CHAPTER 27

Nerds Galore

ROB QUAIL, BASc
Director, Enterprise Risk Management, Hydro One Networks Inc.

Nerds Galore (NG) is a Canadian service company with 1,000 employees working out of offices in 12 Canadian cities; the head office is in Edmonton, Alberta. NG provides full-service information technology (IT) support to small and medium-sized Canadian businesses, including help desk, on-site troubleshooting, security, network setup and support, backup services, wireless networks, hardware and software procurement, and website design and hosting solutions.

Nerds Galore was formed in 2000 in the garage of its founder, Jeeves Stobes. NG has enjoyed strong growth in its segment and has an excellent reputation with its customers. In the beginning, NG focused on a particular customer subsegment, small start-up businesses, especially on low-tech businesses such as boutique services. Lately its strategy has shifted more to midsize customers (which have deeper pockets and less chance of going broke) with more sophisticated technology needs.

Recently there have been problems for NG.

There has been steady decline in customer satisfaction, as shown in Exhibit 27.1.

Following a thorough investigation and follow-up with many of NG's key customers, the Executive Team has concluded that the main cause of this has been high internal staff turnover, leading to gaps in customer services and service continuity.

Indeed, staff retention has been an issue, as shown in Exhibit 27.2.

To continue to provide strong customer service, it is critical that team members are competent in the latest technology, and yet turnover has approached 20 percent in three recent years. This is a particular problem for NG because of its high focus on customer service; new staff receive extensive and costly training in NG's customer service and cross-selling approaches. The company's pay package is competitive but not at the very top; instead NG uses its reputation for excellent customer relationship and staff development to attract motivated staff. Note that it's well known that one of NG's competitors was recently raided by a large systems integration firm and lost most of its network management technical staff in a single quarter. NG has been having a particularly difficult time retaining staff in the larger urban centers and other technology hubs in Canada where there are more competitors and the competitors generally pay more.

Despite the fact that customer satisfaction has been declining, the Executive Team did note that revenue numbers have not suffered; in fact, they have

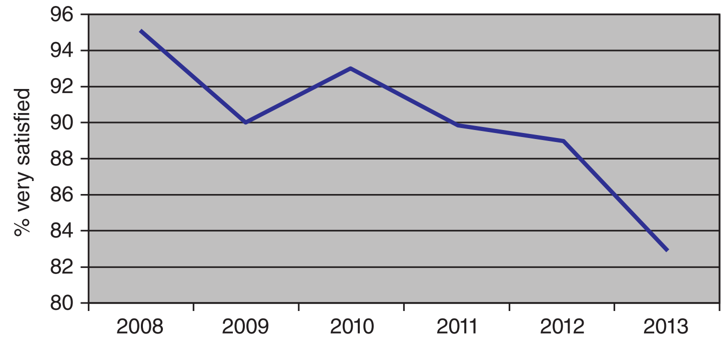

Exhibit 27.1 Nerds Galore Customer Satisfaction

continued to climb year over year, as shown in Exhibit 27.3. It was concluded that this lack of a drop in revenues is due to two factors:

1. Many current customers have multiyear contracts with Nerds Galore.
2. Very small businesses that have made up the bulk of NG's customer base are generally tolerant of minor service hitches and less focused on optimal technology performance.

Recently, the company suffered a major shock when one of its employees was killed in a head-on car crash while rushing to a customer site during a snowstorm in Rimouski, Quebec. The employee who was killed was a well-known and much admired member of the team, and many staff thought at the time that NG's Executive Team didn't respond properly to this event. In fact, the *Globe and Mail* ran a story on workplace tragedy and its impact on morale and used Nerds Galore as a case study on how *not* to manage sudden trauma, and, while the company's customers didn't seem to notice, NG did experience a sudden jump in staff departures and some difficulty in recruiting replacements.

Also, there is a sense that staff efficiency is not what it should be; in particular, scheduling technicians for on-site technical work has been a problem. Small business customers tend to have diverse and unique technology needs, and finding specialists who can work in multiple areas such as network support and voice over

