

# white paper

## **“Are you structured for maximum growth?”**

**A white paper by the  
Innovation Advisory Group & ReSource Pro**

The soft market, lower rates, and tough economic conditions are hitting the insurance industry. Agencies are struggling to stay in business, much less to do more with less capital. Agencies do not control the market and its pricing fluctuations, but they do control their costs and how managing those costs affects their bottom line.

The traditional way of looking at cost has been  $\text{Cost} + \text{Profit} = \text{Sales Price}$ . In today's economy we insurance agencies no longer control price and they see their profits diminishing as their costs increase. Desperate times do not always call for desperate measures, but they certainly require innovative thinking. The Innovation Advisory Group has been looking into ways to bring new, innovative perspective to this equation.

Since agencies do not control the price in this marketplace, the focus is shifted to the cost of doing business. Looking at cost through “Lean” eyes,  $\text{Price} - \text{Cost} = \text{Profit}$ . It is putting the control back to the agents' hands allowing them to control two things: their cost and be able to ride the wave of low prices to maintain profits.

There are many ways we can start looking at lowering costs. Some are more drastic than others. Some take a long time to implement than others, and unfortunately, some come with hefty price tags that make these solutions more of a long term investment rather than an immediate fix.

This is the reason we decided to look into Lean Techniques that

promote quick, small changes that by keep improving incrementally they can have a big impact on the long run. At an age where most are desperate for solutions now, the Lean technique will help many start seeing immediate results.

## What is Lean?

Lean is a production practice that considers the expenditure of resources for any goal other than the creation of value for the end customer to be wasteful, and thus a target for elimination. In a more basic term, more value with less work. Lean Training has developed from Toyota's philosophy of Lean Manufacturing. It evolves around waste, necessary and value added activities during a process. It all starts by making any process visible.

Identifying Waste – The Lean way:

- Light purple: waste
- Green: value-added work
- Blue: other necessary work



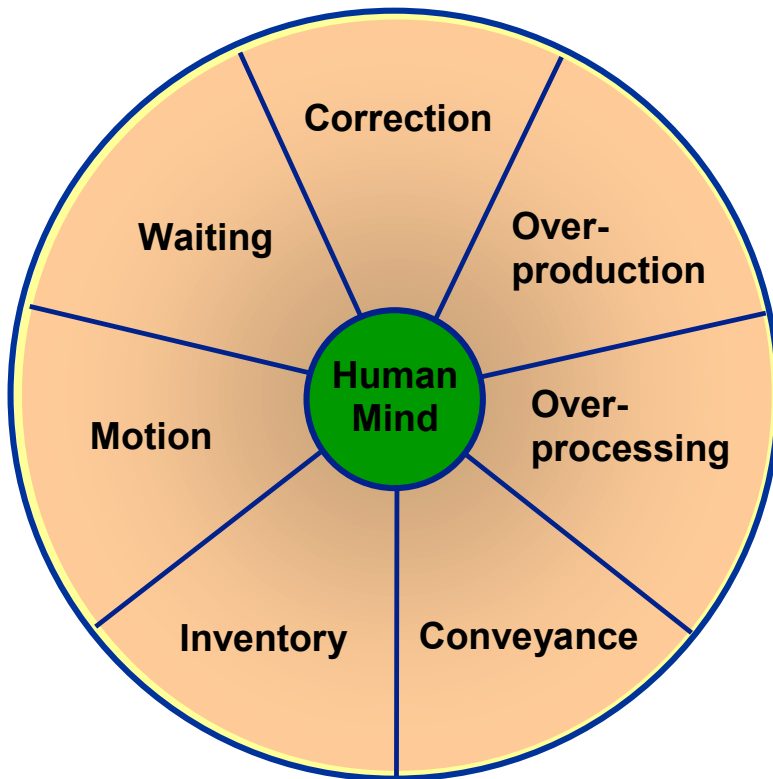
If we analyzed the work done in our organization, we would find that much of what occurs is ineffective and inefficient—not essential to the product or service produced and delivered to our customers. In fact, in most organizations, less than 50% of what we do is work that our customers would be willing to pay for. The rest of the work we do is either necessary for other reasons or waste.

Other necessary work, or incidental work under present conditions, may be essential for executing tasks directly related to producing products or services. It is absolutely essential given the limitation of the current technology and design of the process being used to produce the product or service. However, it adds no direct value from the customer's perspective. This type of work may include having to go through multiple steps to log on to the system, unpacking boxes of forms or parts, etc. Other necessary work may also include work required by our organization to meet business or regulatory requirements, such as completing FDA-required audits.

