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MARKETING STRATEGY AND PLANNING

*Moderator: C. DAVID SILLETTO. Panelists: MICHAEL B. HUTCHISON, ROYAL A. JOHNSON, J. BARRY LOVE**

1. Marketing through the agency system or otherwise.

2. If an agency system, career agency or brokerage?

3. Product lines to be marketed.

4. Corporate structure.

5. Revenue flow and expense controls.

6. Models and projections.

MR. MICHAEL B. HUTCHISON: Some background information about my company is necessary in order to understand our approach. Crown Life actively markets insurance in nine different countries. We operate both career agencies and brokerage operations. Our products are marketed through full time career agents, part time agents, combination agents, national brokerage houses, casualty agencies, and employee benefit consultants. We offer par and nonpar individual life insurance, group life and health insurance, individual and group pension products, individual and group disability insurance, segregated funds, group dental insurance, unit-linked insurance, investment management services, pension administration services, and professional reinsurance facilities. Within such a diversity of operations, there are four major principles which guide our thinking.

1. <u>We believe that we are a marketing organization rather than a planning organization.</u>

We believe that our direction should be dictated by the realities of the marketplace rather than the constraints of any preconceived corporate plan. Rather than try to adapt the real world to our planned strategies, we attempt to adapt our strategies to the real world. In this era of rapid change, we consider it essential to remain flexible enough to react quickly to changes in our environment.

We know from experience that each of the countries in which we do business is a different country with different people, different attitudes, different customs, different traditions, and in some cases different languages. We believe that our marketing efforts in each country must recognize these differences and respond to them.

We vary our marketing approach to fit the circumstances of each country. In the vast United States market, we felt that there was more opportunity and need for a good brokerage company than for another career agency operation. So we organized ourselves along brokerage lines, with brokerage general agencies marketing primarily through casualty agents. In Canada, historical and legal considerations have led us to operate primarily on a career agency

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basis. Sales are augmented by brokerage activity, by sales through casualty agents, and other sources. In the Caribbean, the marketplace is heavily oriented toward permanent insurance (given fewer competing savings vehicles). In the United Kingdom, our emphasis is moving toward unit-linked products, reflecting the preferences of that market.

2. We believe in individual initiative, not corporate formulas.

We believe that the key to marketing success is finding the right man for each territory, letting him have as much freedom as possible, and providing him with the support and products that he needs to meet the needs of his market. As a matter of interest, our leading agencies at the moment are in Seattle, London, Ontario, and Trinidad. No amount of market research, or corporate planning, would lead to that result. We just happen to have very strong men in those places.

Moreover, we do not believe that there is any prototype of a successful manager or general agent. The type of man who will succeed in Kansas City will not succeed in metropolitan Montreal. Each of our field associates is expected to succeed through his own initiative, not through our corporate brilliance.

This entrepreneurial attitude is carried right into the home office. We thrive on conflict. The training specialist responsible for agent career development programs will never see eye to eye with the group specialist responsible for promoting group pension sales through brokers. However, rather than try to decide which to favor, we give both as much freedom as possible. The result is that we succeed at both, rather than just one.

3. We believe in ideas.

Successful marketing depends on ideas. Ideas are needed for new products and new marketing approaches. No one man has a corner on ideas. We try to create an environment where anyone can generate an idea, muster support for it, and turn it into a reality.

The ideas are not always consistent. Conflicts do arise. However, we would rather have ideas, and conflicts to resolve, than no conflicts and no ideas. Moreover, ideas without real believers attached to them just lie dormant and do not produce results. You must have someone willing to support an idea if something is to result from it. We have found that an excellent source of both ideas and believers is our field force. We are very attentive to the views of our field associates, and try hard to keep the communication channels open. Edsels tend to be conceived in the home office, Mustangs in the field.

4. We believe in momentum.

The sales success of today is the result of what was done yesterday. Similarly, the sales success of tomorrow will result from what is done today. It is necessary to constantly develop new ideas and new manpower in order to produce tomorrow's successes and to maintain sales momentum. If momentum is maintained, success will breed success and ideas will generate new ideas. But if momentum is lost, the entire operation freezes up. It is hard to get a cold engine started again.