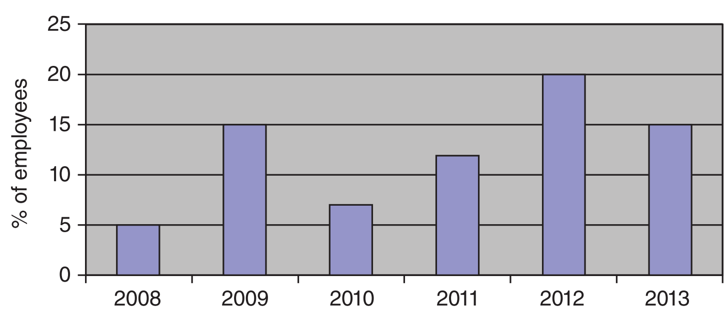

Exhibit 27.2 Nerds Galore Employee Turnover

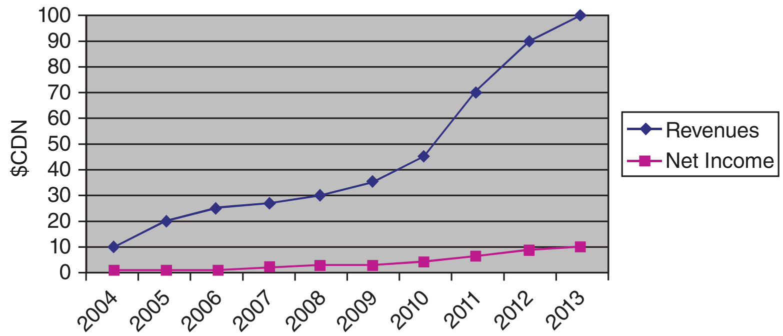

Exhibit 27.3 Nerds Galore Financial Performance

Internet Protocol (VoIP) while working with a single customer is difficult; most of the propeller-heads (as NG affectionately terms its technicians) are specialists in a few areas, and the company has found that its specialists are spending a lot of time behind the wheel traveling from site to site dealing with point solutions to individual technical problems. NG's founder and CEO, Jeeves Stobes, freely admits that the company's own internal technology has not really kept pace with the growth of the company. NG lacks a customer/account management program and relies on whiteboards and e-mail managed by the company's small core of four senior work schedulers (long-service employees who work out of a war room in Edmonton and know the company's customers and staff well) to schedule employees to customer sites. In addition, while the company has placed a premium on developing staff, this has been through informal mentoring and apprenticeships rather than formal development based on identified customer needs, and this approach has been difficult to sustain given the scrambles created by sudden staff departures.

As shown in Exhibit 27.4, CEO Stobes has set targets of 15 percent revenue growth year over year (which is close to recent rates of growth) and a net income target of 15 percent of annual revenues, which will be a stretch (recent years have yielded margins of 8 to 10 percent). Stobes has set a target of 95 percent customer satisfaction going forward.

Exhibit 27.4 Strategic Targets

	Actual	Targets				
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Revenues ($M) (target is 15% year-over-year growth)	100	115	132	152	175	201
Net Income ($M) (target is 15% of revenues)	10	17	20	23	26	30
Customer Satisfaction (% "very satisfied") (target is 95%)	83	95	95	95	95	95
Staff levels	1,000	1,100	1,200	1,300	1,400	1,500

Gil Bates, NG's vice president of human resources (HR), recently recruited from the competitor Propell-O-Rama, is concerned about not only the employee turnover rates but HR management in general. He has come forward with a five-point strategy for improved HR management, but has encountered stiff resistance from the rest of the Executive Team. The strategy is:

1. *Attract the best talent.* Do this by offering a positive and flexible work environment with flexible hours and a work-at-home culture.
2. *Retain good people.* Do this by offering employee recognition programs, providing multiskilling/cross-training (which will have the added benefit of greater customer satisfaction), and ensuring that compensation stays at or near the 75th percentile of competitors or comparators.
3. *Manage talent.* Put in place a formal talent management program so that high-potential employees are identified, developed, and mentored.
4. *Optimize the use of people.* Do this by purchasing and implementing a fully integrated customer management and workforce management tool, to allow greater scheduling and tracking of employee effort on customer accounts.
5. *Rely on outsourcers* to handle overflow of business requests that have highly volatile work volumes, or in areas where retaining internal capability and know-how is prohibitively expensive.

At a management discussion, it was agreed that the Executive Team would meet for a risk workshop to explore the following HR-related risks and to help the exectives evaluate the situation and decide on whether to invest in Bates's strategy:

- Inability to recruit people with needed skills
- Loss of staff with key internal knowledge
- Uncompetitive labor productivity
- Increased departures of skilled technical staff
- Loss of key business know-how

QUESTIONS

1. This is a relatively brief case study, yet the problems faced are quite complex. In your workshop, how did you handle uncertainty in the information you have been given and how does this translate into real-world workshops where not all the answers can necessarily be given at the table?
2. What were some of the risk sources that emerged repeatedly in evaluating the risks? How is this helpful?
3. How would this risk assessment aid in the decision on whether or not to proceed with the new HR strategy?

ABOUT THE CONTRIBUTOR

Rob Quail, BASc, is Director of Enterprise Risk Management at Hydro One Networks Inc. Rob has had a leadership role in enterprise risk management (ERM) at Hydro One since 2000, and developed much of Hydro One's pioneering ERM methodology. He has successfully applied ERM techniques to a diverse range of business problems and decisions, including annual business and investment planning; major transformational, infrastructure, customer, and technology projects, as well as acquisitions, partnerships, divestitures, downsizing, and outsourcing. Rob was a contributing author to *Enterprise Risk Management: Today's Leading Research and Best Practices for Tomorrow's Executives*, edited by John Fraser and Betty J. Simkins (John Wiley & Sons, 2010), and is guest lecturer for the Schulich School of Business Masters Certificate in Business Performance and Risk Management program at York University, Toronto. He is a popular speaker at risk management conferences, and performs as a musician in clubs in the Toronto area in his spare time. He is an industrial engineering graduate of the University of Toronto.