RECORD OF SOCIETY OF ACTUARIES
1986 VOL. 12 NO. 2

MANAGING FOR EXCELLENCE

(Follow-up to General Session which appears on pp. 849-869.)

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A comparison and adaptation of the principles followed by companies praised in current management literature.

- o What makes these principles work elsewhere?
- o How could they work in our industry?
- o If available, a case study from our industry

MR. PETER J. BONDY: The Actuarial profession has traditionally held a premier post among the ranks of life insurance professionals and managers. I remember when I joined my first affiliation of life insurance companies and when people found out I was an actuarial student, they would express respect. We're at a threshold, though. Are we still the premier profession? I think it's really up to us as to whether we will continue as one. We're basically where I think the casualty actuaries were, say, ten years ago. Again, going back to my first affiliation, this company had a property and casualty company, and they also had a casualty actuary. He did not hold as much respect within the corporate structure as the life actuaries did. I look at our profession and the casualty actuarial profession today, and the casualty actuaries have come a long way. You may have heard comments about the demand for casualty actuaries, the pay scales, the fact that casualty actuaries are hard to get. Life actuaries are

* Ms. Austin, not a member of the Society, is co-author of *A Passion for Excellence* and is President of Nancy Austin, Inc. Ms. Austin was also the keynote speaker. See pages 849-869.

still hard to find, but I don't know that we're in the same boat as the casualty actuaries. I think the next few years and how we manage our profession and how we develop ourselves will determine how we progress. There's much out there -- many possibilities -- but we need to do something about them. We need to rely on Managing for Excellence. We need to go a little bit more away from the technical skills into good business sense and risk taking skills. How many of you have heard an agent say that an actuary will not take risks?

We must have good communication skills. How many of you have heard somebody say "Gee, you speak in plain English -- not like an actuary." And I don't mean this demeaningly, but I encounter these comments, for example, from our audit staff.

We also need personal empathy and diplomacy to effectively deal with people and clients. This means the good common sense ability to break down complicated issues or projects into smaller, simpler issues. This is especially important when we're dealing with items that don't necessarily fit the mold of a project that we've handled in the past or isn't a subject that we've gone through in studying for exams.

Open-mindedness to continuing education is also important and, as you know, the Society of Actuaries is currently pursuing that idea.

Recently, I took a straw poll, and I asked two questions: What can you tell me about the characteristics of our profession's members, in general? And, what do you think their major weaknesses are? I'll give you some of the items that came back: (1) very precise; (2) great attention to detail; (3) strong quantitative skills, engendered by the examination process; (4) ingenuity in developing answers once the questions are raised; (5) an "I'll do it myself" attitude; and (6) pride of authorship. People who came back with these answers said also that there seemed to be some resistance to researching what others do and doing what others do. I asked about people skills. In this they came back with: (1) shy (although I don't think that's everybody); (2) not too strong on verbal communication; (3) an inability to communicate with non-actuaries in easily understood terms; (4) not necessarily risk takers -- that is, that most actuaries require too much evidence; (5) that actuaries assume managing people is easy and trivial; (6) lack of awareness of political necessities; (7) not good listeners; and (8) not sufficiently forward thinking.

Now, the fact is that these answers came back. I don't want to focus on whether they are right or wrong. I want to focus on the fact that they did come back. I suspect that some of them might be right while some of them are wrong. Some may be right in differing degrees depending on the type of work the specific actuary does. An example: I suspect that the actuary who does product development, and in that process is very involved with the agency force, is probably more of a risk taker -- and I emphasize probably -- than the actuary who is doing the valuation work for the company. Another example: I suspect that the actuary who is in upper management is a far better communicator than the actuary who has not risen to upper management and is basically assigned to very well defined, specific tasks.

In her keynote address, (pages 849-869) Nancy Austin provided us with some of the salient points to managing for excellence. Obsession With The Client took up four, five, six chapters in the book. The next one, Innovation, doesn't mean coming up with a brand new theory. It means coming up with a new way of doing something: a new way that identifies it from the rest of the crowd. Being People Oriented refers to the fact that we're people; we must have courtesies, as Nancy indicated. Bob has heard an interesting definition for leadership, which I hope he will tell you about later on.

If you read the predecessor book, *Search for Excellence*, which was co-authored by Tom Peters and Bob Waterman, just about the same points were coming up. To bring up a couple more there are Autonomy and Entrepreneurship. I think, if anything because of the profession that we are in, we like to have a sense of ownership. This is not necessarily financial ownership, but a sense of mental ownership and pride of ownership in the work we do. Do we do that with our subordinates? We're speaking of hands on, value-driven management versus "management by wandering around." Obviously, I go into many companies. Quite often I see the manager that does a lot of wandering around, but has lost sight of the hands on, value-added dimension. We need a blend of the two: a cognizance of the areas around us and the people around us (and that's not just actuarial; it's the other areas) as well as being perceived as doers and you're only perceived as doers by getting some hands on work done.

Today, many other industries are moving to the Simple Form and Lean Staff, and perhaps more quickly than the insurance industry. I think in the last two or three months we've already heard of two situations where a major mutual and a major life reinsurer were effectively moving to a simpler form and a leaner staff. Incidentally, actuaries are caught up in that process as well. So again, *Managing for Excellence*, hopefully, will provide us with better opportunity for not getting caught up in such processes.

The process to accomplish this is not going to be the same from company to company. Here are some of the items that I suspect will affect the process and the timing with which you try to achieve it: (1) type of company; (2) the personnel group; (3) the desired results; and (4) the market and the marketing approach you use. Companies that are not in this process, I believe, need to proceed with the process.

MR. ROBERT D. SHAPIRO: I'd like to talk about the insurance industry from my perspective of twenty plus years of working with life companies as a consultant. I'm going to cover three or four areas. First is a brief description of where the industry is today. Then I'll talk a little bit about winners and losers. Third, I'll describe some of the approaches that appear to "win" within the life insurance industry. Finally, I'll try to relate some of my thoughts to what Nancy said in her keynote address.

The fundamentals in the life insurance business are changing. In 1975 we achieved success in spite of what we did. Most companies had excess interest earnings that the customers weren't demanding. Companies benefited from overall mortality improvements. Our high expenses, both in marketing and administration, were generally masked by the interest and mortality margins. We've moved from that atmosphere to where, today, excess expenses are being exposed.

Many of the actions that have been taken by companies in the name of planning and/or positioning are probably more veneer than substance. By 1995 I think more of the value-driven concepts discussed by Nancy will take hold and will cause organizations to focus much more than they have in the past. Back in 1975, we didn't have many strategic plans. We often extrapolated each year from the previous year. Today there is a lot of planning going on, but not much strategic management. By that I mean consistently linking vision, leadership and the organizational pieces where everybody in the company can state the overall strategy of the company in twenty-five words or less. This is not the same as having 170 pages of strategic documents created at a retreat.