These four principles - Marketing, Individual Initiative, Ideas and Momentum - form the framework within which we plan our strategies and determine our corporate structure.

Our annual planning process starts from the bottom up, rather than from the top down. Our field associates determine their own objectives. We collect and total them to determine a minimum sales objective for the corporation. Home office marketing, agency, and actuarial personnel judge competitive and environmental conditions and distribute the total objective by product line. In the process they define the type of support actions required. These sales objectives form the cornerstone of an iterative corporate planning process, within which the necessary trade-offs are eventually made among expansion plans, surplus needs, and profit objectives.

Our product, manpower and marketing support strategies flow from the cribbage principle of "up back peg". We strive in each of our markets to be respectable in all product lines and industry leaders in some. This is obviously not something that can be planned annually. It emerges from the continuous process of idea generation mentioned earlier. Our product emphasis is heavily influenced by the requirement that each product line and territory stand on its own feet. Heavy new business strain in a given line can lead us to shift our product mix away from that line.

As far as expense control is concerned, we believe that expenses are best controlled by the spenders. Expense planning is an integral part of objective setting annually. Target standards are determined by premium loadings. Our information feedback system is aimed at helping the spender to control expenses.

We do very little formal planning that involves models and projections. Most of the idea generation and manpower recruiting takes place with one eye well down the road, and objective setting at the field level embraces both long and short term objectives. We know where our ideas are taking us. We have not devoted the resources to mathematical modelling. The diversity of our organization makes it an overwhelming task.

Our corporate marketing organization can best be described as "loose." Basically it is designed to promote individual initiative. We have agency and marketing policy committees to resolve conflicts, and marketing coordination committees to keep everyone aware of what is happening. Territorial agency "line" personnel are responsible for manpower; marketing "staff" specialists are responsible for support activities; actuarial product designers are responsible for product and pricing. They all work toward the common goal of helping our field associates to achieve their objectives.

MR. ROYAL A. JOHNSON: Sentry Life has recently reorganized to recognize significant differences in the marketing of life and health insurance products through two different distribution systems. The current organization structure revolves around two major responsibility centers. One is oriented towards sales and support of an all lines distribution system. This system is under the direction and control of SIAMCO, our property and casualty parent. The other major responsibility center in the life company is called the "Agency Marketing Division." This division is oriented towards the marketing of life and health insurance products through sources other than the all lines distribution system. These other sources include career agents, brokers, broker/administrators in the mass marketing field, general agents, independent agents, stock brokers, and some we have not yet been able to identify.

There are substantial differences in the marketing strategy and planning between these two responsibility centers. Since the all lines (or direct writing) system has been around for nearly 75 years, we will start there.

1. <u>All lines distribution system</u>

The all lines distribution system consists of 900 to 950 sales representatives under the direction of about 60 sales managers. The sales managers report to regional sales managers in eight regions. The regional sales managers report to the Vice President of Sales of our property and casualty company parent. The life and health organization has no direct control over this sales force.

Sentry Life Insurance Company was organized in 1958 for the purpose of providing additional products for this sales force. In the middle 1960's the Sentry complex came to the conclusion that life and health business could be profitable and should be marketed aggressively through the all lines sales force. The concept of a full-fledged life and health sales support system was developed about 1965 and was fully implemented over the next few years. Currently there are 20 life and health sales managers who report to a director of field sales and an assistant vice president of sales, all within the life and health organization.

Each life and health sales manager services about three sales teams, representing about 40 to 50 all lines sales representatives. These sales managers provide technical support for all life and health product areas including pensions, individual life and health, and group life and health. In addition, they provide closing assistance, working directly with the salesmen, and are responsible for nearly all field training in life and health products. The field training ranges from joint calls, to prospecting, classroom training, sales manager training, and assistance in recruiting new salesmen.

In addition to the sales support provided by the life and health sales managers, the life company provides sales support from the home office. This takes the form of training, including the development of basic training programs in life and health insurance for new men in the field, advanced business training programs, special classes in the home office for business life and estate planning, as well as road shows to introduce new products. All underwriting, proposal service, and administrative service is handled from the life company home office.

