The Nolan Newsletter

People, Process, and Technology

ROBERT E. NOLAN COMPANY
MANAGEMENT CONSULTANTS

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NOLAN

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How's That Plan Working Out?

As the first quarter and March Madness come to an end, last fall's strategy sessions and annual planning process become a fleeting memory. The planning documents, great discussions, and group commitments are lost in today's crises, market shifts, and "new" corporate agendas. Try another approach; align your plan with your first-quarter budget results and compare it to what you are doing today.

Have your objectives changed? Why, and to what degree? Are you where you expected to be with projects? If not, why? How can you get back on track? How does the budget look? Do you need more resources to help a sagging project? Use your plan, work it, tweak it, and redirect it. Things may have changed since last fall, but challenge yourself to stay the course, and you will:

- Provide your team with a consistent message so the set goals are followed in times of chaos.
- Discover a new tool to help guide your decisionmaking.
- Become consistent in your management practices and better at building annual game plans.

There are external forces in business that make change a requisite, but having a well-thought-out game plan allows you to more easily adjust and give you a better grasp of how change will affect deliverables, budgets, and goals for the year. A careful plan is the foundation of your performance during any given period, because you will need a point of reference when evaluating changes and project adjustments.

Your 2011 plan should be a living document continually used to measure your team's performance and to review budgets. Start with the corporate strategic plan and review it quarterly with the Board and senior executives; this should include your goals. Carry it down to each department, so they can evaluate their progress of the strategic plan's key initiatives.

In addition, you should make sure the management monthly reviews are more than an accounting of "budget versus actuals" and variance reporting, and keep your eye on the business objectives and goals you set last fall to be sure to stay the course. By demonstrating a commitment to follow-through, you will soon find a greater level of engagement and buy-in from your employees. In turn, they will become the owners of the plans *and* the results, and your annual planning process will live up to its true potential. ▪

Dennis B. Sullivan

Dennis B. Sullivan, Chairman and CEO

Choosing a Vendor: Much More than Checklists

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Companies are replacing core automation systems at a frenetic pace. Competitive pressures, ongoing operating costs, dwindling specialized talent, and outright obsolescence are driving this phenomenon. Have you noticed the corresponding number of technology vendors now in the market?

How will you ensure that the vendor you choose will stand the test of time and will truly become your strategic business partner versus just a technology provider? The considerations go far beyond just features and functions.

A number of factors can determine a vendor's success or failure. These include client satisfaction, functional and technological strength, financial stability and management, and long-term vision. While these are certainly important, other variables influence whether a company achieves staying power and industry respect, which can be one predictor of success. These include:

1. **Product strategy.** A bunch of wish-list items from a few key clients is not a product plan. Market trends, customer business challenges/opportunities, regulatory developments, consolidations, competitive intelligence, and market stability are but a few non-function-and-feature drivers that should influence product strategy. Do the vendors you are considering gather this information? Do they serve on industry boards, work with industry consultants, and conduct focus groups? Are they active contributors to trade associations? Do they combine all of this into inputs for a rolling, multi-year product roadmap? Whether or not your organization needs the resultant functionality depth, you *do* need a product and a vendor partner that stays ahead of the market.

2. **Presence.** Getting a unique message out to the industry is what keeps a vendor top-of-mind with prospective clients and with selection consultants. If a vendor isn't visible in the market, they probably aren't being invited to many dances. By selecting a vendor with little or no market presence, you run the risk of the vendor becoming insular and getting feedback only from the few clients they currently serve. And just because a vendor buys industry

notoriety through advertising and trade shows, doesn't mean they truly have an industry presence. The best ways to get meaningful presence is through *independent* analyst reviews, industry councils, articles in peer-reviewed journals, and client references, to name a few.

3. **New clients.** When you look at a vendor's client base, what is the sales trend? A vendor may have fifty customers, but if none has been signed in the last two years, dig deeper—it could indicate a problem with the vendor keeping pace with the market. It could also mean that you and a few other dependent customers could end up funding that vendor's future.
4. **Strong leadership.** Is the vendor's leadership team truly focused on long-term success—both theirs and yours? How do they see their company evolving in the future? Do you see strong leaders at multiple levels of the organization? Could you see yourself serving on an industry task force with the vendor's leaders to solve an industry problem? A "no" to any of these questions might be a red flag.
5. **Client focus.** A vendor's relationship with their clients reveals a great deal. Do their clients see them as industry leaders? How has the vendor worked with their clients to solve challenging business problems or capitalize on opportunities? For example, a great vendor-partner will offer flexible license terms that enable client growth and expansion. Has the vendor brought industry insight into their client organizations, or are the clients always leading the vendor? When a client is in the position of *always* leading the vendor, it is a sign of a limited relationship.

