

# RECORD OF SOCIETY OF ACTUARIES 1983 VOL. 9 NO. 1

## MARKET RESEARCH METHODOLOGY

*Moderator: IRA L. BOYLE. Panelists: ELIZABETH F. DUNN\*, BARBARA E. CASEY\*\*, RICHARD L. HALL.  
Recorder: WILLIAM H. MOYER, III*

- o An exploration of market research methodology as it applies to the individual and corporate customer
- o Identifying how changes in demographic and economic conditions impact market choice, distribution systems and products by organizations offering life and health insurance and pensions

MR. IRA BOYLE: Good afternoon. This is panel discussion #14 on Market Research Methodology. My name is Ira Boyle, and I'm with Transamerica Occidental Life Insurance Company in Los Angeles. To my right are my three panelists: (1) Elizabeth Dunn, from Towers, Perrin, Forster, and Crosby; (2) Barbara Casey, from Strategic Decisions Group; and (3) Dick Hall, from Northwestern Mutual Life. In addition, Bill Moyer, from Provident Mutual, who is sitting on my far right, is our recorder for today's panel discussion.

Each of the three panelists has prepared remarks about market research, market research methodology, and about how research can be used in strategic decision making. Both Barbara Casey and Liz Dunn will be discussing market research and strategic planning from a broad perspective; Liz will be focusing on basic research questions and suggested market research methodologies that can be used to answer those questions. Barbara will focus on effective market research techniques for application to decisions faced by life insurance companies, and will add her own perspectives on a changing marketplace. Finally, Dick Hall, Manager of Corporate Research and Development, will discuss how market research methodology is being used in a large, mutual life insurance company, including how Northwestern Mutual's research flows into their strategic decision making.

Before introducing our panelists, I'd like to remind you that tomorrow at 10:30 in workshop 30, Phil Cernanec and Bob Polilli will be holding a follow-up to this session, which I'm sure many of you will find interesting. Among other things, Phil and Bob will be stressing the point that a lot of work that actuaries are involved with is really market research, and they have several examples to prove their point. After this afternoon's session I think you'll also come away with a strong indication of this observation.

In fact, when I was asked to moderate this panel, it was suggested that I spend a few minutes reviewing a paper in the Society's Transactions entitled

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"Actuarial Aspects of the Changing Canadian Demographic Profile." This paper was authored by Robert L. Brown, and is in fact an example of actuarial market research. His paper reviewed published Canadian literature on various demographic trends, and highlighted that the "postwar baby-boom tidal wave" will have several actuarial implications in the years ahead. The results of this type of research, moreover, will have broad marketing and strategic planning implications.

For example, one of the aspects that Robert Brown keyed in on was a statistic called the "Aged Dependency Ratio," which is the ratio of those over 65 to those between 18 and 64. This ratio was 13.5% in 1951, and will steadily but quite slowly rise to 18.7% in the year 2011.

However, because of the aging Canadian population it will increase to 31.7% in the year 2031. What this is saying is that, in the absence of huge and unexpected changes on mortality rates and migration patterns, the major increase in the Canadian aged population doesn't begin until 2011.

This will have major implications for pensioners and the Canada/Quebec pension plan; health care expenditures; hospital utilization; and other markets. These trends represent marketing opportunities for those farsighted enough to anticipate change, and to plan for it, and is an example of how research can impact future planning efforts.

Without further ado, I'd like to introduce our first panelist, Liz Dunn. Liz is from TPF&C in Philadelphia, and is a marketing consultant. She is involved in market strategy and research work with a variety of life insurance clients. Prior to joining TPF&C Liz did post-doctorate work in marketing at Wharton, where she worked with two of the leading contributors to market research, Paul Green and Jerry Winn.

Our second panelist is Barbara Casey. Barbara is a partner in the consulting firm, Strategic Decisions Group. Before joining SDG, she created and managed Stanford Research Institute's massive consumer financial decisions market research program.

Our final panelist is Dick Hall. Dick is a 1976 F.S.A., and joined Northwestern Mutual in 1973. In 1977 he joined their corporate planning area, and is currently heading up their corporate research and development program.

MS. ELIZABETH DUNN: I know that most of you have heard the term strategic planning quite a lot today and you will be hearing more tomorrow. There's probably one thing you have grasped at this point is that when people use the term strategic planning, they are not always talking about the same thing. We concentrate mostly in the context of organizational work, financial work and so forth. You probably have not heard the term strategic planning talked about that much in terms of an application to the marketing function per se. A little bit about what I want to talk about today is the application of strategic planning to the marketplace. I want to convince you of two things; the first thing I want to convince you of is that it is very important to use the strategic planning discipline when you are talking about marketing and the second thing I would like to convince you of is that there are a lot of very interesting types of marketing research methodologies that can

be used as input into the strategic planning process.