The planning process for a particular period begins at the Sentry complex level and usually takes the form of growth and surplus objectives which must be realized by the complex as a whole. The immediate strategy and planning for the sales force is determined, at least to some extent, by the expected profitability of the property-casualty lines of business. The goals and objectives are established on an annual basis with periodic reviews of overall longer term objectives. This review process takes place intensively every three or four years with updates in between.

The life and health organization does its planning on the basis of overall objectives related to the all lines sales force. For example, the current long term plan calls for a growth in the sales force of about four to five percent per year. Our goal is to increase individual life and health premiums at about ten to twelve percent per year.

In order to accomplish this objective, both short range and long range strategies are developed and implemented. These include product strategy objectives such as the need for special products. Market strategy is also considered. The marketplace for this sales force has been well defined and concentrates heavily on the small employer. We have had a great deal of success with trade association business and have been very successful in marketing not only group life and health products, but also workmens' compensation, property coverages, business insurance, and related coverages. The market strategy then centers around appeals to this particular marketplace.

Specific planning takes place for a given year in the fall of the preceding year. At this time, planning takes place at the sales manager level with the assistance of the life and health sales managers. Specific goals and objectives are developed for life and health products and are integrated with the property and casualty goals and objectives. Training schedules are established, including tactics for recruiting and training new men.

In the meantime, at the corporate level, the life and health management is coordinating its goals and objectives and establishing strategies for selling more life and health products through this all lines sales force. Specific strategies take the form of training techniques and product emphasis. For example, when pensions were first introduced and developed as a viable product, the decision was made to use about 1/3 of the sales force as a primary pension sales force. Incentive plans are reviewed and frequently changed when specific targets are defined. Some of the techniques that have come out of strategic planning include a bonus arrangement where all property-casualty bonuses are subject to individual life production qualifiers. There are specific life bonuses, and a very real effort to get an individual sales representative to the $5,000 production threshold. Incidentally, we use premium for measuring production.

This particular distribution system lends itself to relatively easy projection and modelling techniques. The growth is predictable, the costs are very predictable, and the track record is well defined.

In summary, there is an overall planning process at the Sentry complex level which defines rather broad growth and surplus objectives. Within this framework, the strategic planning takes place separately for the property-casualty, and the life-health organizations. These plans are then coordinated and integrated and specific planning takes place down to the sales manager level. By and large, life and health strategy receives as much attention as possible from the sales force at all levels.

2. Agency Marketing Division

The second part of this presentation will deal with the "Agency Marketing Division." It should be noted that, while this division is separate, there is coordination of planning at the management level.

The Agency Marketing Division deals in project planning. This division incorporates five different operating departments. There is one department which sells primarily through independent agents; another department sells through general agents; a third department markets life and health products through career agents and personal producing general agents; a fourth department markets direct response business through broker/administrators; and a fifth department handles employer/employee group life and health, usually in associations, trusts or moderately large employer/employee cases. This fifth department also administers group business for the other units that market group insurance.

The two corporate subsidiaries each have a specific plan incorporating market identification, market strategy, financial projections, and some modelling with respect to new ventures. Each department, with the exception of the Agency Department, has a specific profitability measure--which may or may not be related to corporate results. Since we are in the process of designing and defining the planning process for the Agency Marketing Division, I will try to describe what we hope will happen. On an annual basis, we expect to review and, if necessary, revise a five year plan. Specific projections are identified and each project is analyzed for cost, investment, and ultimate return. By early fall we expect to have developed specific goals, objectives, and strategies for the next year. These should be consistent with the five year plan and should reflect the current situation and environment. The property-casualty business tends to be cyclical and we must be in a position to react within the framework of our overall plan.

In this division, modelling is difficult since the track record is fairly short and results tend to be somewhat volatile. This is partly due to the relatively small size and rapid growth of the departments but also reflects attempts at new marketing developments.