When you choose a vendor, you might think of it as hiring a key employee or entering into a business partnership. It is a dynamic and mutually beneficial relationship that should go far beyond "system functionality." While it is tempting (and faster) to simply focus on the technology, today's unforgiving market—and your stakeholders—won't abide that simplicity.

My thanks to former Nolan team member, Terri Mullaney, for her earlier contributions to this article. ▪

Balancing the Next Great Ideas vs. Exceptional Execution

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At a business breakfast recently, two clients and I had a roundtable discussion sharing our thoughts about the latest and greatest ideas and experiences in insurance industry technologies, organizational constructs, sourcing options, and other topics. There were about 100 years of experience between the three of us. All of us had worked in at least a few organizations; yours truly has worked in more than a few.

> *There are many great ideas out there, but few are really new. Often they are an older idea re-tried, re-packaged, or re-branded.*

At first the conversation centered on a few recent successes with call centers and what is being done to improve service, speed, outcomes, and expenses. We drifted next into shared services and the issue of getting the internal organization to take the first step of trusting their colleagues to deliver. Throughout, there was plenty of discussion around smart-sourcing; using labor arbitrage in the right places to optimize the cost of labor when and where it makes sense. And, of course, layered through the breakfast meeting was the topic of technologies including stock-standard workflow engines, administration systems, business analytics, electronic payments, voice recognition, and aerial imagery, to name a few.

Toward the end of the discussion, we finished our coffee and started to summarize what we all heard and agreed to:

- There are many great ideas out there, but few are *really* new. Often they are an older idea re-tried, re-packaged, or re-branded.
- There are many great technologies being developed and sold today, but some are just not ready for prime time.
- The differences between organizations and their success are the speed, quality, and thoroughness of the ideas and technology implementation versus the ideas or technologies themselves.

The next time you have a few minutes before the day starts or between meetings, consider this: Does my organization need another new idea that we haven't thought of or just better execution of something we already know or have planned? ▪

Survive and Thrive (Part II)

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In our previous article, "Survive," we laid out the case that when a financial organization's survival is at stake, surgical cost-cutting is the best of the least-desirable approaches. This article highlights seven critical areas for surviving organizations to focus on in order to thrive. In each of these areas, there are multiple examples where companies made significant changes to improve their performance.

First, get everyone on the same page. This starts with a strategic plan that is followed with the development of performance goals for corporate units, key individuals, and employee groups. This cascading of goal responsibility is reinforced with clear and repetitive communications to shareholders, managers, and employees.

Next, make sure the organization is delivering value, both to customers and shareholders. To do this, the organization must be customer focused and profit oriented. There are two classic ways to stay customer focused: use feedback mechanisms and have senior management work front-line jobs from time to time. Additionally, the organization needs to constantly ensure that they have their ACCT (accuracy, courtesy, cost, timeliness) together. Finally, the occasional question needs to be asked: "Is old still valued and profitable?" Dead wood can still light a new fire.

Improving the sagging performance and duplicating the excelling performance are two of the best ways to improve overall company performance.

To assist in delivering value and ensuring profitability, management information systems need to be in place. These systems need to deliver critical micro and macro information in a timely way and be flexible enough to produce one-off reports. Knowing when and where performance is sagging and excelling is critical to success. Improving the sagging performance and duplicating the excelling performance are two of the best ways to improve *overall* company performance.

Coupled with goals and management information systems is the need for standards and standardization. Operating standards need to be in place and understood by all employees, whose success is critically dependent on knowing the correct procedure. Within the standards arena, a formal process is needed to keep the constantly evolving standards and operating procedures current.

> *One common misstep is failing to understand when the timing is right to move to new technology. Existing and new technologies alike need to be appropriate, effective, and cost efficient.*

Next, the organization needs to be change oriented. Organizations need to be aware of trends and dead-ends by being organized for improvement. In other words, making change happen is not "everyone's responsibility." Bringing change into an organization is the specific, direct responsibility of senior management. Senior management can then task one or more groups within the company to be the change agents. Many times these groups are assisted by others outside the organization. Ideas for change are numerous—developing, selecting, and prioritizing what to change is difficult—and implementation is complex and sometimes thankless. But change is an organizational must and must be specifically focused upon.

