Robert E. Nolan Company
Management Consultants

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

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

Toll-free (877) 736-6526

www.renolan.com

Nolan is an operations and technology consulting firm specializing in the insurance, health care, and banking industries. Since 1973, we have helped companies redesign processes and apply technology to improve service, quality, productivity, and costs. Our consultants are senior industry experts, each with over 15 years of specialized experience. We act as trusted advisors to our clients, ultimately expediting and magnifying improvement initiatives and we are committed to delivering measurable and sustainable results. Visit www.renolan.com to download articles, client success stories, and industry studies.

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

NOLAN

The Nolan Newsletter

People, Process, Technology

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Introduction

Survey Results on Industry Future Released

Nolan's report titled "The Future of the Life Insurance Industry: A Strategic View" contains the results of our survey of industry executives. In addition to appearing in this issue, (page 3), the results have been published in the March edition of *Best's Review*. We are pleased with the positive reaction the results are receiving. Several Nolan executives have been invited to speak at upcoming industry meetings on the survey's results.

Together with the results of the Nolan study of the property & casualty industry, which appeared in the July 2001 edition of *National Underwriter*, there now exists a clear picture of the future for these two important insurance industry segments. In addition to these two recent studies, the Nolan banking practice conducts an annual Efficiency Ratio Benchmarking Study and the Nolan health care practice uses unique data-driven methodologies. Nolan's commitment to rigorous data collection and analysis continues to be the foundation for all our work.

This latest life insurance industry study shows that executives see a future driven by a strategic vision that includes being more customer-focused and fully supported by technology and organization structures that make it easier to deliver competitive service levels. And while they see alternative distribution systems in their future, they see them as additional channels and not necessarily as replacements for their agent-based systems.

Profitability will be uppermost in executives' minds, and this means that the technology to support that strategic vision must deliver on its promises. If technology does not deliver, it will be difficult to validate pricing assumptions, which will put profit margins under pressure.

Getting all this right will require bright and motivated people inside the company, and highly qualified partners from outside the organization that bring skills and methodologies that will assure results. ■

Ben DiSylvester
Chairman

Strategies for the Future: Competing in the Life Insurance Industry

Eugene Reagan & Ron Zimmer
Senior Consultants

Life insurance executives, in a recently conducted survey, made predictions about the life insurance industry and described strategies for succeeding in the future. Taking the broad view, they see a future for the industry that looks much like the present. However, when they fine-tune the picture, significant changes appear to be in store for the industry.

These are the conclusions of Nolan's new, in-depth survey, "The Future of the Life Insurance Industry: A Strategic View."

The survey results suggest that:

- Independent producers will remain the primary distribution channel for life insurance products.
- The Internet will fundamentally change the way carriers serve their customers.
- Virtual companies will not represent a significant threat to traditional companies.
- Emphasis on cost controls will become even more intense.
- Two separate business models will be viable — fully integrated financial service enterprises and organizations that will compete in specific niches.
- Fully integrated systems will provide front-end interaction with customers and back-end transaction processing with legacy systems.

Over 3,300 life insurance executives were asked how they believe successful life insurance companies will address key areas in the future. A total of 110 responded.

The Near Future — More Cost-Cutting

The survey results clearly show that improving Return on Investment will remain a top priority. Three-quarters of all respondents felt that expense ratios will decline over the next three to five years at successful companies. In response to open-ended questions, the industry executives made it clear that companies will attempt to achieve expense reductions by “leveraging technology to lower unit costs.”

Attempting to lower costs through technology investment has been an industry trend for at least the last decade. However, only 43% of the survey respondents agreed that life insurance companies have a good understanding of how to assess the value of technology and optimize it once the investment is made. This would seem to reflect the widespread problems that companies throughout the industry have had with major system implementation efforts.

