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MARKETING TRENDS—SMALLER COMPANIES

I. *Mass Marketing*

A. What is the nature of the impact on smaller companies of the growing number of persons insured under group plans, policies sold by direct mail, credit card, and newspaper-advertised coverages? How can a smaller company participate in this trend? Effectively counter it?

B. What underwriting, regulatory, product design, and marketing questions arise in the various types of mass marketing of health insurance? Of life insurance?

C. To what extent are mass marketing insurers using the services of advertising agencies and other independent marketing experts?

New York Regional Meeting

MRS. ANNA M. RAPPAPORT: "Mass marketing" has been rather glamorous for the last few years. Most of us have heard of many plans and have probably tried a few ventures in this area and met with very little success. There have been, however, a few very successful plans. Past attempts at mass marketing by my company, Standard Security, have substantially failed.

In my opinion, except for sales to professional association groups, life and disability income insurance must be sold by an agent. This is true, regardless of whether the coverage being sold will cover one person or many. Normally, the sale must be made by the agent in person to the payor of all or part of the premium for the coverage. I believe that neither life nor disability income can be sold on a widespread basis through direct mail or newspaper advertising. Other forms of coverage may be easier to sell in that way. The direct sale to the policyholder has not had any substantial impact on my company, and I feel that it is unlikely that it will have any impact in the relatively near future.

My company has tried to market direct to the policyholder. During our first year of operation we tried to sell life insurance through the mail. The plan offered was a very attractive one with a low premium. Fewer than one-hundred policies were sold. The next year the company tried to sell cancer care insurance through the mail and newspaper advertising. About six-hundred policies were sold. Today, nine years later, about one-half of these policies are still in force. The premiums were based on published public health data, and the experience has been consistent with those data. There is no evidence of any antiselection on the part of the purchasers of the coverage. After these experiences, the company no longer tried to sell by direct mail to the policyholder, and it proceeded to set up a general agency operation.

The key to success in mass marketing is the sales approach. Mass marketing can succeed if the sales approach is right, and if there is the right man to sell the product. The product must appear to be extremely attractive to the buyer. The small company can participate in the mass marketing opportunities available. To do so, it must provide to the agent who has a sales idea the product and service he needs to support his sales idea and approach. The small company is ideally suited to service this type of business because it can make decisions rapidly.

A product designed for a mass marketing approach must be very simple to sell. There should be either a single fixed plan or a small number of fixed alternatives. The agent must have a simple table from which price and benefit can be quoted. A regular ratebook is too complex. The premium per policy must be high enough to support the administration of the business. The premium should provide for mortality consistent with the underwriting standard to be applied. The plan will normally be sold to members or units affiliated with an organization which must endorse the plan.

Above all, the product should appear to offer to the customer something that is much more attractive than that which he can buy elsewhere. Frequently, a special product must be designed to fit in with a sales approach. The question of automatic issue underwriting usually is raised with any discussion of a mass marketing approach. Our experience is that automatic issue can be handled satisfactorily, provided that (1) all participants are actively at work, (2) there is no selection of the individual amounts of insurance, (3) the amounts of insurance are reasonable, and (4) either all individuals in the group participate or a large portion participates.

If each individual is to pay the premium, participation will usually not be adequate for the group to qualify for automatic issue. It is, therefore, essential to obtain underwriting information with the application so that the group can be underwritten if it fails to meet participation requirements. Our experience with automatic issue indicates that a group level of experience is appropriate for this type of business. We pay reduced commissions on automatic issue business. We are offering automatic issue underwriting on regular plans of ordinary permanent and term life insurance and on individual health, including noncan disability income. The application forms must be very simple.

MR. WILLIAM H. AITKEN: I believe that group and government and association plans have made a severe impact on the individual market, but this impact can be countered by getting our share of sales through our own group endeavors or by related means, such as mass marketing, special risks, and wholesale.

While the smaller company usually has a less efficient and less mature field force, it does not need to suffer even as much as the larger companies from the impact of mass marketing, since it has administrative efficiency and growth potential. For example, between 1962 and 1966 the in force in a group of smaller companies increased 60 per cent, in comparison with 40 per cent in a group of larger companies.