Before I start, I want to define just one term with you because I want to use a definition of the term "market research" that is maybe a little broader than what is the traditional thinking of it as. When people talk about market research functions, they traditionally think of consumer research or getting out and polling the consumers, either through telephone polls or mail interviews or personal interviews and the concept of market research has traditionally meant going out and getting finer consumer information on consumer needs, consumer demographics and so forth and coming back and analyzing it and saying this is what the consumers are like and this is what they want. That is a very key and crucial part of market research, but also, in most fairly well developed market research departments there are two other functions that are fulfilled in terms of market research. We also have the market intelligence person who instead of dealing with direct consumer survey data, he'll go with secular data that's already been collected, things like census information, things collected by the government and economics departments. They might look at things produced by industry surveys, things that somebody else has gone to collect the data. Their primary interest is in remassaging the census data, remassaging the informational data, remassaging the industry-type data to see how important that is about consumers. That's a different kind of function than going out and actually collecting the information directly from the consumer. The third type of function that a well-developed market research department has is a market analysis function. This person will be a business oriented person who will be focusing on the amounts of premium coming in every month, he'll be focusing on sales functions, he'll be focusing on loss ratios and he'll be putting them into a management information systems format that can then be related to the other market research type of information. When I talk about market research in reference to this dissertation, I am going to be using it in this very broad sense, talking about all these different kinds of input, not just going out and polling consumers.

What I'd like to do is show you an extremely simple and elementary strategic planning model to give you some concept of the basic way of applying strategic planning to the marketing function. Basically, in terms of doing the strategic market planning function, we have to start out with, as usual, determining the marketing objectives which flow from the corporate objectives and how they fit into the monetary and macro environments. Macro environment means information on demographics, information on sociocultural changes, information about the kind of legislation that is going on in a state and finding out how the world is changing and how it's going to affect a marketing function.

The next thing we want to look at is the actual marketing environment that we are operating in. That involves determining what the consumers are up to, what are their changing needs, what do they think about the product, are they buying it, are they interested in it, are they complaining about it, etc.

In addition to consumers, we also need to know what producers are doing. A lot of times producers are neglected and they're an important source of information both about themselves and about consumers and we need to find out from them what's going on in the marketplace. We also need to know

about what the competitors are doing in the marketing environment.

The next thing we have to do is look at our current marketing situation. How are we functioning today? What do our sales look like, what do market shares look like, how is persistency, where are we right now in the market and where are we going to be in the future if we don't make any modifications? At this point, we get into the more specific marketing decisions, what kinds of market changes are we going to be focusing our product to, what kinds of distribution systems are going to be optimal for these primary market segments? Then we want to get into more tactical decisions; what kinds of marketing niches and marketing technology and finally we get to the specific aspects of pricing, advertising, promotion and so forth about things we have to make decisions about. Finally, how do we organize all this information and how do we set up a control system to monitor?

What kinds of issues arise in each of these steps of the marketing strategic decision process and how can we answer some of the issues that come up? Let's take the model step by step. The first thing that we have to do is to determine the marketing objectives. Obviously, by the time we get to the point of making our decisions about the marketing program, we are going to have to have some concrete idea of what the basic corporate objectives are and we have to make sure that our corporate objectives are consistent with our marketing objectives. We need to know if these objectives are appropriate for our resources. We don't want to have grandiose objectives that we're going to feel very vague about. One thing that people don't really focus on that much but which is turning out to be relatively important is the relative importance of the objectives that we decide. For example, firms typically come up with not one objective but a number of objectives to fulfill in terms of their strategic planning. Typically, objectives will be things like: I want to increase my market share by X percent, I want to increase my premium volume by X percent, I want to increase policy persistency by X percent, and I also want to increase my profitability by X percent. So, we have four objectives. How do we get the marketing team to sit down and say, well, given that we have four objectives, which of these objectives is the most important, which is the second most important, which is the third most important? And, furthermore, what is the relative importance of these four objectives?

If I have to assign 100 points among these four objectives, how would these 100 points be assigned? Obviously, it's a very rare situation where all of these objectives are going to have equal weight in the real world, the objectives are not set up so that each would be worth 25 out of 100 points. How do we get people to sit down and actually say, this one is worth 36 points, this one is worth 36 points, this one is worth 15 points, this one is worth 14 points. What happens if we don't establish the relative importance of the objectives. If we don't come to a consensus on what the relative importance of these objectives is among the management team, we are going to be in a difficult situation when we try to implement these objectives. The finance person is going to be pulling totally toward his objective. The marketing person is going to be pulling toward his objective. The person in charge of policyholder services is going to be pulling toward his objective. So, we have to come to a consensus about what is the relative importance of these objectives. How do we do this?

There are a couple of ways to do this and let me clarify what the task is here. The task is to take, let's say, these four objectives and get the management team to come to agreement about assigning 100 points among these four objectives. These 100 points will presumably be some indication of what is the relative importance of these objectives to the organization. One of the ways to do this is with the Delphi procedure. The simplest way to do the Delphi procedure is to get all these people in the room and say here's a piece of paper, I want you to assign 100 points to these four objectives, indicating your view of their relative importance. Everyone takes the piece of paper, goes back to their office, fills out and allocates 100 points to the four objectives and then hands the paper back in. I am the team leader, I take all the papers and do something esoteric and mathematical like figuring out the average of the group for each of the four objectives. I then take the average of the group for each of the four objectives, write it on a piece of paper and give it back to each of you. What I have given you is feedback about how the group has performed, and you can take what you put down as your evaluation of the relative points and check it against the group average. The psychology of it is that you are supposed to revise your allocation based on what the group average is. In other words, once you see what the group consensus is, your personal evaluation will move closer and closer to what the group consensus is. People do feel some pressure to revise their evaluation. So you keep revising your evaluation until eventually the group comes to consensus. There's another suitably interesting way to come to consensus about these objectives. That is a relatively new procedure called the Analytic Hierarchy Process, which I call AHP, which instead of using the average as the Delphi Procedure, uses the Principal Eigenvalue Extraction which is a much more interesting calculation to perform. I am going to use an example of how this was used to come to consensus about the relative importance of an objective. It will be from an unusual organization because real corporations don't like you to use their data in public discussion. This example is actually from Planned Parenthood which is a very large and rather well known organization from the public sector that operates a large number of family planning clinics. We performed a rather large strategic planning project with them and they came up with four objectives. Their four objectives were a little different from the four objectives in the corporate world, but there are some similarities and overlaps. Their four objectives were increasing the number of clients in the clinic which would be like increasing the number of policies. The other objective for them was financial break even which for a nonprofit organization is a real big thing to be able to break even financially. Complying with federal requirements which is the third objective. The fourth objective was something which we have down here as serving their Planned Parenthood target population. So they have these four objectives, and we have to figure out what the relative importance of these four objectives are. We get all the key people from Planned Parenthood sit them in a room and say, okay, now what is the most important of these? The executive director says the most important one is serving the target population. The finance director says financial break-even. The marketing director of Planned Parenthood says to increase the number of clients is the most important one. My mission is to get them all to agree on the most important one before they leave the room that day. This is a very taxing exercise. The Analytic Hierarchy Process breaks down

