The Nolan Newsletter

People, Process, and Technology

NOLAN

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

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

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

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The New Normal

Over the past year and a half, a phrase often pops up in business discussions: “the new normal.” Concepts have changed in the investment world; credit is tighter and Congress is going to bring their wisdom to bear in shaping the financial environment of the future. (I hope that last part is not the new normal or we are really in for a treat.)

My concern is that the concept seems to be used as a catchall for past bad management practices. I disagree with the premise that financial woes have caused us to reshape our business strategy. The new normal may be the result of the new environment, but it seems to be more a way of excusing past mistakes. Some companies use the excuse of the recent financial crises for their renewed emphasis on operational improvement. However, being overstaffed, allowing for cumbersome work processes, and ignoring inefficient organization structures were not caused by the market meltdown nor will they be corrected by the ongoing comeback. Management’s inattention to the basics caused bad performance, and the investment environment just magnified the situation.

Strong, successful companies run their operations with a set of management practices and principles focused on operational effectiveness. Management must rely on a sound set of work structures that meet and exceed customer needs and an organization structure that supports those work structures and facilitates communications between departments. There is now an added focus on administrative expenses, something Nolan has always tried to reinforce in good times and bad, but companies should constantly revisit their strategy for operational excellence.

What does all this mean? It means focusing on the fundamentals—all the time—is a great operational strategy. Reviewing processes, examining productivity analysis and staffing models, and evaluating new technology to ensure that redundant steps in old processes are removed are just a few of the basics that companies should focus on every day. Long-term success is the goal. Being able to respond quickly to external events and constantly improving the internal service delivery model are the marks of today’s best-in-class financial services companies. Are you one of them? ▪

Dennis B. Sullivan

Dennis B. Sullivan
Chairman and CEO

Strategic Priorities Persist

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The Life & Annuity industry has faced tremendous pressure over the past year, with economic and regulatory forces coming to bear to a degree not felt since the advent of universal life in the early '80s. Low to non-existent investment returns and immaterial interest rates, product guarantees that have kicked in unexpectedly, and capital drains have all combined to compress profit margins into, for many, material net losses. The unfortunate reality facing many in the financial roles of responsibility is a combination of the unpredictable and uncontrollable nature of these changes.

Not surprisingly, consumers have responded with the industry's version of a flight to quality: variable sales have plummeted while term life and some versions of whole life have grown. Despite the flight to quality, confidence in the industry has fallen; many formerly top-rated companies have watched their ratings be reduced, further impacting consumer confidence. And while the recovery seems to be slowly building momentum, the industry's return to profitability is likely to lag behind economic stability as consumers warily re-enter the market for investment-oriented products.

In 2005, with survey participants unaware of the pending financial crisis, our life and annuity survey identified five major trends that would impact industry and company performance:

1. Demographic shifts impacting consumer buying behavior
2. Improved effectiveness in translating strategies into action
3. Greater leveraging of distribution methods and channels
4. Use of service as a competitive differentiator
5. Focusing technology strategies on foundational platforms

As we finalize the analysis of our latest survey (see page 21), we see a similarity in the pattern of responses. Particularly given the economic environment, the need to address these five still-present trends has only intensified. The economic crisis has amplified the issues at hand, underscoring their urgency.

1. The demographic shift is exacerbated by technological advancements that require insurers to deliver service via a complex array of mechanisms previously nonexistent, with viral networking exponentially multiplying the impact of a negative service event.

2. Expense control—especially the governance of resource utilization, investment, and operational management—is more critical than ever in today's world of minimized margins and commoditized products.
3. Distribution remains a critical element as the role of the advisor as a trusted link persists, yet the rate of retirement exceeds the rate of hiring; all compounded by generational demands for new access methods that many are less than comfortable with.
4. Commoditized products drive service as the competitive differentiator. It has become more evident that social networking, increased competition, and an increasingly demographically diversified market are combining to result in demands for more customized services. Insurers able to serve each segment in a customized manner will rapidly gain market share.

Insurers able to serve each segment in a customized manner will rapidly gain market share.

5. Technological foundations are rapidly shifting with the maturing implementations of STP and images and the growing acceptance of e-signatures. Things are shifting toward Web 2.0 collaborative mechanisms for appealing to, acquiring, and servicing customers.

More details on the reinforcing actionable strategies will be available in the coming weeks as the analysis is completed and the results published. The data provides preliminary insight into the growing need for a coherent, actionable, and focused set of strategies to help companies adapt to the rapidly evolving industry.

Make no mistake about it, change is upon us and it is irrevocable and inexorable in its pace and complexity. To become successful masters of our developing industry will require strategies developed collaboratively and applied consistently to fruition.

For more information on these trends or to receive a copy of Nolan's new Life & Annuity industry survey report, please e-mail me at steve_callahan@renolan.com. ▪

THE REBIRTH OF COMMON SENSE

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We are emerging from a period where consumer confidence in the banking sector reached new lows. We are seeing class-action suits filed for inappropriate overdraft fees, credit card fees, and ATM fees; mishandled TARP loan modifications; pension funds that are misleading about risks taken; and the list goes on. Congress is currently grappling with "tougher bank regulations," both as a result of the near economic collapse and the attention to "inappropriate fees."

