

Investment Advisor to the Business

“Successful investing is anticipating the anticipations of others.”

John Maynard Keynes

The insurance environment of today is rapidly changing, and the rules of yesterday no longer apply. The corporate and legal barriers that separate the various banking, investment, and insurance sectors are blurring, and the cross-overs are increasing. As a consequence, the marketing function is also changing to better support the insurance company in this dynamic financial services market environment. The key marketing challenge today is to provide support and counsel for the focus, positioning, and marketing resources needed to deliver performance on the insurance company’s products and services. Marketing as an investment advisor is about re-defining the delivery needs not only within key strategic market segments, but increasingly within relevant micro-segments.

The marketing challenge is to satisfy customers needs while still recognizing the challenges of financial planning integration. For example, the strength of agent business in the U.S. shows that customers want personal service and have concerns that direct marketers will treat them “institutionally.” Customer Service surveys show that personal lines direct marketers who have made major strides in addressing customer needs have benefited financially when marketing communicates their high ratings for website access, claims, and customer service.

In the context of these dynamic market changes, these are the facts every marketing professional understands:

- There are more and more competitors providing overlapping services in your market.
- Your competitors are constantly changing their business models and value propositions.
- Your customers can access massive amounts of information, making them aware of their options.
- At the same time, consumers’ appetite for risk protection products and services continues to change and grow.

Your competition and customers will continue to increase in sophistication. Marketing must do so as well if it is to serve this new environment and help the insurance company compete and win. This means its role must evolve. Marketing must become an *investment advisor* to the business. As that investment advisor, Marketing must support:

- The overall investment strategy—what is offered, where, and to whom
- The strategic path for maximizing the return on assets (ROA)
- The cost justification for the operational path required to get there (e.g., support of return on investment (ROI) numbers for scarce marketing dollars).

Marketing must be present in the boardroom, offering business and market analysis coupled with financial analysis. It must connect the dots among strategic objectives, operational execution, and financial criteria. It can provide the necessary alignment among strategy, operations, and finance.

Marketing must overcome three important barriers to provide this alignment and become an investment advisor. Each barrier underscores the need for information sweet spots, greater accountability, and more integrated decision-making.

Barrier 1: *Defining the “size of prize” has become more complex*

In the days of homogeneous mass markets, traditional insurance companies assessed value based on total premium of major product lines, counting on economies of scale in marketing spending and healthy margins to deliver profits. More recently, the challenge evolved from mass markets to defining and improving customer profitability. Businesses began to allocate costs at a more granular level to better evaluate customer and product performance. Many insurance companies have successfully developed this information sweet spot and now can group customers into meaningful underwriting and services segments. Today, this trend is evolving as customer requirements and characteristics are divided into smaller and smaller micro-segments, which require organizations to become responsive to the needs of more and more customer categories.

Size-of-prize marketing requires the company to do two things well. First, it must pool customers into meaningful micro-segments that are cost-effective to target, acquire, and retain. Second, it must determine the profitability potential of these micro-segments in order to set company priorities. These profit pools allow Marketing to recommend the best investment at product/service/segment levels. This is of particular relevance when considering different channel strategies: the more detailed the understanding and mapping of micro-segment profits, the more the marketing and sales propositions can be refined.

Barrier 2: *Lack of integrated and enhanced information*

Without appropriate context (where, who, when), Marketing can't define or analyze a micro-segment. Without perspective (comparisons), Marketing can't define market share or track trends at this more detailed level. As an investment advisor, Marketing must merge three core information sources: customer (operational), market (external), and financial. To leverage large volumes of customer and product data, the information must be structured thoughtfully and integrated cleanly. Marketing's judgments and assessments must be supported by the capability to categorize, group, describe, associate, and otherwise enrich the raw data. Insurance companies need easy, fast, and

seamless access to typical market information such as trends by market categories, geographic locations, coverage types, distribution channels, and competitor performance. They also need financial information from the general ledger and planning sources to understand the cost and revenue potential in order to place a value on each micro-segment.

