

Testing, Monitoring, and Adjusting Strategic Objectives Through Data Analytics at Northwestern Mutual

By Anne Field, Contributing Writer

Adapted from a presentation by Bethany M. Rodenhuis, Vice President of Corporate Planning, Northwestern Mutual, at the Palladium Group's 2010 Americas Summit

To get a better handle on causal relationships between strategy and operations—to know which actions will advance strategic themes and objectives—companies are increasingly turning to data analytics. Two years ago, Northwestern Mutual embarked on a data analytics project to understand key strategic drivers and to better identify and prioritize initiatives. Learn how the company deconstructed performance drivers and applied sensitivity analysis to gain important insights that would help it reap the most from its initiative investments.

Founded in 1857, Milwaukee, Wisc.-based Northwestern Mutual—the “world’s most admired life insurance company,” according to *Fortune* magazine—has been helping its clients achieve financial security for more than 150 years. Today, with 3.3 million customers, it is the number 1 direct provider of individual life insurance in the United States and has paid more in total life insurance dividends over the past 12 years—\$4.7 billion in 2010 alone—than any peer. The 5,000-employee Fortune 500 company has \$180 billion in assets and \$23 billion in revenues, along with \$1.2 trillion of life insurance in force.

In 1999, the groundbreaking Financial Services Modernization Act (aka Gramm-Leach-Bliley) fundamentally changed the competitive landscape of the financial services industry. The legislation deregulated the industry, removing the barriers between banks, securities firms, and insurance companies and allowing each to sell products previously limited to the others. For Northwestern Mutual, the legislation meant new competitive challenges—including competition for its well-regarded, highly effective sales force of financial representatives around

the country. This sales force (now numbering 7,000) would be competing against a much larger pool of players. More than that, the legislation created a need for the company to reexamine its overall strategy to identify and take advantage of new opportunities. To this end, Northwestern Mutual decided to sharpen its strategy execution efforts through the use of data analytics.

A New Strategy, a New Kind of Strategy Map

The company’s existing Balanced Scorecard, originally developed in the 1990s, followed the traditional four-perspective format, with associated strategic objectives. Although useful for reinforcing strategy, the BSC wasn’t used to drive change—chiefly because, as a mature and well-performing company, “We weren’t trying to drive significant change,” says VP of Corporate Planning Bethany Rodenhuis. But in the new,

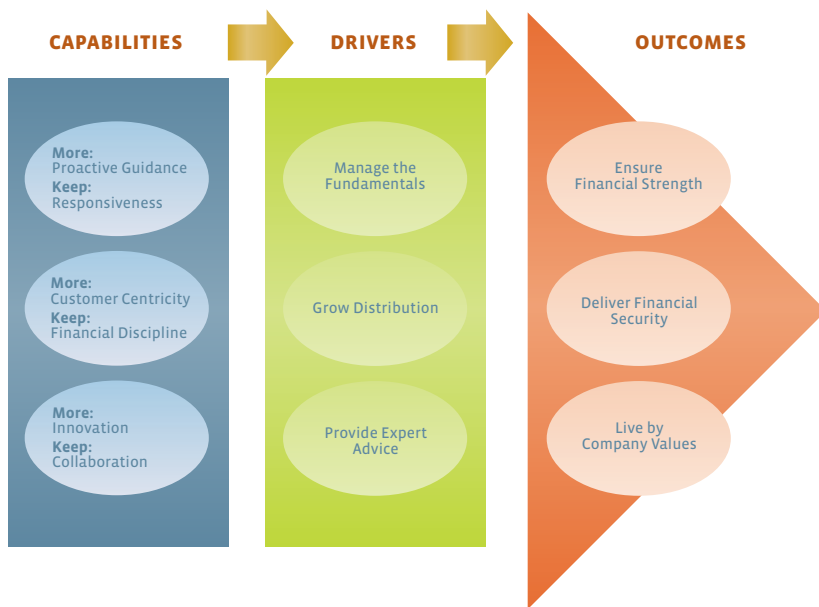
more competitive environment, then-CEO Ed Zore agreed the BSC could be key to creating a new strategy and driving it throughout the organization.

Over the course of 18 months, a cross-functional strategy execution team consisting of Northwestern Mutual’s COO, three executive VPs (of agencies, investment products and services, and insurance products), and the chief administrative officer hammered out an unconventional strategy map and scorecard (see *Figure 1*, p. 8). Although it contained many of the same measurements as the old version, the revamped BSC had significantly fewer metrics.

The team eliminated the four separate perspectives, instead “weaving them in their own way into the strategy map,” says Rodenhuis. This was important because as a mutual company, Northwestern Mutual has no shareholders and operates solely for the benefit of its policy owners. The team then defined key long-term outcomes, or overarching strategic objectives. For a life insurance and financial security company, outcomes such as “Ensuring financial strength,” “Delivering financial security,” and “Living by company values” would result in a growing, relevant, and financially strong company that would continue to provide excellent customer value over time.