Where does this leave banks and credit unions with regard to cleaning up the financial system's image and providing reasonable returns? Our recent discussions with CFOs and COOs and our work in the industry have led us to the conclusion that the remainder of 2010 and the beginning of 2011 will be all about improving operating efficiencies. What gains will be made on the revenue side will result from improved effectiveness of new business processes and practices. It is time to get back to a common sense approach to developing market strategies and delivering products and services.

Where should banks start? The key is to take time and effort out of the new business process, which delivers the joint benefit of keeping the transactions simpler for customers and freeing up time for the new-business staff. Also, we see a more critical view of the service channels, one that allows customers access to necessary information in a self-service mode or through a simple bank staff contact. Another opportunity for improvement will be restoring the integration of channel alternatives for both service and sales. The electronic delivery channels have offered this opportunity, and we are now seeing innovations that make the delivery seamless.

The industry is in dire need of a public relations campaign to win back the confidence of customers but making sure that bank policies and practices follow common sense will be a pre-requisite of such a campaign. There is no room for arguments defending inappropriate fee practices, poor service delivery, or fine print in selling products that customers do not need. It is time to get back to using basic principles to design delivery that you can be proud of. We see the next 18 months as a time to move forward on the tangible improvements and let the regulatory headlines and class-action suits take a back seat. ▪

You Can't Do That

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This year marks the 30th anniversary of Post-it® Notes. Spencer Silver, co-inventor of the Post-it®, is credited with saying, "If I had thought about it, I wouldn't have done the experiment. The literature was full of examples that said you can't do this."

Innovation sometimes happens purposefully, and other times, it happens by chance. *Inspiration* happens far more often, but translating inspiration into innovation is the tough part. Industry-leading companies know this, and they have a corresponding common trait: they aren't willing to rest on success. They encourage and support innovation. They push it.

Innovation is not just a fluffy penchant for creativity. It is truly a competency composed of many elements. These include leadership, culture, competition, communication, analysis, implementation, and reward. For product companies, innovation tends to be a core competency because of the nature of the market. Better, faster, tastier, more convenient—those qualities translate to competitive differentiation and customer demand. Financial services companies tend not to have innovation as a core competency (feel free to disagree). Yet now more than ever, that's exactly what these companies need.

Here are some elements of the Nolan process we use when helping clients tackle innovation:

- **Goals:** aspirational targets that establish the realm of opportunity for innovative thinking
- **Ideas:** from employees, customers, competitive intelligence, industry best practices, and other industries
- **Analysis:** risks, practicality, required resources, hard dollars, benefits
- **Implementation:** translating inspiration to innovation with well-defined, actively-managed projects
- **Shelf Life:** innovations get copied and commoditized over time. Keep pushing

The Nolan process uses these elements and others, and each has important details behind it. One important detail is allowing employees to temporarily set aside their daily responsibilities and turn their attention to the business of improvement. Other critical details include establishing a resolute commitment to change and being able to demonstrate the positive impacts to a range of constituents, from board members to front-line workers.

You might be tempted to think that all the good ideas have been thought of. A simple scan of the industry will dispel that thinking—great ideas emerge every day and, when implemented properly, they can make a material difference in a company's performance and market perception. Which competitor has scooped you most recently? When was the last time your company rolled out an innovation, whether internally or externally? Are you playing catch-up?

Examples also abound outside the industry, like the Post-it® Note. My personal favorite right now (perhaps this reveals too much about my diet) is the packaging of Oreo® and Chips Ahoy!® How could anyone improve on the simple nature of cookie packaging? Nabisco has done just that with an ingenious package that looks just like its predecessor, but is much more convenient to use. Better, faster, more convenient.

You *can* do that. ▪

"Jim, this is Ms. Hurdle, Mr. Obstacle, and Ms. Brick-Wall. They're interested in your big idea."

The Learning Experience

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The past 18 months have been a learning experience for us all. (A gross understatement for some.) When it was personal, some of it was hard learning—tough love. At other times, it was observational learning . . . as in, glad I didn't do that.

We saw that dramatic change can happen. Giants can fall, personal wealth can disappear, unemployment happens, and survival can become a priority. We have been reminded that economic cycles are still a reality. And looking back now, some of the indicators are so obvious—inflated oil/gas prices, the real-estate bubble, sub-prime mortgages, default swaps, and so on. For some, it confirmed their "I told you" warnings. For others, there has been a loss of innocence.

