in pools, an approach that maintains participant confidentiality while providing granular performance gaps.

Performance Gaps Identified
Each participating organization will receive:
- A management summary identifying the areas with the greatest opportunity for bottom-line improvement;
- A detailed report that prioritizes the opportunities by total organization and within each line-of-business;
- Each of the 1,200 detailed measures with comparison to median, benchmark, and mean averages;
- Year-over-year comparisons for multi-year participating organizations; and
- A review of systems employed by line-of-business for each participating bank.

You will not want to miss out on this unique performance study when planning for operational changes within your bank or credit union. To view a sample of the output that participants will receive and to register for Nolan's 2010 Bank Performance Study, go to www.bankbenchmarks.com.

Registration Deadline: March 26, 2010

Input Deadline: April 30, 2010

Results Distribution: June 11, 2010

A New Breed of CIO

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The short history of information technology has seen a couple generations of leaders. Is a third generation now emerging? First-generation CIOs—often called the "Director of Data Processing"—were the unquestioned rulers of their domains who knew technology well but little about business. Business leaders acquiesced to IT demands because they were in unfamiliar territory. This era faded around 1980 with the advent of the more technically-savvy customers and executives. The '80s saw the rise of the CIO who as "order taker" was expected to both understand business and serve up scoops of enabling technology; much like Baskin-Robbins scoops up ice cream—and just as quickly, if you please. The job tenure of that CIO averaged three years as they failed to satisfy the demands of their customer base.

One of Nolan Company's recent client's IT shop is run by a new breed of CIO who is on the cusp of the third generation. First, his shop is CMMI Level 3 compliant, with some areas at Level 4. He has all the components you see in most big IT shops, but their charge is different. The architecture group's charge is *maintainability*, not the next newest technology to bet on. He has an emerging technology group that must deliver production applications *today* for the real complex problems, not report on how good it will be when the technology matures. His PMO manages [runs] projects instead of just managing the project plan. He also has a business liaison group where project planning is done with the charge of scope control. He also has a vendor management group that has implemented the "vendor stable" concept which limits the number of vendors and controls costs.

The real strength of this highly-disciplined IT shop is that alongside mainstream development and maintenance resides a "skunk works" which prototypes applications at the intersection of business needs and technology capabilities. With the CIO as leader, these prototypes are shared with the business community who provides feedback, resulting in moving ahead or discarding the applications. One recent call center upgrade cost less than $2 million, while another (which was not as good) cost more than $20 million.

Isn't this new breed of CIO great? ▪

THE 10 KEYS TO IMPLEMENTING NEW STRATEGY

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You have spent months researching the market, defining customer needs, analyzing competitors, and developing new strategies. As you admire the hard work of the strategy team, someone (usually the CEO) asks, "When can we expect results?"

Although strategy is formulated at the top, it is executed below. Implementing new strategy usually requires both change management and project management. It may involve not only home office employees, but also field staff, independent distribution, and/or business partners. You could be changing: products, marketing materials, advertising, systems, compensation, distribution channels, and work processes. The more innovation, the more change. In some cases, it requires new skill sets not currently in the organization.

> *Implementing new strategy usually requires both change management and project management.*

After the realization of how much time, effort and money it will take, many efforts begin to stall. To help you plan ahead, here are the ten requirements to implementing new strategy:

1. **Executive leadership.** It must be visible and, the hardest part, repetitive. People need to know the vision and goals. To motivate the staff to change, they must understand the rationale and purpose.

2. **An executable strategy.** The strategy needs to be expressed in operational terms. It must mobilize resources and provide clear direction to successful completion.

3. **An implementation plan.** Develop a plan with measurable milestones and periodic decision gates. Let people know that time is of the essence and slippage is not acceptable. If the project is struggling, determine why and remedy the situation quickly.

4. **RBCs.** Determine your required business capabilities (RBCs) involved in implementing the project and executing the new process and/or system. It may be necessary to do a capability assessment where you compare current skills/performance with

the required skills/performance based on the strategic objectives. You may also want to identify the best practice gap—the gap between current performance and that of best practice in the industry.

