Learning How to Profit When Customers Rule

Cigna Healthcare was struggling in 2003 when it asked H. Edward Hanway to return as chief executive officer. The quality of customer service had plummeted at Cigna, which manages company health, dental, and employee-benefit plans. Corporate clients were deserting to the competition. Even worse, the HMO's problems were dragging down overall earnings of its parent company, the $16 billion Philadelphia-based insurance giant Cigna Corp.

Hanway responded by putting Cigna's customers in charge, reorganizing the entire company around their needs.

Hanway, who is also chairman and CEO of Cigna Corp., outlined a new vision for the group. He called it health consumerism. Hanway said Cigna's own health would be based on turning its members into educated buyers. They would have the tools to learn as much about their medical care options as they knew about home stereo models, designer jean brands, and automobile horsepower. Patients, he said, would know the true cost of seeing a specialist rather than a general practitioner and the price spread between a brand-name drug and a generic one. In short, Cigna's financial returns would depend on enhancing customer understanding, satisfaction, and loyalty.

Cigna integrated each member's medical, insurance, and billing records in one place. It created personal health-care-planning portals for members to analyze the data. Highly trained employees were put at customers' disposal. Workflows across multiple departments were redesigned to fit customer preferences rather than bureaucratic priorities.

As a foundation for the reorganization, Cigna consolidated and upgraded more than a dozen legacy back-end systems into one new system that supported two platforms for claims handling. The company developed its own version of Customer Relationship Management software, which creates detailed analytical reports of customer behavior and employee-customer interactions.

The result, three years later, is a multi-channel service platform that lets Cigna's members choose how to interact with the company as they access medical information, resolve billing problems, and organize their health care. Customers receive one consolidated bill, and benefit claims are handled more quickly, more efficiently, and with less hassle.

Using technology to create smart customer self-service has paid off. The reorganization has allowed Cigna to "upsell into prevention programs," says Scott A. Storrer, Cigna's executive vice president for service operations and information technology. "It's becoming more like banking — but instead of a financial consultation, it's a wellness consultation," says Storrer.

A key to Cigna's transformation was a decision to cast call-center representatives in a crucial frontline role. They were retrained as an elite corps of telephone troops and empowered with access to the newly integrated information streams. Now, the representatives can provide members with real-time claims information. They serve customers as greeters, concierges, sources of medical information, and health-care problem solvers.

Innovative companies from financial services to health care are boosting the bottom line by integrating customer service.

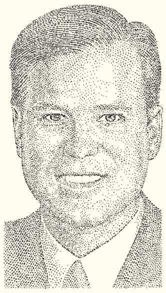
Today, Cigna's service representatives have "a 360-degree view of the health status of each person," says Storrer. Each Cigna member now has a single identity throughout the company and is no longer treated as a different person by each department. The convergent view of each customer is based on that person's own requests and needs, and is created by harvesting information from multiple streams. Simple transactional requests — such as for reimbursements — are increasingly addressed through the Web site. Queries requiring advice are often channeled through an automated voice response system to the call-center representatives. That provides an opportunity to offer additional services or suggest preventative programs.

The representatives can immediately answer about 90 percent of all questions, says Storrer. Customers who don't get an immediate answer receive a tracking number and a return call within 24 hours. Many service problems have disappeared. Issues are often resolved even before customers talk to a representative. Now, about 70 percent of calls present the opportunity to offer advice, Storrer says.

The new focus on smart customer interaction has empowered the service representatives, upgrading their role to that of information specialists. Most are now college-educated, and many are recruited from elsewhere in Cigna and arrive with experience in claims or medical management, Storrer says. Bonuses are based in part on how well they leverage the new information systems to serve customers.

Integrating customer information has also created a mine of business intelligence with potentially great strategic insight for Cigna. The company begins gathering the data as soon as members enroll. Existing health and treatment records are combined with new test data from labs, fresh invoices, and pending claims. The resulting information pool, analyzed using broader demographic trend data and predictive modeling, gives Cigna an early view of the future health-care needs of its members. If Cigna can steer members toward early behavior changes and preventative treatment, that could reduce the incidence and severity of costly medical problems such as diabetes, heart disease, obesity, and premature births. Successful data collection, modeling, and analysis could save Cigna and its corporate clients — the employers of Cigna's members — significant amounts of money.