When fundamentals change, problems can't be fixed quickly. *Business Week* had an interesting article earlier this year, where it contrasted buzzwords of 1980 with buzzwords of today. Buzzwords in 1980 included *planning* and *strategy*. Buzzwords today include *entrepreneur*, *skunkworks* and *culture*.

We find many insurance companies repeating "the saga of the 25% staff cut." It is all too common to find a vicious circle going on in insurance companies, at least in those companies that don't have the clear direction and the leadership. The vicious circle is entered with a study of efficiency. After finding out that expenses are too high, at least relative to historic and peer standards, the company cuts 25% of the staff. For the next six or nine months most corporate energy is directed toward patching the damage, because morale and service are down. The process often creates operating paralysis. The paralysis tends to warp the company's sense of direction as the focus is on fixing morale, not growing a profitable business. Once the managers think they have the damage under control, they say, "Now we have to grow." While cleaning up the emotional debris of the 25% cut, they fell behind. They have to catch up. So they add staff to rebuild. The actuary looks at expenses; they are up again and he can't meet competition's prices. The company hires a consultant who recommends a 25% staff cut, and the vicious circle goes around and around and around.

Our annual retreats often deal with the same issues, year in and year out. Managers talk about, "Our business is being replaced. Our distribution is costly. Our administrative costs are high. How are we going to deal with deregulation and competition? How do we minimize taxation?" Our inquiries must be framed in a broader fashion if we want to satisfactorily address these issues. For example in considering replacement, what about new business? Do we keep our finger in the dike on our old block of business, or do we protect the new business against future replacement? As a second example, we talk about costly distribution or high administrative costs, but relative to what? Relative to what we did last year, relative to what last year's peer group did, or relative to what we're trying to achieve?

In the last analysis, what we're really looking at is the tip of an iceberg. Most planning agenda issues are not the issues addressed in the kind of value-driven company that Nancy was talking about in her speech. It's not replacements and high costs that are the keys. It's qualities like leadership and a sense of direction that provide the framework for making proper decisions on issues like replacements and high costs.

How can we tell losers from winners? Losers tend to be obsessed with planning and management techniques. Losers derive comfort with going through the annual planning cycle. Plans are chained to the past and they're chained to peer group averages. For example, in many of our companies the first thing that's done for the planning activity is to survey everybody in the peer group to see what they're doing.

Losers tend to be overrun by technicians and underrun by leaders. Consider the functional organization that many of our companies had ten years ago. Although many companies are breaking out of functional organizations and organizing by business, the functional history tends to put a premium on technical competence (instead of business competence); this tends to create roadblocks to succeeding in the environment we are facing today.

Losers tend to emphasize efficiency instead of effectiveness. They try to cut current expenses 25% before worrying about what the right activities are. If a company is going the wrong way, the worst thing it can do is do it efficiently.

Loser companies also tend to mix goals with corporate policies. How often do we see as a goal, "We want to maintain surplus at 8% of liabilities." That's not a goal; that's a policy. If it's treated as a goal, the planning process, marketing strategies and financial management approaches are distorted to make sure the company is always at 8%. There are times, because of market conditions, that 6% or 10% is OK (with the policy being to aim for 8% over the longer term).

And finally, if one were to interview the managers in a loser company and then look at their plans, one would find that what those managers say in their plans is different from what they really want to do. They've got the 170 page plan in the drawer, and they are not living by it. Well-run companies don't have a 170 page plan in a drawer. They typically have a page or two of principles that guide them, and everybody knows what those principles are. They know if they live by those principles, they're likely to achieve what they want to achieve. This is consistent with what Nancy is describing in other industries.

Winners have a clear idea of where they're going -- a clear vision. This clear vision is the basis for making current decisions. They don't use last year's results or peer analysis. When there is a tough decision to make, the decision is made in favor of getting closer to achieving the vision instead of getting closer to reproducing "last year + 10%."

A second characteristic of the winning companies is that they are customer driven. Nancy elaborated on this characteristic earlier. Winners tend to focus on value: value to the customer and value to the company.

Value is different from low cost. If all of us were striving to be the lowest expense company, and that was all that drove us, we would ultimately destroy any value-added capacity that we have. How many companies can be the low cost manufacturer and hence the low priced company?

There can't be more than a handful of low cost manufacturers; certainly not 2,000. And yet, how many companies based their expense standards on "Gee, we have to emulate XYZ Company, the low cost manufacturer, and we will price assuming we can drive our expenses down to their level." Some companies have something other than a low cost commodity to offer (e.g., a quality field force that does professional financial counseling or innovations in product).

Customers will pay more for such added value, and hence, the companies can justify higher expenses.

Strategic planning shouldn't be looked at as a process where you "get it over with" after the retreat. It should be viewed as a constant aligning of what the company needs to do to achieve its vision with what it's capable of doing. Start with a clear idea, a vision, of where the company is trying to go. Then establish goals related to that vision, and fit them to your concept of the environment and marketplace opportunities. If the company establishes a set of strategies that doesn't match what the company is capable of doing, the strategies aren't likely to work. There is an alignment process that needs to be constantly managed.

The leader is the glue. The leader has to either supply or help uncover the appropriate vision and then help manage the continuous process of aligning capabilities with necessary actions. Without vision a company doesn't know where or how to align things. It's like trying to align the front wheels of a car when they are not attached to the car.

There is a hierarchy of questions that we need to ask ourselves. The first is, "Who are we working for?" That is often easier in a stock company than in a mutual company. We need to talk about the relative ownership of shareholders, policyholders, employees, agents and the public. Obviously, each constituency is important to the company, and the company has to define how they need to work for each.

"What do we want to be when we grow up?" Vision and direction are demanded by the answer. In the insurance industry some managers say to themselves, "If the companies across the street are all doing something, and we are doing the same thing, we must be okay." This is obviously dangerous.

The key is to establish our own idea of where we want to go based on our own strengths and our own perceptions of the environment. We should first look at what we see as market opportunities and then establish our benchmarks from that. We can later relate our benchmarks and results to our peers, but we shouldn't start there. To the extent we're special, we ought to be measuring ourselves on a basis that's different from what our peers are using to measure themselves.

"How can we tell if we're getting there?" The actuary has an important role in setting these benchmarks. The actuary can really help by forcing the benchmark decision-making process to start with where we want to be and what standards we need to use to measure progress toward this future target.

"What is superior performance?" We need to first define what is acceptable from our own standards. Then we can define "superior." We should determine how we want to share the extra profits if we achieve superior performance. I'm familiar with one mutual company that developed a mission that defined superior performance and also stated, "We will share superior performance in these stated percentages between our policyholders, our employees, and our distributors." They also stated, "We must achieve this defined acceptable performance first; we want to motivate our people to achieve superiority."

"Are we doing the right things? Are we doing things right? How should, how must we change?" These questions should be asked in this order. The last question is important because each employee must know how his activities this year should be different in form and priority from what they were last year.