Waste is action that is not essential for the work being performed. This includes waiting, correcting mistakes and rework, unnecessary additional work or overprocessing, excessive motion by employees, excessive transporting of parts, unnecessary approval steps, etc. In many organizations, waste makes up 50% or more of our activities!

In most situations, it is common to consider other necessary work as waste, although often the distinction can help you focus on the most realistically removable waste first. The first objective is to eliminate what is truly not necessary in the process from the customer's point of view.

## Types of Waste:



These are the eight categories of wastes that are common to any type of business or organization.

- Correction or repair refers to work that wasn't done right the first time (scrap, mistakes, errors, omissions, reprocessing, repair, etc.).
- Overproduction is any production or processing done at a faster rate than required to meet customer demand. Making more product or delivering more service than is required is an example of overproduction.
- Overprocessing refers to doing work that does not add value, such as excess paperwork, doing preventive maintenance more frequently than required, doing the job again to look busy, adding in extra features that the customer does not care about.
- Conveyance refers to the excess transportation of the product or service as it flows through the system.
- Inventory refers to overstocking of parts, material, or information, or improper parts, material, or information being stocked, or not enough inventory.
- Motion refers to movement of people or equipment that doesn't directly add value.
- Waiting refers to waiting for parts, equipment, requirements, tools, information, instruction, work orders, etc.
- Human mind refers to underutilized or misapplied human resources.

## Why Lean? Why now?

Lean is a powerful tool for identifying inefficiency or redundancy. It is a methodology for driving continuous productivity improvement. "Innovation does not happen when everything around us is great and everyone is doing well. The best innovation takes place when we are forced to change" said Lisa Bodell during the ReSource Pro Innovation summit. We believe this is the time to stand out of the crowd, crash competition and build for the future. This is not the time for big spending but it's time to cut costs, reorganize the company structure and do more value work with less. Restructure your team for growth. Focus

your team on what is core, delegate necessary and eliminate waste.

Great lean leaps are made during tough economic times. Taiichi Ohno pushed the Toyota Production System through the entire Toyota Motor Company in 1950 during the great crisis that left Toyota on the brink of bankruptcy.

Now, more than ever, is the time for you to advance your lean transformation. Not only to protect profit margins by improving quality and productivity, to strengthen ties with customers by improving service, or to convert orders-to-cash faster by reducing lead times. But also to acquire enduring competitive advantage. Now is the time to advance the transformation across the enterprise -- by developing employees as problem solvers, by changing the management culture from command and control to fact-based and flexible, by extending the transformation from the shop floor to finance, accounting, and other support areas, by implementing lean principles at key suppliers, and by transitioning from a tools-based implementation path to a course that applies lean management as a complete business system, changing how the organization thinks and conducts business on a daily basis.

### **Where do we start?**

As noted earlier, Lean starts by making any process visible. A select group of ReSource Pro clients that formed the Innovation Advisory Group back in November 2008, got together to embark on a Lean path and find out what can Lean do to an insurance process in these tough times.

The team started by exposing a Renewal Process scenario for a retail agency. See Map 1. From this high level map we started already seeing some opportunity for improvement. Length process (120 days) a lot of waiting time, many departments/job titles being involved in the process. Usually these are signs of opportunity.

After some consideration and studying this high level process the team identified the following goals of this exercise:

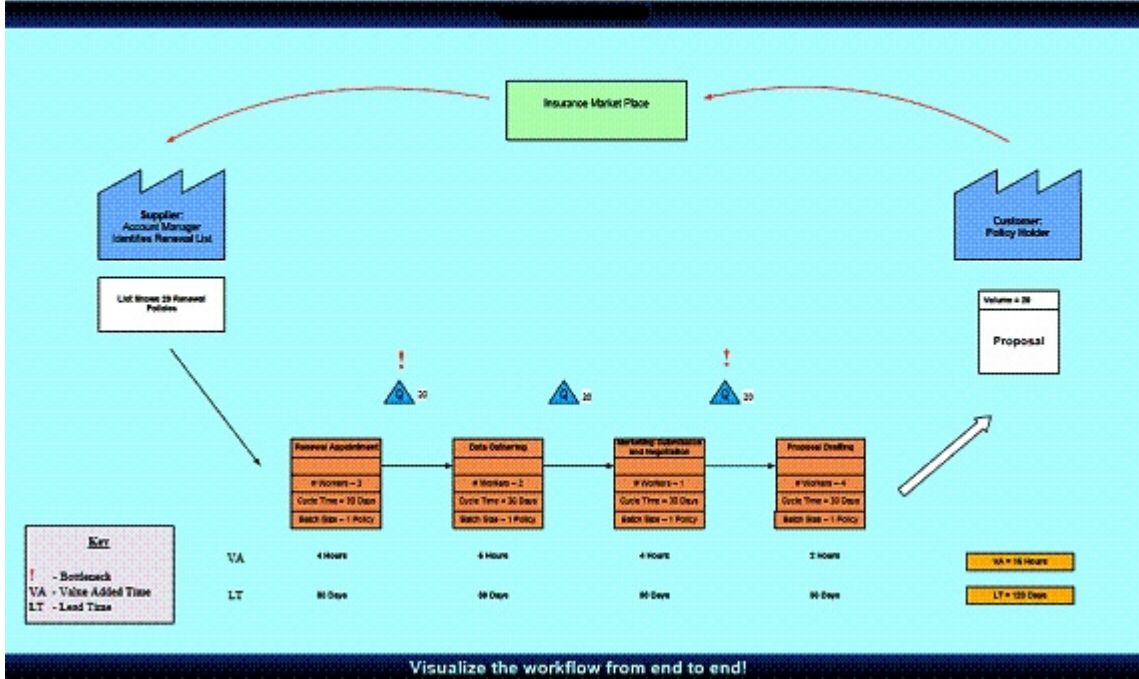
### **Goals of the Exercise:**

- Reduce rework and redos
- Move low value work to low resources
- Optimize VA and necessary steps
- Reduce costs (if not reduce the hours, can reduce the cost per process)
- Increase VA capacity for new business
- Increase quality
- Deepen client understanding
- Increased integration of sales functions and sales functions

***Overall goal: Increase the value we deliver to the customer while reducing the cost of delivery***

# Value Stream Map

Report Period: 39 Days



Map 1: Step 1-Map out a process: Policy Renewal Process for a retail agency

In order to identify the specific opportunities for improvement, a more detailed process map was necessary. Deployment Map 2 was introduced. See map 2.

Creating a deployment map detailed procedures need to be available and those involved in the mapping process must know the process. It is critical that the process is mapped “AS IS” instead of as is” supposed to be”.

Once the group had a detailed map to work with, they started going through the process step by step, questioning every single action and trying to identify is that’s a necessary step, and if not, what type of “waste” that might be and how can that step be simplified or eliminated.

Overall 39 opportunities were identified. The pink circles on the map show those areas in the process where some improvement could take place.

Of the 29 identified opportunities, the team started prioritizing and picking those opportunities that are easier to implement or by implementing them it will make a big impact on the performance of the process.

## The top three opportunities along with some suggested solutions are:

### *Delegate & have the right person performing the right task*

An obvious issue in the process was that senior level people such as Marketing Manager and Account Manager were involved with tasks such as data entry, gathering data or coordinating part of the process. From the lean concepts we learned that each team member must focus on what's core activity based on their job title and delegate the rest of the tasks to someone lower in the corporate ladder or in this case to their ReSource Pro team. If we start putting the cost associated with this arrangement, very quickly agencies will start seeing not only the performance improvement but also the financial benefits.

### *Do not try to fix a bad process but start a "to be" process where the agency focuses on what is "Value added" and ReSource Pro initiates and drives the process.*

Instead of having high level skilled employees manage the process, only get those people involved in the process when their skills, expertise and their involvement is necessary. The assistance can gather all data and move the process forward and send tasks/request for an appointment with those high valued employees when their turn comes.

### *Educate the client and build a stronger relationship with every meeting.*

In this specific example of the renewal process, we have identified several instances where the client is visited, or contacted. There were instances of sit and wait for information. The proposed way to eliminate all the client interaction and make the process faster and more productive is to always start the process with data gathering instead of client meetings. The client meeting is a very valuable time where all data and loss run information on the account should be presented, the agency can share their stewardship reports and together with the client they confirm information and market the account. Building client relationships based on performance and getting client buy-in will allow the agency to manage the process more efficiently instead of managing a process based on fear of the client shopping the account elsewhere.

## Metrics

What are some of the benefits of improving these processes? What does an agency have to gain?

The benefits can be many. Financial as you simplify the process the cost of performing it decreases, drive operational performance and excellence is another. Another, less obvious benefit is identifying more capacity for your employees to be able to do more value added work. Agencies straggling with low budget that does not allow them to hire more people or expand to a larger office. With this exercise we can prove that the same group of employees can handle more work. In the example below we assume that the team handles 20 renewals per month, and after some improvements they will be able to handle 30. The conclusion of this exercise is in the numbers:

Process	Process	
Data Item Description	As Is	To Be
Number of Policy Renewals per month	20	30
Typical Lead Time to complete each Renewal (first step thru last step)	120	60
Lead Time Reduction (Calendar Days)		60