Investing in employees is also critical to thriving. Ensuring that employees are trained to deliver value and are rewarded for strong performance is all part of a successful organization. The training (both formal and on-the-job) must ensure that everyone knows how to do their job in both the specifics and generalities of their responsibilities. Along with the training, objective feedback mechanisms will keep employees aware of their performance. This feedback provides both motivation and accountability to keep employees on the task of delivering value to customers—internal and external.

Today's financial organization cannot be successful without a strong technology framework. One common misstep is failing to understand when the timing is right to move to new technology. Existing and new technologies alike need to be appropriate, effective, and cost efficient. Sometimes manual workarounds are better than expensive new systems; however, all systems need to be easy for the end-user to operate. Additionally, the systems need to be reviewed to ensure that embedded functions are being fully utilized. More often than not, valuable functionality is neglected.

Success within these seven areas will allow an organization to thrive and financial success to flow. Recapping, the critical areas are:

1) Get everyone on the same page
2) Deliver value
3) Have management information systems in place
4) Have standards and standardization present and evolving
5) Be change oriented
6) Invest in employees
7) Ensure the technology framework is effective and cost efficient ▪

Social Media's Arrival: Relevant, Impactful, and Surprisingly Complex

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Social media in the insurance industry has advanced beyond the experimental phase and reached a tipping point. The early appeal of Facebook and Twitter as a tool for virtual socialites and an experimental platform for company mavericks has proven the value and importance of a presence in these realms. Lessons learned include the surprising appeal across generations as well as the amazing market reach. That said, reach can be a double-edged sword. Companies know all too well that proclamations of poor service are often "twittered" or blogged to thousands in real time, and that customer-created videos of poor service experiences sometimes go viral on YouTube. An excellent example is David Carroll's infamous "United Breaks Guitars" video, posted on YouTube in retaliation for the airline damaging his Taylor guitar. Shortly after, *The Times of London* reported that "…within four days of the song going online, the gathering thunderclouds of bad PR caused United Airlines' stock price to suffer a mid-flight stall, and it plunged by 10%, costing shareholders $180 million."

While Carroll's video was probably not the sole source of the stock drop, damage control against that kind of exposure is difficult at best. Customers have been greatly empowered by social media forums, putting pressure on companies to deliver consistently good service *and* become proactive with image management.

Within the insurance industry, innovation leads the way. Progressive has more than 2.5 million Facebook "fans" following Flo, their famous insurance girl, while Farmers has accumulated more than 130,000 fans. These are only two examples of the many companies with a strong presence on Facebook. USAA leads the way on Twitter with 12,000 followers, joined by Allstate and State Farm at about 9,000 followers. Another example is American Family, which is one of several companies having implemented a multi-faceted approach across sites including Facebook, LinkedIn, and Twitter. And let's not forget the viral power of YouTube, where GEICO's caveman commercials have drawn over one-million viewers and the new R. Lee Ermey – Therapist Sarge commercial boasts 2.8 million viewers. Allstate's 'Mayhem' series is gaining in popularity as well.

LinkedIn's sites are subtler but still have a strong presence. These sites host general, career, and product information with the intention of gaining

a network of potential job applicants and followers interested in a company's community and leadership activities. LinkedIn is also a good source of subject-specific polls among professional groups with a common interest, like contact center managers or HR specialists. Regardless of method or intent, integrating social media strategies into a company's overall plans is no longer optional. Staying visible and relevant to an important target market (social media cognoscenti) requires it.

The bottom line is that social media has become a necessity for companies to adopt and integrate into their operations.

Unfortunately, popularity brings formality and with that comes the attention of regulators and the imposition of compliance requirements. FINRA (the Financial Industry Regulatory Authority) passed several regulatory notices and communications throughout 2010 to set the stage for appropriate use of social media, as have the SEC and other regulatory agencies. Still, the challenge is not so much the company-controlled presence—since most companies have a rigorous oversight program for managing external content—the real challenge exists in how to enable and simultaneously regulate the thousands of company agents and representatives; most of whom are independently contracted yet are subject to regulatory oversight.