So, what have we learned? I'm sure the list will vary by individual, but for me:

- **Ethics are important.** They always have been. We are in an industry where confidence, stability, and trust are critical. Personally, I am angry that a few people and companies have tarnished everyone's reputation. We must do better; our promises must be sincere.
- **Understand risk better.** Charts, graphs, and analytics are not always enough. Ratings agencies are not sufficient. We still need to factor in human behavior (good and bad), use common sense, and realize there are still more unknowns. Consider the bigger picture; a more holistic view. Include the short and long term, the local and international, and other possible scenarios.
- **Our customers have changed.** Some have less to spend; lots have higher expectations and more choices. Many are skeptical and all have better access to information. More customers are nearing retirement, and the younger generations are technologically savvier. In some areas, minorities are becoming majorities. We need to constantly evaluate their needs and wants.
- **Balance is important.** Investments should be stable and diversified and returns not taken for granted. Being in a single marketplace is more risky than having several growth opportunities. Life is short and should be about more than the office.

- **We have learned to manage better.** Overall, managers are more thoughtful about making decisions. They are requiring real cost-benefit analysis. They weigh consequences, trade-offs, and doing without. Many organizations have learned they can live fine on less.
- **Be prepared.** Never underestimate Mother Nature! The Gulf Coast storms, Haitian earthquake, Iceland's volcano, and Nashville's flood are just a few examples. We provide a valuable service to our clients in helping them protect their assets. Helping our family and neighbors is our personal contribution.
- **Don't panic.** Be patient. Hard to believe in the darkest of times, but cycles have downs and ups. Brace yourself during the fall and prepare for when things get better. It looks like the economy is recovering: get ready.
- **Be grateful that it was not worse.** Appreciate each day. Love your family, appreciate your friends, and value your customers. We are all in this together. ▪

"Now that we've learned our lesson, let's get back to making boneheaded decisions."

Beyond Data: Getting the Most From Business Analytics (Part I)

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Do you remember Buzz Lightyear, the character from the movie "Toy Story"? He was the space action figure who believed he was not a toy, but the defender of the galaxies sent to save the universe from the evil Emperor Zurg. His favorite line was "to infinity . . . and beyond." While I may be stretching things by relating Buzz to the topic of business analytics, read on.

Banks and insurance companies are aggressively increasing the use of and emphasis on business analytics tools. The banking sector is further along on this continuum, but we are also seeing progress on the insurance side. Specific scopes and definitions vary by source, but in simple terms, business analytics is about using software tools to access, extract, and manipulate enterprise-level data to provide new insights into what is driving the performance of the organization. Other terms that overlap with or are synonymous with "business analytics" include "business intelligence," "business performance management," and "data mining." The focus of business analytics can vary depending on the needs of the business. Strategic areas of focus may include improving profitability, customer service, customer retention, and operational effectiveness. Additionally, organizations are using business analytics tools to: develop new business metrics and ratios; segment markets; conduct financial planning, forecasting, and budgeting; detect fraud; and improve risk management. Many organizations are also striving for multidimensional views of costs and profitability, whether by customer, product, distribution channel, process, function, or line of business.

A range of software systems exists in the marketplace today with varying levels of sophistication and capability. Some vendors tout their systems in a "Buzz Lightyear" manner as being able to "save the universe" and take the organization "to infinity . . . and beyond" in terms of new levels of organizational performance. As with many technology investments, however, the tool alone does not automatically create results. We are seeing more and more companies make the right decision to invest in business analytics software, yet many are not effectively using those systems to improve the financial performance of the organization. While each situation is unique, we typically see companies struggle in three primary areas:

- Not summarizing data in ways that provide clear, actionable insights.
- Missing the deeper value of financial reporting data by not correlating it with other relevant information such as activity-based costing (ABC) data.
- Assigning skilled and experienced people to work with business areas to take action based on insights gained from the data.

Our work in the business analytics arena targets these trouble spots and implements management practices that drive action. Too often the goal of an analytics program can become "implement analytics." Instead, the goal must always be to *positively impact operational performance and profitability* using analytics as a key tool. Here's an example of the successful approach taken by one of our large regional banking clients.

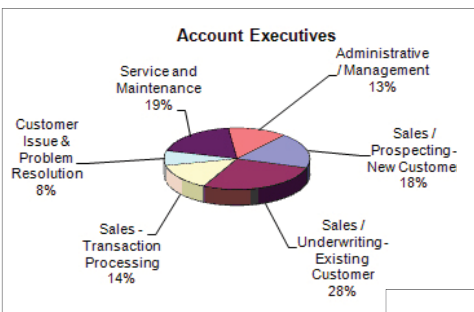
A Successful Approach

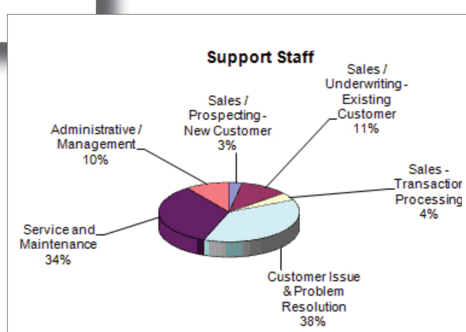
The executive management team of a super regional bank was looking to significantly improve the quality of their expense and profitability data and to gain new insights from multiple perspectives, such as customer line of business, product, process, and distribution channel. The existing cost accounting system was extremely complex, contained obsolete and incomplete ABC data, and was generally ignored or questioned by business-line leaders. As a result, a comprehensive costing system redesign effort was initiated. A redesign team was established, and a new business analytics software tool was selected. The business analytics tool was to be implemented in parallel with redesign of the costing system so that information could be shared along the way. Key goals of the redesign included:

- Implement a simplified approach to cost allocations and ABC.
- Allow ABC data to be gathered quickly across the organization.
- Develop the capability to create multi-dimensional views of cost and profitability.
- Evolve the activity-based costing function into a high-impact, activity-based management program that would support re-engineering and other performance improvement initiatives by "doing things right" and "doing the right things."