Many of the underwriting, regulatory, and product design questions are similar for life and health and for group and ordinary. However, in the process of bringing out a new product it is very easy to forget some important aspect.

I am sure that a hundred years ago the life insurance companies slanted their marketing to the buyer, but over the years there has been a tendency to specialize, to the extent, in some cases, of forgetting the buyer. The current tendency is to replace the concept of sales with the concept of marketing, which is a broader term; the four key factors are (1) the buyers, (2) the product, (3) sales, and (4) service.

It is important to study not only our markets but the changes in our markets, some of which are the following:

1. Degree of sophistication of the public
2. Age structure of the population (demographic trends)
   a) Longer retirement, fewer children, later marriages
   b) Higher proportion of young people, more female buyers
3. Disappearance of depression psychology
4. More interest in investment, more competition for savings
5. Greater affluence—more money for spending and saving
6. Higher standard of living to protect
7. Greater role of employer—final average pensions, widows' benefits, long-term disability
8. Role of government, encroachment and regulation
9. Changing technology

It is understandable that the assistance of experts is sought in fields of advertising, radio, sales promotion, and marketing services. Problems may arise, however, in the areas of cost, lack of familiarity with the problem, or failure to follow up and evaluate long-term results.

The large-scale surveys by LIAMA and others are valuable in asking the broader questions, such as, What markets are there? Which do we want to reach? What are their needs and attitudes? How do we presell? How do we co-ordinate with the agent?

Atlanta Regional Meeting

MR. WILLIAM J. BRYAN, JR.: One of the major impacts of mass marketing on smaller and newer life companies has been the creation of multiple-layered sales forces. At one level a team of specialists concentrates on the promotion of insurance products and services to a trade association executive staff, a national franchiser, a bank credit card division, or a mortgage loan company. The sale to such a source of third-party influence is vital to the ultimate success of many types of mass-marketing systems.

In multiple-employer marketing, a second-level team of men trained to sell to employers is used.

The third level is the salesman who communicates directly with th employee, either in enrolling group plans or in selling an employee-pay-all program.

A successful sales organization will need to allow movement among these various levels. For example, a salesman enrolling group life and health coverage may want to move into the sale of key-man programs to employers. The marketing organization must have a place for the well-qualified salesman to go or it will lose him.

Some mass-marketing groups have organized separate marketing corporations, to varying degrees independent of the insurance company. Sometimes the insurer and the marketing organization exist under a holding-company framework. Whatever the structure, the strength of these marketing groups is their knowledge of their particular market and of the products and sales methods needed. Their access to large numbers of prospects often enables them to design competitive policies at low commission cost. Many marketers employ actuaries for this purpose. One of the greatest opportunities for the smaller company in mass marketing is its willingness to work with the marketer to design package programs for his particular market place.

In addition to actuaries, the marketer often employs staff specialists in the areas of market research, advertising, and sales promotion. The insurer that is oriented toward this type of mass marketing can avoid this expense. At the same time, the challenges are great to the management of such self-contained marketing companies.

Sales-compensation methods vary widely. In many mass-marketing operations it is almost impossible to determine who made the sale. It seems generally agreed that salaries will become more widely used but that strong incentive methods must be retained.

In the direct mail market the impact on products has been to emphasize low-cost, large-benefit items. Where salesmen are used in the sales process, the type of product is largely under the control of the marketing group. If the products are properly priced and attractively packaged, competition should not be a problem for the smaller company that has chosen its market carefully. The current emphasis on consumerism, however, will undoubtedly be felt on the mass marketing of insurance products. The presentation of two papers at this meeting on the subject of life insurance cost comparisons may be an indication of this.

If the smaller company wishes to counter the trend toward mass marketing, one way is to develop its agency force into specialized financial counselors. Often it may take advantage of mass marketing by providing such trained manpower or specialized products for use by a mass-marketing group that may lack these skills. Willingness to be flexible in working with the marketer is crucial.