these decisions into manageable decisions. What I did with these ten choices was present them with all possible pairwise comparisons of those four objectives. What they had to do was instead of answering a global question like what's the most important, they had to ask a very simple question which was of these two possibilities, breaking-even or compliance with federal objectives which was the most important in terms of the survival of the organization. Then you determine how much more important is that one over the other one. So the answer in this case was that break even was more important.

So what you're asking people to do is make a very simple choice of one thing over another and say how much more important it is. That is something that people can do. Now it wasn't easy to get some consensus among the four or five different managers in the room, because they all are coming from very different directions. It is much easier to get them to agree on something like a pairwise comparison than it is to say in a global sense what is the relative importance of these four things. Well, when you go through this very systematically and very laboriously you do get them to consensus on these little pairwise comparisons and then something very wonderful happens you take the data and you put it into a matrix and you do Principal Eigenvalue Extraction and you come out with the answer. Let's say we did the principle eigenvalue extraction and it came out that serving the population was 36%, financial break-even 36%, importance of increase in clients 18%, and importance of federal compliances 10%. That comes out to a 100%. What that shows is that we managed to bring into consensus to these tiny little decisions that the most important things were break even and serving the target population and that these were much more important than the two other things. And we were actually able to quantify the relative importance of these things in the group situation.

This is really a nice experience for a couple of reasons, one is that you come out with the quantification of the importance of these objectives, and the other thing is it's a quantification that everybody agrees with in the end. If everybody has input into this evaluation, then everybody is going to be much more committed to the answer. You can come in with a management team that's pulling in a number of directions and what you come out with at the end of the procedure is a set of priorities that everybody is committed to. Even though it's not only from a point of view of quantification or the ability to quantify these objectives, it's nice in a sense that in the very process itself you're motivating people to participate in the implementation of these objectives. The premise is given that all of them are important and they all have to be done, which can be traded off for the sake of others in a given decision.

There will often be situations that conflict. There are many situations where increasing market share conflicts with increasing profitability. In that case which one has priority in the planning process. Typically when people come up with objectives in strategic planning they're not thinking about whether or not these are correlated. They're thinking about the survival or the profitability of the organization. This is flexible enough to be able to be adjusted for those situations which are not correlated. What we did was we went through the exercises of the three scenarios. The first scenario was the status quo scenario. The second scenario was the

cutting off of all federal funds, which was a possibility at the time that we did this exercise. The third scenario we called the modified disaster scenario which was cutting off 60% of federal funds.

You can see that stratification is possible in the methodology. The AHP process is a methodology that has just been established in the last couple years. It's just been applied to marketing. It's actually been used in a lot of political decision-making for allocating water resources in the Sudan. It has just been applied to business in the last year or two. There's a book by Thomas Saaty who basically developed this technique, that you should read if you are interested in this technique. There is no right answer in strategic planning. What it gives you is consensus which is frequently more important than the right answer. When some peoples' opinions count more than others, you can handle that by weighting the responses. You can't do it that easily in a group situation, but you can use the task on an individual basis. You might give the CEO a weight of 10 and everybody else a weight of 3.

The second step of the strategic planning for marketing model has to do with monitoring the macro environment, and there are a number of areas to monitor. The economic and demographic areas are the most obvious. You're likely to have the most information in your firm collected on those, particularly the economic. You want to particularly look at demographics. Part of the business of decision-making is based on this because the demographics picture of the country is changing rapidly. The number of households has increased dramatically relative to population. The number of female-headed households has increased dramatically. The structure of households has changed in some very fundamental ways. These things can all be learned from census data and they will have an enormous impact on products designed in the insurance industry. You access all this information by looking at existing information and by having someone in your firm who does marketing analysis look at this information and reanalyze it and remessage the data into terms that you find useful in your organization. The nice thing about secondary data such as census data, department of commerce data, credit cash data, data from LIMRA, is that they are very inexpensive to obtain. The cost of these data to you is that they're never in exactly the form that you want. You always get something where the age breaks one year off from what you need or where the geographic breaks are one state off from what you need. So you have to have somebody who has the ability to put it in the form that you need.

What about looking at the marketing environment at this stage in your strategic planning process? You have to look at the market segments that you're focusing your products toward and what you want to focus them to. Are they growing segments? You need to know about your consumers that you can only find out through market research. How do your consumers make a decision about buying insurance? Do they make a decision because they heard about the product from someone that they trust? Do they make a decision because your advertising is so overwhelmingly impressive that you convey an attitude of trust to them and therefore, they choose your company, or do they make a decision because they only had one agent their whole life?