The redesign team developed functional cost categories including renaming, consolidating, and simplifying cost drivers. The team also simplified and redefined cost layers (i.e., fixed, variable, overhead, etc.). Completion of this initial redesign work provided a base for gathering ABC data that would align with cost drivers. Once this base work was completed, discussions were held to select a pilot area for implementing the new approach. Corporate banking—viewed as a high priority because it was struggling with price competitiveness, suspected overlap between roles, non-value-added work, and stalled revenue growth—was selected. It was also suspected that corporate banking account executives were performing too much administrative work. The approach included the following steps:

- Work activities were identified, defined, and validated in terms of elements included for account executives and support staff.
- Volume sources were identified and volume data gathered from business systems.
- Electronic ABC time allocation surveys were developed and designed to gather data so that unit, process, product, and function costs could be determined. Thoughtful front-end survey design was essential to achieving the desired richness of information on the back end.
- Account executives and support staff in all regions completed surveys, allowing region-specific data to be gathered and summarized in addition to overall data.
- Results were shared with line-of-business and regional business leaders.





The survey results provided some excellent insights. Overall time allocation within the roles was as follows:

At a high level, account executives were spending less than 20% of their time prospecting for new customers. As suspected, the majority of their time—about 55%—was spent on administrative activities, such as handling customer or service issues and transaction processing, resulting in a significant expense at account executive compensation levels. The remaining 25% was spent on underwriting and retaining existing business.

Support staff were spending 75% of their time on account servicing and transaction processing, but with additional investigation, it was determined that a significant portion of this time overlapped with time spent by account executives because of back-and-forth communication and handoffs. This base data prompted a comprehensive redesign of both roles. A "goal state" role design was developed; it had a significantly different time distribution, with account executives spending 50% of their time prospecting rather than 20%. Training was conducted and support roles became a single point of contact for existing customers, eliminating unnecessary handoffs and discussions between the roles. The implementation resulted in additional capacity with no additional staff. The extra capacity in the account executive role was devoted to new-business prospecting. This resulted in significant revenue growth over the next several months.

Summary

Business analytics tools are providing new insights into the performance of financial services organizations. As the software systems continue to evolve, there is an opportunity for companies to reach higher levels of profitability and operational effectiveness if they have the corresponding management practices in place. Great data does not automatically translate into great results. As your organization builds its business analytics capability, plan carefully to fill the gaps that often hinder the full potential that analytics can enable.

Part II of this series, "From Analytics to Action: A Roadmap to Success," will offer more examples of how you can effectively use business analytics to improve profitability and operational performance. ▪

CLIENT SPOTLIGHT

Project: Restructure IT Operations / Develop an Improvement Roadmap

Client: A Midwestern Multi-line Carrier

Industry: Insurance

Project Objective

Like many companies in the middle market, our client found itself in an evolving marketplace with steadily increasing service demands and aging legacy systems that were not suited to meeting those demands. Management wanted to know what path they should take to modernize processing capabilities and remain competitive in terms of products, services, IT systems, and IT skills.

The critical objectives of the project were to determine and assess current and future enterprise functionality and processing needs, and assess the capabilities of the existing environment to meet both current and future needs.

A key deliverable was to specify changes needed in these key areas:

- Application systems
- IT infrastructure
- IT practices and philosophies
- New technologies
- Staff skills

The outcome would be a prioritized, step-by-step roadmap that detailed the required changes.

Cost/benefit analyses, along with sequence / timing recommendations, were created as part of the roadmap. In the end, the client needed to change the IT organization to deliver the roadmap.

Starting Environment

The client was in the same position as most insurers with older legacy applications: the markets were demanding more and newer capabilities than the aging IT applications could deliver. The ability to offer new products and services was impeded by legacy system inflexibility. The organization became constrained by what the applications would allow, rather than what was needed to effectively compete. Classic symptoms arose: legacy applications took too long to enhance; workflows were becoming highly dependent on manual workarounds; inefficient processes were driving up expense levels; and dependency on outside processors was increasing, which drove up costs.

The term "spaghetti code" was appropriate in describing the condition of the legacy applications. The IT staff supporting the code was protective of the legacy applications and resistant to change, typically finding fault with viable replacement alternatives.

Project Scope and Steps

To construct a comprehensive roadmap, a review of the entire enterprise's processing capabilities was required. The scope included an assessment of current-state business processing, both manual and automated, as well as a projection of future needs. At the same time, current systems capabilities were reviewed. That analysis identified opportunities and gaps to be addressed for future operational success.