The impact on underwriting is largely toward a blending of ordinary and group techniques. For the larger cases there is pressure for true group underwriting, even in employee-pay-all programs. A company must properly evaluate each proposed change in underwriting when moving into a mass-marketing area. A true evaluation of expense savings versus extra mortality must be made.

There seem to be two countertrends in the regulation of mass marketing. Many insurance departments have restricted mail order solicitation in one way or another. In health insurance twenty states require that individual policies be countersigned by resident agents. Several states require the approval of literature. Some states require that the company be licensed before permitting solicitation by mail.

On the other hand, the removal of group life insurance limits in many states indicates the recognition by state insurance departments of the need for flexibility.

The use of outside consultants in mass marketing appears limited so far. However, if the company does not have people trained in advertising or other skills, the use of outside agencies is often necessary. The application of psychological and statistical techniques is of growing importance, especially in direct mail solicitation.

MR. HAROLD W. BLACK: Mass marketing generally refers to a technique of increasing exposures to the sales process. One such approach that has met with unusual success involves a stratification of sales personnel and a departure from the usual commission-sales approaches. In the salary savings market, two levels of sales personnel are used. A top-level salesman sells an employer on the idea (an employee-communications idea that has obvious value to the employer). A lower-level salesman works with employees to carry out the idea and to elicit insurance sales according to a very specific sales track. Sales compensation has been a blend of salary and bonus. An experienced top-level salesman will close 50 per cent of the employer sales efforts, and lower-level salesmen are closing 70 per cent of employee sales efforts.

MR. JOHN M. LOFTIS: Integon has for many years had a type of mass marketing in which decreasing term insurance to cover the outstanding balance under a mortgage is sold through savings and loan associations.

II. *Manpower*

How can a smaller insurer find field manpower in the face of intense competition for capable salespeople?

New York Regional Meeting

MRS. ANNA M. RAPPAPORT: Field manpower to my company means three different types of people: home office agency management personnel, general agents, and producers. My company works in the brokerage market with general agents and part-time producers. The part-time producers may be surplus writers; they may be in occupations related to, but different from, selling life insurance; or their main occupation may be completely unrelated to life insurance.

The company must find home office agency management personnel, and it must recruit general agents. It must provide its general agents with the product and services that they need to recruit producers.

A small company can be a very vital, alive place. It can offer executives the opportunity to function independently and to use their abilities to the fullest. This atmosphere makes it possible to obtain and keep a very high quality of home office management. Nearly all the management and technical staff of Standard Security have been with the company for five years or more, although the company is only ten years old. The experience of the company is that good people will not look for other jobs if the working environment is good. This has been true in spite of the fact that there have been many job opportunities in the area. For general agents the smaller company has two powerful tools to offer—personalized service and flexibility. New general agents normally are experienced life insurance men who are interested in starting their own business. It is very difficult to find general agents and difficult to determine in advance who will succeed. The right agency vice-president is the key to a successful operation. Both small and large companies have the same types of problems of finding men who can build an agency from scratch.

The company operating in the brokerage market has a real problem in finding and building loyalty among producers. Studies early in the life of Standard Security indicated that many of the regular producers in one year would no longer be doing business with the company the following year. The producer in the brokerage market decides with which company each policy will be placed. The company must help its general agents give each producer a reason why his company should be the one for the next case.

Standard Security has developed a noncontributory retirement plan especially designed to help build a group of loyal producers with an interest in the long-term growth of the company. Qualification for the plan is based on commission earnings with Standard Security; a producer who earns $3,000 in first-year individual life and health commissions in a calendar year qualifies, regardless of any other retirement benefits to which he may be entitled. Benefits vest after ten years of qualification. A fund is set up for each calendar year, and the qualifiers for that year benefit from both investment experience and reallocation of funds previously credited to qualifiers who drop out because they fail to qualify in two consecutive years.

The fund is invested by a trustee, 50 per cent in Standard Security stock and 50 per cent in other equities. The investment in Standard Security stock gives the participating producers an extra reason for being interested in the growth of the company. The plan has been in operation for three years. It seems to be quite successful. Several producers now have an interest in the plan of more than $5,000. The number of qualifiers has increased each year, and nearly all qualifying producers seem anxious to qualify again. During the first year of plan operation, we contributed to the plan 16 per cent of commission which counted toward qualification. As of December 31, 1968, the 1966 fund was worth $440 for every $1,000 earned toward 1966 qualification.