Barrier 3: *Number-crunching competes with creativity*

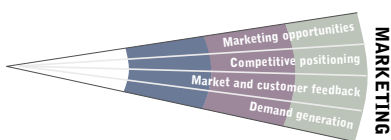
Businesses create marketing strategies to win customer segments and the associated “prize.” Marketing’s work now really begins, and it must justify the marketing tactics it proposes, set proper budgets, and demonstrate the strengths and limits of those tactics. Drilling down into greater detail and designing tactics around this information will help satisfy Finance’s requirements. In the past, such detailed design has not been the marketing norm, but it is required to generate the ROI that Finance wants to see. However, the right information is not always easy to get, and some departments contend that good ideas are constrained by such financial metrics, stifling the creativity that is the best side of Marketing. Marketing’s traditional creativity should not abandon finding the “big idea,” but must expand to include formulating specific actions with a much clearer understanding of *who, why, and size of prize*. This is not a loss of creativity, but simply a means to structure it within a more functional framework.

A Guidance and Early Detection System

As investment advisor, Marketing guides strategic and operational activity, which focuses on the potential of specific markets and how the organization can meet these markets’ needs. In this role, Marketing can also be an early detection system for how changes in the market lead to changes in products and services, selling strategies, or even more far-ranging operational elements of the business.

Many marketing metrics are important indicators for an insurance company’s scorecard. Sudden drops in customer satisfaction should alert marketing to limitations in its traditional marketing efforts and could mean competitor pressure, market shifts, and/or revenue trouble down the road. Good marketing departments see the big picture. They notice and interpret trends that are not readily apparent on the front line and provide the business context for what is being sold, or not, and the associated value proposition.

Marketing has the responsibility for defining, understanding, and leading four core areas of an insurance company’s decision-making:



- **Marketing opportunities** → What is the profit opportunity?
- **Competitive positioning** → What are the competitive risks to achieving it?
- **Market and customer feedback** → What external verification process will enhance and confirm product and service value propositions?
- **Demand generation** → How do we reach and communicate value to customers?

Marketing Opportunities

Making decisions about marketing opportunities is a balancing act between targeting the possibility and managing the probability, while recognizing the absence of certainty. This decision area is fundamentally strategic and concerned with the longer term. It manages the upfront investment and prioritizes the most promising profit pools while dealing with a time lag in results. Increasingly Marketing is looking into value propositions that reflect different life stages and business cycles. Marketing is looking to pre-

package new solutions defined by a customer’s financial planning needs and not simply a single product or service requirement.

Understanding the profit potential in such opportunities requires a detailed assessment of pricing, cost to serve, distribution requirements, product quality, resources, employees, and more. The most obvious market opportunities have already been identified, whether by you or the competition. The creative use of risk management analysis will drive new solutions (see Product and Portfolio Management). You are looking for the hidden gems buried in the data missed by others. These are the micro-targets that need to be identified, analyzed, and understood.

GOALS	METRICS	DIMENSIONS	
Market Growth Rate (%)	Policies in Force (#)	Reporting Period	Insurance Sales Channels
Insurance Market share (%)	Market size (\$)	Year	Channel
New Premium (%)	Gross Written Premium (\$)	Quarter	Agent of Record
New Revenue (%)	Non-Insurance Contracts (\$)	Month	Insurance Product
	Population size (#)	Financial Services Area	Coverages
	Prospects (#)	Financial Services	Product Line
	Inquiries (#)	Category	Coverage
	Suspects (#)	Customer Segmentation	Insurance Industry
		Categories	Segments
		Segment	Insurance Segment
		Insurance Risk Location	Sales Organization
		Region	Sales Region
		Area	Sales Territory
		Zip Code / Postal Code	Organization Code
		Gen Code	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Underwriting	Executives			•
	Analysts		•	
Sales	Executives			•
	Managers		•	
	Analysts		•	
Claims	Executives			•
	Analysts		•	
Finance	Executives			•
	Analysts		•	
Actuarial	Executives			•
	Analysts		•	
Regulatory/Legal	Executives			•
	Analysts			
General Management	Executives			•
	Analysts			

Competitive Positioning

Effective competitive positioning means truly understanding what you offer as insurance products and/or services to the segments you target, and how they compare with those of other risk financing alternatives. As an investment advisor, Marketing must clearly define the business and competitive proposition: In which market segments are you competing, and with what financial products and loss control services?