The scope then shifted to a review of the IT department to determine any changes necessary to deliver the desired future capabilities. Interviews were conducted with representatives at all levels of the organization and workshops were conducted to document and analyze current processes. The interviews and workshops yielded long lists of potential improvements that were later vetted and prioritized for their impact potential.

Current processes were compared to industry standards and practices. IT architecture, employee skills, and status of existing systems were also evaluated against the improvement opportunities identified in the interviews and process review workshops.

Project Results

The roadmap was created and prioritized by application. A seven-year timeline was set along with the estimated costs and benefits of the proposed changes. The roadmap showed a positive return on investment with each project phase funded largely by savings achieved through the implementations of the previous phases.

The IT department was restructured, eliminating costs in multiple areas that included staffing, contractors, and infrastructure. Results included:

- IT costs reduced by more than 10% with no reduction in delivery capability
- A comprehensive IT and operations roadmap
- New agile project development methodology introduced, yielding immediate results
- Updated training and management practices for IT staff

Today, the client has completed the implementation of its first application and is developing the second major application of the roadmap. The company continues to realize the identified savings as well as increased efficiency and capacity. Most importantly, the company is freeing itself from the shackles of antiquated processes and systems and becoming more competitive as a result.

Management Development: Easy as ABC

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"An organization's ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage."

"The team with the best players wins." Jack Welch

Jack Welch is regarded as one of the best business leaders of our generation. His obsession with shareholder value drove General Electric to increase productivity and efficiency, which resulted in a 3000%-plus increase in market value during his tenure. However, during the Welch years, GE was known as much for producing corporate leaders as it was for producing light bulbs. While most of us will never run an organization as big as GE, many of the day-to-day challenges are the same. Management development is one of those challenges.

A Google search on "management development strategies" returns about 42 million hits. Go into any major book retailer and there will be lots of books dedicated to the topic. Walk into virtually any company today and you will most likely find that the senior managers are familiar with the latest management practices, read the latest "must read" management books, and have adopted the latest management strategies. Yet, effective management development is still the Holy Grail for many. Why?

Since it appears that the success/failure conundrum is not due to a lack of information on management development, one can extrapolate that execution is the critical success factor. Execution is directly related to talent. Ergo, it can be argued that talent is the key differentiator.

> *Successful organizations go so far as to make talent selection/management development a top corporate priority.*

Companies that find, hire, and promote only the most talented people available while removing chronic under-performers typically win. Successful organizations go so far as to make talent selection/management development a top corporate priority.

Many corporate initiatives fail because decision-making responsibilities are given to under-skilled or under-talented managers and they end up making bad decisions. Conversely, the most competent managers are able to drive improvements in productivity, innovation, quality, customer service, and so forth.

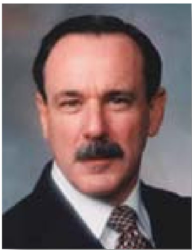
Now let me state that talent is not the only success driver, but it is an essential one. The biggest mistake senior managers can make is trying to "manage their way" to success with low performers on the team. They must constantly work to upgrade the team with high performers. I bet Jack Welch would argue that it is the primary deliverable for senior managers.

An analysis of GE's development approach, as well as that of some of Nolan's most successful clients, reveals some common practices in the area of talent development. These practices can be summarized in the following five steps:

1. **Force-rank the managers** (and employees) based on objective criteria. The top 10% are the A players, the next 25% the B players, and the rest (65%) the C players. The objective is to proactively identify A players and retain them.
2. **Use stringent selection methods** to minimize hiring mistakes. Detailed job descriptions, job analysis, and comprehensive chronological interviews are critical components of an effective assessment process.
3. **Improve the existing talent pool** by providing employees with detailed, individualized development plans.
4. **Redeploy C players** into roles better suited to their skill set. In many cases, this will allow the low performers to excel and become A and B players.
5. **Require subordinate managers** to adopt the development approach.

It is important to note that this approach starts at the top and permeates the entire organization. It is also not a once-a-year exercise. In order to maximize the value of the approach, it must be an ongoing, dynamic management activity. ▪

The Fine Art of "Nudging"



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A topic much discussed in recent months—especially around health care reform—is the "nudge." What is a nudge? Many organizations state their rules for their customers with detail and clarity. Other organizations give default options; an organization can communicate clear and concise rules or nudge their customers in the hoped-for direction.

Once you know about the nudge concept, you become aware that it is everywhere. You'll see that we are swimming in a sea of subtle (and not-so subtle) nudges. Some are honest nudges; some, not so much.

An industry that represents some of the best and worst of services are airline providers. A good example of a nudge in the airline industry is the check-in process. You can stand in line at the airport and interact with a random human and receive a random service experience, then stand in another line to receive a random security and transportation experience. Or utilize one of two nudges provided as an alternative:

- Print your boarding pass at home or office and go directly to the TSA line—you win and so does the airline.
- Go directly to the kiosk for a random technology encounter (avoiding the random human service experience), and you both win again.

