BY GEORGE HARRAR

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Baldrige Notwithstanding

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Kahn issues a stern warning: The organization has to keep improving its operations.

On the face of it, a quality award might seem easy pickings for a startup operation like Universal. After all, the launch team was well positioned to scoop up key executives from competitors, draw the flattest of organizational structures, pick a rainbow of New Age values, deploy the latest information systems in support of strategic processes and in all other ways create itself expressly along Baldrige guidelines. Who wouldn't be able to win the award with the luxury of starting from scratch, especially with the full backing of a parent as resource-rich as AT&T?

While it's true that Universal had a significant advantage in its clean slate, that slate was quickly muddied by demands and pressures that led company brass to make some constraining decisions. For example, they subordinated the information technology group to customer service and gave phone representatives clunky AT&T dumb terminals rather than high-powered workstations.

In today's fast-changing world, even Baldrige winners may have to eat humble pie and start over.

GOING FOR "CUSTOMER DELIGHT"

Paul Kahn, the man who suffused Universal with an obsession for customer delight (eschewing the "wimpier-sounding" customer satisfaction), no longer occupies the CEO's chair at corporate headquarters in balmy Jacksonville, Fla. He, along with half the original executive team, has moved on. The CFO and executive vice-president of marketing were promoted within AT&T. The COO and head of information systems took higher-level jobs at rival credit card companies. Kahn himself left in early 1993 after Universal met AT&T's profit goal of $100 million in earnings. One reason: He wanted to diversify into more banklike financial services, but AT&T insisted on sticking to its combination credit card/long-distance phone card.

Not only did leadership shift, so too did the company's underlying structure as Universal tried to cope with high growth and crowded competition. Information technology was pulled out from under customer service to report directly to the CEO. The quality department was shuffled from customer service to corporate. And consumer affairs landed, at least for the

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FIRST STRING OCTET AT&T's Card Services business improvement team aims to burnish the Baldrige (clockwise from lower left): Pam Vosmik, Rob Davis, David Hunt, Hans Hawrysz, Robert Hughes, Alfred Kuebler, Jim Kutsch, Leslie Palmer.

time being, under the COO. Customer service itself was radically reengineered, and the customer contact personnel—known as associates—were required to learn a new desktop technology. The resulting self-directed team approach now is being piloted in pockets of the company, with all the attendant problems of changing people's work habits.

If this sounds like a company in the throes of organizational and technological change, that's because it is. Universal, in fact, established a change council in the summer of 1993 to ferret out the answers to some fairly basic questions—such as the number of existing major processes—which one might have expected a Baldrige winner to have already resolved. Not so.

Quality manager Robert Hughes: "How many processes? I look at it on a very high level. First is acquisition of accounts. Then there's transaction processing. The third major process is customer service—responding to customer inquiries."

Senior vice-president of human resources Pam Vosmik: "My intuitive response is to say we have thousands of processes. In my own organization there are about 15 major ones. Customer service probably has five or six times that number. Marketing might have 15 to 20. I'd say there are 100 major processes in the organization as a whole."

Executive vice-president of marketing and business development Hans Hawrysz: "There are probably about six or seven processes. We're still finalizing the list in the change council."

This is no idle debate. How finely should processes be broken down? Where does one start and another end? What is the relative importance of each? The answers determine not just reporting relationships but how technology and other resources are allocated within Universal to make the whole greater than the sum of its parts.

Wrong Customers Sign Up

At startup, for example, the launch team decided that superior customer service would differentiate the Universal Card from its plastic brethren. Therefore, it seemed logical that the IS department should report to customer service to put the full weight of information systems behind that effort. But this meant that functional areas such as marketing had to submit their requests to IS through customer service and then wait on a priority list for attention—or else hire their own systems experts from the outside.

Subordinating IS to customer service made some sense in the beginning, when Universal was scooping up accounts faster than any other new card in history. But the very factors that induced such a phenomenal public response soon turned into a drag on profitability. The AT&T name and free lifetime membership encouraged a great number of "transactors" to sign up—conservative, bargain-hunting people who pay off their bills each month to avoid hefty interest charges.

Robert McKinley, president of RAM Research Corp., Frederick, Md., estimates that only 50 percent of Universal's accounts carry revolving balances each month, compared to 70 to 73 percent of competitors' accounts. So many "deadbeats," as the people who always pay their full balances are known in the industry, pulls the monthly carryover balance of Universal Cardholders

David Carter

down to about $650, half the industry average. Total charges per year come to about $1,900 per account at Universal Card, again below average by about $500 to $600. "If they could slice out and throw away 20 percent of their portfolio, they would look pretty good," McKinley says.