It is debatable whether life companies can actually achieve these projected reductions in overhead expense ratios. In spite of significant technology investment, the actual number of life insurance home office personnel fell only 0.1% between 1989 and 1999. It actually grew by 2.5% from 1998 to 1999. It should be noted that, according to the ACLI, there were 625 mergers between 1995 and 1999, which should also have reduced overhead. Carriers are certainly offering a wider array of customer services (e.g., call centers) and more complex products, which require greater overhead. However, technology expenditures have not automatically produced expense reductions.

Industry Structure

Respondents were about evenly split when asked if the industry would shrink significantly due to mergers and acquisitions in the next three to five years. They were also evenly split when asked if banks and other non-traditional competitors will be major strategic threats over that time period.

A majority (53%) of the respondents felt that replacing state regulations with federal regulation would benefit the industry. In the past, executives were not willing to give up the entry barriers that state regulation provided.

A worrisome number (83%) of those responding feel the inability of state insurance departments to quickly respond to changing market conditions endangers the life industry’s ability to bring new products to market.

Marketing & Distribution

Two separate business models are predicted to do well: niche and integrated financial services. Two-thirds of the responding executives felt that niche companies will be successful. Examples of these companies would include: Aid Association for Lutherans, USAA, Woodmen of the World and Catholic Knights. A slightly larger percentage (70%) felt that successful life companies will be part of an integrated financial services enterprise. Companies offering these integrated financial services include: Citigroup, ING, Fortis, Principal and Prudential. Only half of those responding think the life organization will be the dominant member of the holding company.

The independent producer, will continue to be the dominant interface with the customer, according to almost 70% of the respondents. But executives also said it is important to develop channels that deliver products and services in any manner preferred by the customer.

While the Internet and e-commerce were not viewed as threats to the independent producer channel, three-quarters of the respondents felt the Internet will fundamentally change how carriers serve their customers. The primary impact, therefore, will be in the area of customer and producer service.

Respondents were very clear about the importance of focusing on customers, identifying target markets and working niche opportunities. According to almost 80 percent of the executives, data mining and Customer Relationship Management (CRM) will become commonplace in the next five years.

Also, 70% of those who replied felt that class action suits will change the way companies market and sell products.

Strategic Alignment

Many respondents spoke of the need to focus the organization on the customer. Ron Gendreau, Executive Vice President of Colonial Supplemental Insurance, said successful companies will be organized in a way that "aligns marketplace needs with the core competencies of the business."

The survey predicts that this type of alignment will be accomplished through product lines that report independently to executive management (57%) and/or subsidiaries that serve niche markets (53%).

Almost 90% of those responding to the survey felt that successful companies must have a goal and a vision that extends five years or more into the future. Two-thirds of the respondents indicated that it is imperative that business and systems strategic plans be aligned. Historically, the coordination of these plans has been difficult to successfully accomplish within the industry.

Systems Integration

Respondents view systems integration as the key to success in cutting costs and improving service to producers and customers. Over 90% of those responding felt that successful companies will invest in new technologies to remain competitive. Similarly, 92% of the executives felt that successful organizations will have integrated front-end and back-end systems. This calls for data and service interchange with both producers and policyholders.

In spite of this goal, only half the respondents felt that there will be a need to replace existing systems to deploy these technologies. Therefore, it appears that much of the growth in the systems area will be front-end, Internet-related technologies that interact with existing legacy systems for transaction processing.

Since 57% of the survey respondents did not agree that life insurance companies have a good understanding of how to assess the value of technology and optimize it once the investment is made, companies clearly must improve their ability to deploy technology more cost-effectively. Many companies have had poor track records in this area in recent years, particularly in terms of CRM and e-business infrastructures. Improvement in this area will require a more disciplined approach built on clearly defined links to business requirements. This approach will include more effective program management, improved methodologies to make technology operational and better measurement of overall results.

Survey respondents do not underestimate the impact of e-commerce technologies. While only 20% feel that virtual companies will threaten traditional carriers, 73% agree that changes in products and customers' expectations will drive a move to 24/7 operations.

