

BEST PRACTICES FOR CUSTOMER SERVICES

Sherlock Company recently completed a study of "Best Practices" for Customer Services based on the financial and operational data collected for the 2004 *Sherlock Expense Evaluation Report (SEER)*, Blue Cross Blue Shield Edition. This study, available to participants and purchasers of *SEER*, contains the results of 532 statistical analyses of the relationships between various operating and financial metrics relating to the Customer Services functional area. The report also highlights the 76 analyses that we found to be statistically significant and includes an appendix providing an at-a-glance summary of all of the analyses.

We compiled these analyses without any preconception as to the reasonableness of the potential relationships. Accordingly, the conclusions are free of biases of "industry lore" which may or may not be valid. The initial ideas for the various analyses were the product of a meeting of 14 representative of 11 Blue Cross Blue Shield Plans held in Chicago on October 27, 2003. We subsequently added additional analyses based on our broadened understanding of the measures and drivers of plan performance.

Methodology and Results

For each hypothetical relationship, we performed two statistical analyses. First, for each outcome, we show the associated input metrics of the superior performers in that outcome. (We are using the term superior performers exclusively in the narrow sense of high or low performance in that characteristic relative the group as a whole, without regard to whether the overall performance is in fact superior or whether the metric employed captures the desired attribute.)

We summarized the characteristics of these superior performers using the statistical descriptions employed in *SEER*, such as mean, median, standard deviation and so forth. Additionally, we summarize the relationship between the superior performers and other plans by calculating a "difference." This is presented as the ratio of the mean of the top performers to that of all of the universe as a whole. In the example of superior Member Satisfaction - Most Recent Contact, superior performers reported 60% of the Provider Inquiries per Member than the universe as a whole.

The second set of analyses shows the statistical relationships between those outcome measures and hypothetically associated metrics. For example, the relationship between Member Satisfaction - Most Recent Contact and Total Provider Inquiries per Member is a slope of -0.11, which means that an increase of one in the number of provider inquiries per member is associated with an 11 percentage point decline in member satisfaction. This relationship is 57.4% explained by the regression line. The p-value, which is the probability that there is no relationship between the metrics, indicates whether there is a statistically significant relationship between the two metrics. In this case there is only a 4.9% probability that there is no relationship between the two metrics.

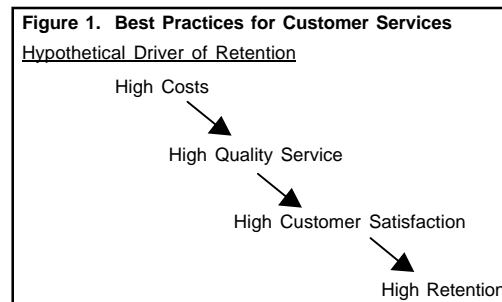
Interpreting the Results

A complete review of the results of the customer service analysis is beyond the scope of *Navigator*. But this summary should be helpful to readers in conceptualizing the results.

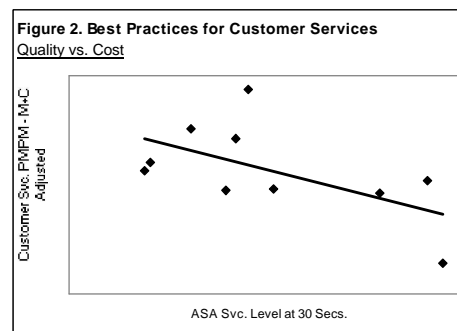
A unique challenge of managing the Customer Service function is its relationship to other aspects of the business. Customer Service affects

the acceptance of the product in the market and also is affected by the familiarity of consumers with the products offered by the plan. So while costs and quality are sometimes inversely related, they are sometimes mutually reinforcing. Effective managerial decisions are ultimately those that achieve an optimal balance between cost control and member retention.

An intuitively appealing way of thinking about this relationship is in the following diagram. A high investment in customer service would lead high quality service, then to high customer satisfaction, which in turn leads to high retention. Thus, health plans could realize a return on their investment in customer service through greater member retention.



The actual performance of these plans seems more complicated than this. For instance, in at least one way, the relationship between costs and quality are counterintuitive in that high costs are not always associated with high quality. The high rates of achievement of a 30 second average speed of answer are associated with lower costs. (Figure 2) So how do health plans employ their customer service to achieve their retention goals?