Next, the team identified the drivers supporting those outcomes. With the average customer relationship 40 years long at the time of a life insurance claim, one of Northwestern Mutual’s most important outcomes relates to ensuring long-term financial strength. Drivers such as “Manage the fundamentals,” “Grow distribution,” and “Provide expert

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■ **FIGURE 1: A DIFFERENT KIND OF STRATEGY MAP**

This unconventional map represents an example of the approach that Northwestern Mutual took (with sample elements typical of a life insurance company). Instead of the standard four perspectives, this map simply depicts the causal relationships between capabilities, drivers, and outcomes.

advice” represent day-to-day activities that, if performed well, will lead to these desired outcomes.

Driving Strategy with Analytics

In 2009, Northwestern Mutual president John Schlifske (who succeeded Ed Zore as CEO in July 2010) suggested the company beef up its strategy execution process by using data analysis tied to BSC metrics. Specifically, the company would examine individual metrics, breaking them down into their underlying components to determine what effect certain actions would have on results and how best to influence those results. This analysis not only would give employees a clearer idea of how their activities impacted strategy, but it would also help management identify the most beneficial areas in which to invest and help them to better prioritize initiatives.

With this objective in mind, Rodenhuis, who is responsible for strategy management and competitive research, and a team of financial and systems analysts set out to evaluate key metrics. For the first two months, team members created conceptual models and evaluated the

company’s data stores and formats to identify available data and understand which sources were readily available and could be linked across systems. Their findings would tell them what they had to work with and help them determine whether to focus on metrics related to outcomes or drivers. The team chose drivers, since, says Rodenhuis, “we knew that we would achieve the desired outcomes if we focused on the drivers.” Starting with a given metric or measure, the team deconstructed it into a “tree” depicting a series of increasingly granular causal activities and interrelationships (see *Figure 2*).

To illustrate the deconstruction process, Rodenhuis offers a hypothetical example related to what she calls “levers that move the business”—the series of actions related to boosting sales. The

first step would be to determine what factors produce sales. Logically, one key factor should be the number of field (sales) representatives and how effective those individuals are at their jobs. Then, you’d need to determine how to increase the number of sales representatives. Most likely that could be accomplished by either attracting more recruits or increasing the retention of existing sales personnel.

The next question—or branch in the deconstruction tree—would then relate to retention: how to boost retention in a job that’s tough going for most recruits in their first few years. You might improve recruitment and development activities—finding and selecting the right people, training and developing them, and teaching them how to be more productive. Says Rodenhuis, “If we’re able to help them be successful, they can in turn help their clients be successful, and they’re more likely to stay with the company.”

Thus, by boosting the number of salespeople and their effectiveness, a company should eventually increase overall sales.

But merely identifying these drivers isn’t enough. The company would need to share them with management and employees throughout the organization so they would fully understand not only how their actions affect sales, but also the metrics that track those activities. Human resources personnel, for example, could more clearly see the impact of their recruiting and training activities on sales results, as well as the specific tradeoffs—such as whether to invest more in training versus candidate selection—that they should make to ensure

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the best outcomes. Similarly, marketing employees could understand not only their impact on sales, but also how they could modify their strategies—say, by emphasizing local rather than national activities—to optimize results.

The Next Layer: Sensitivity Analysis

Deconstruction analysis, Rodenhuis observes, is a highly iterative process involving continuous refinement. The next layer of work involves sensitivity analysis, which enables analysts to calibrate further the effect of certain activities on scorecard metrics. To illustrate the process in basic terms (for in reality, it's far more complicated), Rodenhuis offers the following example.

Analysts might conduct a study to see what difference a 5% change in various nodes of the deconstruction-analysis tree would have on results.

By understanding the relative change in a number of different variables, analysts can better see which variables have the most influence and which areas might experience the best outcomes. So if sensitivity analysis pinpointed retention as the factor having the greatest effect on increasing sales, the company could focus its attention on the key drivers of retention—sales personnel sourcing and selection, development, and productivity—and put in place (or bolster) initiatives aimed at supporting those drivers.

At Northwestern Mutual, after conducting sensitivity analysis to identify the factors driving retention, the analytics team worked to link the results with sourcing and selection activities focused on identifying the characteristics of the ideal sales candidate. Their study resulted in an initiative that helped pinpoint the qualities of new recruits who go on to build successful careers. With such a detailed picture, it became easier, for example, to help recruiters select the candidates who are more likely to succeed in a sales career.