Projections are required. These projections should reflect expected income, expenses, claims, and all the components of an operating statement. Projections are expected to be done for a five year period in order to show surplus strain or profit expectations for that period of time.

The basic concept is that each department will specifically identify its marketplace. Having done that, each will be in a position to develop product and pricing strategies, and to develop some measure of the expected resources, both financial and human, that are necessary in order to make the plan work.

This process gives management of the life and health organization an opportunity to review the overall expected results, to project overall profitability, and to make decisions as to the allocation of resources.

The most critical considerations, and the most troublesome, include:

1) Clearly defining corporate goals and objectives;

2) Dealing with marketing as a whole concept which includes market identification, pricing, product, sales system, administration, profitability, and availability of resources;

3) Establishing the highest degree of accountability at the point of greatest effectiveness;

4) Developing and tracking financial projections and results; and

5) Determining and allocating financial and human resources.

We are probably no better than anyone else in solving the problems posed by our attempts to define and handle these areas of our operation. But we have found that the planning process, if it is broad enough and involves the right people, enables us to achieve a solid working consensus of our overall goals and objectives, both long-term and short-term. This consensus makes it much easier to deal effectively with sudden or radical change, as well as new opportunities.

DR. J. BARRY LOVE: My task today is to discuss the planning process that directs the marketing activity at National Liberty Corporation, a medium-sized holding company specializing in the marketing of individual life and health insurance policies through direct response marketing techniques. I will try to focus on the planning process and deal with the procedure for evaluating a plan within the overall context of the strategic planning process, product development, and development of the marketing plan.

Some background information may be helpful toward understanding our approach. The company was founded by Arthur DeMoss in 1959 as an insurance marketing firm specializing in direct response marketing. Mr. DeMoss believed that this marketing technique was suitable for the products he wanted to sell, realizing that for more sophisticated products and estate planning, an agent was still desirable.

Revenues for 1976 were in the neighborhood of $165,000,000 with approximately 70% of that from accident and health insurance. Although we have a growing agency force selling accident and health, life, and annuity policies, our main thrust has been toward marketing directly to the consumer, using advertisements in newspapers and magazines, television, and direct mail. In 1977, we will invest approximately $40,000,000 in these direct response marketing activities.

Our annual marketing planning is developed within an overall strategic planning process. The emphasis is on the word "process." In the past two years, we have moved away from "crisis management," and tried to develop a process which allows us to deal with uncertainty and surprises in the context of an overall set of corporate goals and objectives. Our planning process is continuous and flexible.

Unlike many formal planning processes, our process allows us to react to unfamiliar discontinuities. We do not always avoid them because they cannot always be classified and because often no formal method exists to translate them into action. We try to amplify and respond to weak signals. We do not wait until we are in the midst of a problem. We develop a strategy before the problem occurs.

Aside from the previously mentioned differences, our strategic planning process is quite similar to that of many other companies. We have established a mission and direction; we have strategic policies and guidelines; we set objectives; we construct strategies to meet our objectives; we assign responsibility; and we construct action plans. We have feedback systems which allow us to control and monitor our action plans, to measure progress against our objectives, and to make adjustments in the short-term plans when they are necessary.

Our basic planning revolves around the philosophy that an insurance company should offer the consumer a product which he needs and wants at a price he can afford to pay. We do not believe in offering a product for sale merely because that product exists. Hence, our first step in the market planning process is research oriented. It involves product design and the assessment of market potential. Also, since we do not have personal contact with the potential consumer at the point of sale, our research concentrates heavily on ascertaining the best way to present a product to the consumer.

Since we have a market which is highly segmented, we plan by market segment. The market potential for each segment is assessed separately. We look at the current insurable but uninsured private expenditure, the loss of consumer income which would result from that expenditure, the total annualized renewal premium that we can expect from new policies, the anticipated growth of the market segment, and finally a profit and loss statement for that segment. If the total picture of the market segment is positive, we then plan the development of a program.

In the market planning process, we develop six key strategies: a marketing strategy, a creative strategy, a product strategy, a media strategy, a legal compliance strategy, and a cost control strategy. For each segment, we outline the set of assumptions under which we will be working, and we carefully identify the key "sensitivities" (business opportunities or business roadblocks).