It is very important to know exactly how that decision making process is made. You're not going to find out about it just from people who call you up on the phone. There are a lot of companies whose only contact with consumers is when they get complaints over the telephone and they tend to think that these are typical consumers. These are not typical consumers. So you really need to get out and find out what's on the consumer's mind.

In addition to the decision making process that consumers go through, you need to know what are hot buttons that will push a consumer toward your product? What are the really, really important things on consumers' minds that are causing the consumers to buy from a certain company. Is it price? A lot of times in the insurance industry, people say well it's only price, that's the only basis that people are making their decisions on. That's not always a fact. One of our largest clients that I work with is the American Association of Retired Persons and certainly price is a major consideration in terms of insurance purchases for elderly people and senior citizens, but also, the service component of insurance has tremendous importance in terms of the company that they will keep to provide their insurance. By hot buttons we just mean the major driving forces that are pushing people towards buying from a certain company.

A word about surveying producers, a large company that doesn't survey their producers or agents because they think that they have good rapport with their producers are missing a good mechanism for getting information from their producers. There are a couple of good reasons why you should be doing systematic marketing type research of your producer, actually doing a mail or telephone survey of your producer instead of just counting on the sort of rapport that you established with them to find out what's going on in their mind. The reason you should be doing systematic surveys of the producers is that if you do the surveys, you will get more objective information from them. If you're just depending on informally interacting with your consumers or producers, the information they give you is not necessarily going to be that objective. They might be telling you what you want to hear. So it is good to get systematic information from them.

You can also find out a lot about your competitors from doing market research. Finding out how your competitors are perceived by your consumers is a very important thing to know. There are two basic kinds of information that you get about your competitors in terms of the marketing function. What products, what advertising, and what kinds of promotion are they putting out? You can find that out by just having somebody in your marketing research department sit down and gather up all that information. I used to work with a tremendous person who would just call up every insurance agency and say "I'm thinking about buying your insurance. Could you send me everything you have on it." We had reams of information from all the competitors, a fabulous way to get information, quite straightforward. That's one way to do it to get their information. The other way to do it, which is sometimes even more important, is to get information from the consumers about how they perceive your competitor. Sometimes it's not what the competitors are actually doing, it's how consumers perceive what the competitors are doing.



MS. BARBARA E. CASEY: This presentation describes the application of market research to tactical and strategic decisions faced by life insurance companies. The following are the main conclusions:

- . The value of tactical research can be determined in advance, and arises when research results would change decisions.
- . A series of traditional market research projects is an inefficient way to build strategic insight.
- . Starting with a top-down perspective on the marketplace allows firms to streamline their information requirements and leverage their results.
- . In the context of SDG perspective on the changing market, examples are presented to illustrate these views:
  - Consumer preferences are better revealed through their actions than through their statements.
  - Product and distribution choices are best "researched" by analyzing the fundamental consumer needs they meet.
  - Competitive trends are best understood through study of economic forces and comparative situations.
- . The design of quality research programs must be driven by the important choices the insurance company faces.

Research can only be actionable if it is linked to decisions, be they tactical or strategic.

Traditional market research methods are well suited to, and best used by the life insurance industry for tactical decisions.

While "actionable" has become a widespread buzzword, it is important at the outset to determine what really makes research valuable.

There are three ingredients necessary for research to result in high value. First, the issue being addressed must be a swing factor, one whose outcome would shift the decision at hand. Further, research is of little merit if the factor's true value lies within a narrow estimated range.

Finally, the significance of the variable and its possible range are of little importance if no decision can be made based on the research results. (This is true whether there are already well-delineated possible decisions or whether creativity would be required to generate potential courses of action.) Thus, research may result in a vastly different expected level of profit for a particular course of action for the company and still not be economically justified.

The value of information can actually be calculated prior to beginning a research project. Thus, it is possible to dramatically streamline research programs by focusing only on those issues where research is a good financial investment.

A series of traditional market research projects is an inefficient route to strategic insight. The cost of a truly comprehensive research program is prohibitive, and even if it were not, the time required to accumulate and assimilate enough data to build a broad perspective from the bottom up exceeds any firm's planning horizon:

- . In one recent study, we estimated 80 person-years would be required to put in place a basic strategic database.
- . The number of meaningful data points from a typical large survey may number in the hundreds of thousands.

Less obvious, but probably more significant, obstacles to achieving quality strategic insight from a collection of traditional market research studies lie in the context of the research itself.

Research programs without strategic guidance often address the wrong questions.

Further, the research needs more conceptualization when the questions relate to the future. The experience with EFTS research clearly reveals that consumers cannot visualize a different scenario from the one they currently see. Research that solicited consumer views of electronic banking found no merit in the new services. However, research that considered actual behavior, such as check cashing in grocery stores, and hypothesized future behavior uncovered opportunities.

Thus, research can be misinterpreted if studied from a limited viewpoint. More critically, pressing strategic issues cannot even be addressed from the narrow bases required for efficient organization of market research.

The speed and depth of strategic research can be dramatically increased by linking data collection to a top-down perspective on the marketplace. The process is iterative in that the perspective raises questions for further research while additional research results refine the perspective.

Amidst the detail and elapsed time of market research, it is critical to remember that the value of research is derived from the perspective it provides not from the data itself. What users ("clients") of research want is insight, not a page of numbers.

