

The PERPETUAL INNOVATION MACHINE

How to make one business breakthrough after another.



Case Study: The Business Services Leader

Dynamic Employee Engagement Campaign Leads to a Business Services Breakthrough

The services division was growing fast with thousands of accounts— and more than 11,000 employees—coast to coast.

Despite the obvious success, however, there were major challenges that threatened to undermine the business. Our major account renewal rate was unacceptably low. Our Cost of Goods Sold (COGS) was excessive. And the satisfaction level of operational employees was the worst in the division.

That was the situation when I joined the organization as the Vice President of Client Operations.

It was my job to develop a high performance culture that would motivate thousands of employees nationwide to set a new standard for client satisfaction, operational excellence and profitable account management.

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The Business Services Leader

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SNAPSHOT

The Assignment

Improve the performance of the operational division of a Fortune 500 business services division included 11,000 employees and 5,000 accounts.

Primary Metrics

- ⊖ Account Retention Rate
- ⊖ Gross Margin
- ⊖ Employee Satisfaction

Key drivers

- ⊖ Rapid Problem Resolution
- ⊖ Same Account Growth
- ⊖ Employee Engagement

Major Innovations

- ⊖ Early warning system for at-risk accounts
- ⊖ Rapid Response Team of operational efficiency experts
- ⊖ Expanded technical support & sales roles for entry-level employees
- ⊖ Entrepreneurial education & employee empowerment
- ⊖ Full-contact communication campaign

Breakthrough Results

- ⊖ A significant increase in the account retention rate from 83% to 90%
- ⊖ 30/31 renewals secured on Rapid Response Team accounts representing \$86 million in revenue
- ⊖ Achieved an overall revenue retention rate of 98%
- ⊖ 1.5 points increase in gross margin contributed \$30 million to the bottom line
- ⊖ Employee satisfaction increased from 74% to 85%


First Things First: Seeing the Weeds in the Garden

Sometimes you have to create metrics to drive the innovation engineering process. But in many cases, the metrics are right there on the table when you walk in the door. That was the situation when I took over the leadership of the organization in charge of client operations for a leading business services provider.

Our defection rate on account renewals was twenty percent. Which meant we were losing one out of every five accounts to the competition. Our Cost of Goods Sold (COGS) was better. But it wasn't improving. So we knew it was undermining our gross margin. And employee satisfaction was only seventy-four percent, which clearly indicated that the people who took care of our clients were not fully engaged.

There was another problem. While we were carefully tracking top-level metrics like our renewal rates and gross margin, we didn't have much data available for analysis on the actual operation of our accounts.

In an ideal world, we would have taken the time to design new research instruments and analyze extensive operational data. But the stakes are high in a multi-billion-dollar business growing more than thirty percent per year. And we had to act fast.



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So we turned our attention to the metric with the most immediate impact on the bottom line: our multi-year contract renewal rate. And we began engineering innovations to help us retain more of these mission-critical accounts.

Developing an Effective Early-Warning System for At-Risk Accounts

First we looked at the renewal process itself. And we discovered that there was no early warning process in place to send an alarm when accounts were at risk. We immediately instituted a requirement for account managers to provide a forecast of the potential for a renewal six months before their contracts were up.

That helped sharpen our organizational focus on client retention. But we knew we needed to red-flag potential renewal problems long before that. So we examined data on retention and defection. And we discovered an interesting correlation.

Since most of our business was based on operating copy and print centers on client sites, the use of paper reflected the health of our accounts. When paper volume grew at least five percent per year, clients were increasing their use of our services, which was a very good sign for the future.

On the other hand, if the paper volume was flat or declining, the account might be in trouble. That's why we began tracking paper volume as a key retention metric. And any account that fell below the five percent threshold was hauled into the Emergency Room for inspection and diagnosis.

Forming A SWAT Team of Operational Efficiency Experts

Next, we established a Rapid Response Team to engineer fast improvements on major accounts that were on the endangered list. This team of operational efficiency experts included professionals with extensive backgrounds in Lean and Six Sigma. And they proved to be remarkably effective.