Half of those responding feel that e-commerce will force the insurance industry to create totally new products in the next three to five years. Over 85% said that services such as electronic applications and underwriting via the Internet will be prevalent within the next 10 years.

It appears that the Internet will likely be a significant method for providing service; but, in the near future, it will not be a major channel for the distribution of product.

Partnering and Reach

While 66% of the executives predict that foreign ownership will increase dramatically over the next three to five years, the overall industry structure will look familiar. Three-quarters of those who replied feel that U.S. life companies will prosper without a global partner. In addition, only 22% felt that successful companies will have to compete on a global basis. But for the larger organizations, globalization is seen as a way to broaden business horizons and enter high-growth markets outside the United States.

Whether companies expand globally or not, they will have to compete with international organizations such as Aegon, ING, Fortis, AXA, Allianz and Zurich. These companies currently combine for over 12% of the market share in the United States, as measured by net written premiums.

Slightly less than half of those responding agreed with the statement, "At least 50% of all insurance companies will disappear over the next 10 years through acquisition or merger." Only a third felt that life companies will have to partner or merge with banking or investment companies.

Key Findings

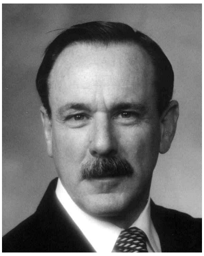
The survey results predict that:

- Independent producers will remain the primary distribution channel for life insurance products. However, successful companies must be prepared to deliver products through a number of channels to reach customers.

- The Internet will fundamentally change the way carriers serve their customers. The development of Internet capability will focus first on the delivery of service, rather than sales.
- Alliances and partnerships will provide growth opportunities. However, each opportunity should be closely examined to ensure strategic fit.
- Improving ROI will remain a top priority and the emphasis on expense reduction will become even more intense. Most expense reductions will be realized through new technology.
- Life insurance companies must become more effective at assessing technologies, managing implementation of those technologies and achieving the savings related to them.
- Two separate business models will be viable. Some successful companies will be part of fully integrated financial service enterprises, while others will compete in specific niches.
- Most successful companies will not compete solely on the basis of price. They will attempt to differentiate themselves in the marketplace through name recognition, service and relationship management.
- Successful operations will be structured to provide accountability at all levels of the organization. They will be responsive, lean and agile.
- Investments will be made in new technologies, products, alliances and operations. Achieving the desired payback will require vision, planning and organizational alignment.

The survey results clearly show that industry executives feel they are doing many of the right things necessary to be successful. However, the rate of change is accelerating. Life insurance companies will have to become more flexible, expense-conscious and open to new technologies and ways of doing business in order to succeed. ■

MASHING THE RIGHT BUTTON FOR HENRY



Merit Smith
Vice President
Director, Health Care Practice

Henry is the CEO of one of the best regional HMOs in America. He is a clear thinker, introverted and soft spoken with a strong Texas twang. He uses few words. He lets an issue play out, hears all points of view, and guides his management team to the point where the decision is obvious. His approach works. His health plan is nationally recognized for low administrative costs, high member satisfaction, consistent growth and continuous profitability.

When he called on Nolan to improve his utilization management process, we were excited but cautious. How we would help improve medical costs without detracting from the plan's overall excellent performance was a challenge. Our project had been underway for several weeks, and I was visiting the plan to see the first progress review our consultant was presenting to Henry's management team. Nolan's consultant showed them that there was more room for improvement than anyone had thought. They weren't defensive about this finding, but they did probe the data until they were comfortable. And then they went on to talk about what the new insight implied for patient care and profitability. All in all, it was a great session.

As the meeting broke up, I found a private moment with Henry and asked him, "Are we covering the right things for you?" He said, "Sure are. Just make sure we are mashing the right buttons." And then he walked off.