In this case, the choices allow the customer to match their needs—such as an extra bag or resolving an issue with a connecting flight—with the airline's service capability.

Another less-known nudge the airline hopes their customers will take is a somewhat dishonest one. If you would like to change your assigned seat, you may select the kiosk over human intervention. However, the kiosk is programmed to offer an opportunity to buy an upgrade before it offers one of the 16 open seats. You may end up paying more for a better seat that would have been free at the ticket counter.

Insurance companies are fertile ground for nudge observation. They offer products to the public with bewildering and complex rules to accommodate a wide range of demographic and personal issues. This complexity contributes to service failure and distrust. Some insurers have become clever about nudging and call it "product design." In most cases, it helps reduce product complexity and buyers make a more rational, understandable purchase.

Unfortunately, not all insurance company nudging is good, and so we arrive at “Hobson’s Choice.” I don’t know who Hobson was, but you encounter him when in a situation where no option is offered, however the proposal can be refused. But many of us have experienced the health care equivalent of Hobson’s Choice without an option or any practical way to refuse what is offered. (We will be seeing fewer of these situations now that the national public policy has changed.)

Overall, nudging is good. I believe service organizations should think about and include the tactic in their design of service.

Overall, nudging is good. I believe service organizations should think about and include the tactic in their design of service. Four useful key points are:

- **Honest nudges only, please.** Use nudges that don’t manipulate. An honest nudge clearly communicates client choices that benefit both parties.
- **Nudge to improve service** by increasing ease of use for low-complexity interactions or high-frequency users. Also, nudge to help reduce product complexity at point of selection. Use a simple nudge to show potential buyers what others are purchasing.
- **Nudging to lower service costs** may compromise the customer experience. Many nudges seem to involve removing humans from points of decision and service. A human may be needed to explain your nudge to maintain a favorable service experience.
- **Pilot test your nudge** before committing to it.

As always, if you have an idea about nudging, drop me a line. I’d love to hear from you. ▪

Putting "Benefit" Back in Cost-Benefit Analysis

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One of today's most tiresome catchphrases is "total cost of ownership." Obviously, no one is interested in knowing the partial cost of ownership. The idea of the net cost of ownership is nothing but a recycling of the old idea of cost-benefit analysis, comparing total costs with total benefits—a concept that has been around for 50 years or more.

The cost side of the cost-benefit equation is usually pretty straightforward. A new system has specific costs related to its purchase (e.g., licenses and maintenance). That system or any new process may also require changes to personnel, either added or eliminated, with more or less salary expense. There may be ancillary service or support costs. All of these can be quantified fairly easily. Addressing the benefit side of the equation, however, can be a little more complex.

Benefits can be classified and analyzed in several different ways:

- **Hard dollars vs. soft dollars:** If you can stop writing a check for something, you're saving hard dollars. Soft dollars are often difficult to quantify. However, if you are aggressive, you can turn soft dollars into hard dollars. If a process change is going to eliminate 20 hours of work for an employee, there is a soft-dollar benefit in that he or she is now free to take on additional work. That can be turned into hard dollars only if you can identify another 20 hours of work that can be eliminated. Combining the two savings can indeed create the opportunity for elimination of a full-time position. It takes aggressive thinking and planning to achieve these savings, but they are real and attainable.
- **One-time vs. ongoing benefits:** Again, it is easy to identify one-time benefits. I can replace an outdated machine with a state-of-the art one, or I can cut out a planned expenditure. Ongoing benefits would include reductions in employee costs (including benefits), production costs, outside services, and productivity improvements.
- **Tangible vs. intangible benefits:** How can you measure intangible benefits? First, you have to identify them. Then you consider their impact on things like growth in market share or customer retention. For instance, a change designed to improve quality should result

in improved customer satisfaction (an intangible). This should lead to higher rates of customer retention. Goals can be set and progress can be measured, turning the intangible benefit into a tangible one. Similarly, changes that improve employee morale can lead to reduced turnover, which can be measured.

In many ways, cost-benefit analysis, as its name implies, is just a straightforward math problem. Total cost minus total net benefit over some period tells you if the investment is worthwhile.

Another useful tool is a staffing model. A staffing model should be composed of three factors: volume drivers, transaction times, and allowances (training time, absenteeism, turnover, etc.). An effective cost-benefit analysis considers potential increases in work volume resulting from the change in process or system, and it can determine the impact of shortened transaction times. Improvements in turnover rates or other allowances can also be factored into the equation. A good staffing model pulls all of these elements into one place to evaluate the long-term effects of future changes.

Grinding out a meaningful cost-benefit analysis is nothing new, but it is the only way to be certain that the varied benefits to your organization outweigh the costs. ▪

"Show Me" Change Management

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Let's get to full disclosure right up front. I'm from southwest Missouri—part of the "Show Me" state—and proud of it! Missouri was one of those Civil War border states that the Northerners call "The South" and the Southerners call "Yankees." That said, why am I proud to be a Missourian? Well, we're honest, hardworking people who tell it like it is, which is a great boon to success, especially in the realm of change management where little is as it seems. For this politically correct culture, you will have to understand the language to interpret the message to know where you are and what you need to do next.