Marketing must define and invest in specific information sweet spots that give it insight into how its customer selection criteria compare with those of its competitors. Marketing must understand the customer-relevant differentiators in its offerings and the life span of those differentiators. In reality, these differentiators may actually be weak and linked more to the convenience of the distribution network, making it important to fully understand pricing sensitivities and customer feedback (see Market and Customer Feedback).

Marketing needs to ask:

- Are our price points below or above those of key competitors, and by how much?
- If below, is this sustainable given our cost profile, or is cost a future threat?
- What premium and fees will customers pay for a service or value-added risk reduction propositions?

GOALS	METRICS	DIMENSIONS
Competitor Combined Ratio Growth (%)	Competitor Surplus (\$)	Industry Ratings
Competitor Expense Ratio Growth (%)	Competitor Policies - in force (#)	Credit Rating
Competitor Loss Ratio Growth (%)	Competitor Gross Written Premium (\$)	Solvency Rating
Competitor Premium to Surplus Ratio Growth (%)	Competitor Net Written Premium (\$)	Competitor
	Competitor Ceded Premium (\$-%)	Competitor Type
	Competitor Assumed Premium (\$-%)	Competitor Company
	Competitor Incurred Losses (\$)	Insurance Charter Location
	Competitor Expenses (\$)	Region
	Competitor Commission (\$-%)	State
	Competitor 1st Year Retention	Reporting Period
	Competitor Renewal Retention	Year
		Quarter
		Month
		Insurance Product - Service
		Product Line
		Coverage
		Service
		Insurance Industry Segment
		Insurance Segment
		Financial Services Area
		Financial Services Area

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Sales	Executives			*
	Managers		*	
	Analysts	*	*	
	Professionals		*	
Underwriting	Executives			*
	Analysts	*		
Actuarial	Executives			*
	Analysts	*		
Claims	Executives			*
	Analysts	*		
General Management	Executives			*
	Analysts			

Market and Customer Feedback

The market and customer feedback decision area combines an external reality check with internal understanding of the product coverage and service value proposition. It is an objective assessment and gap analysis into the insurance company’s offering and whether these confirm or challenge the internal value assessment. There are many examples of products and services that do not offer sufficient value to customers. Market feedback and external verification as part of an adjustment process are essential for success.

The insights these activities produce let the organization understand what investments are necessary for additional product or service features and determine if the business can afford them. In some cases, it may make sense to pull out of an opportunity area rather than make investments with an insufficient chance of payback. An information framework that uses this data can support and confirm product development decisions. This decision area is also a tool for creating cross-functional alignment and internal commitment to new product commercialization.

GOALS	METRICS	DIMENSIONS		
Suggestion Implementation Cost (\$)	Customer Feedback Gain (#)	Financial Services Area		
Suggestion Value-Added Score (#)	Comments / Suggestions (#)	Financial Services Area		
Customer Satisfaction Score	Improvement Priority Score	Insurance Industry Segment		
	External Verification Score (#)	Insurance Segment		
	Implementation Difficulty Score (#)	Customer Segmentation Categories		
	Product Awareness Score (#)	Segment		
		Insurance Product Line		
		Product Type		
		Product Line		
		Customer Set Benchmarking Issues		
		Benchmarking Category		
		Product - Service Issue		

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives	*		
	Managers	*		
	Analysts	*		
Customer Service	Professionals	*		
	Executives			*
Customer Service	Managers		*	
	Analysts		*	
Sales	Executives			*
Sales	Analysts		*	
	Professionals			*
Claims	Executives		*	*
Claims	Analysts		*	
	Professionals			*
Underwriting	Executives		*	*
Underwriting	Analysts		*	

Demand Generation

Driving demand is where Marketing rubber hits the road. All of Marketing’s strategic thinking and counseling about micro-segments, profit potential, the offer, and competitive pressures come to life in advertising, promotions, online efforts, public relations, and events to achieve measurable response rates.