In product planning, our philosophy is to develop a product that offers value and then find a way to reduce costs enough to market it. Once we have decided on the product, we carefully study all of the characteristics as they relate to the ultimate profitability of that product. The marketing method puts some important constraints on the product. It must be easily understood, easily issued, and easily serviced. These factors are all considered in the development of a product. A model is developed which incorporates reserves, price, benefits, persistency, value to the customer, and cost. Costs include the expenses of marketing, overhead, and operating (service, materials, postage, etc.).

Through experience, we know which products we can market successfully. So most of our planning goes into the assessment of market potential and the method of presentation.

Because the response patterns of consumers to direct response solicitation seem to be cyclical, we have developed a planning process in which yearly plans are finished during August. This gives us time to implement our normally heavy marketing program for the first calendar quarter of the year. Results are reviewed in March, and a revised plan is developed for the remaining part of the year based upon first quarter results and any deviations from our plan. We have found that there are almost always deviations from our original plan because of economic conditions, fluctuations in marketing costs, changing response rates in individual market segments, and consumer preferences.

One of the most important areas of our total planning process is our testing program. Throughout the year we are involved in programs which test new copy concepts, new marketing channels (newspapers, direct mail lists, etc.), new formats for our newspaper inserts and new kits for our direct mail solicitations. Most of these new ideas have been developed either through research or in "creative sessions" where promising concepts are developed and discussed. The testing program is important to our planning process because it gives us a good forecast of exactly how the marketplace will react. Because of the large number of people that we reach and because we have developed carefully controlled probability samples, we can be fairly confident of the results of our test program.

The testing program itself is a layered and sequential program. Since the total number of pieces of advertising literature over a year can number as high as 400,000,000, we are generally cautious in making the decision to expand any program from its test phase to a campaign phase. It is for this reason that we try to be sure of the effectiveness of any new approach by testing the same concept two or three times in different areas of the country. Our testing program is "layered" because we are constantly testing new concepts, while the concepts which have tested out well in the past are being run in a campaign mode.

The planning process at National Liberty Corporation is vital to the continued growth and profitability of the organization. As such, it is a large part of the responsibilities and accountabilities of each of our marketing managers.

MR. C. DAVID SILLETTO: My company, The Lincoln National Life Insurance Company, markets through an unusual, if not unique, agency system. Since our planning process is so closely tied to that agency system, some explanatory comments regarding the system are in order. Historically, the company has always been a career agent company and until 1973 operated on a general agency basis. We have a very broad product line involving individual life and health insurance, group life and health insurance, variable annuities, and pension plans involving both group annuities and individual policies. Brokerage business has always been accepted, and in the group lines encouraged, but only through an agency and not on a direct basis with the home office.

Originally, the general agency system was "pure" with the general agent supporting his operation entirely out of overriding commissions on business produced. Through the years, the system became more "hybrid," taking on some of the characteristics of a managerial system. The company began to pay many of the operating expenses of the agency directly. We did, however, continue to stress the entrepreneurial appeal of the general agent building his own business and creating an equity in terms of his renewal commissions.

In 1973, for a variety of reasons, we decided to convert our general agency system to a corporate agency system. All of the reasons behind this conversion are too extensive and complex to describe here. These reasons can be summarized by saying that we had decided to embark on some very ambitious expansion plans and we felt that embarking on those plans under our old system would have created such staggering personal debt on the part of our general agents as to present a significant barrier to the achievement of our goals. Our corporate agency system is an attempt to maintain the entrepreneurial appeal of our historical general agency system but at the same time provide a mechanism by which we could infuse significant amounts of capital into an ambitious sales expansion program. Our planning process has, in general terms, been one of first analyzing the needs and effective usage of our capital and then quantifying sales goals and capital demands that were acceptable to the management and directors of our corporation.