"What is our knitting?" Each life company is a patchwork quilt of different products and services. Ideally, each company has a distinct pattern of businesses built from what it does particularly well and what it sees as particular opportunities.

Let's briefly look at marketing and financial management. Historically, many of us assumed we could identify our customers' needs through our agents. We often took a position that we'll just adapt the next product that comes along and everything will work out. That's not going to work as well in the future. We have to manage customer needs. We have to somehow get closer to the customer by understanding what his or her needs are. This is not inconsistent with managing a career agency force; it just means that we're going to have to lead our agents to the specific markets we want to be in by helping them understand and serve those markets well.

Company plans must be clearly reflected in the financial performance measurement system. This very important role is largely in the hands of the actuary. The relationship of a strategic plan to the financial performance management system will be an important determinant of how we'll act and, ultimately, whether or not we'll succeed. Ten years ago most companies tended to look first at their own experience (e.g., mortality, expenses and so on), along with industry average data. This would then be used as planning input from which the financial models would be developed. The strategies were then determined from this "path of the past."

More and more companies are starting with the questions: "What markets do we want to serve? What products and which distribution systems best fit those markets?" This process is different from the "path of the past." It is a fresh look forward where we say, "We want to be something different. We want to be in these markets. These markets need these products, and the best way to get the products to the target customers is through these distribution systems." Next these questions are addressed: "How do we have to manage our plan?" How should we underwrite? How do we have to run our operation to provide the highest quality service to the targeted customers? How should we sell our products and services? How should we invest our money?" The answers determine the appropriate mortality, persistency, expense, investment earnings and other pricing assumptions. This, in turn, ultimately determines the appropriate financial goals and compensation plans. Developing the models, the expected economics and financial goals comes after defining strategies in terms of target markets.

It's better to have a crude estimate based on a clear understanding of something than to have a precise calculation that is conceptually flawed. Too often we actuaries achieve comfort in grinding through a lot of things to get a number whereas we don't do sufficient thinking about, and quantification of, important broader issues. We have to demand a clear direction from our companies. Often we have to help create and clarify this vision. Companies that don't have a clear direction find it too easy to reproduce each year's plan from the prior year's plan. Only commitment to a clear future-anchored vision will create the enthusiasm needed to effectively grow and change and to become a winner.

MR. BONDY: Do we have any questions?

MR. GREGORY S. STRONG: Nancy, in your speech during the General Session you talked about the trend among American companies to become involved in finding niches. Given what's happened with giants like IBM trampling over the computer companies that find niches and given that you see giants like General Motors, American Express, and Sears getting involved in a wide spectrum of things, how does a company go about protecting its niche from the giants or from somebody else once the company has found it?

MS. NANCY K. AUSTIN: That's a very good question. The only way that I know that you could possibly protect yourself in any given niche is to simply serve it better than anybody else, and there just doesn't seem to be any good substitute for that. I actually, last fall, formed my own company called Nancy Austin, Inc. of which I am president. This meant that I needed an actuary. So I am a customer of an actuary, and it made me think about that relationship and what works and what doesn't work just from that specific point of view. My actuary serves a very special niche. He has authors and a lot of crazy, independent business people because he is most comfortable doing that. The way that he seems to excel is that every little detail is perfect. He does not try to communicate to me in terms I'm either unable to understand or find confusing. He tries to talk to me in very simple terms. Then he sends me a whole bunch of stuff that I can look at, maybe.

Most of the time the only real way to protect that niche is through service. The amazing thing about IBM, or even about a smaller company, is that they not only find ways to protect it through service, but they get their customers to pay for it. When I bought a computer, I ended up buying an IBM computer and paying 30% more for it because of the service guarantees that came with it. That's really what I was buying. I was buying the fact that, if I had a problem, I wasn't going to get an argument on the phone. That's really important to me, and it is worth 30% to me to have a problem taken care of quickly. So I guess I think that is something that is of interest to me specifically: to see in all industries how the winners are able to protect their positions through constantly finding innovative ways of serving their customers and coming up with new product mixes.

The bad news, of course, is that necessitates a "mono maniac" or a skunk or somebody who is innovative and willing to take a few risks. And that is really hard because the way to recognize a skunk is to look for the individual whom everybody else in the organization is mad at. Look for that individual whom everybody hates. He just makes everybody mad. That's a hard thing to be in your career, but that's in part, what it takes. That is why I think it's hard.

There's also one other little quote that I discovered from the Chairman of John Hancock that speaks to that point specifically. He is talking about the importance of value-added service and niches. He's saying that each life company will readily adopt a different strategy toward financial services integration depending on its assessment of its competitive position. There's no doubt that many companies which are now perceived as life insurers will receive the preponderance of their revenues from other sources a decade from now. John Hancock expects to be a provider of complete financial services. Many small, sound insurers may opt to serve special niches. Others may disappear, and the operative line there is "others may disappear." I think you either innovate and serve customers or you die.

MS. BARBARA J. LAUTZENHEISER: A question for Nancy Austin, again. Of all of these people whom you have been talking to and telling to identify a higher level of excellent service, I suspect there are a lot of these people, the CEOs, the very top level where you really need the commitment -- who agree with that and accept that fact. But how many of them really are willing to take the risk of identifying that skunk or identifying in themselves a slight difference and then being gutsy enough to really put the little chickens in the store; to keep the floor clean, to spend the money on the flowers. How many of them really have got that much nerve, particularly in the financial institutions where we're supposed to be stilted and "numbers" and "black-and-white" people? How many of those, particularly financial people, are really willing to do that?

MS. AUSTIN: It's an interesting question that you are asking because it brings up the only real disappointment connected with *A Passion for Excellence* and all of this work and all of this time over the last several years. And that is the really discouraging realization that there are comparatively few people who will after having read the book or having attended a seminar, go back and do something about it. We figure that the number is probably less than 5%, and that is something I lose sleep over. I do not lose sleep over the fact that there are going to be too many people out there listening to customers or worrying about what the world is going to come to if we all start listening. I'm not concerned at all about developing gray hairs over that, but you're bringing up that whole point about courage and guts and nerve, and it's really hard.

As a matter of fact, we did some further thinking along simply practical lines about what to do if you're really interested in building some of these things, and putting the strength into your own organization. In the paperback edition, we have added a new set of material in an afterword. It consists of some thirty-six promises that anyone who is serious about doing this needs to make and follow up on. I can tell you a little bit about what some of the promises are because they speak to the point that you're bringing up, and we hopefully are going to see an increase in literally a jillion little tiny things.

First of all, it is never really one little thing. Of particular interest, is that it is generally not the CEO that does it. It happens, for example, at McDonald's. The McDLT sandwich was an idea that came from one of the stores. Now, that does my heart good. The thing that the CEO or Chairman can do is simply listen and attempt to hold on. It's really tough when you've got these people out there who might get excited about a new way to serve a customer or a new way to do something. The thing the CEO can do is attempt to stay out of the way. That is the best advice that we've ever received from successful leaders. Stay out of the way and also be sure that there is enough authority and enough room. This is particularly important among the levels where you can really do something to make some of these things happen. Be smart enough to know that the best you can do is stay out of the way and listen to some of these ideas, and that the ideas will come from the people who really know what quality and service is all about.