During my time as head of the organization, we deployed the Rapid Response Team on thirty-one accounts and secured thirty contract renewals. In other words, their success rate on saving at-risk accounts was 97%. And the bottom line impact was even more significant: The retained accounts represented \$86 million in revenue.

Thanks to these innovations, we improved our overall account renewal rate from 83 to 90% and increased our retention of revenue to ninety-eight percent.

Finding an Unconventional Way to Optimize Staffing

Once the retention program was underway, we turned our attention to improving our gross margin by focusing on the Cost of Goods Sold. We analyzed every line item in the typical account budget and developed a theoretical model for an optimized cost structure. Then we compared our model to the actual operating budget and discovered that our labor costs were too high due to a pervasive staffing inefficiency.

Instead of reducing headcount, we would expand the role of employees to offset the original staffing inefficiency.

On many smaller accounts, for example, our model showed that we only needed 2.5 Full-Time Equivalents (FTEs). But the typical account team consisted of three people. That 0.5 FTE may not sound like much. But it represents a lot of excess capacity in an organization of 11,000 people.

The solution? The obvious approach was to decrease the size of the account team by swapping an FTE for a part-time employee. But we were concerned about the impact that would have on quality and client satisfaction. So we used out-of-the-box thinking and

brainstorming to come up with a radically different plan.

Instead of reducing headcount, we would expand the role of employees to offset the original staffing inefficiency. And we quickly developed two high-impact tactics to help us do that.

Elevating the Role and Skills of On-Site Employees

A little background on tactic #1. On many accounts, we managed hundreds—even thousands—of copiers and printers for our clients. When those devices broke down, we usually called in a highly skilled outside service technician.

Each call increased our operational costs. In addition, reliance on outside technicians lengthened the amount of time our clients' equipment was out of commission. And that interfered with their workflow and caused dissatisfaction.

Although we knew that some problems would still require a skilled technician, there were a lot of routine issues like paper jams and cartridge replacements that could be handled by anyone with a little and training. So we developed a program to train some highly motivated on-site copy center and mailroom employees to take care of these minor technical problems.

Once it was operationalized, this solution reduced our maintenance costs, increased the uptime of client-operated equipment, improved client satisfaction, and even enhanced staff morale by upgrading employees' capabilities and their roles on key accounts.

Tactic #2: Developing a new sales force. We followed that effort up with another initiative designed to turn talented entry-level employees into an on-site sales force. Many of these people had strong client relationships and a first-hand knowledge of client needs. So they quickly proved to be effective at identifying opportunities for us to expand our services.

By expanding the role of operational staff to include a secondary sales responsibility, we increased our revenues through Same Account Growth. And that helped us eliminate the original staffing inefficiency.

These developmental programs eventually produced a 1.5 point improvement in gross margin. And that added \$30 million to the bottom line. Which was right on track with our initial predictive modeling projections.

Transforming “Cogs” into Engines

These projects were very important. But our most ambitious work involved the transformation of the organization's culture through an aggressive employee engagement, empowerment, and communication campaign.

The situation when I started was standard operating procedure in much of the business world: Leaders gave lip service to the fundamental importance of employees. But then they took them for granted.

In Client Operations, for example, our people were viewed as a cost item, not as the key factor in the success of our accounts. And because many of our employees started out with the basic skills of a minimum wage worker, their potential to grow and develop and make an outsized impact was often discounted or ignored.

As a result, these people were not treated as valuable professionals. And that lack of respect undermined their performance.

From my days in manufacturing, however, I knew that it was possible to fire up entry-level employees in an operational setting by empowering them to take responsibility for everything from client satisfaction and quality to cost control and profit and loss. So that's what we set out to do. We also wanted to create a new sense of professionalism that would build a dynamic *esprit de corps*.

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Replacing Lip Service with Substantive Improvements

Of course, the entrenched nature of the problem meant that it wasn't a quick fix. And it would obviously require more than high-minded speeches and pats on the back. So we engineered a comprehensive employee engagement program that included everything from performance incentives and career advancement opportunities to an intensive, two-way communication campaign.