"Mashing the right buttons?" What did he mean? I had no idea. Mash…. Hawkeye and BJ? Potatoes? Kentucky bourbon? What did he mean? What do "mashing" and buttons have to do with each other? I soon learned that "mashing" is a Texas term for "pushing." "Just make sure we are pushing the right buttons." Now what he had said made perfect sense to me.

On many projects, the most important value a skillful consultant brings is to make sure the client "mashes the right buttons." Let me explain. Most frequently we help executives with problems their organization has tried to fix, but has failed to resolve. As we learn about the prior efforts to fix the problem, we frequently see these things:

- Confusion about causes, effects and symptoms.
- Solutions that are "hedged" to avoid internal political problems.
- Inadequately designed interventions (fixes) that don't relate to the causes of problems.
- Inadequate resources assigned to implement fixes.

Because of his management style, Henry wasn't worried about dealing with political problems or assigning inadequate implementation resources. What he was concerned about was that the project might not correctly link causes and solutions. He knew — either by instinct or experience — that a recommendation that is not strongly linked to the cause of a problem really isn't worth much. You have to mash the right buttons to get the right results.

Common sense. But you would be surprised at how frequently organizations implement fixes that will not solve the problem. Based on our experience, we believe that a poor linkage between a cause and problem usually involves two things:

- Not discovering the root cause of a problem.
- Not having a structured way of moving from understanding the cause to creating an intervention that will fix the problem.

You can't fix a problem if you don't know what causes the problem. Oh, I guess you could get lucky, but successful careers aren't based on random solutions to problems!

The trick is finding the "root cause" of the problem. A root cause is a condition without which the problem would not exist. Very few problems have more than one root cause. Finding root causes is hard work. They hide under layers of "contributing problems” and “symptoms.” A “contributing problem” is a problem that makes it harder to diagnose or fix a root problem. Improving a contributing problem will cause a temporary improvement in the problem, but it cannot eliminate the problem. Novice managers frequently work on contributing problems. “Symptoms” are noticeable negative conditions that can be seen when a problem is unresolved. Frequently symptoms are quantifiable and associated with poor quality service or excess costs. Ineffective solutions to problems — ones that result in no improvement — are frequently the result of a manager working on a symptom rather than a cause.

Nolan’s approach to mashing the right button is to provide clear and specific recommendations on the root cause, and then for each contributing cause.

We then measure the symptom as a way of measuring improvement in the situation.

For example, we might have a client with a phone service problem. The symptoms are excessive wait times and abandon rates. The contributing causes might be excessive staff turnover among the phone staff and increasing volumes of claims-related calls. After much work, we determine the root cause is a recent change to the claims processing that is confusing and unpopular.

We could add more staff to the call center. We could raise wages for the staff to reduce the turnover. But these approaches will create only temporary improvement in the symptoms. These approaches can’t improve the long-term situation because they don’t deal with the root cause. In fact, they will cause short-term improvement and increased cost. And the problem will re-emerge until the root cause is discovered and eliminated.

So Henry was saying: “Help us stay focused on root causes.” Common sense, plainly spoken (once I got over the “mashing” confusion). Classic Henry. ■

Encourage Customers to Pay On Time by Improving Your Processes

Greg Robinson
Senior Consultant

We all know how difficult it is to run a business these days. You work very long and hard to provide good products and services at a competitive price. You know that your customers are likely pleased with you because they sign contracts in which they agree to pay for your service. So this begs the question: why won't your customers make their premium payments on time?

Surely it's because they try to wait until the last minute to pay their bills, or their processes are just inefficient, or their Accounting Manager is incompetent or… Could it possibly be that your billing processes make it difficult for your customers to pay their premiums? Hmmm…

Ensuring an efficient revenue stream is critical to the success of any business. Making it easy for your customers to pay your bills is a critical element of ensuring an efficient revenue stream. In order to understand how easy it is for your customers to pay your bills, you must understand the answers to a few simple questions:

1. How do you bill?
2. When do you bill?
3. What does your bill look like to the customer?
4. How do you handle the payments?