All the change management models work in "Show Me" workplaces, whether you subscribe to the "Burning Platform" or the "Unfreeze-Change-Refreeze" or some other model. The models all work in their own way, but the language is a little different and it's the language that makes up the signposts of the process.

The process signpost messages are:

- *"We don't do it that way in these parts."*
- *"Let me explain it to you again; maybe you didn't understand the first time around."*
- *"Whatever."*
- *"We told you we could make it happen."*
- *"I told you we knew what we were doing."*

Let's break down the process into its components after we've set the stage for the project. As a consultant, you must clearly understand why the boss brought you into the fray and his/her pain points and expectations—the measures of success. Take this opportunity to lay out your plan, which should start with due diligence and fact gathering, to fully understand the problem at the operational level. You will need to meet with staff at the operational level to understand their pain and lay out the program you were brought in to execute.

Start by establishing simple metrics and a reporting/update structure—the metrics should be generated daily and the face-to-face updates updated weekly. The initial meeting is partly fact gathering and partly staging for the change to come. Near the end of this meeting, you will undoubtedly get the first signpost message:

Message: *"We don't do it that way in these parts."*

First, don't take the pushback personally. Listen and take notes; there are often gems to be gleaned from this exchange. Reiterate your points but don't expect agreement. Make sure the measures of success and metrics are understood and focus on the key problem. (I was recently brought in to address a claims backlog problem after a new systems implementation, and the theme was "backlog.")

> *Make sure the measures of success and metrics are understood and focus on the key problem.*

The next phase of your project depends on where the trouble spots are located and where you can get the most leverage. Most likely, there have not yet been any results and the problem may even be getting worse. As you work with the main people, the heat is building (the burning platform), but keep focusing on the necessary changes. At this point, you will get your second signpost message:

Message: *"Let me explain it to you again; maybe you didn't understand the first time around."*

Again, it's not personal. They're feeling the heat and operating from a position of fear. Be sympathetic and try to diagnose what's working and what isn't. Offer to help and establish what is needed for them to adopt the new way.

Now is the time to really focus on the metrics as measures of success. The theme word becomes a mantra: "Backlog, Backlog, Backlog, Backlog, Backlog." By now, everyone involved will be sick of hearing it, including the boss, who is hearing it from his boss, customers, business partners, and everyone else that matters. Bring the boss and the frontline together. When you do, you will likely hear this:

Message: *"Whatever."*

Congratulations. You have turned the corner, but you still have a long way to go. Coach the frontline troops to develop and present their plan to get the needed results; the metrics should validate that they are succeeding. Set a time frame as to when they can expect to see the results and their progress. It is important that the boss is supportive of the plan, and remind the boss to reward changed behavior more than the result.

You're beginning to see results. Continue to work through the trouble spots and maintain your focus (which has a tendency to wane with the glow of early success). Check the metrics daily—praising success along the way—but continue to question each setback. During this time, you'll hear the following signpost message:

Message: *"We told you we could make it happen."*

Success. Keep cheering and supporting the team that's making this happen. Praise the team to the boss and single out the real heroes. You can now fine-tune the approach and take up any parking lot issues.

You're nearing the end of the project. Check with the boss to make sure he or she is happy and correct any deficiencies. It's about time to solve the next problem. As the time draws nigh, you will hear one last signpost message:

Message: *"I told you we knew what we were doing."*

Give a sincere thanks to each individual and the entire team. Wipe that tear from your eye and go slay another dragon.

The "show me" team told you exactly where they were and what they needed. All you had to do was react appropriately to the signs.

With apologies to Jeff Foxworthy, consider this: "You know you might be a Missourian if you can successfully pour a change management project out of a boot when the directions are written on the heel." ▪

"We could go back, but that would take extra time."

New Prepaid Card Survey

The Robert E. Nolan Company and Network Branded Prepaid Card Association (NBPCA) are announcing a new survey of the regional and community banks regarding their use of network-branded (American Express, MasterCard, Visa, Discover) prepaid cards as active products for consumers and small businesses.

The purpose of this study is to better understand how prepaid cards are perceived and used by regional and community banking markets and to determine how the branded networks or NBPCA can provide additional support in helping to increase distribution of these products in their relative markets.

Individual responses will be kept fully confidential. Aggregated and cleansed results will be published and participants will receive the results of the survey at no charge. Having access to these results will enable participants to better understand how their experience in the market ranks with their peers' and to see improvement and ideas from other survey participants.

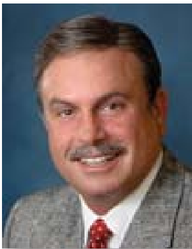
The survey has approximately 30 questions broken into five categories, and we estimate it should take no longer than 10–15 minutes to complete.

In return for your participation, you will be able to see how your replies stack up with those of the other respondents, and you will be invited to a conference call to review the findings. Also, one lucky participant will win a new iPad through a random drawing—see the website for more details!

To participate in the survey,
go to **www.renolan.com/cardsurvey**.