Everyone benefits when consumers are more involved in managing their own health and become more informed shoppers, CEO Hanway says. That includes Cigna itself. Three years after its reorganization, Cigna has become the first national health carrier to be recognized by J.D. Power & Associates for call-center customer satisfaction.


Cigna's Scott Storrer: 'Upselling' into prevention

"It's a transformation. It started out with some bumps in the road, but Cigna sees customer service as a way to educate customers and lead them into other product lines," says Giridhar Rao of Booz Allen Hamilton, the global strategy and technology consulting firm. Rao, a health-care and financial-services specialist, has studied Cigna's reorganization. Rao and Rahul Rosha, also a Booz Allen consultant, have researched and ranked the customer service "best practices" of health plans. They analyzed the systems and techniques that health insurers have adopted along four broad criteria as the insurers' level of success and sophistication rises. (See exhibit, next page.)

Health-care companies aren't the only ones profiting from smart customer interaction. Innovative businesses from financial-services companies to consumer goods makers are maximizing the value of their customers by integrating information and personalizing service offerings.

The challenge of creating a holistic view of the customer is particularly steep in the financial-services industry. Mergers and acquisitions are requiring some companies to integrate dozens of information systems, investment products, and data from functions as diverse as planning and sales management.

Fidelity Investments stands out as a success story among financial-services companies that have sought to re-create themselves as customer-centric organizations, according to George Day, a marketing professor at the University of Pennsylvania's Wharton School of Business. Day conducted a recent study of 347 medium to large firms that attempted the transition.

Fidelity, the largest U.S. mutual fund company, started by upgrading and consolidating its information systems and studying the demographics, buying patterns, and interests of customers. It compiled and integrated existing customer information such as size of asset holdings, type of investments, and trading activities. Fidelity also gathered psychographic data including lifestyle choices and attitudes toward investing, Day says. Then it developed predictive modeling to forecast a customer's potential for growth.

Armed with that information, Fidelity developed a strategy that emphasized reliable advice and investment solutions tailored to the individual investor's situation. Boston-based Fidelity then segmented customers into four large groups: a high-value set, which had large complex portfolios and required "hand-holding"; core customers, who were interested in investing but not actively engaged in it; active traders, who sought top-notch execution of their trades; and institutions and small businesses that used investments for employee retirement plans. Those four groups were then subdivided into 17 smaller customer segments.

Fidelity created dedicated customer service groups to create personalized guidance and service offerings appropriate to the profit potential of each segment. The groups developed and managed a broadened array of investments, including funds from competitors and financial services that could be readily bundled.

Fidelity's transformation didn't happen quickly. Day says it took at least three years to accomplish 60 percent of the company's reorganization goals.

Success requires making customer service part of the corporate DNA, says Day. Every decision, from recruiting to technology investments, must be considered for how it will affect the buyer's experience. "If your customer sees a bunch of silos — the finance group has their little piece of the customer, marketing another, and customer service another — the customer has to navigate the organization, which can be frustrating," he says.

There is a powerful payoff for companies that build a strategy on well-defined and measured consumer service practices and goals. Capital One Financial Corp. of McLean, Virginia, proved the point by growing from a little-known regional spin-off to a Fortune 500 company within a decade.

Capital One became one of the world's most profitable credit-card issuers through targeted marketing based on

This is the second of three reports sponsored by Microsoft Corp. in *strategy+business* examining strategic trends. The focus of this section is integrating customer service. The third report, on business intelligence, will appear in this magazine's winter issue. The articles are created by the publishing department of *strategy+business* and will be available online at www.strategy-business.com.