5. **Ongoing executive involvement.** For large complex projects, just doing a kick-off is not enough. First, it requires ongoing involvement and support with change management to help people understand, accept, let go, and move forward. Second, it requires removing roadblocks and cutting through politics.

6. **Alignment.** Everyone needs to be working together toward a common objective and rewards.

7. **Team leadership.** To successfully implement a large project requires a multi-functional team. Good team leadership generates passion, innovation, and collaboration.

8. **Technology.** Almost all large current projects require technology—hardware, software, analysis, innovation, development, testing, and support. Plan ahead and allocate enough resources to avoid this common project bottleneck.

9. **On-the-fly adjustment.** Know that things will change. The longer the project, the more likely there will be changes, including changes to the industry such as new regulations, technology, competitors, customers, and the economic situation.

10. **Discipline and rewards.** Set deadlines, require commitment, and provide ample support. If people are not truly on board, they need to find a new home. Don't accept poor performance. Set the performance bar high and reward achievement. Make rewards meaningful by going well beyond trinkets and T-shirts.

By sticking to these ten keys, you have a better-than-average chance of success. Also, a little luck never hurt. ▪

Getting Serious About Disease Management

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Despite the uncertainty surrounding the final result of health care legislation, it's comforting to know some management challenges transcend the vagaries of politics and regulatory agencies. One of those constants is optimization of administrative spend. Traditionally, it is an area of management focus applicable to all functions including medical management, of which disease management is a part. It is also an area of focus that may be elevated to critical importance if Section 102 of House Bill HR 3962 makes its way through committee and into law. This is the section that mandates, beginning January 1, 2010, at least 85% of premium dollars for large-group, small-group, and individual policies must be spent on medical treatment, leaving (at most) 15% for marketing, sales, administrative expense, other expenses and, for commercial carriers, profit. In that environment, creating and maintaining an effective disease management capability presents

> ...some management challenges transcend the vagaries of politics and regulatory agencies.

special challenges, but this would also present unique opportunities for administrative savings, cost-of-care benefits for self-insured groups, and marketplace differentiation.

The importance of disease management as a means to improve members' quality of life and to help control medical costs should be apparent to even a casual observer. According to an *Archives of Internal Medicine* study in 2004, 57 million Americans suffered from one or more of the "Big Five" chronic conditions—diabetes, asthma, congestive heart failure (CHF), coronary artery disease, and chronic obstructive pulmonary disease. That number is expected to increase to 81 million by 2020. Seventy-two percent of all physician visits and 88% of all prescriptions filled are for patients with one or more of these conditions, which is 75% of all medical spending in the United States. Yet, despite the enormity of the problem, the verdict on the effectiveness of disease management programs is decidedly mixed and falls into three categories:

- At one end of the spectrum: Individual plan studies showing meaningful cost of care savings for targeted conditions.

- At the other end: A recent Congressional Budget Office study stated there is insufficient data from large, long-term studies to make any broad statements about disease management programs' effectiveness in reducing cost of care.
- And in the middle: A 2005 *Society of Actuaries* study showed savings for some condition programs but no savings for others. For example, an $11–$145 PMPM savings for diabetes programs; $150–$450 PMPM savings for CHF programs; but no savings for asthma programs.

The unmistakable message from all of this is that health plans are presented with a growing, complex problem that cannot be solved with broad brush strokes. Although daunting, it's a problem we believe can be effectively addressed, accomplishing the goals of clinical staff optimization, cost-of-care reductions, and market differentiation.

> *...health plans are presented with a growing, complex problem that cannot be solved with broad brush strokes.*

Effective disease management begins with two guiding principles: targeted engagement and member behavior modification. Without them, program benefit expectations will simply not be met. These principles have eight key tactical considerations which, in aggregate, produce meaningful, qualitative, and quantitative results.

1. Integrity of member contact information—accurate telephone numbers and e-mail and postal addresses.

2. Effective population risk scoring by age, gender, condition, co-morbidity, and location (by zip code).

3. Engagement outreach supported by customized contact procedures for high-risk/high-potential members. Many programs fail because all members are treated equally from a procedural perspective, often resulting in engagement of a preponderance of lower-potential members.