Our marketing and sales activities are carried on by a separate corporation, wholly owned by our holding company, which functions as the sole general agent of Lincoln National Life. That corporation is an equal co-owner of a network of corporate local agencies. Ownership is shared in each case with the man who heads the operation. Overriding commissions and expense allowances flow directly from the life insurance company to the sales corporation, based on actual business produced. This flow of revenue funds most of the needs of the sales corporation.

For two reasons, however, additional capital is needed by the sales corporation. This additional capital must be contributed directly by its parent, the holding company. One reason for this capital need is that renewal overriding commissions to the local agencies are discounted or "front-ended" by the sales corporation and paid as a lump sum to the local agency. The other reason is that for better management control we have centralized the cost of subsidized agents in the sales corporation. Over a period of years, these costs will be offset by a specific additional expense allowance from the life company, but for now the outlay considerably exceeds the expense allowance received. Accordingly, our planning process has had the very practical purpose of preparing a resolution for the board of directors of the holding company to allocate a significant amount of capital to the sales corporation.

Conversion to this corporate agency system occurred during the fourth quarter of 1973 and the first half of 1974. During the balance of 1974 and into 1975, operations were stabilized and significant growth began to take place. Late in 1975 it became apparent that additional capital would be needed and that the entire operation had to be analyzed and evaluated. Accordingly, a five-year plan was developed for the years 1976 through 1980. One year later the process was reviewed, refined, improved, and updated. The balance of my remarks today will describe that planning process.

After exploring several aspects of the problem, we settled upon a manpower model of our agency force as the key element in our planning process. Although there are several reasons for this, the primary reason is that recruiting of new agents is by far the most important variable in determining our near-term sales results and associated costs. Our model started with our agency force as it existed at the end of 1975, added recruits annually based on various recruiting objectives, and eliminated terminating agents using factors which reflected our recent experience. We developed average production factors, based on first-year commissions by contract year, and we projected volumes of business on a consistent basis.

Although the number of new agents recruited each year was the most critical assumption in this process, two other assumptions were important and should be mentioned. First, we analyzed the survival rates of newly hired financed agents. At the moment, our survival rates are approximately those of the industry as published by LIMRA. While our survival rates have improved recently, and extensive efforts will continue toward achieving further improvement, we had to conclude that significant improvement would occur only gradually over a long period of time. Tests were made both on that basis and on the more pessimistic basis that no improvement would occur from our present levels. Secondly, we considered the variable of agent productivity, measured in terms of first-year commission income. This factor increases in relation to longevity of the agent and also tends to increase purely as a result of inflation. Here again, we concluded that improvement was possible but would occur gradually over an extended period of time. Here we also tested several alternatives, the most ambitious being a 5% per year improvement. In summary, while all three variables were certainly important to our planning process, the number of new recruits per year was the only variable over which we felt that we had any significant control in the short run.

On the basis of the assumptions described above, and using our agency manpower and production model, we formulated a 5-year plan. Prior to implementing this planning process, we had developed only one generalized marketing objective. When our corporate agency system was installed, we said that for at least the next five years we would try to achieve a 15% compound sales growth, measured in terms of first-year commissions, for all product lines in total. As a result of this planning activity, two important changes developed. First, our work clearly illustrated the importance of the number of new agents recruited and we realized that separate objectives needed to be established for recruiting. Prior to that time, recruiting had been allowed to increase at whatever rate it could, and the number of new recruits had quadrupled in an 8-year period. Our analysis in late 1975 indicated that recruiting should be stabilized for some period in order to better assimilate the new agents that we had. Our 5-year plan called for maintaining the 1975 level of new recruits through 1978, with modest increases being allowed in 1979 and 1980. This planned number, namely 1600, was the number hired in 1976 and the same number will be hired again in 1977.

The second major change involved the distribution of our business by product line. Once the capital demands of our expansion plans had been quantified, we came to a full realization of its importance to the entire corporation. A natural result of the process was to ask ourselves, "What are we getting for our money?" In analyzing recent sales trends, we had to conclude that too little of our sales growth was from ordinary life insurance and too much of it was from group health insurance. The kind of capital commitments that we were facing could not be justified on the basis of group health insurance with its cyclical underwriting problems and the ever-present threat of national health insurance. Accordingly, we have embarked on some programs which we hope will enhance the sales of ordinary life insurance, and we have adopted a pricing and underwriting philosophy in group health insurance that will undoubtedly give rise to less sales growth than we have achieved in the past.