Illustrations by Kevin Sprouls

At HMOs, "Best Practices" Define Strength in Customer Service

	"Identifies" – Level I	"Adopts Passively" – Level II	"Shapes Actively" – Level III	"Learns and Iterates" – Level IV
Managing the Customer	Customers grouped into like segments (e.g., by value, profitability, need)	Customers understand different offerings but are not actively steered • Passive awareness • "Viral learning"	Customers are actively steered to correct channels for needs (e.g., coaching clients to use Web channels, putting a price tag on higher service)	Customers are constantly de-averaged – assignment across segments is actively managed over time
Delivering Value • Features • Service Levels • Experience	Overall performance aspirations defined • Qualifiers • Differentiators	Qualifiers/differentiators used to define the service profiles of channels. Target client service experience defined	Target service experience while guiding service behavior and channel usage. Value captured from differentiation (e.g., reduced customer churn)	Managing the mix of qualifiers and differentiators in the portfolio of services over time
Managing Cost	Measurement and understanding of direct costs of client service	Total cost-to-serve (CTS) view of client service. Activities segmented to each channel	Understanding cost drivers by activity (e.g., acting to reduce phone channel costs by identifying key cost drivers). Activity overlaps minimized across channels	Feedback loop for continuous improvement (*kaizen*). Explicit use of cost drivers for continuous cost management
Using Service Architecture and Aligning Demand and Supply	Articulated list of services. Existence of either demand or supply segmentation	Scale/utilization out of "same as" efforts. Demand and supply segmentations exist but are not aligned	Creation of more "same as" while ensuring unique needs are catered to (e.g., modularizing service). Demand and supply aligned through a delivery infrastructure	Explicit trade-offs on features and service levels to manage innovation gainfully. Demand and supply regularly realigned in future
	"Base"	**"Channel Alignment"**	**"Tailored Business Streams (TBS)"**	**"Dynamic TBS"**

Booz Allen consultants Giridhar Rao and Rahul Rosha researched and ranked the customer service "best practices" of U.S. health plans. They found that the insurers' customer-related systems and techniques rise along four broad capabilities (left-hand column), as their level of sophistication increases (top row). **Credit:** Booz Allen Hamilton Inc. / Rahul Rosha

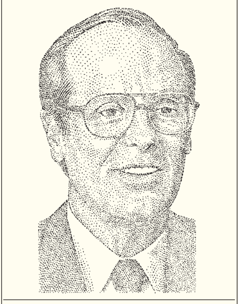
customer profitability analysis, according to Professors Eric Clemons of the Wharton School and Matt Thatcher of the University of Arizona. Capital One developed a breakthrough strategy called "test and learn," the professors say in "The Customer Profitability Conundrum: When to Love 'Em or Leave 'Em," published on www.strategy-business.com.

"These models determine which combination of product, price and credit limit could be profitably offered to customers who could be segmented by a wide range of publicly available credit and demographic information," Clemons and Thatcher say.

Today's consumers increasingly expect greater customization. With more access to information and more sophisticated purchasing power, they often get it, according to Booz Allen consultants Keith Oliver, Leslie H. Moeller, and Bill Lakenan. The companies profiting the most in that environment are the "smart customizers" – those that minimize cost and complexity by aligning their tailored products and services with the correct tier of customers, they wrote in *strategy+business* magazine.

"Companies that more effectively balance the value that customization brings to their customers with the complexity costs it can impose generate organic sales growth *and* profit margins significantly higher than their industry average," they wrote in "Smart Customization: Profitable Growth Through Tailored Business Streams" (*strategy+business,* Spring 2004).

The authors studied business units at 50 large North American product and service companies. They found a two-to-one performance gap between "smart customizers," businesses that adapted and aligned their customer strategies and fulfillment operations, and "simple customizers," those offering ad hoc responses to customer demands.



Wharton's George Day: Customers aren't silos

Smart customization is often lacking in the U.S. mobile telecommunications industry, according to Oliver, Moeller, and Lakenan. Instead, complexity-burdened customization results in a profit-draining arms race among competitors. Carriers offer consumers a baffling array of calling plans. They continually switch basic calling programs as well as sweeteners such as free minutes and handset rebates. Upgraded services are often offered indiscriminately to marginally profitable customers rather than saved for high-margin prospects.

Worse, most customers are channeled through the same help and sales lines, where high-cost specialists, unversed in the constantly shifting plans and packages, cannot handle inquiries effectively.