4. Member relationship building using a declining-scale intervention frequency and contact duration model. Similar to personal relationship building, contact with members should be frequent at the beginning with comparatively more time invested during each contact, then becoming less frequent and less time-consuming as interim goals are met and trust is developed. Too often, contact protocols call for semi-monthly or monthly contact with members which is an ineffective approach to creating an effective relationship between the plan's

clinician and the member.

5. Optimized post-engagement member contact success ratios enabled by system-generated reminder e-mails and/or automated reminder calls to member-directed contact telephone numbers.

6. Treatment protocols and associated quantitative and qualitative improvement goals that correspond to the declining-scale intervention process noted in #4. Initial goals should be numerous, incremental toward the ultimate health goal, and easily attainable. Achievement of goals established later in the protocol period should require comparatively more effort on the part of the member.

7. Quality-of-life and cost-of-care results reporting compared to initial member surveys and similar, unmanaged cohort claim costs.

8. Manage caseloads by consistently closing cases at the end of protocol periods in which optimal health goals are met or for those members who are in consistent non-compliance with treatment plans.

Although not an easy task, thoughtful implementation of these considerations should help drive success; something that has eluded the vast majority of the industry.

The Nolan Company wishes you good fortune in 2010. As needs arise, we would be pleased to speak with you about your medical management strategies for the new year. ▪

Smart Planning for Health Care Reform

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When it comes to health care reform, Washington is like a free-fire zone, with private trade-offs and deals being done in back rooms throughout Congress to get *something* passed as quickly as possible.

If you are in an industry that is directly affected by the reform and trying to develop a future business strategy, you can probably relate to this line from Bob Seger's song Night Moves: "Working on mysteries without any clues."

Monitoring the legislative process is both important and interesting, but committing time, money, or resources in developing or laying the groundwork for a future strategy now could be premature. As an example, some industry organizations that gave their full public support to reform early in the process are now rethinking that commitment based on unpredictable changes in what was originally cast as "reform."

In contrast to early commitment, this is probably a better time to take a page from General Eisenhower's strategy book. In fast-moving situations, wait until the last possible moment to make a decision so that you have the most information for a more informed decision.

Companies that can make fast strategic and operational decisions will no doubt have a first-mover competitive advantage over others who delay. Yes, speed is important, but that importance is tempered by a lack of solid information. Now is the time to develop the outline of a revised strategy to implement *after* reform passes; don't try to address the outcomes of an unpredictable political process.

Our term for this approach is "rapid reform impact analysis." The concept is to rapidly deploy a cross-functional team after reform passes to quickly define the impact, timing, and action steps to be taken. This will position you with a solid and actionable competitive advantage based on the facts of reform, not just the forecasts.

What are the steps needed to conduct this impact analysis?

1. **Identification and timing of specific legislation impacting your current market.** This legislation is complex and intermingled with previous and parallel legislation. It will be important to have

access to legislative experts to identify which specific parts of the reform directly affect your business and the time frames in which it will occur. Insight into the regulatory process will also be important. This stage will create an inventory of legislation that must be followed and will set the targets and pace of action needed.

2. **Determination of the impact to your industry.** Taking the inventory just developed, the next step is to drive out specific potential impacts. Will it limit the market you now sell to? Does it open up other potential markets to take advantage of? Will the changes drive you to get out of this part of the business because of loss of profitability?

3. **Competitive impact.** Will these changes hurt or improve your competitors' capability? Do their government relationships and size give them a competitive advantage, or do you have it? Are the changes so dramatic that you should sell or buy your way out or into the market?

4. **Business model changes.** How will the reform force changes to your business model? Will new regulations make it too expensive to run? Alternatively, could they increase your access to markets (through exchanges, for instance)? Will you need to reform the structure of the products you offer? Will pricing models need to change?

5. **Action steps to take.** By taking the timing of changes from the first step and combining them with findings from the next three steps above, a road map of action can be developed. This may involve everything from plans to sell a portion of your business to acquiring new books of business. Other action steps might include attempting to influence the regulatory process or re-developing your distribution, structure of products, or pricing.