MR. WILLIAM H. AITKEN: In meeting the serious problem of manpower, we can attempt to emphasize quality and de-emphasize quantity. In competition with other industries we are forced to put more emphasis on fringe benefits, training, programmed learning, and continuing education. Smaller companies can also stress higher remuneration and personal contact. Our company has a graded bonus system that attempts to reward a larger amount of production. We can also give more help from the head office by performing computer analyses and record keeping. Programming, tax consultation, and estate analysis provide much valuable assistance for the agent, but, to make good use of these, he must conduct a skillful fact-finding interview.

In view of the poor rates of survival for five years (12 per 100 in the large companies and 9 for the smaller companies), we must seriously consider a salary system of remuneration instead of commissions. There are important arguments in both directions.

Demography will help us in the next ten years, when there will be a 30 per cent increase in the age group 25–39 in comparison to a decline of 4 per cent in the period 1955–65.

Atlanta Regional Meeting

MR. JOHN M. LOFTIS: In recruiting, Integon stresses self-realization rather than simply money, since most candidates are too young ever to have known financial insecurity. Forty per cent of our agents have come from other companies, and we think this percentage is too high.

We have found that retention is best in those areas where a substantial part of earnings is in the form of salaries, such as our group, credit, and mortgage protection representatives. We look for more emphasis on salaries in the future.

CHAIRMAN WILLIAM R. BATTLE: Shenandoah's attempt to recruit agents on the college campus has been a dismal failure, and we have now given it up. When a prospect for insurance gives as his reason for not buying the fact that he cannot afford it, the company attempts to recruit him as an agent on the basis that he is not earning enough.

MR. JOHN C. BURNS: In our company in Canada the earnings of the average agent ten years ago corresponded with those of the average civil servant. This is no longer the case and seems to us to highlight one of the main problems of attracting and retaining agents, that is, the problem of agents' remuneration.

MR. HAROLD E. RUCK: About ten years ago Volunteer State embarked on a personal producing general agent operation. We used a snobbish appeal in our recruiting, with advertising aimed at the top 10 per cent of producers in the country, each of whom must have produced at least $750,000 a year and must have a first-year persistency of at least 90 per cent. The agents must establish an office with a telephone listed under Volunteer's name.

The results have been most satisfactory:

1. Our (Best's) expense rate is dropping;
2. Our production is approximately 4 times that of ten years ago;
3. According to a LIAMA lapse survey Volunteer is first in its size group;
4. Our average-sized policy is $26,000 on direct business other than pension;
5. Approximately 35 per cent of our agents qualified for the Million Dollar Round Table.

We concentrated on two plans—a $20,000 minimum whole life policy and a decreasing term policy.

III. *Product Philosophy*

What considerations determine the following:

A. The number of different contracts to be offered?

B. The frequency of revision of product lines?

C. Sources of new-product ideas?

D. The number of different markets that can be effectively pursued at one time?

E. How to avoid the cost of product failure? Is test marketing feasible for a smaller insurer?

New York Regional Meeting

MRS. ANNA M. RAPPAPORT: We have tried to determine the needs that must be met by our product line. Standard Security operates essentially in the brokerage market in metropolitan areas in the Northeast. We sell to the middle-aged business market but sell little to the young-family market. We have regularly attempted to find out what product was important to our general agents and producers. Two years ago we sent a rather detailed questionnaire to our general agents to determine what product lines they talked about most frequently, what product lines they felt were important, and what, if any, product lines they felt were unnecessary. Nearly all the general agents responded. We also did an informal survey to determine how knowledgeable our general agents were about the lowest price charged for whole life contracts currently available.

On the basis of these surveys, our sales data, and numerous discussions with general agents and home office people, I believe that the following product lines are most important to us: (1) nonpar whole life, (2) par whole life, (3) renewable and convertible term, and (4) decreasing term.