"Instead of devising a tiered approach, where higher-end customers are provided specialized service to match the value they represent, carriers use the most expensive sales and marketing system for all customers," the authors write. The result: Customers become confused by the array of hard-to-distinguish products and frustrated with inadequate service, and they head for competitors.

Consumers have learned to expect best-in-class service, says Narayan Nallicheri, a Booz Allen Hamilton vice president specializing in operations for service businesses. When customers are treated well by a financial-services firm, they want the same kind of experience from their telecom provider and their health insurer. “They’re unforgiving when it comes to service-center performance,” he observes. “As products get commoditized, companies acquire new customers through service and retain them with better service.”

Businesses that prosper by integrating customer service are the ones that eliminate the potential for disruption, cost, and complexity to achieve bottom-line results.

Successful companies:

1. Consolidate Information Systems and solve customer transaction problems early, while empowering employees to build sales.

2. Define and Measure service performance, while reorganizing around customers’ needs.

3. Integrate Customer Data, using CRM and other technologies, to provide a unified view of each customer.

4. Empower Customers to decide how they will interact with the company, while making their options and platforms appropriate to profit opportunities.

5. Analyze and Segment customers according to their purchasing behavior and lifetime profit potential. Structure service offerings accordingly.

An Analytical Toolkit for Customer Service

W. Edwards Deming, the late statistician and management thinker, became influential among U.S. executives in the 1980s after helping Japanese manufacturers transform themselves into global brands from makers of low-quality and commodity goods. Deming regarded customer feedback as a key part of the production cycle and emphasized the importance of knowing what consumers want. “Profit in business comes from repeat customers, customers that boast about your project or service, and that bring friends with them,” he said.

Today, some customer service strategists beg to differ. Using rigorous analysis and advanced customer-segmentation technology, they are dividing buyers into groups based on individual needs and lifetime value to the company.

One result: They’ve decided some customers just aren’t good for business. These are the ones who order infrequently, pay slowly, or simply buy low-margin products. Companies are learning to identify and shun these buyers and turn their attention to two other segments: customers who are marginally profitable but show significant potential and those whose lifetime value makes them a virtual gold mine.

The savviest of those companies are reorganizing themselves around customer segments that are rigorously measured and analyzed. They are giving each set a different type of attention based on its profit potential. Some buyers receive concierge-level service. Others are offered self-service options through intelligent IT architecture, which uses historical records and interactive patterns to infer future behavior.

Evan Hirsh, a Booz Allen Hamilton vice president specializing in strategic marketing, business unit strategy, and performance improvement, says companies rise through three levels of capability in segmenting customers:

LEVEL ONE: The company knows how long it takes for its call center to answer the phone and what percentage of customer issues were resolved on the first call.

LEVEL TWO: The company and its service representatives understand what customers really care about. They measure customer satisfaction with precise metrics.

LEVEL THREE: Customer service improvements and strategy boost profit. The company’s metrics become targeted and precise: How much are sales boosted when representatives answer calls in five seconds versus 15 seconds?

What surprised Chris DeNove and James D. Power IV, authors of *Satisfaction* (Penguin Group, 2006), a book about customer service, is how few companies use sophisticated customer service metrics despite their proven value: Good service results in more loyalty and word-of-mouth referrals. Companies with excellent service reputations command price premiums.

Satisfaction reports on 10 organizations — including UPS, Lexus, and Washington Mutual — that consistently make that connection.

Consumer needs should be a filter through which every new product or service is passed, say the authors. They identify several companies whose strategies met the test, among them: The discount airline JetBlue found the return on passenger satisfaction more than offset the cost of installing leather seats. Washington Mutual, a Seattle-based consumer and small-business bank, identified and catered to underserved groups of small investors.

While business metrics vary, what’s universally important is for companies to collect the data, analyze it, and make sure it reaches employees who can use it. That requires companies to:

• Integrate systems to allow employees to access customer information in different departments and databases.
• Be prepared to bring legacy information systems into an accessible format — to be used by employees with varying skills.
• Create platforms that import external data, including publicly available demographic or financial information.
• Continually refine data collected and the ability to distribute it.