Adopting just-in-time planning can be the best course of action when the future, as it is now, is uncertain. When the fog clears, however, fast action will be imperative. ▪

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Nolan offers Rapid Reform Impact Analysis *services to our clients. We bring legislative and operational expertise to help companies achieve first-mover advantages in what will become a rapidly changing market. Please contact me at jim_dean@renolan.com to learn more.*

"Psst, Pass It Down"

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Have you ever played the old party game where you whisper a statement to the person next to you and they pass it down the line? Most of the time, the last person to hear the statement is told something entirely different. Our communication regarding business processes too often ends with the same result.

I recently saw a survey that cited why a significant number of software projects fail or are deemed "challenged." Two of the top reasons given for these failures were lack of user involvement and poorly-defined requirements. When developing new processes and software, it is vital to get the necessary information from those who do the work—and this doesn't mean just one or two people. Most, if not all, who are doing the work should be involved in the fact-gathering. From my experience conducting redesign workshops, I have found there are always cases of someone defining a work process and someone else saying, "That's not the way I was trained" or "I have a better way to do that."

Think about what would happen if only one of the two people was the primary source for gathering process steps during the requirements definition phase of a process change. The process would have two different maps of steps, and the resulting requirements would most likely be poorly defined or sub-optimized.

Another important reason for seeking as much involvement as possible is to make sure that all of the steps of a process are necessary and ultimately add value. The same survey found that in failed projects, many of the requested features were never used. This is often a direct result of not thoroughly questioning the value of each step in the process before defining what is required.

Getting as many people as possible involved in defining processes will ensure consistency, identify unnecessary activity, improve output quality, boost training efforts, and ultimately improve the defined requirements for new processes. ▪

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I admire Thomas Sowell for many things: his scholarship, his clarity of thought and skill with language, and his life story. (How many high school dropouts have PhDs in economics and teach at Stanford?)

Though an economist, Sowell has much to tell executives who are responsible for service operations in complex organizations. An example of his wisdom is his concept of "one-stage thinking." He explains one-stage thinking by telling a story of how, as an undergraduate, he proudly answered a question in class by explaining what he would do to solve an economic policy issue. His teacher patiently listened to his answer and asked a simple question: "And *then* what will happen?" Sowell went on to answer the second question. The professor again asked: "And *then* what will happen?" As Sowell dug a deeper hole with his answers, he "began to realize that these reactions would lead to consequences much less desirable" than his first answer suggested.

It must have been painful to listen to the eager student and patient professor. Although awkward, teaching and learning were occurring. And Sowell says "I was beginning to see that the economic reverberations of the policy I was advocating were . . . worse than the initial situation."

In the opening chapter of *Applied Economics: Thinking Beyond Stage One*, Sowell goes on to explain that most bad economic policies involve similar one-stage thinking—the type of thinking that never considers the question: "And *then* what happens?"

Nolan consultants frequently confront service problems that are caused or compounded by one-stage thinking. (For some reason, service operations seem to be especially vulnerable to this problem.) Frequently, our solutions and recommendations involve correcting the one-stage thinking.

Here are four practical things service executives can do to minimize the impact of one-stage thinking on their operations:

1. **Probe and question your staff's proposals and plans** along the lines of Sowell's professor. "And *then* what happens?" or "Will your proposal result in any side effects?" As you probe for secondary impacts, expect inexperienced staffers to think first of

other good impacts of the proposed action rather than seeing possible unintended impacts. Management education doesn't happen only in MBA programs: the boss's boss can be an excellent, if intimidating, instructor. Play this role wisely and gently, perhaps privately.

2. **Build the topic of second-stage impacts into your decision process.** When you assign an issue or project, specify you want them to anticipate the negative secondary impacts and develop a plan to avoid or minimize them. If you do this consistently and use the "And *then* what happens" probe, your staff will quickly sharpen their thinking on second-stage impacts.

3. **Use multiple metrics when you assign issues to staff.** If we ask the staff to reduce the backlog by year-end, for example, they are likely to come back with a plan that eliminates the backlog but creates a nasty budget variance or disrupts other year-end service requirements. Encouraging your staff to see a challenge with several metrics—especially if the metrics seem to be at cross-purposes—can get them to begin to use second-stage thinking.

4. **Review completed projects to encourage second-stage thinking**. Use probing questions: As we did this work, what did we learn? Were there surprises? Were there any unintended consequences for clients? How could we have better anticipated or even avoided the surprises?