Endowment and limited pay life were very important. I found that it was desirable to have a large variety of term plans. Price, as compared to prices of other companies soliciting the same brokers, must be reasonable. The price survey of our general agents indicated that not one of them knew which company offered whole life at the lowest price in New York. (This company did brokerage business and would have been available as a carrier to their producers.) They mentioned instead companies who had recently promoted their prices. General agents complain at times about the premiums charged by other companies, even though those premium rates are higher than ours. When another company is soliciting the producers of a general agent, the general agent will be sensitive about that company and price will probably be chosen as a complaint. In my opinion, the real problem is not one of exact price as much as it is one of mailing comparable material on the company's product to keep the producer aware of our company as a carrier.

There are always a few jumbo cases which will be sold on the basis of absolute lowest price in the market. It is probably best simply to forget about trying to get those cases.

In addition to the above, it is very important to us to have some specialty lines with unique or unusual features. The handling of impaired risk insurance is an important specialty for Standard Security. The company has an unusual product approach for this line and an underwriting department knowledgeable about impaired risks and well equipped to process difficult cases. Service and product are both vital to success in this area. Individual policy pension trust is also an important specialty for the company. Other specialty items at Standard Security include such special products as multiple life renewable term for funding business buy-outs and joint life term for sale to husband and wife.

Impaired risk business and pensions are quite important from a sales viewpoint. The special term plans are poor sellers, but they make valuable special items for the general agents to talk about.

In addition to specific specialty products the company is prepared at any time to discuss with its general agents situations requiring special product or handling. If the business can be written at a reasonable profit and on a basis consistent with over-all company objectives, the company will prepare customized quotations. This type of flexibility in product is one way in which a small company can use its size to advantage.

To sum up, our product philosophy is based on an analysis of our needs and reflects the market in which we operate. In our opinion it is most important to have good whole life and term products, strong specialty lines, and the ability to handle unusual situations on a customized basis. The actual product line includes many other items which are designed in accordance with the wishes of company management.

With respect to revision and change of product lines, I find that the small company is in a constant state of evolution—each year there are likely to be two or more new products introduced. Complete revision is likely to be infrequent, probably not more often than every eight to ten years. Certain administrative problems arise as a result of this approach.

New-product ideas come from the company president, people in the field, and home office personnel. In my company, the president and actuaries have been the main source of new-product ideas for the past six years.

A small company cannot effectively pursue all markets at one time, in my opinion. The size and experience of the home office agency department limit the markets in which the company can operate.

A small company should select the markets it wishes to pursue with respect to geographical area, type of agency organization, and marketing approach.

If at all possible, the company should find some particular phases of the business in which it feels that it can do a better job than most companies. The company should then seek to provide excellent service in these areas.

I do not believe that the cost of product failures can be entirely avoided; furthermore, it would be very undesirable for us to attempt to do so. My company has regularly developed new and unique product ideas. Although, in terms of actual sales, these have normally failed, they have provided our agents with products to talk about and have given them a reason to visit their producers.

These products have helped the company to establish a reputation as an innovator. I do not believe that test marketing is usually possible for the smaller company.

MR. WILLIAM H. AITKEN: A fair number of products seem to provide stimulation and interest for the field force, as well as more effective programming, but a large number of products are usually found to be unnecessary. The timing of new products is important, and it could often be ineffective to introduce them too early or too late.

Revision must be done periodically to avoid being too far off base in any area because of the tendency to reflect in other areas. On the other hand, frequent revision is usually unnecessary.

There is a tremendous number of new ideas around, of which equity policies are one of the more important. Empire Life has recently brought out three equity policies. One is a single-premium, open-end policy; the second is a monthly premium policy with flexibility of premium but no flexibility of benefits. The third is a monthly premium policy with decreasing term and waiver benefits and flexibility of other benefits but little flexibility of premiums.

We work mostly in the urban market, because of the difficulty of building a field force in the rural market, and we are attempting to market in the higher age brackets with our new equity products.

Avoiding failure requires a great deal of planning and evaluation. Test marketing may or may not help. For example, the 1968 survey of agency opinion showed that 29 per cent of full-time agents regarded the introduction of equity products as beneficial to their own interests; the comparative figure in 1966 was 2 per cent, and these figures would certainly not suggest the marketing effort for equity products, which has since been shown to be desirable.

