SOCIETY OF ACTUARIES

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Free **Tacos!**

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If you are reading this, then the title must have captured your attention. And why wouldn't it? The only thing better than tacos, are free tacos, right? Naturally, you might be wondering what free tacos have to do with Insurance Product development? To explain, allow me to take you back in time to the year 2009.

In the shiny glass and steel headquarters of Taco Bell, CEO Greg Creed throws down the innovation gauntlet: "It's time to think outside the bun!" he declares. Numerous concepts are vetted and one that glimmers promise is what will come to be known as the Doritos Locos TacoTM. This item takes your pedestrian crispy taco shell and "Doritotizes" it (is that a word?) to give it the look, feel and—most importantly—taste of Nacho Cheese Doritos® chips. That's it. A tweak. A one-off. No big deal, right? Well, fast-forward to 2013, and Taco Bell has sold 450 million "Locos" in a little over one year—that's over two tacos for every adult in the United States! Taco bell had to hire over 15,000 employees—that's two to three per store—just to keep up with demand. Their parent company stock jumped over 25 percent in the six months after launch, outpacing S&P 500 performance nearly 3-to-1.

So, what happened between 2009 and the 2012 launch? Testing, that's what happened. Testing, testing, testing. In that three year span Taco Bell tested over 40 recipes for the Doritos Locos Taco™. In fact, their first test in 2009 with 200 consumers was a total flop. Consumers were excited by the concept, but the execution (flavor, texture, taste) missed the mark. Undaunted, Taco Bell pressed on for three more years of trial and error until they perfected their product.

Fascinating, you say, but still struggling to see the connection to insurance product development? Imagine if the insurance industry could do this same rigorous testing before a product went to market. Could we achieve better results and gain a larger share of consumers' wallets?

Obviously, there are some distinct differences between tacos and insurance products. This is a very complicated dynamic, so I have created the table below to help illustrate the primary differences.

Now, this is not intended to understate the time, difficulty, effort and money behind testing and perfecting the Doritos Locos Taco™. The millions of dollars spent over three years are a testament to that. In fact, history may prove the Doritos® taco shell is the engineering marvel of our time. Still, Taco Bell manufactures a product where consumer engagement and comprehension barriers are very low. Not only does the insurance industry need to clear those barriers, but our products, once in market, can last for 10, 20, 50 years or longer. That is a very long time to "live with" a potential flop.

	Taco	Insurance
Engagement: Natural interest in the topic	Yeah, Dude!	Yawn… what was the question?
Comprehension: Ability to understand the subject matter	Easy (Jeff Spicoli)	Difficult (Albert Einstein)
Development Expense: Cost to produce one item	Pocket Change ($5-$20)	Pocket Change... for Bill Gates ($500K - $1M)
Resources: Time to make one item	20 minutes	9-12 months
Test Life Span: Shelf life of one item	30 minutes	10-50 years
Regulatory Framework: Level of regulator control	Broad (It can't be poison!)	Narrow (It can't use 9 point font!)

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However, this is not to suggest that there is no hope for our industry. The following are some practical tips for pre-market research and testing for insurance products. These techniques have been culminated over several years of product testing successes, and more importantly, failures (after all, we often learn more from our failures than our successes). Some are generalizations, and you may disagree with a few, but in general these will help you efficiently conduct pre-market product research and testing.

1. Create a Producer Advisory Group and Use Them… a lot.

I mentioned the engagement and comprehension barrier that the insurance industry faces with consumers at large. However, there is a large audience that does "go loco" for insurance products: insurance producers. Their entire livelihood depends upon their ability to take intangible, often complex, products and help consumers understand and value them so much they are willing to part with their hard earned money to buy them. This is a skill set that should not be overlooked when it comes to research and development.

While producer research can not and should not supplant good consumer research, having a "go to" network of producers that can be called upon for input on any topic, large or small, is indispensable. This group is typically well versed in products, features and the competition, but they also are in touch with literally hundreds of consumers on a weekly basis. Gathering feedback with this group can be done very quickly, usually measured in hours or days—not months.

Furthermore, your advisory group doesn't have to be a formal, standing "committee" that meets on a regular basis with titles and procedures. It can actually be better to just have an informal network—a contact list of producers ready to offer their input via a quick phone call or email. In your contact database, it is helpful to make some notes like, "big annuity writer, serves mostly middle market, writes a lot of long-term care, etc." The more "searchable" these notes, the better.

It is rare to find a producer who is not ready, willing, and yes, even excited, to share their thoughts on the topic at hand. Now, there can be some tricks to using this advisory network effectively. One of the best ways to do that is…

2. Watch a Few Cop Shows

In almost every cop show, you will see the followings scene: A crime has been committed, and the detectives round up a few "perps" and bring them into the station for questioning. When the cops really need to get to the bottom of the situation, do they bring all of the perps together in one room to have a "crime scene focus group"? Of course not! Perp A is in one room and Perp B is in a separate room, and so on. The Perps may get the same questions, but the cops gather information about how each Perp answers independently. Then, they compare notes, probe deeper as necessary and ultimately get more reliable intelligence.