Because we would rather encourage second-stage thinking than fix problems caused by one-stage thinking, Nolan has developed an interactive presentation that you could use in a small staff meeting or off-site session. If you are interested in learning more about this complimentary staff development resource, call me at 800-248-3742.

By the way, you might want to read *Applied Economics*. Dr. Sowell has two excellent chapters in the book on public policy issues that are plagued by one-stage thinking: "Medical Care" and "Insurance." I promise that if you consider his arguments on these topics, you will begin to see that many critics and executives in our industries can't get beyond one-stage thinking. Reading Sowell is a great way to move beyond *your* one-stage thinking. ▪

Characteristics of Successful Companies

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At the recent Society of Actuaries Annual Conference in Boston, we were asked to present our findings on the characteristics of success for companies in the mid-market space. Based on the results of our recent survey of life insurance companies, we identified seven characteristics that set apart the continuously successful companies from the rest of the pack.

We found that successful companies:

1. **Have consistent leadership.** Everyone on the management team shares the same clear vision of where the company is headed and can articulate it to others.
2. **Identify and exploit niche marketing opportunities.** They develop an entrepreneurial mindset that finds ways to make something work versus a "why it won't work" attitude.
3. **Have a pulse on the marketplace through superior customer intelligence.** Be very careful when people in the company say they *know* what the marketplace needs without listening directly to customers and agents through surveys and other means.
4. **Make targeted investments in technology.** They target their investments in technology based on what is really needed. This starts with understanding and defining the business requirements and investing only in those technologies containing features that will deliver on those business requirements.
5. **Achieve service excellence.** "Easy to do business with" is not just a slogan; successful companies are easy to buy from and service is easily accessible for customers.
6. **Are nimble and quick to act.** They minimize bureaucracy and have a culture of problem solving. There are many companies that once dominated their niche but became so entrenched in their ways that their competition overtook them.
7. **Have organizational alignment.** The structure should be aligned with the strategy, with rewards designed to support the attainment of the goals of the organization.

With the economy improving, now is the time to break the down-cycle thinking and confirm that your people, processes, and technology are ready to deliver on what customers want from your organization. ▪

Nolan Events

PCI Executive Roundtable Seminar
January 24-26, 2010 - San Antonio, TX

Nolan is pleased to participate in the PCI Executive Roundtable Seminar and sponsor the Opening Reception. This event will be held at the Westin La Cantera - *www.pciaa.net*.

NAMIC/Nolan Webinar
Operational Priorities for Property/Casualty Executives
February 3, 2010 - 2:00-3:00 p.m. Eastern

Based on findings from Robert E. Nolan Company's survey, Nolan Executive Vice President Steve Discher will be presenting "Strategies to Navigate Difficult Times." This webinar is designed to provide insight on strategies P&C executives are implementing to drive future success as we emerge from this extended market downturn - *www.namic.org*.

Prepaid Card Expo USA-2010
February 22-24, 2010 - Las Vegas, NV

Join Nolan Vice President Jim Dean at this conference to be held at Rio All Suites and Casino - *www.iirusa.com*.

NAMIC Commercial Lines Seminar
February 23-25, 2010 - Chicago, IL

Nolan Executive Vice President Steve Discher will present two sessions at this seminar: "Maximizing Underwriter Productivity–Art or Science?" and "Designing and Underwriting Dashboard–A Comprehensive Management Approach." Nolan is proud to be sponsoring a refreshment break at this annual seminar being held at the Renaissance Chicago - *www.namic.org*.

PIAA Marketing Workshop
April 7-9, 2010 - Washington, DC

Nolan Executive Vice President Rod Travers will be presenting "Marketing Strategies: What's Behind a Brand?" on April 9 at the Hyatt Regency Washington on Capitol Hill - *www.piaa.us*.

2010 IASA Annual Conference
June 6-9, 2010 - Grapevine TX

Nolan is proud to once again sponsor the keynote presentation. Nolan will also co-present the session "Juggling the Budget–Delivering Results While Controlling Costs." And Nolan Executive Vice President Rod Travers will moderate the IT Town Hall forum - *www.iasa.org*.