A vice-president of Ford of Canada gave a marketing talk contrasting the Edsel and the Mustang which had some points of interest for our industry: (1) keep the radar constantly on the market place, (2) pay attention to the young, and (3) be venturesome and learn from mistakes. With regard to premarket testing, he pointed out that apparent value should exceed actual cost; the customer would then be inclined to rationalize and want to accept the product. He emphasized that what the public wants is more important than what we think the public should have. Talk to the public, and remember timing, promotion, and effective stimuli.

Atlanta Regional Meeting

MR. JOHN M. LOFTIS: If a company's objective is to sell life insurance, it would probably decide to have many different plans available to cover the market as fully as possible. If the objective is to provide more general financial services in a broader area, the decision might be to have fewer life plans plus basic contracts in many other lines of insurance.

Another consideration is the market the company is trying to reach. Under the individual family market, if the company wants to reach the wealthy class, high cash value, low-cost policies are needed for specialized tax needs. In the business market there is greater need for group contracts and specialized liability contracts in the casualty field. Also more emphasis would be placed on mass marketing through salary allotment and the like. Determining your market is easy to discuss but very hard to do, but at Integon we feel that we should emphasize a predetermined market rather than try to reach the entire economy through a "shotgun" approach.

Another consideration is the sophistication of your field force: a debit organization has little need for the elaborate contracts required for split-dollar and deferred-compensation arrangements.

Finally, the technical and computer resources of the company are important. Here the small companies may have lost their former "flexibility" advantage. They may find it necessary to do things by hand because the calculation will not fit the computer program, whereas the larger company may have enough sales to warrant many different plans on tape.

The primary source of new-product ideas still seems to be other companies. Some insist that the small companies cannot lead in the development of new products, because they do not have as much money, talent, or prestige with the regulatory bodies. An insurance department or the SEC would probably be more impressed with a battery of big-name actuaries and lawyers from a large company. Recent major innovations, such as the family policy, separate accounts, and the insurability rider, were first put into use by larger companies. Others insist that new ideas depend upon imaginative, creative people (who are by no means restricted to larger companies) and that smaller companies are not as bound by tradition and can make internal changes more easily. In any event the smaller company can excel in marketing.

We feel that the smaller company must recognize that it cannot be all things to all people. In addition it can be hindered by poor organizational structure. One smaller company had six different sales managers reporting directly to the president. Each manager pursued his own market, had his own sales force, and handled his own advertising. There were little co-ordination and much inefficiency and duplication of effort. One man was put in charge of marketing to co-ordinate sales, advertising, product development, and other marketing aspects.

MR. RICHARD W. ZIOCK: Continental Assurance's new "Computerm" can provide different amounts of insurance and different premiums in each year, all as elected by the applicant. It is entirely term insurance for periods from one to fifty years and is issued from age 1 to age 69. It is not a "life-cycle" policy, since the amounts and premiums for each year, and the conversion period, are fixed at the time the application is taken. The main market is in business cases, and the volume is concentrated in the $50,000–$100,000 range.

MR. ANTHONY J. HOUGHTON: A company's home office and field agency capability should be taken into account in considering any new field, such as mass-marketing, accident and sickness, franchise, group, equity products, and the like. A program that is sound in itself but is likely to remain the only one of its type can, through the effort to administer it properly, divert limited energies and talents better directed to products offering the best prospects for profit and growth.

The company should recognize the capacity of the field force to absorb new products. Unco-ordinated profusion of products, particularly the revision of the life portfolio, followed closely by revision of the accident and health line, the introduction of equity products, and cost of living policies may result in agents' skipping from one interest to another without enough concentration on a single method of sales. This may lead to the agent's selling the most glamorous product, with the least profit and least income to him, and ultimately may result in his termination. In multiline companies the problems with frequent revisions and new products are magnified.

MR. CHANDLER L. McKELVEY: Actuaries should not forget that our industry is heavily distribution-oriented rather than product- or customer-oriented. Our efforts are most successful when we design policies our salesmen like to sell rather than those which may fit the needs of the consumer public.