Maybe the CEO ought to be thinking in terms of what the strategy is in twenty-five words or less -- or fifteen words or less. That will take months and months and months and months if you want to substitute this succinct strategy for the twenty-one policy manuals that you probably were asked to contribute a great deal to. We're going around destroying all that hard work and saying what we want you to do is to reduce what is in those policy manuals by 50% this year and then do it again next year. That is a very hard thing to do. That's something only the CEO can do, by the way.

Those are some of the practical areas we're attempting to cover in these very small points, but I think your point is very well taken and, frankly, it causes us some concern.

MR. WILLIAM C. CUTLIP: I'd like to ask both Nancy and Bob to respond to this -- Nancy, perhaps from the general business culture and Bob, more specifically, from the insurance culture. You're sitting here with a room full of converts who are ready to push the parade forward, lead the parade forward, and charge. You're working for somebody who hasn't gotten religion yet. You worry that, perhaps, they may not get religion. So how do you motivate those people? How do you educate them? How do you train them when you're trying to push from the bottom up?

MS. AUSTIN: One suggestion I have, that we have discovered to be true in all industries that we worked with, is that your first name doesn't have to be Chairman to get things done. That's encouraging news for most of us. You can create something that we call "pockets of excellence." We did find an outstanding accounting department or an outstanding MIS department, groups throughout the organization that, even though they were in an old-fashioned, slow- on-the-uptake organization, they, nonetheless, were still able to do some things. It takes a certain amount of nerve to begin to do that. It means substituting pilots for proposals. Instead of Bob's famous 172 page strategy document it means actually piloting one or two new ideas. It means believing that it is better to get forgiveness than permission and using that pretty much as your watchword. It's not without risk, as you might imagine, and that is a very hard thing for anyone in an organization to face up to. And yet we just didn't find that there is a very comforting answer to it other than long-term distinction and long-term survival. Fortunately, most of us are getting convinced by the onslaught of competition from corners of the world where we hardly expected to see it. That does seem to fan the flame a little bit more.

The willingness to try something, take a small step, try again, see what happens and trust that a positive result will, in the end, speak for itself, is about all one can offer. It's not an easy thing to do. It's one of the most difficult, I think. Maybe Bob has more specific advice for you.

MR. SHAPIRO: I don't think there is any easy answer. If a company does not have a clear idea where it is going, management must be challenged to create a clear vision. If there is a mission statement, flesh it out; define every term clearly. Make people define how they are going to measure each desired result. Without having a clear idea of where a company is going, employees don't have the freedom or the power to be creative. Actuaries can help by creating a financial language within the company that everybody in the company can understand and accept.

MS. DEBORAH A. POPPEL: I wanted to add to those answers. We're starting to do a lot of cultural changes. We find that every constituency says that somebody else is not going to buy in. But when you talk to that other group, they claim that still another group is not going to buy in, and somehow I find that people use that as an excuse to not do anything. They just say, "Oh, my boss would never buy it, or the manager in between me and my people is never going to buy it." So, just to follow on what Nancy said, just do it anyway and see what happens. You might be surprised.

MR. STRONG: Nancy, you talked about perception of quality service being an important part of the process. I'm curious as to how you think the American public will respond if it ever discovers that it has been conned into believing that something was quality when it wasn't. As an example, I'd like to use that Cadillac dealer in Dallas. If it was selling Toyotas, it would only need three service bays instead of 112.

MS. AUSTIN: One of the interesting things going on now in the auto industry is a measurement of something called TGW or "Things Gone Wrong" which refers to the number of defects within a certain number of days after purchase. According to those figures, the American car company with the best record right now is Ford. They've reduced that from over 400 to something like 60. Toyota still has the number one ranking. In fact, Japanese cars have the top four rankings. So, I think your point is, in a sense, well taken.

On the other hand, there is something to be said for being so successful that people far away from Dallas will bring their car to Sewell Cadillac just because of the experience and to be treated decently. Customers will vote with their dollars, given a choice, and that is certainly something that we would like to encourage.

The only thing that really will set somebody apart from somebody else is that the product works. In cars we always used to think that it's only the people with a lot money who can afford to demand these kinds of things. Well, we've certainly seen that happening more, but we're also seeing people at the other end of the economic spectrum who cannot count on their yearly wage hikes, and they must also, now, look for a car that works. They can't turn it in every two years, either. That is the only thing that will make me truly happy when I use a product or a service. If it works, I am still honestly, secretly amazed that it works.

The perception is really critical in your own field. I was talking to another individual who works with an actuary who received a similar pile of information the way that I did with a cover letter. The cover letter, which was obviously set up on a computer system, not only had typos, but whoever had set up the computer system had forgotten to change the client name at one of the other points at which it was mentioned. Now the way perception works is, you assume that an actuary is going to be precise and worry about all these details. In part, that's what my perception is, and I would pay a great deal to have someone do that, because that is just not part of my makeup. Now when you take a look at a letter like that from the individual to whom you look to give you that kind of assurance, you have to wonder (and it's unfair), but this person took a look at it and said, "You know, I know this is unfair, but this bothers me that all of a sudden, here's my name and then here is XYZ Company." It's clear what the mistake was. Anyone could make it, but it's that kind of perception that will hurt. That is what kills us. It isn't big things. Those are relatively easy to fix. It's those tiny things that really bother people.

So begin with what you feel is the most commodity-like service that you offer and begin to think of ways to differentiate that from everybody else. Add some differentiators and go through this process every ninety days and try to get quantitative about that. How do you add value? That's one way we've attempted to try and get quantitative about how you can add value. That might be one way to do it, but you're right about that perception issue. When you spend a lot of money on a car, and the fits and the finishes aren't quite what you want them to be, your mind goes immediately to the quality of the oil seals. It's not necessarily a logical jump, but you can't help it. The same thing is true in virtually every profession.

MR. FREDERICK W. KILBOURNE: I'm wondering about how to go back to my company and fire up the other people I work with about quality and excellence without having them roll their eyes. I was struck with Universal Widget's "We're not worse than anybody else," because the motto of my company is "Pride goeth before a fall," and our slogan is "Humility is our most important product." So how do you convince people that excellence and quality are not just buzzwords but things that really have some significance?

MS. AUSTIN: I can tell you one great story that kind of illustrates this with a little bit of imagination. There is a store on the West Coast that deals in upscale kitchen stuff -- pots and pans and spices, and things like that. It's called Williams-Sonoma. Some of you may have seen the catalogues, and you may know the store. It's run and owned by a fellow by the name of Chuck Williams. Chuck is a very interesting guy, and his company does a tremendous amount of business through its catalogue, let alone its walk-in business.