An iPad will be Given Away to One Lucky Participant!

Fostering Employee Creativity



C. Kim Wilkes
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A company's most important assets include raw materials, technology, and political influence. But most important of all is creative capital. Simply stated, it's a group of creative thinkers whose ideas can be turned into valuable products and services. Creative employees bring new technologies, develop new industries, and power economic growth. Professionals whose primary responsibilities include innovating, designing, and problem solving—the "creative class"—make up a third of the U.S. workforce and take home nearly half of all wages and salaries.

If you want your company to succeed, these are the people you entrust it to. The question becomes how to manage these people for maximum creativity. How do you increase efficiency, improve quality, and raise productivity, while accommodating the complex and chaotic nature of the creative process? Management guru Peter Drucker identified the role of knowledge workers and, long before the dot-com era, warned of the dangers of trying to "bribe" them with stock options and other financial incentives. Research shows that creative people are motivated from within and respond much better to intrinsic rewards than to extrinsic ones.

Creative people work for the love of a challenge. They crave the feeling of accomplishment that comes from cracking a riddle—technological, artistic, social, or logistical. They *want* to do good work. Though all people dislike bureaucratic red tape, creative people view it not just as a hassle but as the enemy of good work. An *Information Week* survey of tens of thousands of IT workers confirms that theory: on-the-job challenge ranks well above salary and other financial incentives as the key source of motivation.

Companies that figure out how to manage for creativity will have a crucial advantage in the ever-increasing competition for talent. Leverage the motivation of creative workers by stimulating their minds and minimizing hassles. Eliminate the barriers between managers and workers by ensuring that your managers are creative people, too. And finally, tap into the creative talents of your customers. If you would like to know a few of the things companies are doing to keep their creative people motivated, e-mail me at kwilkes@renolan.com. ▪

WORK ISN'T GETTING ANY EASIER

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The growing use of Web portals by agents and customers to perform transactions previously done inside companies is having a profound impact on organizations. These technologies are making it easier to quote, submit new business, change policies, and they are shrinking service cycle times. However, while this helps customers and agents get things done when and how they want, there is the potential paradox of making things harder inside insurance companies. Here's why:

Work is more complex and less routine. Agents and customers can complete the self-service transactions as long as they fit the norm. When the transactions become complicated, underwriting, customer service, or the call center has to get involved. Much of the remaining work for the internal staff is more complex and less routine. To address this, companies will need to rethink how they select, train, and develop people for customer service positions. Minimum education levels and scores on aptitude tests will have to be re-evaluated along with salary levels as "clerical work" disappears.

The design of the portal and interfaces is the new field of competition. The abstract nature of insurance is coming alive in the form of Web-based processes. As customers rely on these systems more (and almost 100% of companies surveyed say they are working on them), insurance companies will be judged on how easy their portals are to use. Agents already say that ease-of-use greatly influences their placement decision. As customers gain more exposure to these systems, their decision to renew or switch to another carrier will also be influenced in the more commoditized lines of personal insurance. Companies must approach the design of their portals much like they approach the design of their processes; more so because customers themselves are using those processes. The scope of these designs must go beyond the underlying technology. They must be easy, intuitive, and fully supported on the back end. It will be important also to elicit continuous feedback from customers and agents so the designs can be continuously improved. ▪

ACORD LOMA Insurance Systems Forum
May 24-26, 2010 - Las Vegas, NV
Nolan Senior Consultant Tim Lauer is co-presenting with Gail Halterman of ESSENCE Healthcare. Join them for their presentation "Enterprise Risk Management Through the Lens of the Strategic Plan" - *www.loma.org*.

LOMA Customer Service Conference
June 2-4, 2010 - Orlando, FL
Nolan Executive Vice President Steve Discher will co-present with Jackie Morales, Senior Vice President Service Operations, AXA Equitable Life. Nolan is pleased to be a break sponsor at this event - *www.loma.org*.

2010 IASA Annual Conference
June 6-9, 2010 - Grapevine, TX
Nolan Executive Vice President Steve Discher will co-present “Juggling the Budget–Delivering Results While Controlling Costs." Nolan is proud to once again sponsor the keynote presentation - *www.iasa.org*.

AHIP Institute 2010
June 9-11, 2010 - Las Vegas, NV
Join Nolan Vice Presidents Merit Smith and Jim Dean at this conference to be held at Caesars Palace - *www.ahip.org*.

14th Annual ACE Claims Event
June 22-24, 2010 - Las Vegas, NV
Join Nolan Executive Vice President Steve Discher at this event being held at Bellagio - *www.americasclaimsevent.com*.

AMIfs Annual PPM Conference
June 27-29, 2010 - San Antonio, TX
Join Nolan President Bob Grasing at this event to be held at Hyatt Regency on the Riverwalk - *www.amifs.org*.

Medical Management in Medicare Advantage: A Payer/Provider Collaborative Care Summit
August-5-6, 2010 - San Diego, CA
Nolan Health Care Practice Director Merit Smith is a panelist at this event to be held at Loews Coronado Bay - *www.opalevents.org*.

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