Salespeople may have their personal Facebook pages, a page for their agency, a Twitter account for their customers, a LinkedIn profile for recruiting new agents, self-made informational and advertising videos on YouTube, and maybe even a blog. By definition, each of these presences can and probably does fall under regulatory oversight and is subject to a litany of compliance requirements. (Not to mention the reputational impact that can be caused by a company representative's personal position statement in a post or embarrassing party photograph.) Dealing with these thousands of points of presence without impeding sales force effectiveness is a major challenge facing many companies.

This new challenge has resulted in new technology solutions coming to the market. Socialware, a successful startup, has lured New York Life and other financial customers to its hybrid middleware approach, incorporating features such as disabling the "like" function on Facebook accounts when a company deems it a form of endorsement. Fast-growing competitor, Hearsay Social, provides control via APIs; a different approach that they claim is more effective and flexible. They have already signed up State Farm as a client and companies in other industries. The competitive positioning between these two key players is intense—Hearsay argues the API approach is more seamless, while Socialware takes the position that their approach provides stronger compliance control. Both

represent a growing segment of technology solutions that insurance companies will have to evaluate for fit and effectiveness.

The bottom line is that social media has become a necessity for companies to adopt and integrate into their operations. Consumers expect reputable companies to have a presence across the Web, and they are relying more upon these presences for research, education, and even communication. Absence and non-participation are not viable options because competitors, consumers, and customers all participate in putting company names out there with or without the company's support. Silence can easily be interpreted as ignoring the importance of the medium or being out of touch.

This pressures companies to establish an effective, relevant, and compliant presence—fast. Though the complexities can seem overwhelming, careful planning, market analysis, and measured steps forward will reveal what's best for your company. Avail yourself of outside resources to speed up the process and to learn from the experiences of others. As you develop your unique strategy, tailor it to your brand strengths and operational capabilities so you can capitalize on the exposure with positive follow-through. The world is watching! ▪

"By the way, that's not just my opinion. It also happens to be the opinion of some guy on Twitter."

CLIENT SPOTLIGHT

Project: Corporate Acquisition / Due Diligence & Integration Planning

Client: Aflac

Industry: Voluntary Worksite Insurance

Project Objective

Aflac is a $20 billion giant in the worksite individual voluntary insurance market, widely recognized for its trademark wise-quacking duck. Its products in the US are sold primarily through a sales force of more than 70,000 agents. In order to expand into the brokerage sales channel and grow its product line, Aflac wanted to move into the group voluntary market. Rather than grow this product line organically, Aflac identified an acquisition candidate that was successful in this area. In order to smoothly and effectively plan this acquisition, Aflac decided to perform an accelerated due diligence of Continental American Insurance Company's (CAIC) operational environment, assess potential operational efficiencies, and determine the scalability of infrastructure needed to accommodate Aflac's projected growth. Based on these assessments, the second part of the project was to plan the integration of CAIC into Aflac. This integration plan encompassed all major departments and functions in both companies. CAIC offers a full line of voluntary payroll deduction insurance products that provide personal and family protection to working Americans and was founded on the philosophy of putting the customer first.

Starting Environment

In addition to conducting detailed financial due diligence, Aflac realized the importance of operational and cultural compatibility. This led them to perform operational due diligence to determine whether CAIC's systems and processes could adequately scale up to accommodate the volume of business that would be generated. CAIC was significantly smaller than Aflac. This operational due diligence needed to be conducted quickly and confidentially. In the interest of confidentiality, Aflac chose to use an independent third party for the due diligence. The CAIC staff was told the operational review was for internal purposes as the acquisition potential by Aflac was considered confidential by CAIC management. Nolan was chosen because of its familiarity with Aflac, its reputation for integrity, and its overall insurance expertise.

Project Scope and Steps

The scope of the operational due diligence effort encompassed the operations and technology of CAIC, though this expanded into a preliminary look at sales and marketing aspects of both companies. Nolan consultants conducted a series of interviews with CAIC's management team over a three-day period. Nolan reviewed existing organizational structures, operational processes, staffing, and customer service philosophy. Using proprietary tools and methods for its analysis, Nolan also reviewed all major technology operations: hardware, software, security, application development, and support. All findings were delivered to Aflac senior management.

After Aflac decided to proceed with the acquisition, integration planning was driven by a desire to quickly forge working relationships with CAIC. To this end, Nolan assisted Aflac in setting up an integration program which included an executive team for strategic decisions, tactical teams to work through the myriad of issues, and an integrated project plan for each team and the overall program.