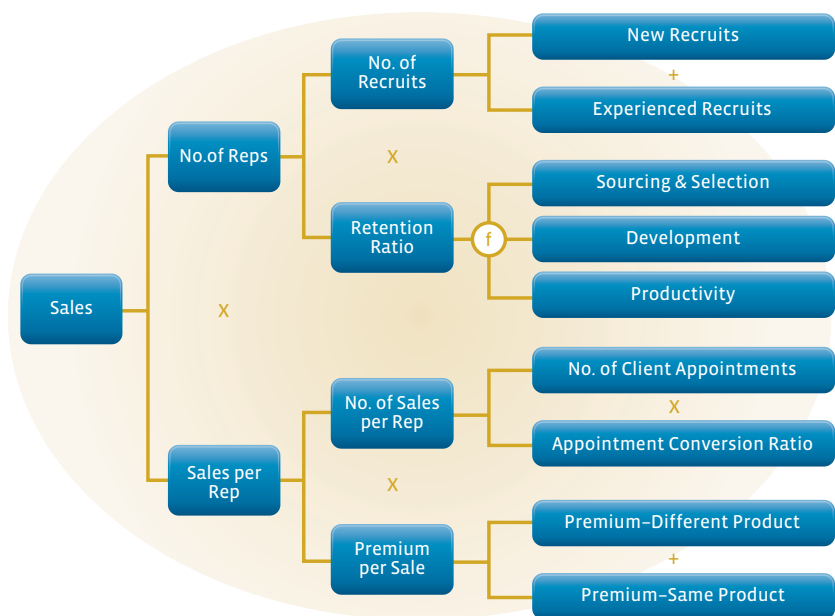


FIGURE 2: DECONSTRUCTING SALES GROWTH—AN ILLUSTRATIVE MODEL

The number of sales reps multiplied by the number of sales per rep should equal total sales. Boosting the number of sales reps would, logically, boost sales. The next step in this analysis would be to determine the factors driving the number of sales reps. This example identifies “number of recruits” and “retention ratio.” Finally, “retention ratio” is a function of sourcing and selection, employee development, and productivity (as the “f” in the circle indicates).

Another initiative resulting from the team’s analysis focused on sales personnel development—specifically, providing mentoring and practice management training for sales recruits. Yet another initiative, aimed at finding ways to increase productivity, involved researching the drivers of successful client relationships to help new sales representatives replicate those practices.

In addition to sensitivity analysis, Northwestern Mutual’s analytics team also performs variability analysis on metrics to understand the likelihood of influencing certain metrics. For example, it might seem that increasing the number of client appointments would result in increased sales. But because salespeople have a limited amount of time each day in which to see prospects (especially if prospects are located far from one another), it may be physically impossible to increase the number of sales calls reps can make. Therefore, initiatives aligned to that variable might have less impact than other efforts focused on overall sales results.

At Northwestern Mutual, both deconstruction and sensitivity analysis require evaluating a great many variables—many more than presented here. They also necessitate combing through terabytes of data to see the correlations between individual sales performance and overall results. The company is now in the process of identifying and deconstructing selected metrics, such as those that assess the performance and practice characteristics of veteran field reps.

Addressing Organizational and Technical Constraints

Rodenhuis is careful not to characterize Northwestern Mutual’s analytical approach as a silver bullet—and cautions others against doing so. For one thing, the work must take into account the capabilities and organizational structure of the company. “We can come up with a beautiful mathematical deconstruction,” she says, “but if the company isn’t organized to take advantage of it, it won’t go anywhere.” For example, if re-

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cruciating and training reside in different parts of a company, the organizational silos might make it difficult for the two areas to collaborate.

The key to success with data analytics is not to take it too literally. Do not, Rodenhuis counsels, draw conclusions from the analysis or take action without getting substantial input from business-line managers. In fact, analysts and business unit managers should work in partnership from the get-go. In the first stages, when designing the models for the analysis, they draw on their respective insights to decide which activities make the most sense to measure and what type of data to gather. (Some decisions will be influenced by such practical considerations as the availability and quality of the data.) Equally important, cautions Rodenhuis, is not allowing data analytics to replace “good, old-fashioned business judgment and experience.”

Another obstacle, and one common to most businesses, is data constraints. “The majority of companies don’t start out with an IT infrastructure developed to do sophisticated business analytics,” Rodenhuis says. So although you may have a large amount of data available, it might be in different systems that don’t easily talk to one another. A call center’s system, for example, might use different

customer identification numbers from the company’s general ledger system, making it difficult to merge data from the two systems. In addition, because systems often develop organically, it is not unusual to find substantial inconsistencies in the same type of data across different systems.

Northwestern Mutual is currently addressing these very questions across its many disparate systems and data warehouses. Executives are debating whether to create an enterprisewide system that would enable deeper analysis and the ability to conduct more forward-looking strategic business intelligence. Such a decision involves significant technical, data governance, and change management issues. Regardless of how that debate pans out, “We’re on a path that will ultimately benefit the enterprise as a whole,” Rodenhuis says. ■

To learn more

“Decision Analytics: From Back Office to Center Stage,” by Thomas Davenport (adapted by Lauren Keller Johnson), BSR July–August 2007 (Reprint #B0707C).

“Using Customer Profitability Analytics to Execute a Client-Centric Strategy,” by Tony LoFrumento (adapted by Anne Field), BSR March–April 2007 (Reprint #B0703D).

“Defying the Odds: Using Decision Analytics to Win Big in the Gaming Business,” by Gary Loveman (adapted by Lauren Keller Johnson), BSR January–February 2007 (Reprint #B0701C).

“Boosting Performance—and Performance Management—With Driver-Based Budgeting and Research-Based Analytics at Louisiana Workers’ Compensation Corporation,” by Larry Yuspeh, BSR March–April 2010 (Reprint #B1003B).

Continue the dialogue

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