The store was doing the photography for the Christmas catalogue, and the cover photograph was going to show one of the newest Williams-Sonoma quiche pans with the quiche in it. The store had spent thousands of dollars getting this photography and the people involved spent the whole morning on it when Williams happened by the studio where this was going on. They had just finished when he said, "Isn't that great?" And then he sat down, took a bite of the quiche, said it was awful, and threw it out. He said, "Throw out every single piece of photography. We are starting over." And what was the reason that he did that? Certainly you'd have to say, being responsible, fiscally-minded people, that was a stupid thing to do. You have to wonder why he would do such a dumb thing. He did it because he knew that in the backs of the minds of everybody there, that here we're advertising this brand-new wonderful cookware, and yet we know, that it didn't really have a first class quiche inside of it. Now you may dismiss that as trivial, but you can imagine how quickly it became the story of the day that Chuck Williams threw out the photography because it just was not up to the Williams-Sonoma standard. That spread like wildfire. It's a legend, and it didn't happen all that long ago. The moral of the story is that part of the way you get people turned on is by taking every single opportunity to demonstrate and prove how sincere you really are, and it may mean throwing out the photography or whatever, but it's proven in those tiny ways.

The other thing is, I sometimes get hate mail from managers who say, "Look, I did what you said, I went out and I did all this stuff, and I'll tell you, nothing happened. And, you know, you're full of it." So, the truth of the matter is, that it literally does take repetition upon repetition to convince people that it is not another "Program of the Week." It's so common for me to run into people who say, "Well, this is Quality of the Week and this is Excellence of the Week. Next week it is something else." And it takes consistent attention to one thing so that in times of change it will give you a figure to shoot for.

If you want to draw your organization's attention to one thing, then plan on spending a minimum of 50% of your time on that one thing. If you don't, people will not believe you are serious. I know that number sounds outrageous, but believe me, it is about what it takes. The larger the organization, of course, the harder it is. You've got to duplicate all of those efforts. It is the marginal notes you pen on a memo that tell what your real priority is. It is looking back through your calendar to see how you spent your time. What does that really say about you? And you may think you've been consistent, but it is those little things that really make the difference and it's not ever stopping. You can't give up once you start. That's the really tough part. No short cuts, I'm afraid.

MR. NICHOLAS BAUER: I think the summary of the answer that you gave resides in leadership, which is a quality that has been mentioned frequently, but I would submit that the only truly sound definition of leadership that I've ever heard goes like this: "A leader is a person who has followers. Period." So keep looking behind you. The reason that I bring up the point about leadership is because of the original list of excellent companies from *In Search of Excellence*. (I could draw a parallel in the life insurance industry. I will not do that however because if I pick originally excellent companies who may not be so today, then their representatives will collectively jump on me and explain to me why I'm dead wrong. So I'll stick to the list in the original book.) A number of them are no longer quite as excellent as originally they were represented to be. A fact that has been pointed out with some vigor by critics of the original book. The point I'm trying to make, though, and the point which leads me to a question is this: Leadership is great. It creates culture, but it also can lead the company right over the cliff. If you're enormous, if you are an IBM, quite often you can withstand a great many mistakes and do enough things right to come out ahead, because what really matters is what you do right, not what you do wrong. When you are of more modest size, however, and most organizations are, that innovation, that risk-taking, that leadership, and what they bring can very often get you into very marshy ground. So my question is how can we, in espousing and charging out, in putting aside that humility that Fred referred to and in having gotten religion, prevent leading them right over the cliff?

MS. AUSTIN: First of all, the information in *In Search of Excellence* covered 43 very large American companies from a number of different industries. There was one company that I think, the authors would tell you, if they were here, should never have been on the list, and that was Atari. So they have no argument there. I disagree with the *Business Week* article and with some of the other, more critical pieces that said, "Gee, these companies aren't doing what they said they would do." IBM, the example that you just brought up, is the only wildly successful company that I know of that seems to have succeeded through blind luck (if you believe everything that you read in the business press). All the headlines always say, "Industry Surprised and Pleased by What IBM is Doing." It always amazes me. Sheer, blind luck is what seems to have gotten IBM where it is today. So I would take exception with some of those decisions.

The other point that is important is that particularly in *In Search of Excellence*, all of the sudden these 43 very, very large companies were held up as companies that were ideal and well-rounded, and three dimensional and did everything well. The fact was that they never did everything well. They did some things extremely well, and others better than most. But they were never intended to be the models of perfection that a lot of people thought. In *A Passion for Excellence* there were some 500 examples of organizations of all sizes. None of which was intended to be a model of perfection, but all of which offer an insight about how they develop a particular strategic edge that one can learn from.

With that kind of a preface, I guess the only way you can avoid not taking a company over the edge, is to do some of the things that Bob was talking about earlier. These are some of the things that seem to be true of leaders in various kinds of industries who never forget what their business is. Dayton-Hudson's strategy is important in regard to that particular point: not trying to be all things to all people, but, instead, picking something that you do well and focusing on that. That it is the focus that seems to make the difference between winners and losers. And focus can show up in very odd ways.

You probably know about Sam Walton of Wallmart stores who was recently named as the wealthiest man in America. He is someone who really understands focus. He's got over 800 stores, and he visits each one of those stores at least once a year. He is a pilot which helps, and he is 68 years old. The beginning of last fiscal year, he promised his people that, if they gave him an 8% pretax return, he would do the hula on Wall Street in February, and they did and he did. (Which is a nice way to reinforce what's important.) Never was there a more hard-headed businessman than Sam, and yet he is able to muster that focus so that they never lose sight of what he believes is most important, which is the interaction between the clerk and the customer on the retail floor.

In your respective businesses, the important thing is to choose one thing that you are really going to do well. IBM is going to serve customers very well; HP is going to innovate constantly; Wallmart is going to serve that customer on the retail floor well, at discount prices. They are not going to sacrifice service for price. So whatever that is, it is important to know who you are and why you are there and to find some way to dramatically make that clear to everyone in your organization. You can never stop. That is the point you're making; that is what is so incredibly hard. Once you've started this, you can never stop. It is a day-in, day-out proposition, which is why managers are worth every cent that they are paid.

MR. THOMAS G. MEYER: Nancy, I wanted to talk a little bit about skunks. Skunks and malcontents and rabble-rousers, are all kind of similar in look and appearance. So I have a two-part question. How does one identify the skunks from the rabble-rousers, and then, how does one nurture the atmosphere to bring the skunks out of the woodwork?

MS. AUSTIN: Good question. You can always recognize a skunk in any big organization, because he or she is the person lying on the ground with the arrow in his or her back. That's how you recognize a skunk. A skunk is a person who makes everybody mad. But the skunk has one other thing going for them. They're just not thrill seekers. These are people who have an idea or two to which they dedicate their working lives, and it usually goes beyond that. There is an idea; they never give up; they are dying to see this idea take hold, like Art Frye and his Post-It notes.