As a large, visible, publicly traded company, Aflac was extremely conscious of the need for tight control of all aspects of the acquisition announcement, legal and regulatory compliance issues, and community impact. As a result, detailed project plans were prepared for every operational and staff function to address the short-term issues related to the announcement and the legal closing and the long-term requirements involved in fully integrating the two companies.

More than 500 separate project tasks were identified as part of this overall effort. These were summarized into about 40 major projects that were tracked at a high level and regularly reported on to a steering committee made up of senior management from both companies. That group was able to provide guidance and address potential problems before they became significant.

Project Results

The results of Nolan's due diligence survey indicated that, operationally, CAIC was indeed an excellent fit. Nolan's assessment addressed the scalability of systems, processes, and staff. It also helped Aflac understand CAIC's overall management philosophy and approach to dealing with producers and insureds. Based on this assessment, the detailed financial review, and its strategic goals, Aflac decided to proceed with the acquisition.

As a result of its planning and management of the integration process, Aflac successfully completed the purchase and smoothly integrated CAIC's operations, systems, and sales force. All significant projects were completed on time and under budget. The merger was well received in the marketplace and in CAIC's community. The resulting organization, now known as Aflac Group, proudly delivers its products under the banner of the iconic Aflac Duck.

WILL "PROCESS" TRUMP "PROJECT" IN PMO?

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We don't actually expect "Process" to replace "Project" in "PMO," but given the pervasive changes in health care, we do believe that the process management office is becoming essential. The health care industry is undergoing change of a scope and pace unlike anything we've seen. And although it isn't exactly clear what all of the operational changes in the industry will be, change is a certainty—current capabilities will be modified and new ones will be added. In order to prepare for and execute the change programs that are underway or approaching, organizations should not only have solid project management offices in place but also process management offices. A process management office should ensure that process architectures are defined across the organization in a consistent manner to provide a solid base for making the changes that will occur over the next several years. Process architectures should encompass four key dimensions:

1) Process Maps
2) Process Definition
3) Process Maturity
4) Process Measurement

Process Maps: All of the major processes should be documented on a schematic in a way that allows the interactions between each of the processes to be understood. When changes must be implemented to support a new requirement, process maps will help to identify: 1) where changes must be implemented, 2) all of the processes that will be affected by a specific change, and 3) where to integrate new capabilities into the current processing environment.

Process Definition: Each major process in the organization should have a documented Process Plan that, among other things, outlines the goals of the process, defines its inputs and outputs, describes error-handling procedures, identifies the process owner, and provides tools for estimating the resource requirements needed to execute the process. Having comprehensive and consistent process plans will help ensure that any change programs are appropriately integrated into the current processing organization.

Process Maturity: There should be a means by which processes can be assessed to determine how well they have been constructed. Nolan uses

a process maturity model as a standard by which processes can be assessed, using criteria such as: “Is the process scheduled?” “Is it officially resourced?” “Is it documented?” “Is it measured?” “Is it part of a continuous improvement program?” A process maturity model allows an organization to understand how solid their processing base is (as well as how to improve it) as they prepare for the inevitable changes.

Process Measurement: It is always important to measure how well processes are performing. However, with the mounting costs and regulatory pressures, it is going to be critical that organizations adopt standard analytics and definitions to support process measurement. As there will be significant stress on the processing environments over the next several years, it will be important to closely measure processes to ensure that changes do not adversely affect performance in a way that causes significant customer service, regulatory, or cost issues for the organization. A standardized process measurement approach also allows the impacts of changes to be understood and incorporated into performance expectations of the organization.

Our extensive work in process engineering and management has proven time and again that a standard process architecture helps an organization prepare for the inevitable changes it will face. This is particularly true in the health care industry which is facing unprecedented and somewhat unpredictable change in the coming few years.

...a standard process architecture helps an organization prepare for the inevitable changes it will face.

To go along with process standards, there should be central accountability for managing process architecture, and that accountability should reside within a process management office. And although structure is needed to ensure the successful implementation of process architecture, take care to avoid process architecture becoming an academic exercise. Don't over-engineer the process architecture—make sure it is easy to understand and broadly accepted in the organization, and verify that the tools are actually useful to people responsible for implementing change and operating the ongoing environment. ▪

Acquisition Integration: A Hindsight Look

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In last year's fourth-quarter *Nolan Newsletter*, Steve Discher discussed the fact that M&A activity is likely to remain a hot topic in the insurance and financial services industry. Steve also shared many valuable lessons learned from our experience in evaluating, selecting, and implementing mergers and acquisitions. Jim Dean's article in the same *Nolan Newsletter* cites the most common reasons that acquisitions fail or provide poor returns. Jim also gave an excellent overview of three activities that are critical for a successful integration, the third of which is defining 'done.'