Do your processes for generating and sending bills result in bills that are accurate and efficient for your customers? When your customers submit changes and adjustments to the bill, are they processed in a timely manner so that the next bill they receive is what they expect to see? With the onset of electronic billing and bill presentment technologies, there are many options that can eliminate unnecessary delays in billing processes. Imaging and workflow technologies can also help to improve internal efficiencies in billing and payment processes.

When do your customers receive your bill? It takes you time to receive and process their payment, perform necessary reconciliations, generate a new bill, prepare the bill for delivery and send the bill. When they receive your bill, do they have time to process the bill, perform their own reconciliation, make adjustments as necessary, get a check processed and return the payment in time to meet your due dates? Also, many companies pay bills on a monthly cycle. Does the time that they receive your bill match up with their monthly cycle? Do they consistently pay their bills a few days late? An analysis of the timing of your revenue stream might reveal some interesting patterns. Minor modifications to your billing cycle could make it easier for customers to pay you on time.

Next, do your customers understand your bill? Is your bill readable, and is the information on the bill accurate and easily understandable? Many companies include internal codes and jargon that, while meaningful to the company sending the bill, provide no useful information, and many times they create confusion for the customer. You should ask your customers what they like and dislike about your bill. You might be surprised by their answers.

Finally, once they submit their payments, are they handled timely and efficiently? Delays in your payment processing could result in payments not being applied and reflected on the next month's bill, creating additional work for your customers, as well as confusion and an increase in the number of inaccurate and late payments.

Regardless of how efficiently and/or effectively you bill and handle payments, some customers will pay late. But try to ensure that you are not making it difficult for customers who are trying to comply with your payment processes. An efficient process for your customers can have a significant impact on your revenue stream and the overall profitability of your organization. Your customers may be paying late because your processes make it difficult for them to pay on time. ■

How to Ensure You Get Your Money's Worth

C. Kim Wilkes
Senior Vice President

Fresh out of college, I started working as an engineer in a furniture plant. I was taught to take great pains in calculating the exact price of every product and its individual components. I was also expected to know precisely the cost of the raw materials and the labor required for each step. Before anything was approved, potential capital expenditures required extensive cost/benefit analyses and return on investment calculations. From the beginning, I learned the difference in things such as “hard” and “soft” dollar savings, “cost avoidance” and the like.

A few years later, I joined a financial services company where I was charged with analyzing procedures and recommending process redesign. Two of the first projects I was assigned to were already underway, and they included potentially significant capital expenditures. The first was a recommendation to install a mail elevator between floors of our proposed 18-story building. The second was the purchase of a revolutionary premium-processing machine that would also MICR encode each check. (Keep in mind, this was the early 1970s.) When I was able to review the cost-justification data, I was shocked at the lack of concrete cost/benefit analyses and ROI calculations. We were ready to spend a lot of money, but we didn’t know what the benefit was going to be.

It’s now 24 years later, and I wish I could say that we in the financial services industry have become more sophisticated in our approach and use of cost justification and ROI calculations. Unfortunately, I don’t think we have. I am still concerned, maybe amazed is a better word, at the number of companies that are ready to spend major dollars on hardware or systems that have not shown a clear ROI or have not been thoroughly cost-justified. (Recently, I have witnessed a number of expensive imaging/workflow systems being considered with very little, or flawed, cost/benefit analysis.)

There are also times when someone will say, “I’d like to be able to cost justify, but it’s not in the budget.” The time invested in ROI calculations may reveal that the investment can be recouped by the end of the budget cycle. ROI calculations and cost/benefit analysis should be the cornerstone for approvals of all capital expenditures. These are two simple tools that give you the assurance that funds are being allocated to the appropriate places. There should be a standard way they are conducted, and most important, everyone should understand them thoroughly.■

NOLAN SPEAKING ENGAGEMENTS

February 25 – 27: LOMA Customer Service Conference
Nolan CEO, Dennis Sullivan, will speak about Customer Lifetime Value (CLV).