We feel that this planning process has given us a sense of direction well beyond what we had ever achieved in the past. The specific marketing objectives are included in an overall corporate plan which has been widely distributed throughout all of our affiliate companies. The goals have been communicated to and are understood by our entire management group. A high level of dedication to them exists. We intend to continue this process on an annual basis in future years.

MR. HUTCHISON: Mr. Silletto, you seem to be saying that Lincoln National has given up on improving agent survival rates. Is this interpretation correct?

MR. SILLETTO: Quite to the contrary, we have intensified our efforts to try to improve agent survival rates but still feel that meaningful improvement will only occur over a long period of time. As an example, training probably plays an important role in agent survival and we have recently instituted an entire review of our training activities in the hope that we can improve them.

MR. RALPH H. GOEBEL: Mr. Hutchison, you indicated that you are very responsive to requests from the field for new products. How much consideration is given to profitability in the decision to introduce a new product such as individual medical insurance or Section 79?

MR. HUTCHISON: Although we do try to be responsive to the field, and do look to the field for direction on new products, we retain the right to make the final decision in the home office. My point was not that we will introduce any new product idea the field asks for, but rather that we believe a new product suggestion emanating from the field is more likely to be successful than one originating in the home office. This is true simply because in the former case you know that you have someone willing to sell the product. In the latter case, you must convince the field that the product is worth selling. We have also found that the best way to convince the field of the saleability of a new product is to point to an agent who is selling it.

MR. THOMAS P. BOWLES, JR.: How does National Liberty reconcile its objective of low cost with spending 25% of its total revenue on advertising?

DR. LOVE: The objective of low-cost insurance for the consumer is being met even though we are investing approximately 25% of the revenue for 1976 into the marketplace in 1977. This revenue will generate more than 400,000 new policies in 1977, not including riders or additional benefits for existing policyowners. Our objective is to keep the unit cost as low as possible and this is being achieved. We invest only an amount of money which will produce policies at a low and acceptable unit cost; if this objective is not met, we do not invest the money at all.

MR. E. J. MOORHEAD: Is the number of insurance agents too large, too small, or just right, compared with the needs of the public as a whole?

MR. HUTCHISON: LIMRA's studies of the "opportunity to buy" and of the agent population, suggest that the public has fewer opportunities to buy today than it did a few years ago. In other words, our agents are not contacting the public as efficiently as was once the case. LIMRA concludes from these studies that we do not have enough agents.

There are, however, various other interpretations that could be put to these observations. It may be that we had too many agents a few years ago, rather than too few today. It may not be that we have too few agents, but rather that the ones we have are not performing as effectively as they might.

It may be that we have the wrong types of agents in certain markets. For example, the market may be more easily reached in a small community with a casualty agent than with a full time life man.

It may be that the expansion of government and group programs has reduced the number of people who need to be contacted to buy individual insurance, or who can afford to buy individual insurance.

It is not an easy question to answer. However, it is one that we should be thinking about, not only in the statistical sense, but also in the context of helping our agents to do a better job.

MR. DALE R. GUSTAFSON: I am impressed with how little reference has been made to the impact of inflation so far today. Mr. Silletto remarked earlier that he expects the productivity of his company's agents to improve by about 5% each year. At my own company, our economic analysis tells us to expect inflation rates of between 6% and 8% over the next five years. If agent productivity is improving by only 5% per year, agents are either suffering a lower standard of living or commission rates will have to be increased.

MR. SILLETTO: Your suggested future inflation rate of 6% to 8% is certainly a possibility and, frankly, an assumption that we would consider quite reasonable. On the other hand, remember that our projections were being done as part of a presentation to our Board requesting a capital allocation, so we felt that a more conservative inflation assumption was appropriate.

We believe that our agent productivity, expressed in terms of first-year commissions, is increasing by at least the rate of inflation. Therefore, we do not contemplate having either of the two problems that you mention.