Before exploring how to research the tough product and distribution choices life insurance companies face, here is SDG's perspective on the marketplace that drives our views of research requirements.

Traditionally, a large number of financial products and services have been marketed in a parallel and relatively indiscriminate fashion at consumers.

Fundamental market forces are causing a dramatic restructuring of the market.

The primary force is competition, which is motivated by economic factors. Consumers react to the initiatives of competitors. Consumers, like competitors, are not irrational. They balance economic and psychological factors to meet their definable and not-very-exotic needs.

The vast bulk of consumer needs are not changing. What is changing is how, how well, and by whom they are being met. Across all types of financial products, replacement opportunities outweigh those based on finding unserved needs.

The good news for researchers in this scenario is that because economics and needs are fundamental forces, they can be studied and logically projected.

These forces are shaping a new marketplace:

- . The consumer market will be segmented, and its needs will be served more completely. In fact, it will no longer be "open" as it is now.
- . Distribution channels will be consolidated, and two types of pipelines to the consumer will emerge. The first will be an impersonal channel; it will serve most of the day-to-day financial needs of the household.

This "operations account" will evolve from the current generation of CMA's; it will ultimately be accessed from the consumer's home.

In addition, households will have access to strategic advice, which will be provided by an advisor or through an impersonal mentation will typically occur through the operations account.

- . Today's products will be unbundled and rebundled to suit the needs of a particular market segment. Most products will require a systems front-end, a factor that will lead to short-term competitive advantages for some firms.

In this marketplace perspective, how should a life insurer conduct consumer, product, distribution, and competitive market research?

Consumer research must examine actual consumer behavior to decipher consumer financial needs. Rarely can consumers clearly state their needs, yet their actions are true indicators.

In a less competitive environment, products were not well designed relative to needs, therefore, we must decompose product purchases to distill needs.

An example is a study of brokerage customers we examined years ago. If brokerage customers were asked about discount firms, they showed ignorance or negative responses to the just-emerging industry. However, examining the specific behavior leading to portfolio transactions, we found that one-half of all prime customers (i.e., heavy traders) typically called their broker and gave instructions for the trades. Of these, 60% were adjusting their portfolios for liquidity reasons, while 40% undertook their own research. For the other half of traders, the contact was initiated by the broker.

Based on this evidence, it was possible to project that discounters would be able to penetrate one-half of the prime trader market, the half that was currently paying for the broker's advice but not using it.

Similar analyses ten or more years ago would have revealed that a large number of savings and loan customers chose those institutions for one and only one reason -- to gain  $\frac{1}{4}$ % more interest. Clearly, the consumer was telling us that maximizing the rate of return on savings is important.

The future role of an agency force can best be addressed by digging to expose the fundamental needs served by personal delivery.

Then, starting with these characteristics, opportunities to employ a field sales force can be generated.

This type of analysis will generate a rich set of exciting alternative agency strategies -- a far cry from the standard "I don't trust agents" responses consumers continually make, or the dismal economic picture that evolves from projecting today's profit margin trends and today's sales of today's products.

This is a good example of the fact that often the most creative part of the research is in framing the issue to be analyzed.

Similarly, research on impersonal distribution channels must go to the fundamentals -- the need to provide increased convenience to the customer -- and not get tied up in the myriad of specifics in the market place and on the drawing boards.

Product research must take the same "fundamentals" approach. Rather than ask, "What should we do with our money fund?", the appropriate question is, "How can we attract the bulk of consumer liquid assets that are now in banks?"

The competition for consumer savings is almost entirely one of replacement even in the IRA market to date.

On what basis can you hope to replace bank accounts? The opportunity to offer better rates has passed; needs analysis points to consolidation and transactional convenience as the next step. Home and workplace access will probably lead the next wave of replacement.

Competitive market research is the area that least relies on traditional research methods. Rather, because competitive behavior is largely driven by economics, the study of economics and comparative situations is particularly fruitful.

The economics of the savings and protection businesses under competition are likely to be similar to other competitive financial markets. This means that low margins and high volumes are required; the economies of scale implied will lead to the emergence of powerful wholesalers.

Economic analyses of competitive industries clearly and consistently reveal these impacts:

- . Competitive pressures lead firms to develop better and better products to maintain or increase their market share.
- . One easily identifiable customer need is for low prices. Aggressive competitors -- often new entrants -- lead the way in meeting this customer need.
- . Market pressure on prices, in turn, brings pressure on both production and distribution costs.
- . Many participants do not survive these economic pressures.

Within these general trends, the best way to predict the actions of competitors is to put yourself in their shoes.

The deregulation of savings rates, once scheduled for 1986, effectively took place last December. Money market deposit accounts and Super NOWs are the Universal Life of the banking industry. After years of competing on the basis of location, banks find themselves unable to generate sufficient income to support their branches.

As they learn to think in the same terms as retailers (sales per square foot), they will close marginal branches, automate to reduce the operating cost of the remaining branches, and seek new products to pay their rent.

From the banker's point of view, insurance is a logical target of opportunity. This analysis can be taken further to identify which type of banks will use agents, which will try the mails, on which segments they will focus, and their probability of success.

Similar competitive analyses can be profitably used to explore the likely paths of other competitors, whether they are claims administrators or consumer finance companies.