To begin to get into the answer to the second part of your question, about how can you reward that kind of behavior and encourage it, at Hewlett-Packard there was a particular instrument that was causing customers problems, and the company had a bunch of engineers on this project to try and get this thing fixed. They had been working on this thing night and day for four months. There was one engineer who took as a personal challenge that this thing was going to get fixed no matter what, and it was driving him nuts. He was taking this thing home, and he was trying to get it fixed. After four and a half months, he finally solved the problem in the middle of the night, at home. He came racing into the office at six o'clock in the morning. His boss was actually there, which is even more miraculous. His boss was so thrilled that this guy had finally cracked this particular problem that he wanted to show his appreciation. He opened the top drawer of his desk looking for maybe a Cross pen or something to give the engineer as a token of his thanks. All he could find in there was his lunch for the day which was in a brown bag. He pulled out the lunch bag and inside the lunch bag was a banana, and he handed the banana to the engineer and said, "Thank you very much. Congratulations."

Now the banana award is now the most coveted award among engineers in that particular division. They have had little banana lapel pins created. It doesn't have to cost you a lot of money. It just has to be sincere. It has to be timed immediately or soon after the little breakthrough or the big breakthrough.

This brings up a very important point. You don't have to wait for big breakthroughs. For most people it is a real prize-worthy activity to have shown up at all in the morning and stuck around all day. Little wins deserve some kind of recognition. That's the place to start: little tiny wins. It's also the place to begin thinking of ways to reward innovation wherever it occurs.

In MIS, every single function can have innovation rewarded in little ways. I'll never forget one of the first jobs I ever had, sitting down with my boss at one point, who had said, specifically, "What good ideas do you have for the job?" and I had thought of a couple. I sat down and gave my ideas, and he said, "Now, just let me play devil's advocate here," and that's what he proceeded to do for the next half an hour. I didn't come up with that many great ideas after that, because you learn very quickly what is rewarded and what isn't. If you want innovation to get in the air, you have to model it, you have to reward it in tiny, little steps when you see it, and you have to think of yourself as the individual who is chiefly responsible for clearing barriers away from skunks to make their job a little bit easier.

So a skunk is not a purposeless rabble-rouser. A skunk is someone who really has a burning desire to achieve something, to create something, who is dying to do it, and who prospers in small groups that can be protected from the rest of the bureaucracy. In a technical company, or in technical functions, the thing you have to watch out for is technological or technical hubris, and that's the only other thing that will kill you sooner, much sooner, than a skunk ever will. You've got to be a little bit careful about that. Beyond that, there is a skunk lurking in every single individual. If you just give them a chance to come out and make themselves known, then you are doing one heck of a job.

MR. ALFRED J. LEBEL: During the General Session you spoke about quality versus price, and you indicated that, in fact, there was more potence in the quality aspects of things and that changes in quality would lead to success more than a drop in price. One of the things that concerns me is how you determine where attention to detail -- improvements, adding value -- leaves off and pebble polishing, begins. It seems to me there is a danger if you look too much to quality. You can stifle innovation, if you say, "this has to be perfect." You cited some examples that are obvious. I think that we deal in an industry where quality is a more elusive item than price, and I'd like some guidance as to how you make the distinction between adding value and pebble polishing.

MS. AUSTIN: Let me see if I understand you. Can you define pebble polishing?

MR. LEBEL: At some point, the product you are dealing with, whatever it may be, reaches an acceptable level of value to the customer. It's competitive, if you will, with the other products that are out there. At that point, do you continue to try to make it even more so? Do you make it stand out from the others, but at a cost that is no longer competitive? Or do you stop there and then worry about the cost? I've heard it remarked that a competitive product at a better price is better than a better product at a competitive price. It is a gray zone, and a very hard thing, I think, to see through.

MS. AUSTIN: I think the problem that I have is that whole commodity-like thinking trap that we find ourselves in. Once you begin to treat something like "this is as good as it can get for this round," you pass that on to people. And you never know, because of the nature of innovation, when lightning is going to strike. So it's not going to work without that contact, without listening to one's customers, without deliberately looking at your product line as always in flux, as always improving. If you don't keep a critical eye out, literally all of the time, then I think you are asking for trouble.

We mentioned earlier the Sears Discovery Card. That's making people fairly nervous. I don't know who it was that thought about putting insurance policies in plain English, but that's one heck of an idea.

I think I understand what you are saying. It's one thing to become obsessed with a particular product line and try to perfect it. There is no such thing, I would argue, as that kind of perfection. But there are all kinds of product enhancements or improvements to the way that the product is delivered or the way it is serviced. I think that is important to remember because if you don't do it first, someone's going to beat you there.

I have learned, from the research that we have been working with, that people don't operate the way that I was taught in the pristine world of my business school classroom, where customers are always rational and they always go for a lower price. There is a low cost position, and we have discovered that it is served by about 10% of the providers. The remaining 90% simply focus on value and, believe it or not, they get it. So changes in quality, we have learned, do have a more potent effect on markets here than do changes in price. We just used to think that price was the only thing we could legitimately manipulate.

I'm not sure how good an answer that is, but I thought Bob might have a thought or two on that particular subject in your industry. Generally speaking, it is fairly convincing data from a broad brush of industries and maybe Bob can tell you more about it specifically.

MR. SHAPIRO: Quality is a tough concept to deal with. The actuary, historically, was comfortable with defining quality in terms of not making a mistake; i.e., in terms of accurately pricing activities or measuring experience. What about quality in terms of reliability, or quality in terms of aesthetics, or quality in terms of completeness of product? We'd have an easier time dealing with quality if we thought through how we measure some of those less tangible features, providing appropriate standards or benchmarks for people in our operations. As long as we keep focusing the attention of our people solely on doing the same old things without mistakes, we will limit our ability to take advantage of important value-added features in our organizations.

MR. DONALD R. SONDERGELD: I have a question I'd like to direct to both of the panelists. We need to get a little clearer in our minds this thought of having the customer in mind. Some of us are product actuaries who work for companies where the marketing strategy is product driven, while others work for companies where the marketing strategy is market driven. My question is: Is having the customer in mind just another name for the marketing strategy, or is it a little different? Is it a third strategy? Or is it a tactic that is used or related to both product driven distribution systems or market driven distribution systems?

MR. SHAPIRO: Draw three concentric circles with the word product in the middle circle, distribution in the second, and market in the outer circle. A product-driven company will drive the product through whatever distributors it can find in the second concentric circle to whatever market the distributors reach in the outer circle. Market driven companies start with the outer circle, assessing how that outer circle might change in the next five years, identifying segments of that changing market where the company is capable of (superior at) meeting their needs, and then developing the necessary products and distribution capacity.