Following a similar approach with careful and well documented individual interviews can yield some compelling results. A key to pulling this off is asking each interviewee the same questions in the same way and meticulously documenting the responses and dialogue. Given that each viewpoint was shared during a private, one-on-one conversation, it doesn't take that many interviewees to achieve reliable information. If you split the research duties among four people doing three calls each, in an afternoon you can end up with a database rich with information on trends and preferences. The other nice thing about splitting up the questioner role is it also diminishes the chance of "questioner bias" coming through the survey.

3. Become "Cost" Conscious

Milton Friedman once said, "People never spend other people's money as carefully as they spend their own." By corollary, I would add "People never spend fake money as carefully as they spend their own." For proof, talk to your resident online poker player (come on, you are an actuary, you know one or two of them). Ask them the difference between an online "cash game" and an online "free game" with fake chips. They will likely tell you that invariably, the players act, strategize and play completely differently.

Therefore, be cognizant of this behavioral tendency when researching "how much would you pay?" whether in qualitative or quantitative testing. Life is always about trade-offs, and so any questions about the "cost" of a product should be put in the context of trade-offs. In the insurance industry, we often think of our competition as our insurance provider peers. But, in reality, our competition is much broader than that. Our competition really includes cable TV, internet service providers, Amazon, The App Store, Miller Brewing Co., etc. Taking a trade-off approach is one of the advantages of the following testing technique:

4. Be Conjoint at the Hip with this Test
Conjoint testing is a powerful statistical technique for determining how your audience values different features of a product. In the test, different product features are randomly interchanged, and the survey participant must select their "favorite" or force-rank within the array of choices. With enough random samples and survey participants, you will have a rich database of "optimal" product design trade-offs.

The internet has enabled testing companies to conduct broad conjoint analysis surveys relatively quickly and inexpensively. This testing technique is especially useful if you are focused on a particular category. (e.g., Variable annuities with guarantee lifetime withdrawal benefits) and you need to testing different design features / benefits within that category (e.g., the level of bonus, roll-up percent, step-up frequency, withdrawal percent, etc.). You will also have consumers' "utility" for any particular feature. That is, if consumers value a feature more than it's cost to deliver, then you have discovered product design "gold."

5. Build and Test a Prototype
What really is an insurance product anyway? Is it the contract? The illustration? The "experience" encompassing every interaction with the customer pre- and post-sale? The answer is really "all of the above." That being said, if a financial product manifests as an illustration and discussion with a sales representative, how difficult is it to create and test prototypes of this interaction?

In a previous issue of *Product Matters*, Lance Poole of Protective Life Corp. shared some great insights about prototyping in his article "Design Thinking: This Will Change Everything." If you have not read it, I encourage you to check it out. One key take-away is that if you really want to solicit feedback, it's important that your prototype looks "rough around the edges."Hand drawn cards or diagrams, post-it notes, etc. just beg to be "tinkered" with because it engages people into creation (rather than showing something so buttoned up and polished that people naturally resist trying to change it).

However, that is not to say there is no place for a more polished looking prototype. Let's say you are nearing your final design and you are testing producer-consumer experience during the illustration and sales process. In this case, applications like Excel are easily adaptable to creating some very slick looking user interfaces to illustrate your prototype product. I think we all know a few Gen Y computer whiz-kids that are brilliant coders that can bring this to life.

Once an application like this has been created, instead of doing consumer focus groups with a paid professional moderator, consider testing with a real live insurance producer and real live consumer in a testing facility.

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Here, one-on-one testing is also preferred since it simulates "the real thing" as much as possible. There is real power in basic observation, and this approach is a great way to work out the kinks in a design pre-market, or gain insights on totally new-to-the world concepts. Yes, there are some potential drawbacks such as a producer may not be "unbiased" like a professional moderator. It is also important to have some sort of "control" in this type of test so relevant comparisons can be made. For example, your test producer could show an existing "in market" product in this environment to benchmark receptivity of the new concepts.

6. Hedge your Bets

When testing a "new to the world" concept, you should ask the question "is there an existing market for this or am I attempting to create a market?" An example of creating a new market is the Apple iPad. Five years ago, this device—in fact the entire category—barely existed. Now, we all can't live without our iPads! If you are attempting to create a new market, that is not bad, it just may mean that you are farther out on the risk/reward spectrum (greater chance of failure—greater return if the concept is a hit). If there is an existing market, then the chance of failure may be lower, all things being equal. In the case of the Doritos Locos Taco™, the market for both tacos and Doritos® was large and well established. In insurance product parlance, the Combo Life-LTC products, such as Lincoln's MoneyGuard, come to mind as a successful "smash-up" of two large and well established markets.

7. Make Sure the C-Suite has your Back

This may be the most important element when it comes to rigorous R&D. The CEO of Taco Bell didn't say reinvent the taco by year-end—he painted a three-year vision and gave his teams the support they needed to get it right. Too often, the desire to see sales this quarter, or this year can interfere with the long-term success that can come from robust experimentation. One way to address this with management is to have a portfolio of "bets" that are well diversified on the risk/return scale. For more advice on this, check out Jack Welch's brilliant "Eating and Dreaming" article on LinkedIn.

It's true, testing insurance products may be more of a challenge than testing tacos, but hopefully you have come away with a few practical tips on how to efficiently test new concepts. The knowledge and insights gained are more likely to lead to successes in market.

Now, who's hungry?

This material contains views and opinions of the author that are not necessarily those of Allstate Financial.