- We created and publicized a visible career path to help all of our employees—even the newest hires—realize that an entry-level mailroom or copy center position could lead to bigger and better things.
- We instituted new incentives so our best performers could share in the success that comes from account renewals and growth.
- We provided more opportunities for learning and development to expand the professional capabilities of our staff into new areas like technical maintenance, account management and sales.
- We developed programs to help managers and their team members learn how to achieve operational excellence and operate like the owners of a business instead of people who punch a time clock every day.
- Last but not least, we encouraged people to give us honest feedback so we could keep our finger on the pulse of the organization and truly understand the status of our business on thousands of client sites.

Using Full-Contact Communication to Energize the Workplace

Once this foundation was in place, we turned our focus to communication. And we created a number of tools to educate, motivate, and build a high-performance cultural identity.

- We held the largest teleconference calls in the history of our company so account managers across the country would have a direct line of communication with our headquarters staff.
- We developed a newsletter to share ideas and describe specific behaviors that would help account team members at every level improve quality, efficiency, and client satisfaction.
- We launched a special section in our quarterly company magazine to tell dramatic stories of employees going out of their way for their clients. Not only were the stories designed to inspire other employees, they helped elevate the status of the profession by letting clients and executives in our company see the powerful impact entry-level employees could make on an account.

Tapping into the Ultimate X Factor to Achieve Peak Performance

By combining substantive improvements that addressed key employee concerns with organizational quality management programs, learning initiatives and an aggressive, ongoing communications effort, we began to forge an organizational identity as the best services provider in the country.

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It required a sustained effort, a significant investment, constant attention to data collection, and skillful, metrics-based management. But guess what? It worked.

In two years time, employee satisfaction in our division went from 74 to 85%, setting the benchmark for our company in the process. And all of our other organizational metrics improved along with it, proving once again that people are the most important Key Driver in business success.

Fast-Forwarding to the Present

Even though the global recession has shifted the focus of most organizations to cost reduction, I believe that effective approaches to employee engagement will separate the winners from the losers as the economy recovers.

From my perspective, it's the ultimate X Factor in innovation engineering and the business world.



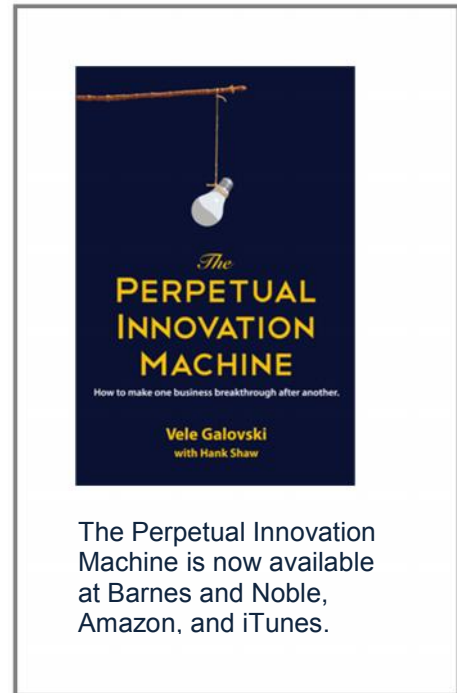
The Perpetual Innovation Machine

How do you make a business breakthrough? You need daring goals, skillful data analysis, highly focused innovation engineering, dynamic leadership and an inspiring approach to employee engagement.

These are the key components of the streamlined management methodology featured in *The Perpetual Innovation Machine*, a practical guide designed to help executives and emerging leaders learn how to transform their organizations...and achieve great things.

The book also covers a number of topics that should be of interest to new managers and business students, including:

- Key Driver and Predictive Lift Analysis
- Power Tools for managing innovations
- Tips on how to create “The Leadership Broadcasting Network”
- Four Case Histories
- And more



About The Authors

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Over the past 25 years, Vele Galovski has consistently achieved breakthrough results by using his unique approach to innovation engineering.

Vele has dramatically improved the performance of a high-volume manufacturing operation, a national financial services company, a leading provider of professional outsourcing services, and one of the top home-builders in the country.

For more information, visit www.perpetualinnovationmachine.com or read more at Vele's blog: perpetualinnovationmachine.wordpress.com

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Hank Shaw is an award-winning writer who has worked for a number of Fortune 500 companies including Amgen, Bank of America, Gilead Sciences and Xerox.

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