In summary, a life insurance company can achieve effective market research by:

- . measuring the value of research relative to its important decisions;

- identifying its research needs and interpreting the results in the context of a strategic market perspective;
- probing for consumer preferences revealed by their behavior, and
- searching for fundamentals in its generation and examination of product and distribution alternatives.

Thus, the primary methodology for profitable market research is thinking, and in particular, thinking before researching and thinking beneath and beyond research results.

MR. RICHARD L. HALL: My role on the panel is to provide a practical, inside look at marketing research methodology from an actuary's view and from within a large mutual life insurance company. As Ira mentioned, my title is Manager of Corporate Research and Development. I manage a group of people within the Corporate Planning and Development area consisting of researchers (4 are MBA's), systems analysts and programmers, and clerical and analytic support personnel. Our purpose is to provide research facilities to the Company in support of both operating needs and the planning process. Our work involves financial, economic, and investment research as well as marketing research. The greatest emphasis, however, is on marketing research. And we are finding that research in all areas is coming closer together.

I want to give some of my thoughts on various pieces of our market research methodology with a few examples for emphasis. I will predict neither the future of financial planning nor the directions of various distribution systems nor the psychological makeup of the financial services customer of '80's. I hope to give a fairly precise, nuts and bolts presentation. I have broken my remarks into three areas: first, internal research; second, external research - done outside our four walls; and third, applications to planning and the decision making process. I'll cover a lot of ground, but try to believe there is a method to my madness.

First, let's discuss internal research. Here I mean research involving data internal to the company. I've always been impressed by the amount and depth of marketing data contained within the bowels of our data bases. I'm sure that's true of most of your companies also. The problem of course is to find the data, figure out how to get it out, and verify its authenticity. Once that is all done, the work is just beginning; turning data into information is a full-time job. One needs hard working and creative analysts -- and I really mean to emphasize creative here. It's amazing what a seasonality check, what a standardization, what a long-term trend analysis or what an appropriate cluster analysis can do to raw data. Where once there were raw numbers, appropriately applied statistical analysis can provide meaningful comparisons and trends which are invisible to the naked eye. Interestingly enough, these tools are all well within the reach of the actuary -- particularly in this era of user-friendly software packages.

Let me give an example of our internal research with an emphasis on the evolutionary nature of these data bases. For many years we've tracked loan and lapse/surrenders by contract by various market factors including size, age, market, plan type, etc. This data base was originally designed and used for actuarial pricing purposes. First we expanded it to include agent and general agent data. Then we connected it through an "alpha system" to get the data on a policyowner or "client" basis. We are now working at getting the data to a transaction basis instead of just a one-point-of-time, year-end snapshot. Where we're headed, I think and hope, is a full scale client-based, transaction-oriented, marketing data base.

An interesting development along the road has been the emergence of "Data Base Management" or "Information Systems Management" or whatever you might call it. The driving force has been simple -- in the last few years access to and need for data has grown by leaps and bounds. All of a sudden the woodwork is empty -- everyone's a marketer and everyone wants information. That's not so bad since I believe it was Drucker who said, "Every manager's job is to contribute to the creation and recreation of customers." But what is bad is the job of defining what data is captured on the bases, making sure it is all maintained properly, and, perhaps most importantly, protecting the data against unwarranted changes that aren't communicated to all users.

Let me give an example of the problems here. I just described a fantastic client-based marketing system. But we have a road block at the front-end because we don't know how to define or measure a sale. Each operating department has a different need and a different definition. The Underwriting Department measures a sale in terms of risk -- a term sale is more meaningful than an IRA. The Investment Department measures a sale in terms of cash generated, an IRA is great while term has little meaning. The Agency Department measures a sale both in terms of commission generated and any other criteria that lend itself to positive reinforcement. And finally, the Marketing Department talks in terms of clients -- new versus existing. The "Data Base Manager" cannot decide these issues. But he must make sure that the data is stored at the lowest common denominator so that all may compound the basic data to the information level which they require. He must make sure that no one department sets the basic data definition for everyone else. And once set he must guarantee that the data won't get changed without everyone else's knowledge and approval. I believe that this "Data Base Manager" or "Data Base Function" will become one of the most important cogs in the marketing research efforts in many firms.

Let me close this discussion of internal research with the thought that company data is truly a corporate asset, and that its maintenance and enhancement to information and knowledge should be a big part of the marketing research methodology at any successful firm.

Let's move now to external research. In this category I've lumped all forms of research done on data, people, or situations outside our four walls in Milwaukee. Included are surveys, focus groups, outside trend analysis, and multi-client studies. Let me mention a few words about each of these and tie a couple of them together by example. Surveys are an old standby

in our shop - we've done many of them. We've surveyed policyowners in general, policyowners who've lapsed or surrendered, policyowners who've borrowed, agents, and employees. This list points out the various markets that we have and yes, employees are a market for certain programs. Our surveys have ranged from extensive survey documents to simple two question postcards to short telephone calls. The telephone survey has been getting more popular due to a desire to increase the response rate and the availability of WATTS line equipment. It will get more so with the advent of new equipment which will place the call and even ask the questions with recorded messages. With appropriate response signals returning through the telephone lines, one may someday be able to do extensive surveys without lifting a finger or verbally asking a question. I like surveys because the methodology is well in place, they are understood and they are well accepted. Perhaps the only hurdle is convincing people about the appropriateness of small sampling theory. I've regularly used sample sizes of around 300 when my skeptics were convinced that at least 50 to 100 thousand would have been more appropriate. With a universe of only 5,000, it's just difficult to generate that many responses! But we've gotten over that hurdle and the surveys are well accepted. In fact, maybe too well accepted for two reasons. First, we must continually remind management of survey limitations and of the fact that surveys just aren't the final answer. Secondly, with a management decisions getting tougher, it seems everyone wants a survey on every topic. I think it's a combination of market researcher's overselling their wares and on management's desire to shift away part of the responsibility for tough decisions.