Current CEO David Hunt, who took over last May, recognizes that the game has changed for Universal. No longer is the division hellbent on amassing cardholders. With more than 17 million cardholders in about 12 million accounts, Universal Card is already third in sheer numbers behind the Discover Card and Citibank Visa/MasterCard. However, this achievement came at a price—specifically, an estimated $50 million in marketing costs in the first nine months, according to McKinley.

The challenge now for Universal is to target enticing offers at the most profitable existing and potential customers—spendthrifts willing to pay 15.9-percent interest on large monthly balances (see sidebar at right). Universal must find ways to increase receivables at a time when they are growing by only about 11 percent industrywide, compared to as much as 20 percent in the late 1980s.

With only moderate growth, companies are fiercely preying on each other's customers, offering low fees, no fees and reduced interest rates to persuade people to transfer their outstanding balances. In this environment, what the customer wants, the customer gets. "This puts pressure on marketing to read what the customer wants," says Hunt, "and most of that happens with IS sophistication."

No Empowerment, Dumb Terminals

How did Universal find itself in need of so much reengineering so soon after creating itself? Much of the answer lies in one dimension: time. The organizational brain trust that designed the company had less than nine months to determine location, structure, computer processors, advertising strategy, pricing and card design. This was because, in large measure, AT&T had entered the merchandise credit card business to solidify customer loyalty to its profitable long-distance phone service. Feeling the heat from MCI, Sprint and others, AT&T wanted help quickly from a credit card.

So the company chose the first quarter of 1990 to announce a Visa or MasterCard that gave a 10-percent discount on long-distance phone calls. To create instant worldwide awareness, the launch team chose the Academy Awards Show on March 26 as the forum to join about 6,000 competitors in the credit card marketplace.

Universal executives knew that delivering high-quality service meant that phone representatives would need unusual authority to satisfy customers with credit increases and balance corrections without seeking supervisory approval. "We had thought that by saying, 'You are empowered,' the associates would step up to the plate and take care of everything," says Rob Davis, chief quality officer. "What we missed is that we hadn't given them all the tools."

What the executive team did give phone reps were underperforming "dumb" computer terminals. Why? The terminals were immediately available—no small advantage since there was no time to send out RFPs to other potential suppliers. And Universal felt some pressure to go with its parent's systems rather than to break away technologically.

The dumb terminals were unable to integrate information from multiple mainframes. Phone reps had to bounce

A Database of Spendthrifts

In 1994 Universal Card CEO David Hunt expects to gain two million new accounts—an ambitious goal, especially when one considers, as consultant Jerome Svigals notes, "there is no great pot of potential new customers. The percentage of Americans carrying bank credit cards is about 41 percent—it hasn't changed in 10 years. So Universal is limited mostly to customers of other banks." That means becoming a predator, figuring out how to pull the most profitable customers—those who charge a lot and consistently pay off only the minimum—away from competitors. In a contest among equal marketeers in the credit card business, the one who has the best database wins. For Universal, the weapon is Universe, "a database of everything that has ever happened with our cardholders in the history of the business," as Jim Kutsch, head of computer and network services, describes it. Most companies maintain basic billing information for a few months before shunting aging data to tape or microfiche. Universal keeps everything—all the transactions, all the demographic data—as well as the long-distance calling card record. The 200-gigabyte database is housed on an Amdahl 1400A mainframe with four processors.

Universe becomes the engine for identifying specific groups on which to target promotions, rather than using the traditional bombardment method of reaching customers. Hans Hawrysz, the head of marketing and business development, believes pattern-recognition software applied to the Universe database will enable him to personalize marketing down to a customer group of one. Currently, marketing can run 25 to 50 test offers to 5,000 people, all at the same time, varying interest rates, balance transfer options and promotional tie-ins. However, says Hawrysz, "that doesn't get us to the level where we want to be. We would like to do about 200." More flexibility would allow Hawrysz greater opportunity to adjust the four dimensions of any marketing pitch: the offer (typically the price), the list (the cross section of customers targeted), the package (envelope size, cover letter and so on) and channel (telemarketing, television, etc.).

"My feeling," Hawrysz says, "is that the companies that are really good at using customer information are going to succeed. Marketing is more and more coming down to being able to read market demand."

from screen to screen, remembering different access codes for multiple mainframes while all the time keeping up a cheery conversation with the caller. A simple change of address required manual input to three databases. For an organization that was using customer service as its calling card, going with the dumb terminals was a decidedly unstrategic move.