Each acquisition and integration is unique and has its own set of complexities and challenges. Mistakes will be made along the way, up-front assumptions will turn out to be inaccurate, and cultures and roles will inevitably clash. We all know the old saying, "Hindsight is twenty-twenty." When it comes to an acquisition and integration effort, a look back can provide great insight into what went well, what didn't go well, and what should be done differently the next time.

For organizations that intend to remain active in acquisitions, a hindsight look before the acquisition is considered 'done' can be extremely beneficial. The effort needn't be long term; but in order for it to be efficient and effective, it should be structured, focused, and well-organized. When we ask our clients to look retrospectively at an acquisition, we typically take the following approach:

- Establish a "hindsight team" made up of representatives from each functional area of both organizations. The representatives should play key management roles and, ideally, have been involved throughout the process, including front-end due diligence and integration implementation.
- Establish and define hindsight team roles, responsibilities, and accountabilities.
- Establish templates for gathering and summarizing information and lessons learned in such a way that the intelligence can be easily summarized, referenced, and incorporated into plans for the next acquisition.

- Define categories under which to gather the information (external/internal communications; financial objectives; system testing and validation; cultural integration; and so on).
- Conduct workshops and interviews as needed to gather desired information to determine what went well and should be repeated, what did not go well, and what should be done differently.
- Establish a strong linkage between the up-front business case actual impacts.

A well-executed hindsight review can be a significant driver of future acquisition success and should be included in the latter stages of any integration plan.

A critical outcome from this process should be to answer this ultimate question at various stages following integration: "Did this acquisition make sense for us?" This is not to suggest that integration work should linger. Answering this question at some level should be considered part of post-integration "business as usual" and does not need to be a complex, time-consuming effort—it could be as simple as the finance area comparing the financials on the first anniversary of the integration. At the functional level, work volumes, expense savings, and revenue projections can be tracked by functional area so that impacts can be reported. The key is having a process and plan in place to track the short-term and long-term financial effects of the acquisition and then be able to tie everything back to the pre-acquisition business case.

On a smaller scale, system conversions or implementations provide a great example of this. Once the system is in place and the organization gets back to business as usual, there is a tendency to lose sight of whether the projected financial benefits or ROI are actually realized. The same often holds true for acquisitions. It is surprising that acquiring organizations are often unable to confidently answer the ultimate hindsight question because there is no process to measure or monitor the results.

A well-executed hindsight review can be a significant driver of future acquisition success and should be included in the latter stages of any integration plan. ▪

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We all do a lot of strategic planning, market development, and product design. But in the past few years, the strategies have seemed to lack depth. Some of this can be the disappointment of plans abandoned because of unforeseen circumstances, such as the financial crisis, but I'm wondering if our problems are more fundamental. Three business jargon terms are beginning to bother me: *brand*, *consumer*, and *tactics*.

Brand vs. Reputation. Although closely related, they are different concepts. Brand is what the company tells us about itself or its product. Reputation is what people think about the company.

Consumer vs. Customer. A customer is a person who purchases our goods or services—a patron. Customers are important to our business, and we value them. Typically, a consumer is a person, but it's a dehumanizing term used to describe an aggregate market.

Tactics vs. Philosophy. This is the difference between what we do as opposed to why we do it. Tactics tell our staff what to do to execute a plan, but they don't explain why.

Business philosophy can be a way of doing business or a business outlook. It might answer questions such as: "Why are we in this business?" "What do we most want for our clients?" "Which parts of our work are the most satisfying or motivating?"

Philosophy tends to include integrity, responsibility, quality, and respect. Philosophy can be found in the intent of your contracts. I'm not saying it's a case of either/or because all of the above concepts are relevant and needed; but when the emphasis is out of balance, the effect can poison our attitudes, make our customers suspicious, and eliminate loyalty.

> *Demonstrate your philosophy in ways that are important to you, your staff, and your partners.*

Why is this important? If you really want to stand out (differentiate), think of your customers as friends and sponsors—not simply consumers—and then build a reputation with them that creates deep respect for your company. Demonstrate your philosophy in ways that are important to you, your staff, and your partners. ▪

How Agile is Your Organization?