MS. AUSTIN: I'm sympathetic to that misunderstanding or confusion. However, I don't know how to make this tough. It isn't tough. Maybe that's part of the problem. There are two sets of customers that I can think of. One is the people in your own companies that rely on you for information and help and support. The other would be that customer outside the organization, and let's hold off on defining that for just a second. When you think in terms of a product driven organization versus a customer obsessed organization, which is now our preferred language, you have two very different looking kinds of animals. You have one that believes, in "push, push, push, sell, sell, sell." We've got to get out there and sell, and what that depends on is volume.

On the other hand, if you are close enough to that customer base to listen and you know enough about what they need and want, you have a growing clientele of people whom you are serving. You are enhancing the service to this clientele because you are developing what people say they need, and you are doing that in the format that they say they need it in. So it just seems to me that a company, to the extent that it can, should think backward, beginning with that customer; whether that is an internal customer or whether that customer is huge and not personal and outside the company.

There are so many things going on in health care, for example. There are some of the most fascinating changes going on in the way hospitals and other health care organizations are being run because of changes brought about in insurance. Now that is going to have a very interesting effect on how insurance is handled, and the number of new policies that are coming to be more and more common among organizations is something that an insurance company is going to have to think in terms of supporting. Because there are going to be a few (and there are a few) that will support it, that's where the customers are going to go. So it seems to me that it's more than just a concept. I really believe in the whole practice of becoming literally obsessed with ones' customers and with what it is they want and what it is they need. Unfortunately there are no real shortcuts to doing that.

MS. LAUTZENHEISER: I think that one of our difficulties, particularly as actuaries, when we talk about product development, is that what we are thinking of is the identification of the benefits and the pricing of those benefits. We're not thinking of what we really sell, which is a service and a promise, and how we deliver that in the marketing material and the contract itself. So I think, the secret is to expand our definition of product from just what we deal with, i.e., the cash values, the benefits, and the price, to what that customer really wants, which is what you are talking about.

MS. AUSTIN: Exactly. I think you are absolutely right. Again, the concentric circle diagram is a good one if you think of the generic product in the center. The unadorned, generic product is in the center, and as you go out, each ring of that circle redefines what that product is. When you get to the potential product at the ragged edge, it has been totally redefined, but that is, in fact, what you are selling.

What I rely on and what the companies that I used to work with relied on, from actuaries and from insurance carriers is confidence. I want to know if I can sleep at night because I understand that this is all being handled properly -- I mean I am buying confidence. And that is why typos in a letter bothered my friend so much because it shook that confidence: "feelings are facts." That is very much a part of what you are selling. I can't differentiate, I'm sorry to admit, between policies and between benefits that any one of the companies represented here may offer, but I know who I want to work with. It's the same thing I go through with my bank. I don't want a checking account, I want a banker. That's what I want. And it has to do with perception, and it has to do with my idea of who is easy to work with and whom I feel comfortable with. All of that is sort of developed through some of the most unfair chains of information you can ever imagine. But if you think about your own behavior, it's the same thing exactly. It's a fun exercise to go through sometimes. Think of yourself as the customer and what you are really looking for when you purchase a service, even a highly sophisticated, articulated, precise one. I would argue that what we keep observing, is the same thing. We all keep wanting to buy that same thing, which is confidence.

MR. LEON MIRBACH*: I agree with everything you say. I think that you should point out some of the hazards of innovating these things. If a person is ever out of work or looking for a job or wanting to make a job change, and he has a history of being too innovative, and his supervisors or people he works with are hesitant to give him an enthusiastic recommendation because of those qualities, in a conservative industry, such as this, this sometimes can be a negative.

MS. AUSTIN: Even in not-so-conservative industries it can be a negative. I agree with you there. Some of the hazards are mentioned in a book by Gifford Pincheau called *Entrepreneuring*, which is a book about how individuals can be entrepreneurs within a big company -- within a corporate setting. One of the Ten Commandments that he gives is that you have to go to work every day willing to be fired. Now I would not go so far as that. I don't think that is the kind of price you have to pay for innovation. It is like anything else. I think it helps to begin by taking relatively small steps. Don't bet your company or your career on one idea, because nine out of ten experiments fail. Think of every new product, every new idea, as an experiment. Once you start to train yourself to think in those terms, you also train yourself to reduce the risk a little bit. So instead of believing innovation requires you to go out on a limb and be hopelessly vulnerable to forces you can't control, you

* Mr. Mirbach, not a member of the Society, is with Mirbach and Mirbach, Inc.

moderate that and you balance that a little bit by taking a small step at a time, learning something quickly and injecting that learning into the next step in treating the next experiment in a similar manner. You will go through so many more repetitions than you ever dreamed you had to, for one thing, that you may as well make those repetitions work for you.

One of the hazards is that you will be misunderstood, that you will make everybody really mad. That is a very consistent perception. Even a company like Hewlett-Packard, which is highly innovative, has a lot of skunks running around making people mad. You know they just drive the controllers wild. They drive engineering wild. They drive manufacturing crazy. Their sales force wants to have nothing to do with them. I mean, it goes on and on and on. So it's sort of a lonely life, in a certain sense, if you really are dedicated to improving something.

Some of the other hazards have to do with the fact that your company simply will not listen to you. Silicon Valley is populated with companies that started because the big company, which these people were originally a part of, never listened. Apple Computer is a company because of that. There are tons and tons of examples that we can give you that maybe would serve as encouragement in a darker hour. But there are hazards; you ought to be aware of them; you ought to know people may not listen to you; they may not like what you have to say. If you are rocking the boat, they will call you everything from "not a team player" to much, much worse. It's the sort of thing that is a risk that you almost cannot afford not to take. Don't go out and bet your career, for heaven's sake, because then you won't have anything to experiment with. Take it a little step at a time, as much as you can, and try to find an executive sponsor or champion. Try to find someone who will take an interest in you, who will keep you somewhat protected from the otherwise ins and outs of what is going on in the organization when you exhibit skunk-like tendencies. Everybody needs a friend, and that can help you to a great extent in a larger organization. Those are the highlights. That's what would-be innovators and successful innovators have said: that they never realized how persistent they had to be.

MR. SONDERGELD: I want to ask a second question. I'm not talking about the internal customer in the law department or the data processing department, but I'm referring to the external customers who actually pay the bills. They pay the price for the product or service that we're distributing. It seems that these people buy different types of products from life insurance companies. When they buy medical or dental services, you do see that there is a frequent relationship between the person that pays the premium and the person that's providing the service. In an area of our business, like term insurance, where somebody is buying a piece of paper with a promise to pay a death benefit at some time in the future how can we do a better job of providing added-value to the customer?