April 7 – 10: LOMA Systems Forum
Nolan client, UICI, will present a case study on rapid solutions for HIPAA requirements. Nolan will sponsor the official 2002 Systems Forum Thermal Tumbler Mug.

April 22 – 23: BAI Branch Delivery and Sales Management Conference
Nolan President, Bob Grasing, will speak about Measuring Branch Efficiency.

May 2 – 3: LOMA Policyowner Service Seminar
Nolan Chairman, Ben DiSylvester, will present recent findings from Nolan’s Life Survey.

May 29 – 31: LIMRA Client Management Conference
Nolan SVP Technology, Rod Travers, will speak about Customer Relationship Management.

June 2 – 5: IASA Educational Conference and Business Show
Nolan CEO, Dennis Sullivan, will present on the future of the life insurance industry, strategies for success.

Reading Customer Satisfaction

Robert L. Keene
Banking Practice Director

Banks often listen to their customers by examining their financial reports each month. If the bank is growing and profitable, the customers must be happy.

In recent years, a source of the gap between performance and customer satisfaction is the turmoil perceived by bank customers resulting from mergers. While this turmoil is coming to an end, banks have created multi-faceted operations with a number of different systems, products, divisions, branches and geographical locations that contribute to the gap in service. High-quality service, as defined by the customer, is hard to deliver in this type of environment.

For example, a common approach used in bank lending operations is the centralization of certain decisions that have a direct impact on the customer. The centralization of decisions is usually done to maintain control over cost, credit quality and compliance — all issues that the customer could not care less about. Like sales, these attributes are easy to measure. As a result, the measurements taken tend to consume the decision-making process, while measurements of customer satisfaction, which are harder to produce, get little or no attention. Elevating service level measurements to equal importance so that quality can be included in the decision-making processes is a key to eliminating the customer satisfaction gap. The payback is in increased customer retention. It is not uncommon to find that every one-percent increase in customer retention can be equal to as much as a five-percent reduction in expenses company-wide.

Banks should consider an approach that recognizes the value of high customer satisfaction, and they should depend on the customer to tell them about their experience. ■

WHY ARE SO MANY PROCESSES SYSTEMATICALLY INEFFECTIVE?

Robert E. Grasing
President

Many banks have multiple systems that do not talk to each other. Often they depend on each other's output in a sequence within the new business process stream. This condition often requires the bank staff to reenter a great deal of information to accomplish a simple loan. It results in lost time, errors and, ultimately, unhappy customers. It typically infuriates management, since the "new software" recently installed was promoted as a time, service and unit cost improvement. Do any of these issues resonate with you?

> *"So why don't we just integrate the software which could result in a seamless, effective and efficient process? After all, many software companies claim that it is simple."*

It is common (and unnecessary) that banks have to enter or write the same data five to seven times to set up, approve and book a new loan with an existing customer. How can this be happening in an era of advanced technology? Just look at any bank software Web site and you will find many claims regarding solutions that "automate and *streamline* your entire loan life cycle with features rich in technology." And others who claim to "standardize and automate your entire origination process including information gathering, credit analysis, documentation prep and closing." Still others offer "a comprehensive single-source solution for all sales and service requirements."

One problem that exists is that each segment of the process has special needs that are tackled independently without enough regard for the impact on the entire new business process. The credit staff wants the best credit tools, the lenders want the application and doc prep tools that best suit them, and the operations people want the best platform to run and maintain.

So why don't we just integrate the software which could result in a seamless, effective and efficient process? After all, many software companies claim that it is simple. Some firms promote a "real time credit decision engine that ***can be integrated*** into the bank's own origination platform or software applications." Other vendors offer the software that promises that "lenders …can download and upload information, eliminating double entry of data, thereby reducing errors."