Nor did the launch group provide the empowered work environment of the 1990s: self-directed teams of employees who set their own goals and measures with minimal management supervision. "If some of us had our druthers, that would have happened," says Vosmik. "The reality was that we were under an unbelievable time constraint to launch our product. Given that, we made the decision to put together a rather traditional organization."

STARTING OVER—AGAIN

The first shock to the hastily constructed company came the day after its initial ad appeared. AT&T had modest expectations: perhaps 25,000 responses. But the appeal of a reduced-rate calling card coupled with a credit card that was charging several points below market interest rates inspired 250,000 people to make inquiries in the first 24 hours. The master marketing stroke: AT&T spiced the come-on with a free-for-life initial offer. All counted, 8.5 million people became charter cardholders, avoiding forever the $20 annual fee normally paid by accounts.

The response so overwhelmed the fledgling service corps that Kahn, his 14-year-old son and anyone else the then CEO could round up from the New Jersey launch team flew down to the temporary offices in Jacksonville to work the phones. Amid stale pizza and stacks of empty soda cans, executives who rarely spoke directly to customers were now fielding calls on the midnight shift.

At the end of its first year, Universal had already met its five-year goal of 5.3 million accounts. The number of employees grew from 200 to 2,000, and construction was speeded up on more than 200,000 square feet of office space. "They underestimated how well they would do," says Jerome Svigals, an electronic banking consultant based in Redwood City, Calif. "That's the problem with a startup—sometimes things go much better than expected."

By midyear 1993 Universal Card had $7.2 billion in receivables, the seventh highest in the country, and was fourth in volume, at $9.8 billion, according to RAM Research.

Universal Card could not have achieved these numbers if Universal had stayed with its dumb terminals, which had no sophisticated windowing capability, no mouse, no icons. "We knew there was a problem. We had a proprietary hardware and software platform that didn't scale up. The associates were having difficulty meeting our average call-waiting time limit of 20 seconds," says Leslie Palmer, vice-president of emerging technologies.

Among its other shortcomings, the original customer service platform didn't have automatic number identification (ANI). Added in 1991, this fea-

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A Compulsion for Measurement

Although both technology and leadership have changed dramatically since startup, Universal's distinguishing characteristic has remained the same: a compulsion for measurement. If there's a process that affects customers, Universal probably measures it. There are more than 120 indicators; the number goes up or down as measures are consolidated, added or even deleted if they have been consistently made for months. There are measures of telephone line availability (must be 100 percent), abandon rate (no more than three percent of customers hanging up), the time a customer must wait to speak to an associate (20 seconds) and even a separate courtesy indicator (tone of voice is assessed by human quality monitors who randomly listen in on calls). The corporate goal is to make 96 percent of all measures every day. For the year ending in September 1993 associates met their quality indicators 316 days and managers 285.

Some 47 of the quality indicators come under Information Technology Services. Alfred Kuebler, chief information officer, is interested in devising one more—a measure of IS innovation. "I love that we don't have legacy systems here," he says, "and we don't want to get into a situation where we have to blast them out of the way. So we're looking at how we can have an indicator of IT innovation." Such an indicator, says Kuebler, would measure the degree to which an IS activity helps the organization provide a significant value to customers, reduces response time and cuts unit costs.

Tom Davenport, a partner with Ernst & Young's Center for Information Technology and Strategy in Boston, has observed a lot of organizations—both new and reengineered. He says, "Universal Card has the most process-oriented set of information systems I've ever seen. It was designed from the ground up around processes and information to support them."

Each morning, Jim Kutsch, head of computer and network services, convenes an 8:30 teleconference with 13 parts of Universal operations, from the satellite service operation in Salt Lake City to the processing center in Columbus, Ga., to local offices. The previous 24 hours are reviewed in terms of operational performance and steps that are needed to redress problems. At 9 a.m., a Universal IS representative joins COO Jerry Hines' customer service organization to discuss that group's measures.

After these meetings, voice- and E-mail messages speed through the company, announcing performance results—a far different system than was in place at startup. "When I began here in 1990," says quality manager Robert Hughes, "my staff and I would do the quality sampling every day and individually key in to spreadsheets the results in the different areas. Then we would print the reports, make copies and walk them over to individual process owners."