MR. PAUL D. ADORNATO: I still do not see how you are going to get a 15% increase in first-year commissions without hiring more agents.

MR. SILLETTO: Remember that we have stabilized the number of new agents hired, not the total number of agents under contract. We are still hiring many new agents and this does result in growth of our total force. That growth plus some improvement in productivity does lead to the 15% growth in new business.

MR. PAUL J. OVERBERG: When making agency models and projections one can avoid some of the problems arising from inflation by doing projections on a unit basis. In a multiple line company these units are fairly stable. For the last five years our average full time agent has produced between 40-44 applications per month. No matter how hard we push or what new products we introduce, our agents still produce the same average number of applications.

For the life specialist my experience indicates that the younger agent produces a large number of small policies. As agents gain experience and become older, they tend to produce larger policies and often not as many.

Nevertheless, I still believe that the initial projection should be made on the basis of units. Inflation elements can be added by increasing the average premium per policy.

MR. HUTCHISON: We are all concerned about the difficulty of increasing agent productivity. Has anyone been able to produce any significant results in this area?

MR. SILLETTO: So far, our activities have centered around improving the productivity of our agencies, as opposed to individual agents. Our primary efforts here have involved consolidating a number of smaller agencies into larger ones so that support services can be provided on a more efficient basis. Also, we have terminated a significant number of marginal producers.

MR. HOWARD T. COHN: Would any of the panel members like to comment about the planning considerations that lead to entry into and withdrawal from foreign markets?

MR. JOHNSON: Foreign market involvement is part of an overall strategy of the Sentry complex. We are currently satisfied with our progress and have no intention of withdrawing at this time. The key factor in the success of foreign operations seems to be having the right people involved.

DR. LOVE: Our initial entry into the international market was provoked by research which indicated that people in countries other than the United States would be attracted to a supplementary hospitalization policy sold using direct response techniques. In approximately two years we had set up operations in five countries. Our basic premise was that we could supply the direct response marketing expertise and adapt it to the country. An indigenous insurance company could act as carrier, providing the insurance knowledge in that country. The approach worked well for some time.

It then became evident that exchange problems and economic difficulties were beginning to seriously hamper our operations in foreign countries, and we decided to run down our operations as they were currently structured. We are still operating in France but on a modified marketing arrangement where we act as a consultant rather than an investor.

MR. HUTCHISON: Most large Canadian companies have expanded into foreign markets for the same reason that many Canadian actuaries emigrate to the United States - the Canadian market simply is not big enough. Much of the expansion of our company, and other Canadian insurers, into foreign territories, took place in the thirties when the North American market was not a very attractive one. I was not personally involved in the planning for these ventures, but I suspect that very little studious research was conducted.

Concerning withdrawal from foreign territories, in many cases the planning was done by someone else. Insurance was nationalized in India, and Mr. Castro did all of the planning for our withdrawal from Cuba. Our office in British Guiana was blown up. In those instances where we had some say in the decision, the thinking was essentially the opposite of that which led us to enter these territories. The North American market had become far more buoyant, and it made more sense to concentrate on familiar markets closer to home that could be penetrated much more economically.

MR. SILLETTO: I can only comment on the planning considerations relative to our withdrawal from foreign markets, not our entry. In 1972 we instituted a total evaluation of our foreign activities (excluding our Canadian affiliate) and we decided to withdraw from or divest all of them. In two European situations we had been unable to put together the kind of management team that we felt was needed to do the job. In the Philippines, we decided to withdraw because of the well-known political and economic risks that exist in that country. Withdrawal from those markets was then accomplished over the next two years.

MR. JOHNSON: I would like to make one general comment before we adjourn. In the planning process, market identification seems to be a critical step. I wonder how often we identify our real market. It seems to me that we confuse "consumer" and "customer." The "consumer" is, of course, the ultimate policyholder. However, our "customer" may be the agent, the general agent, the broker, or even our own home office sales staff. Failure to correctly define the customer will almost certainly result in less than a satisfactory result.