Don't get me wrong, I can't say enough favorable things about the value of properly designed surveys used to support decision-making on important issues. But the world just can't afford the resources to do adequate surveys on every, small marketing issue that comes over the horizon. Management gets paid to exercise their own judgment and make those decisions effectively, efficiently and quickly.

Focus groups are another one of my favorite techniques. For those of you who may not be aware, focus groups are small group sessions (usually around 6 - 8 people) led by a trained researcher. They're intended to test concepts and perceptions. As the professional researchers say, they're qualitative not quantitative. As others say, (they're subjective not objective.) These attributes, being qualitative and subjective, give focus groups their dominant trait -- the ability to be completely misused and misinterpreted. Group dynamics completely control the focus group situation. To get around this, a well trained professional leader is absolutely critical to keep the group on track, to temper the dominant personalities, and to help in the post-session analysis. If those using the focus groups want to view a portion of them, usually through a videotaping process, they ought to see a good portion of the sessions - it is just too easy to extract frames out of context. Finally, the researcher presenting the focus group findings must remind management time after time, after time that the groups are qualitative only and are non-projectable. If the focus group identifies with an idea and likes it, that's good; that's decision making material. But it's not the final word since it doesn't say a thing about how the public at large, in an unfocused world, will relate to the concept.



Now that I've mentioned these negatives, let me give you the good word, it all works. I can verify that through our two Update programs. In those programs we used focus groups to explore and see if we could explain concepts such as reserve interest rate guarantees, federal income taxes, and direct loan recognition. Part of this was in finding the right words to express what is so common place to we actuaries but so esoteric to the consuming public.

After focus grouping, we turned to surveys and actual tests to fine tune the offerings and provide input into the go/no-go decision. And much of what we learned along the way helped in the design of our service systems and in convincing our field that these were outstanding opportunities and not just service burdens. This market research track that we ran on for our Update offerings is becoming the standard in our marketing and product development efforts. The methodology is getting firmly ingrained!

Now let me touch on a little different area of external research -- the multiclient survey. If you're not aware of what's happening here, you should be; it's literally an industry in and of itself. For me it started about five years ago when I had my first contact with Barb Casey and what was formerly the Stanford Research Institute. The timing was right because the economic unrest and dislocations of the early 70's were beginning to be felt, deregulation was starting to move from thought to action, and the terms "financial planning" and "financial services" were starting to come out of the closet. That early Stanford Research study titled "Consumer Financial Decisions" was a well received effort at surveying the general population, with an emphasis on the affluent market, relative to consumer's feelings about and position in the new financial environment. Since then, other firms have initiated similar studies aimed generally at financial services or more narrowly at specific products and markets such as IRA's, money funds, transaction services, and the small business market. Funding for these studies comes from a multiple client base usually consisting of banks, brokers, and insurers.

If one had an unlimited pocketbook and a world of time, one could do nothing but purchase and analyze multi-client studies. But I think here that part of the methodology of the market researcher has to be an ability to say no. They may all be fine studies, but duplication is present and the absorption rate for the information can be very slow. So selectivity is key.

Key also is a commitment to work with the data, to mold it to one's own operating and strategic decision making processes, and to take the time to patiently pursue its understanding by top management. In other words, buying into the survey is not enough -- and one must work hard at getting one's money's worth. But again, don't let me emphasize the negatives. These multi-client surveys can be an important component of a company's market research methodology. Particularly helpful is their usefulness in taking broad demographic data down to manageable market segments. Measuring such segments and their changes through time will continue to be extremely important in the future.

I can't close this section on external analysis without a mention of outside trend analysis and other studies. Here I'm thinking of studies done by trade groups such as LIMRA and the ACLI, of articles and other tidbits found in publications of various sources, and of the insights and assistance offered by management and market consultants. To reverse the order, I don't have to say much about management consultants. Barb and Liz have represented their firms and their industry quite well. All I can add is that there are certain times when merely the fact that a research finding or advice is coming from an independent source is worth its weight in gold. I can say something a thousand times to no avail whereas a consultant can utter in passing and the thought is duly blessed. That's not sour grapes, that's just a reflection of how the world works. And that can be turned into a big bonus with the right approach. Again, one must be selective and make the commitment to work closely with the consultant to get all relevant information on the table.

I don't have to say much about a well rounded reading program either, although its power is probably overlooked in some quarters. People love to talk and there's a lot of good marketing information in both the public press and trade journals. It's just a matter of wading through it all. That's why a library and library assistance has always been a part of our market research methodology. And here I would emphasize the wealth and value of information available from the government and its affiliates such as the various Federal Reserve Banks. If you're talking economics or demographics, they've got the last word -- they control the data on flow of funds, taxation, the census and most everything between. Here again, creativity is a requirement to move through and integrate the various data bases. But there's a lot of good, valuable stuff there.

That gets me to LIMRA, the ACLI and any other trade group that I might be forgetting, but don't mean to. They do good work in a variety of areas. Their advantage, being trade organizations, is that they can cut across company lines to generate pooled company data. The social research program of the ACLI is an important part of our own trends monitoring program. In the life insurance marketing area, LIMRA is irreplaceable to us as a source of industry information. And these associations will change as their constituent's interests change and they'll reflect new areas, such as, financial services, in their research efforts. An eye on the industry should certainly be a key element of an external research program.