The life insurance market can be considered infinite in size, and the smaller company should keep this in mind in planning market-target tactics.

IV. *Boosting Marketing Efficiency*

At the 1968 LIAMA meeting for the Agency Management Conference (AMC), smaller insurers were advised to "boost marketing efficiency." What is the relative "cost-benefit" marketing position of smaller insurers? What decisions might boost marketing efficiency?

New York Regional Meeting

MR. WILLIAM H. AITKEN: This could be the number one need in our company, and fortunately it is receiving quite an assist with our new equity products. Some small companies are more efficient than certain large ones, which suggests that good results can be obtained.

Projection of sales costs and of profits is a good starting point, especially if followed up with reassessment, revision, and control. Field expansion can take place in new or old territory, and we need to plan for number of agents, number of managers, and home office requirements. The training department must be responsive to the needs and weaknesses of the company, new agents, new territory, and new products. We have an agency cost analysis and a managerial bonus for cost improvement. What we are trying to encourage is a climate of profit and efficiency.

Atlanta Regional Meeting

CHAIRMAN WILLIAM R. BATTLE: Last year John A. Miller of LIAMA pointed out that the AMC companies (LIAMA companies other than the top fifty) had in the last five years outpointed the large companies in sales growth and growth of insurance in force. This edge may be difficult to maintain, however, for the following reasons:

1. In these days of decreasing prices and increasing costs, a sale does not automatically yield a profit.
2. More sophisticated data processing efforts by large companies may increase whatever distribution advantages they have.
3. There will be increased emphasis on equity products with vastly decreased margins.

We should look first to distribution efficiency, because distribution costs are so much greater than the others. Comparisons show the following facts:

1. Small companies have a higher lapse rate than large companies.
2. Small companies have a lower agent-survival rate than large companies.
3. Small-company recruiting of inexperienced men has increased by only 15 per cent in five years in comparison with 80 per cent for large companies.

4. Small-company expense rates are higher than large-company rates.
5. The average size of policy for a small company is less than that for a large company.
6. The average size of the agency of a large company is much larger.
7. Since most large companies are New York–admitted, their commission scales are lower.

Mr. Miller concludes that, on the average, the smaller companies are in the somewhat illogical position of writing a poorer quality of business in smaller and possibly less profitable units, at a higher sales cost, and with a system of manpower induction that is less efficient. Furthermore, they are trying to do all this at a price that is competitive with the big companies and with an investment yield substantially below that of the giants.

Each company must define its own cost-benefit gap and its own areas where its marketing efficiency is not as good as it should be, and it must find its own solution. This solution should be based on well-conceived, long-range plans which (1) carefully define the company's market areas, (2) take into account all aspects of the company's operations, (3) are based on as good data and research as are available, (4) provide adequate financial controls, and (5) are compatible with the company's profit objectives.

It is possible to meet only a few problems of marketing efficiency head-on. Persistency, for instance, can be changed fairly rapidly with proper emphasis. Ten years ago the first-year lapse rate at the Shenandoah was 25 per cent. In four or five years we brought it under 10 per cent (1) by placing heavy emphasis on persistency in our compensation agreements for managers and agents, (2) by becoming more selective in recruiting, and (3) by underwriting for persistency for a period and declining to issue policies with a high lapse potential.

Other deficiencies, however, such as paying higher commissions than New York companies, probably cannot be remedied. I do not imagine that many small companies would want to abandon the pack, although I wonder if commission scales are as important as training, motivation, products, and real sales assistance.

I think that the key to closing the gap is the rate of growth in recruiting and training new men. This involves (1) being properly selective, (2) providing proper early training, (3) providing training for experienced men, and (4) making sure that your products are geared to the market in which you are recruiting and furnishing as much good point-of-sale material as you reasonably can.

Reduced distribution expenses, larger policy size, and larger agencies are all linked closely together. While smaller companies can do some things immediately to improve these factors, improvement is more likely to come gradually as a company grows. However, reduced unit expenses do not come automatically with an increase in sales; even a large company can have inadequate expense controls.