It all sounds plausible, but some of the promises, while not intended to be deceiving, are, in fact, just marketing. From a practical standpoint, every process involves people, along with technology, to accomplish what the customer needs at the right cost. Taking the elements of a process and optimizing them to each department's specifications is a sure-fire way to ignore the real customer.

"From a practical standpoint, every process involves people, along with technology, to accomplish what the customer needs at the right cost."

If it now takes your bank hours or days to accomplish what should take fifteen minutes, then it is time to redesign the entire process from the customer's point of view with the right combination of integrated technology.■

BATTERIES NOT INCLUDED

Rod Travers
Senior Vice President, Technology

The phrase "batteries not included" is an innocuous way of saying, "This thing isn't going to work without batteries, and we're not giving them to you, so you'd better buy some." I think enterprise technology should carry a similar label: "Effective integration with your operations not included." Or maybe a better label would be, "Magic wand not included." This would warn buyers that although a system may have great features and wonderful capabilities, its benefits may never be realized unless it is seamlessly integrated into the organization.

> *"There is much more to technology success than mere technology. Even though there's no such label, I can promise you that the 'batteries' that enable technology to meet its potential are never included."*

With the term "integration," I'm not talking about system implementation or connecting one legacy system to another. Those are technical tasks that are becoming more straightforward with the prevalence of standardized connectivity and open middleware. Even when those essential (but technology-focused) elements are accomplished perfectly, they aren't where high-value results come from.

What I'm referring to is operational integration. This is the essential process of weaving technology into an operation such that business processes and technology systems operate in lockstep. No handoffs, no workarounds, no latency, no "printing out and reentering," no stale data, no surprises, no cost overruns, no excuses.

The keys to effective operational integration of technology include:

- Project success factors determined by business results, not by successful implementation of technology
- Alignment of business strategy and technology strategy
- Objective up-front business requirements
- Realistic cost/benefit numbers
- Business process design integrated with technology rollout
- Measurement
- Accountability
- Continuous improvement

One of the hottest areas of enterprise technology right now is CRM. Unfortunately, CRM is also near the top of the list for producing disappointing results. Why? It's not because the technology isn't good. It's because requirements are not well defined, expected results are not well understood, and the technology is not effectively blended with redesigned business processes.

There is much more to technology success than mere technology. Even though there's no such label, I can promise you that the "batteries" that enable technology to meet its potential are never included. ■

Project Spotlight

TOP–TEN LIFE AND ANNUITY COMPANY: TRANSFORMATION TO A CUSTOMER-CENTRIC ORGANIZATION

Our client, one of the largest life and annuity companies in the United States, had experienced rapid growth in variable products over the last decade. The company had built its market reputation on product innovation and had established an organizational focus on product management. Along with the challenges of a maturing annuities marketplace and changes in the national economy, the company was hearing increased dissatisfaction from its producers and business partners.

Focusing on the Customer

Following a strategic review of the company, management decided that their current organizational focus on products must change, and their focus must be to become more customer-centric. They launched a series of initiatives to begin the transformation. Senior management was also concerned that the basic organizational structure of the company was no longer appropriate and a different structure would be required for them to become truly customer-centric.

The client engaged the Robert E. Nolan Company to assist them with understanding the organizational implications of their desired transformation. Nolan consultants first met with company management to obtain background information and to define and agree upon the project approach. They reviewed the new strategy plan and conducted one-on-one interviews with key stakeholders. Next, Nolan consultants worked with the teams to develop high-level process descriptions to identify shifts in process steps, accountabilities and decision making. Next they analyzed the results to identify impacts on the organizational structure. They identified a series of alternative structures to discuss with the management team, including marketing, product management, sales and operations.

Keys to Success

Several factors are required to successfully align an organization, including:

- Clear, shared and understood objectives and metrics, roles

and responsibilities, and accountabilities;
- The right people in the right jobs;
- Processes that are measured and managed for performance from the outside in;
- Critical competencies must be sustained; and,
- Organizational structures that are supportive.