MS. AUSTIN: I have to say one thing. Customers principally buy the intangible. When I bought all my insurance, my medical insurance, my life insurance, my wonderful actuary put together this whole pension plan for me. I was buying hope. I was buying confidence that it is all going to work out. He has picked the best possible carriers. At the margin, there might have been other people offering very similar plans, but the reason it was configured the way it was, is that I want to be sure that, when I make a claim of some kind, it is going to be handled quickly and courteously, and that's why I chose those people. Now I'm one individual, but I know from having spent a lot of time in the Hewlett-Packard company, that is the reason a particular menu of choices was offered. Some of them are for more price-sensitive individuals, but they still offer roughly the same benefits. The people who wanted to pay a bit higher premium were more comfortable doing that because they wanted to have those claims handled quickly. When I founded my own company, I chose that insurance carrier on one major criterion, and that simply was I didn't think that carrier would be going out of business tomorrow, it had a good track record, and from talking with other customers of that carrier, they said "Oh yes, they pay all their claims, and they don't make you feel like you are at fault for having gotten sick in the first place." Now that is worth money to me. I feel very energetic about this subject. Now Bob, maybe you can be more rational.

MR. SHAPIRO: I'll add two examples. The environment for single premium annuities is quite different today. The customer now looks for a solid and stable company much more so than before Baldwin United. The other example is the company that started a business of assisting no-load mutual fund buyers. They attracted people willing to pay a visible two percent to get service beyond that provided with the normal no-load mutual fund sale.

MR. DAVI HIRSCH KLEIN*: I'm a skunk in another profession that also strives for excellence. My question is in regard to when you are lower on the corporate ladder and you're moving up. Some of the people who are in high-level management positions had a much easier time as they were moving up, and they might not have the skills that you are talking about. It is easy to sit here and agree with everything you are saying about striving for excellence, but how do people who are currently managers and possess those skills first recognize that they have a problem so that they, too, can become better managers -- and so that skunk tendencies or skunk problems can be worked out in an easier way?

MS. AUSTIN: You know, that's a hard one. I was asked not very long ago what was the main reason companies started to listen and take seriously some of these findings. Why did they take it seriously? What made them committed? My answer was immediate. It was stark terror. That is the best motivator and the most common one of all of these organizations that I've spent a little time with. I never thought I would say that, but I kept running into it over and over and over again. I would much rather sit up here and say it's commitment and you've got a lot of people who really want to charge off and do this because they believe in it and a large measure of it is faith. But more realistically, even IBM acts like it is afraid of going out of business tomorrow. If IBM acts terrified, you can imagine how everybody else is acting. It helps to be a little bit scared because then you start to look at some of the alternatives you would have rejected out of hand the day before. Competition, I believe, is a very good thing for that. You need help. It is very hard. I haven't known any chief executive officers or any senior people who were easily convinced of anything. It depends on the kind of company. I have worked in places where if you had a whole lot of data, that usually helped, but that still wouldn't push you over the edge. You needed something more, and usually that is some kind of an external indication that what you are

* Mr. Klein is not a member of the Society.

proposing makes sense. So pilots make sense. Little pilots that generate some data that prove with a limited sample, that it is worth taking the next step. It may not be worth betting the company on, but it's worth taking the next step. You have to have incredible patience and incredible tenacity. It really helps to be in an industry at a time when everybody is running a little bit scared. It doesn't hurt. In the mean time, try to get some data. Try to nose around. Try to do a little bit of research and generate some information from a pilot. Do a customer survey. Many people have never tried that. Do simple little things. Call one customer.

There is a wonderful program I know called "Daily Dose of Reality" currently in use in a company that makes medical equipment. They did a very simple thing to make themselves stand out. They called customers three days a week -- Monday, Wednesday, Friday -- every single manager, every single function -- everybody -- gets on the phone. They receive a sheet of paper, 5 x 7, with the title "Daily Dose of Reality." There is a customer's name and a customer's phone number and the product the customer purchased six weeks before. They call that customer between the hours of one and four those afternoons and all they ask them is, "How is that thing working for you? How do you like it?" And then they listen and then they distribute, verbatim, the answers that they get. They said you would not believe what it has done to this company. Instead of thinking that you can't call customers, they wouldn't like it; you'd be bugging them, just the opposite is true. It makes customers more than thrilled. I mean, when was the last time somebody called you and said, "Just calling to see how you like that product or service." I was stunned.

I had to have some dental work done about a week ago. I was absolutely floored because my dentist called me the next day just to find out how things were going. Now I have not had personal attention from a dentist ever. So I have a new dentist. One phone call is all it took; two minutes. It's the same kind of thing in every single business. Just try that just to see. Just call and say, "How is it working? What do you like? What don't you like?" And remember, that product is pretty darn big, it's not just a generic product, it's really something that has been redefined in the minds of your customers. What have they bought? What do they think they have just bought from you? What do they really look to you to provide? That is very persuasive data. Most of the time it is the first time anybody has ever collected it, so it's fun.

MR. ROBERT P. GANDRUD: I have a question about the customer. Very often in our business we have independent agents who are viewed in some companies as the primary customer and other times in other companies you'll find the contract holder to be the primary customer. The lines get blurred between who the customer really is. And sometimes we'll have a conflict between people in the actuarial department, for example doing the pricing, and the ultimate distributor of our product, namely the agent. How do you propose we might get at that dilemma of building that partnership between the home office and our distributors?

MS. AUSTIN: That is a problem a lot of different companies face and the first step lies in how you define who and what your customer really is. What some companies are doing is simply taking a look at every, single, solitary business and person through the whole distribution channel and defining everybody as someone whom they have got to treat as a customer, and they have got to find some ways to spend time with them. Some companies are forming small short-lived task forces that are comprised of representatives from each major representative along the distribution channel -- everybody -- to focus on exactly how they can work together better.

We talked about management by wandering around; that's one way to start. There is a manager for a big aeronautics company who decided that he would spend two years visiting every supplier, and he said it was amazing, but he could get parts when nobody else could. It was simply because he had a real partnership. There is a real need to define the nature of that relationship. The only way to do that is with contact: no contact, no relationship. So we've got to find some ways -- some reasons -- to get people together; real reasons, not just for the fun of it, not just because you want to look good. You've got to have some real clear reasons for meeting with the agents -- for meeting with every single individual who is important to you and treating them as partners -- not with thinly disguised contempt.

One of the things I heard from another organization once was that there was such a thing as a franchise committee. It was an organization that does business based on franchises -- not unlike having independent agents. And there was a committee that had been formed for them specifically. I overheard one of the middle managers or senior managers saying "Well, you know the franchise committee, that's just a complaint committee. It makes them feel like they are listened to." And that is exactly the problem. There are these committees set up to make people feel good, and that's exactly the wrong reason to do it because people know when that is happening and when you are sincere. The trick is, and it's a long-term proposition, I think, to enlist these people as active partners by listening to them and being sure that you involve every single individual from the primary distribution chain -- agents and customers and everybody in between. You might be able to get them to work together on some kind of new product or product enhancement or service enhancement task force. Give them some reason and act on what you are hearing. Be sure that you involve each and every one of them. That is the kind of trend that we are seeing in everything from direct selling -- the people at Avon and Tupperware -- to some of the biggest manufacturers around in some rather beleaguered industries like textiles and steel. They are all doing the same thing.