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There is a new (well, not so new) methodology being used in IT to develop applications called "agile." Agile promises to deliver usable applications quicker and exactly the way the users need them. It has been around for more than 15 years and now seems to be gaining acceptance as a valid approach to IT development.

I learned about agile years ago, and there was something about it that I liked immediately: When business users needed something changed in a project, the developer made the changes. No muss, no fuss; the change got made—without a lot of time or effort spent documenting the change request, getting multiple approvals, and revising the project timeline. It all might sound like a recipe for catastrophe, but agile has its own set of rules and processes that keep things under control. Without the bureaucracy, IT projects under agile are completed quicker and with higher satisfaction ratings from both the business users and the IT team.

The question I've worked on for a while is this: "Why can't whole agile organizations operate in an agile way?" When a process or operating rule gets in the way of getting stuff done, shouldn't it be as easy as just changing the process? Do we really need to touch base with multiple areas for input and get their approvals and sign-offs? And is it really the end of the world if a changed procedure needs to be changed again because something was overlooked or doesn't work?

There are, of course, processes that fall outside the realm of what can be changed in an agile way. For example, controls under the Sarbanes-Oxley domain must be vetted and documented appropriately, and processes with the potential to negatively impact customers must be implemented with great care (see Scot McConkey's article on Page 14 for perspectives on process discipline). Outside those types of things, plenty of processes can be changed easily and do not jeopardize the organization—such as the requirement that a supervisor sign off on an insignificant task, like making copies in a copy center.

Maybe it's time for organizations to look for ways to implement agile, both for IT projects and as an overall operating style. The benefits could be significant for a company that accomplishes more processes faster. And satisfaction would be greater. ▪

The Impact of Regulation: Rush to Limit Risk or Capture Opportunity?

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On the question of how to react to the most recent regulatory changes with regard to the Dodd-Frank Act and the Durbin Amendment, it is interesting that a wait-and-see attitude prevails in the banking industry. Many large banks say that they are doing away with free checking and moving to other deposit options for customers. Others are on the sidelines, torn between their credit union competitors and the big banks. Currently, free checking represents 20% of the deposit base in the United States, and there is some anxiety around both loss of revenue and deposit balances. The changes in fee structure regarding overdraft changes and the order of clearing takes away the revenue stream that will have to be addressed through alternative pricing. Other banks are taking an opposing view—that the rush to fee-based checking leaves an opportunity to those who can find a way to capture customer growth and cross-sell products that will make them profitable.

Let's look at the types of shifts and fee changes that have been announced recently. Some banks have stopped offering free checking without a monthly maintenance fee, while others have stopped enrolling new customers in their rewards programs. In the first instance, the banks are holding onto free checking but finding ways to limit the bleeding. In the second instance, the banks are trying to close off a soon-to-be-losing account feature while they decide how to retain core deposits and replace lost revenue.

Some banks have already instituted high minimum balances for rewards programs or have started to make shifts in fee structure. This includes higher fees for stop payments, overdraft protection, wire transfers, bank checks, and ATM withdrawals. Others have changed a policy where they will allow only five withdrawals from other banks' ATMs. And some banks are setting new charges for statement printouts at ATMs. I suspect we will see many more changes by July 21.

> *Business analytics must work out the scenario planning and provide ranges of revenue on targeted expectations.*

At a recent industry conference, I was a bit surprised by how few bankers admitted they had fully analyzed the impact of the regulation changes as they currently stand and by how few had developed a strategy for fee replacement.

> *What is obvious is that most banks are now focused on lowering their operating costs for delivery.*

Many banks I talked with were waiting to see how things unfold and think of themselves as "intelligent followers." For many, the need for certainty on the final regulation approval and an understanding of how their competitors will act outweighs the need to implement their own changes now. Clearly, business analytics must work out the scenario planning and provide ranges of revenue on targeted expectations. What is obvious is that most banks are now focused on lowering their operating costs for delivery. In either case, Nolan has the experience and insight to help. ▪

"Our figures are the same as last year's, except that there are minuses where the pluses used to be."