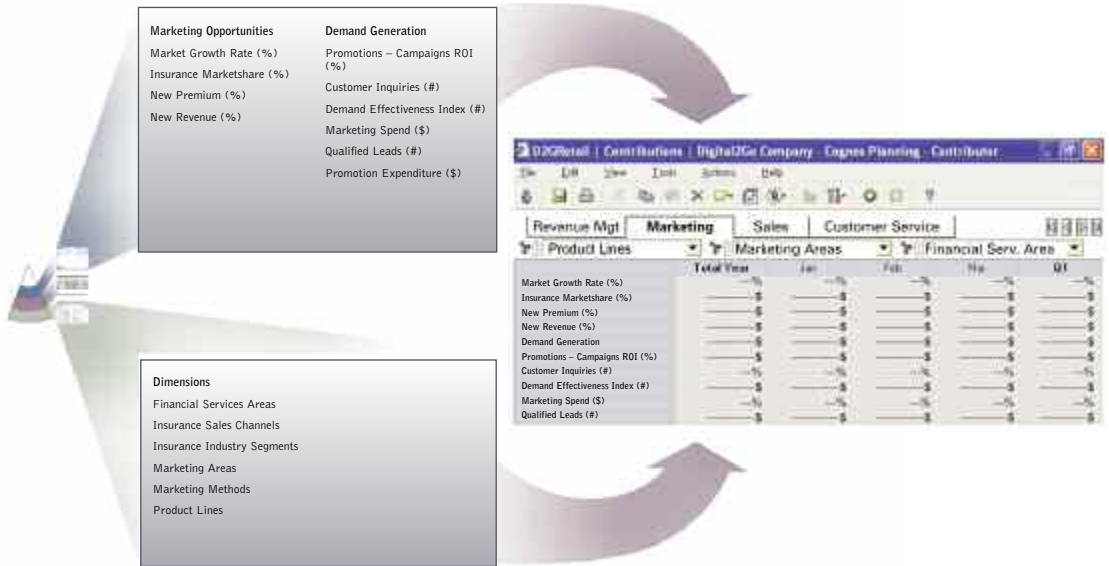
Marketing manages its tactical performance by analyzing promotions, communications, marketing campaigns, below-the-line support, internal resourcing, response rates, and cost per response. At the same time, Marketing must understand whether or not the insurance company is acquiring the right customers for the ideal future portfolio. This is key to understanding the results of a micro-segment marketing effort.

Improving Marketing tactics is not simply about designing more detailed and specific activities; it also means understanding what elements work better than others. Marketing must understand the health and vitality of its

various decision areas, including pricing, promotions, product and service bundling changes, and consumer communications. *What provokes a greater response? At what cost?* With a wide variety of options for online, direct response, and traditional advertising, Marketing needs to know which tools work best for which groups.

Understanding and analyzing this information is key to alignment and accountability. Driving demand requires close alignment with Sales, and Marketing tactical teams continually fine-tune their aim and selection of tactical “arrows” until they hit the bull’s-eye.

GOALS	METRICS	DIMENSIONS		
Promotions - Campaigns ROI (%)	Product Awareness Score (#) Marketing Campaigns (#)	Reporting Period Year	Marketing Campaign Project	
Customer Inquiries (#)	Marketing Spend (\$)	Quarter Month	Marketing Campaign Type	
Demand Effectiveness Index (#)	Customer Penetration (%) Qualified Leads (K)	Marketing Areas Region Area	Marketing Campaign Product Lines Product Line	
	Customers (#) Promotional Expenditure (\$)	Marketing Methods Marketing Method	Sales Organization Sales Region Sales Territory Org. Code	
	Incremental Income (\$) Qualified Leads (K)	Marketing Segments Market Segment Micro-Segment	Promotions / Campaigns Weeks / Day Agency Buckets	
	New Policies (KPS) New Services (KPS)			
FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives Managers Analysts Professionals	*		
Sales	Executives Managers Professionals		*	
Underwriting	Executives Analysts		*	*
Customer Service	Executives			*
Finance	Executives			*



The Marketing Opportunities and Demand Generation decision areas illustrate how the Marketing function can monitor its performance, allocate resources, and set plans for future financial targets.