The general conclusions based on the interviews, process design and analyses had two main themes:

1. **Organizational structure does not solve process or competency problems.** Success comes from fixing broken or poorly designed and inconsistent processes. Success also requires competent and adequately trained staff.
2. **Organizational structure combines resources efficiently around important causes and provides a focus for achieving critical objectives and goals.** Functionally oriented resources make sense because this structure provides for maintaining functional excellence, critical mass and the ability to balance staffing, all which are keys to achieving a customer-centric focus.

Recommendations

The principal project recommendations were to align and organize company resources based upon the dominant responsibilities of the resource, and the extent to which accountabilities should be across customers rather than products.

Nolan also recommended that markets (consumers/contract holders), products and producers/firms (customers) deserve dedicated resources that will act in a “checks and balances” fashion. They will be “corporate truth-tellers” with respect to competitive position, performance, and emerging strategic needs and opportunities.

Lastly, it was recommended they modify the process by which the company makes decisions to fund strategic investments across markets, products and distribution channels.■

Oh Lordy, They've Done It Again!! But It Is a Good Thing!

Dennis Sullivan
Chief Executive Officer

Recently, I was doing research on a speech that I will be delivering on the "Lifetime Value of a Customer." It struck me how the repackaging of good, sound business principles — with new buzzwords and new twists — continue to make their way into the "new business strategy" category of business articles. This "new" strategy is wrapped around Customer Relationship Management (CRM) and is referred to as Customer Value Analysis (CVA). The approach has actually been around since at least the early 1990s. The packaged-software marketeers are continually looking for a market in which to sell their wares, and this is a niche I matched up with while doing my research. I got to thinking that it is actually a good thing that creative repackaging happens because, in this case, it has us focused on the strategy around having a customer for a lifetime and understanding how profitable that can be.

Data mining, customer profiling and customer profitability analysis are all tools used to better understand customers. If the focus stays there, it's a good thing. It may not always be for the right reasons, and the definition of a "good" customer may get lost in the mounds of data, but the energy is in the right place. Every time we resurrect a good business concept, a fresh look helps get us back on track. Below are some thoughts about how to look at customers. Perhaps these might jog some of your creative juices.

Customers today may not be as loyal to agents, producers or carriers as they were just ten years ago. This issue will require each of us to focus more on our products, our prices and our service delivery. Everyone expects value in the product or service being delivered. The Internet marketers have access to our customers, and our customers are getting more comfortable doing some research themselves before making a buying decision. This environment pushes us all to "reconnect" with our past customers and make sure the relationship we worked so hard to develop is strong. Past customers need to be reacquainted with our strengths so we don't lose that loyalty advantage. Loyalty alone doesn't sell the product today. If we deliver service, it better be the best, and we better be proactive with our customers and not wait for them to contact us. To fully understand the needs of our customers and how our products might fit those needs, we may have to work a little harder — but that's what will separate us from the pack.

This move from just pushing products to understanding client needs and providing products and services that are also profitable is a juggling act. If I look at the lifetime value of a customer, some old rules still apply:

- It is 7–10 times more expensive to acquire a customer than to retain one.
- A 5–7 percent increase in retention can translate into a 50–100 percent increase in profit.

Sounds like a good argument for focusing on retention. That's nothing new. What is new is the technology we use to aggregate and analyze our customer information — as well as the understanding that specific strategies must be developed for certain types of customers in order to retain them. It's like target marketing, armed with more information on our customers than we've ever had before and a renewed desire to keep them because of their long-term value. So, CRM and CVA — call it what you want. The bottom line is we want to focus our attention on keeping the right customers. If we continue to slice and dice the data to get a better understanding of how customers buy, what it costs us to deliver and how we can better meet customer needs, just think how much better off we and our customers will be! ■