Bank Performance Study 2011: Measuring Excellence

The Robert E. Nolan Company is once again offering the opportunity for all banks and credit unions with more than $900 million in assets to participate in our proprietary industry study, which is unlike any other. The analysis results in comparative line-of-business measures that help participating organizations identify gaps in income, expenses, staffing, and productivity. It is organized by 80 distinct lines-of-business and provides comparisons to the mean average, the benchmark (top-quartile) banks, and the median bank for each of 700 performance ratios calculated. **The great news is that there is no fee for participation, and this year's study is simpler and quicker to complete with new and improved input forms.**

What Participants Can Expect

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

Performance Gaps Identified

Each participating organization will receive:

- A management summary identifying the areas with the greatest opportunity for bottom-line improvement;
- A detailed report that prioritizes the opportunities by total organization and within each line-of-business;
- Each of the 700 detailed measures with comparison to median, benchmark, and mean averages;
- Year-over-year comparisons for multi-year participating organizations; and
- A review of systems employed by line-of-business for each participating bank.

You will not want to miss out on this unique performance study when planning for operational changes within your bank or credit union. To view a sample of the output that participants will receive and to register for Nolan's 2011 Bank Performance Study, go to www.bankbenchmarks.com.

Registration Deadline: April 29, 2011

Input Deadline: May 30, 2011

Results Distribution: July 1, 2011

It's all About the Customer Experience

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A recent article titled "Branding in the Digital Age" (*Harvard Business Review*, December 2010) described how purchasing decisions are changing for products and services. The buying process used to be thought of as a funnel, where buyers narrow their choices from many down to one. Now, that process is more like a continuous journey during which buyers consider their options—continuously adding and subtracting as they go along—and then making the buy decision. But unlike the previous funnel model, the buying process doesn't end after the purchase decision is made. Rather, buyers continue along their "journey," building loyalty or not, through their interactions with the company.

The *Harvard Business Review* article focuses on the marketing implications of the customer buying journey and how companies need to rethink how they allocate their marketing resources. However, we also see major implications for the service-delivery functions of insurance companies. It is important that companies are sure they are allocating the proper resources (people, processes, and technology) to the critical points of the post-sale portion of the customer journey. The better the service delivery, the stronger the "loyalty loop" and likelihood the customer will buy from that company again and become an advocate for its products and services. It is all about the customer experience during the key interactions with your company.

How will you know if your customers are having the right experience? Perhaps a good place to start is having your management team ask itself the following four questions and assessing (i.e., using data versus anecdotal evidence) how confident everyone is in their answers:

1. Do we understand how our customers' needs are changing?
2. What is the path our customers take to decide to purchase our products, and are we there at each key juncture?
3. Are our customers having the best experience possible at each key juncture?
4. Are we continuously improving our people, processes, and technology to ensure the best customer experience and address their changing needs?

Maintaining excellence in this new digital environment will not be easy, but working to close any gaps revealed in the answers to these questions will be a good start. ▪

Nolan Events

Physicians Insurers Association Marketing Workshop
April 6-8, 2011 - Indian Wells, CA
Nolan Executive Director, Ben DiSylvester, and Executive Vice President, Rod Travers, will be presenting at the session, "From Brand to Delivery: Implementing the Underlying Operations." Nolan is also pleased to be sponsoring the keynote speaker - *www.piaa.us*

Auto Insurance Report National Conference 2011
April 10-12, 2011 - Amelia Island, FL
Join Nolan Executive Vice President, Steve Discher, at this event to be held at The Ritz-Carlton in Amelia Island, Florida - *www.riskinformation.com*

LOMA 2011 Life Insurance Conference
April 11-13, 2011 - Las Vegas, NV
Nolan Practice Director, Steve Callahan, will be attending this event to be held at Caesars Palace in Las Vegas, Nevada - *www.loma.org*

AMIfs Annual PPM Conference
May 15-17, 2011 - Evanston, IL
Join Nolan President, Bob Grasing, at this conference to be held in Evanston, Illinois at the Hilton Hotel Orrington - *www.amifs.org*

IASA 2011 Annual Educational Conference & Business Show
June 5-8, 2011 - Nashville, TN
The Nolan Company is honored to sponsor and participate in IASA's annual conference to be held at Gaylord Opryland in Nashville, Tennessee - *www.iasa.org*

AHIP Institute 2011
June 15-17, 2011 - San Francisco, CA
Nolan Senior Vice President, Scot McConkey, and Vice President, Merit Smith, will be attending this event to be held in San Francisco, California - *www.ahip.org*

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