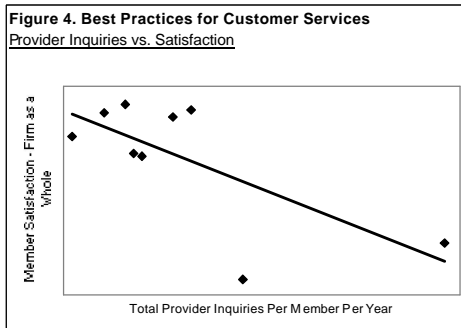
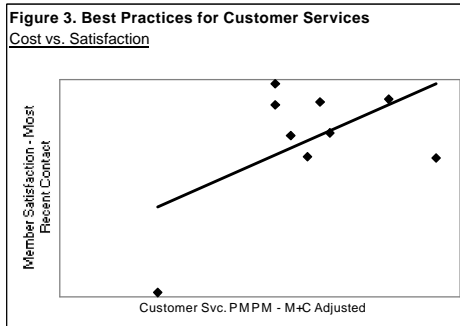
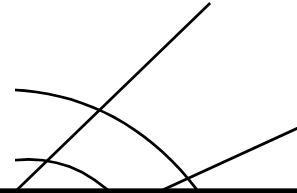


Sometimes quality does relate to costs. It is interesting that higher PMPM costs are associated with higher member satisfaction (Figure 3). Similarly, high costs per inquiry leads to high customer satisfaction (not shown).

However, customer satisfaction is also affected by activities in other departments. For instance, high customer satisfaction was driven by low volumes of claims. Perhaps to the degree customers are spared any aggravation associated with claims adjudication, they are likely to be satisfied. High member satisfaction is also associated with low numbers of provider inquiries per member per year (Figure 4). Low average speed of answer in provider services is also associated with

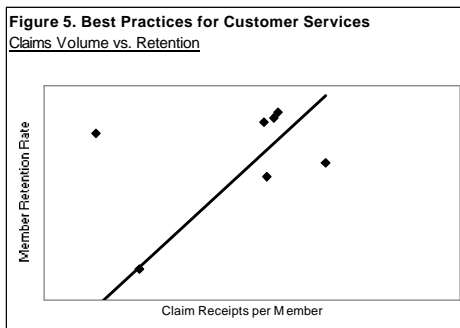


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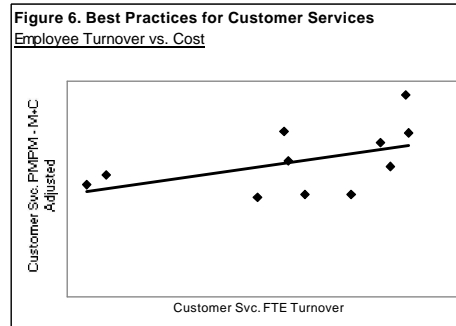
higher levels of retention. Perhaps happy physicians lead to happy customers.

The relation between customer satisfaction and retention was not significant. But there were some factors that seemed to affect retention. First, high claim receipts led to high member retention (Figure 5). This may reflect that accounts with high claims volumes may be unwilling or unable to search for alternative coverage. Secondly, high mail volumes were associated with high retention: This may either also reflect high claims payments or it may illustrate the advantages of communications. While retention seems to relate to a complex mix of factors, the



drivers of costs are more direct. As one would expect, the higher the number of customer service employees for the membership, the higher the costs. Expertise, either through process engineering or in the customer service people themselves, may have a role in costs.

For instance, high rates of achievement of a 30 second average speed of answer are associated with *lower* costs. Moreover, high costs are associated with high FTE turnover (Figure 6). Finally, perhaps reflecting the effect of differences in the restrictiveness of products, a high number of claims per member is associated with low costs of customer service.



Other Notes

It has been remarked that this analysis extends *SEER* from a “descriptive to a prescriptive analysis.” We would prefer to underscore that all of these analyses are subject to the mediating judgment of managers who are the users of this analysis. To avoid any bias in these analyses, we have not ruled in or out any relationships that may stem from any potentially faulty preconceptions.

The user should evaluate each of these relationships critically. It is the intent of these analyses to describe relationships that provide insights for the operations of health plans. We are confident that many of the analyses included in this executive summary fulfill that objective. However, some of the analyses included in the full report, while not meeting our test for statistical validity, nevertheless provide useful operating insights. Finally we acknowledge that some of the analyses may yield inconsistent, counterintuitive or even spurious results. Such results stem from differences in reporting, factors impacting both cause and effect, as well as chance.

Accordingly, there are quirks and apparent inconsistencies. For instance, sometimes superior performers will have lower values for operating metrics despite a regression line pointing in the opposite direction. Sometimes extraneous factors will affect both metrics: A higher mix of HMO will probably lead to a higher use of medical management, perhaps cost effectively, but simply regressing the medical management costs with medical costs may imply the opposite relationship. We believe that, notwithstanding these drawbacks, to limit our analyses to those in accordance with industry lore would obscure valuable insights that could not be known in advance. Since the use of the results will be through the mediating factor of the manager, we considered that inclusion analyses that are later determined to be unreasonable was appropriate.

The complete “Best Practice” Analysis is available upon request to all purchasers of *SEER*, including participants in selected universes of *SEER*. In addition, a limited amount of additional information is available to everyone for no charge, upon request.