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ture links a caller's account information with his or her home phone number. On evenings and weekends—the times customers tend to call from their own phones—ANI's "hit rate" is about 80 percent. By bringing the account information to the screen, ANI saves the phone reps 12 seconds in keystroke time and reduces the chance of errors. On average, Universal figures it saves 3.5 cents on every call that is automatically identified.

Universal Windows (Uwin), the customer service platform that replaced the nonintegrated service terminals, was rolled out in October 1991, with $20 million in Sun Sparcstation SLC workstations serving as the front end. Uwin's database resides on four AT&T System 7000 Unix processors, but will be moving to NCR 3550 Unix systems. But even this configuration, just two-and-a-half years old, is slated for reengineering this year as Universal continues to churn its systems in search of faster response times and greater flexibility.

One of the areas that has received the most technology attention is the labor-intensive customer service operation, which employs most of Universal's 1,900 associates (of 2,700 total employees). Any technology that can shave a few seconds from the average customer phone call—which currently lasts about three minutes—translates to a direct savings of several cents. Phone representatives field about 1.2 million telephone inquiries per month and answer 95 percent before 20 seconds have passed.

Jim Kutsch, head of AT&T's computer and network services, believes that technology can reduce this 20 seconds to five. Part of the saving should come from analyzing the call-management database and then providing the staffing-control organization with better information. With access to these kinds of data, IT would be able to predict caller demand on a particular day and shift associates from the claims department as needed to answer phones.

Another technology being tested internally is a voice-recognition unit for callers who don't have touch-tone service (about one-third of all Americans) or those who prefer to speak to a representative. Universal had been experimenting with voice response on line but found that customers became confused. Once they called and reached the voice-response unit, they expected to get it every time. For Universal the technology can reduce costs by more than a factor of 10. A customer who uses the voice-response unit costs Universal 20 cents; it costs $2.50 for an associate to service the same customer.

The new emphasis on emerging technologies is part of a startup philosophy that's still operative at Universal. As described by Davis: "We have to be willing to abandon any technology, if necessary, in order to move forward."

Technology is not all that's changing in Jacksonville. One-third of the work force here now operates in pilot self-directed teams. The original training curriculum, which taught new employees job skills, now focuses on behavior training, including ways to influence people, how to negotiate and how to resolve conflicts. Ultimately, many supervisory positions in Jacksonville will disappear as Universal raises the ratio of associates-to-supervisor from the current 20-to-1.

Universal also agreed on its own values: mutual respect, teamwork, continuous improvement, sense of urgency and customer delight. Employees share an interest in the daily performance numbers: one-365th of everyone's annual bonus hinges on making 96 percent of the performance indicators. Associates can earn as much as 12 percent of their annual salary in bonuses.

At the new Universal, it boils down to measurement and feedback. How seriously? A giant calendar in the cafeteria announces the previous day's performance, as do ubiquitous tv screens hanging throughout the buildings. ASAP

The Power of One Employee

On the front lines of the credit card wars, Robert Turner is about to *delight* a customer: "AT&T Universal Card, may I help you?"

The caller, a cardholder from Vermont, says a friend of hers is stuck at the Los Angeles airport without money or credit cards. He had been intending to go backpacking with a companion, but the friend hadn't shown up. The woman wonders what Universal Card can do.

Turner knows that hotels generally don't accept credit card numbers over the phone, but he decides to try anyway. The first hotel manager recites the official line in saying no, but offers to fax a list of other hotels in the area. Perhaps they might be more flexible. Turner works his way down the list, making about a dozen calls, until he reaches the last name, Holiday Inn. Succumbing to Turner's persuasion, the manager there agrees to the unusual request—charging a room for one person in Los Angeles on the card of another person in Vermont. Turner faxes him the authorization on Universal letterhead. The associate even gets Holiday Inn to send a shuttle to the airport to pick up the stranded man and give him a discount on the room. Elapsed time of service: perhaps an hour.

For his unusual efforts, Turner won the Power of One award, a $200 bonus that goes to Universal employees who show outstanding initiative. Phone representatives have been known to personally deliver credit cards to local Jacksonville customers who needed them quickly, or even to put charges on their own credit cards.

Such service is identified by peers in the quality department, who randomly evaluate conversations for rudeness, accuracy of information and so on. The monitor's computer mimics the associate's, allowing the quality control person essentially to look over the shoulder of the phone rep to see whether he is managing his windows effectively. In addition, each member of the "B" team, those executives who report to CEO David Hunt, are required to listen in to calls for two hours each month.