Let me turn now to my last topic, that of planning and strategic decision making. All of what I've mentioned previously, the various types of internal and external research, have meaningful applications to "operational," short term marketing. But the really important purpose of all the marketing research methodology we have is to influence the longer range, and more encompassing, strategic planning process. The operational research helps pay the bills in the short run but the strategic research helps keep the firm viable in the long run. Additional techniques here range from the "hard," number oriented to the more soft, subtle, theoretical considerations. At the "hard" end of the range I put the various forecasting and modeling techniques -- techniques which are continually being refined and made more accessible through software packages. Terms such as multiple regressions, time series, and Box Jenkins should

be familiar to all serious market forecasters. And again, these are methods within the reach of every actuary. They are very mechanical, though, and lose their efficiency over the short term. Where they leave off, models take over.

Well designed long range sales and market models should be a part of every market researcher's arsenal. In our shop, we model and forecast sales results for a fiveyear period using individual agent groups and their sales and marketing mix as basic building blocks. Future recruiting and agency retention enter into the equation, as well as assumptions as to policy type, size, amount and premium per thousand or per sale. The aggregation of the results for the various groups gives a good view of where the company's sales are going in the years ahead -- based, of course, on all the assumptions made. The beauty of this basic, building block approach is the control allowed over the basic assumptions. As we say when our forecasts are disputed, "The model works; if you don't like the results, change the assumptions." In our case, that might be sales per agent, type of sales recruiting, retention, product mix, etc. What if, scenario type studies become important at this stage. The important point is to focus on the assumptions not the final results. And I think that's where a lot of strategic planning goes astray -- too much focus on hard, end-result, forecast numbers instead of a focus on the structure of and possible changes in the assumptions that produce the results. For, after-all, the controllables for the firm are, or at least should be, reflected in those assumptions. And controllables are the only real levers that the management of any firm have to work with. If all the models and techniques of the marketing research methodology do nothing more than help management focus on the controllables, they will have served a purpose.

This leads to my final topic -- the theoretical or philosophical end of the planning process. Although last on my list, it represents the toughest, least understood, most important role that marketing research has. It's a role that marketing researchers share with futurists and professional planners although I have trouble separating those roles. Seems if you're one, you're kind of the others also -- and I'd throw a bit of actuary in to flavor the whole mix. This whole meeting is devoted to strategies while the morning tomorrow is filled with sessions on strategic planning. Those people will do a better job than I could of elucidating the many aspects, problems and opportunities inherent in the planning process; so I'll just mention a couple of things. My own definition of this planning process is simple, "Recognizing important change on the outside and effecting appropriate change on the inside." Maybe we should talk about R and E (recognizing and effecting) instead of R and D (research and development). As tough as it is to recognize change, I think the tougher of the two components is effecting change. It's here where we talk about objectives, goals, and strategies. It's here where economics, demographics, and social change really come to bear. It's here where terms such as financial services, videotex, and one-stop-shopping take their first breath of life. And it's here where tried-and-true marketing research methodology such as product portfolio matrices, product life cycle charts and experience curves, and strategic marketing alternative grids come into play.

At our shop we use five year strategic planning, executive officer planning rallies, planning review teams, and a formalized planning committee to try to recognize and, more importantly, effect change. It's a job requiring competent staff support, a tireless lead planner (who doesn't plan but rather helps others plan) and a totally committed chief executive. Strategic planning is a never ending job and, in a sense, the job of higher level management. I think that only through the appropriate use of the methodology discussed this morning can that job be completed successfully.

That concludes my remarks this morning. Although I've covered a lot, not too much I hope, there is a lot I've left unsaid. I'm sure others will touch on some of that during this two day meeting. I'll be happy to discuss any topic more completely during the question and answer period.

MS. DUNN: We were talking about the various stages in the Strategic Market Planning Process and how market research can fit into those stages. We had finished the stage that had set forth the objectives and determined their relative importance. We also looked a little bit at the stage of getting some of the information from the macro environment, why we wanted to look at the macro environment, and getting some information about our consumers, our competitors, and also our producers. I want to mention that in terms of getting information from consumers, there is a very high degree of sophistication in terms of targeting consumers that exists these days in marketing research, for example, the Claritas approach. This is a quite astounding methodology that has been used for four or five years that clusters zip codes. It is used by direct mail methodology and basically it is a system that relates the person's zip code to their life style. So, for example, if I know that you're in zip code 19152, I know that you're upper-middle class, professional, educated. If I know that you're in 25695, I know that you are southern, rural, less educated, and economically down scale. So if I had a large number of addresses with zip codes, I can cluster these zip codes and addresses and segment my market to a very, very fine degree to reach out to these particular market segments. I just wanted to bring that up as an example of the kinds of research and the kinds of market targeting that is going on.

The fourth stage that we want to look at is actually analyzing our market situation. Once we have all of this information, in terms of what should we be striving to, what are our objectives, and also in terms of what is happening in our marketing environment. We want to look at how we are doing in terms of sales, market share, profitability and very importantly our resources and activities in relation to our competitors? Where will we be next year or in five years if we don't take any corrective action. Where are we likely to be in the market place if we just take a status quo type of approach? We have to know right now where we are in the market place in terms of our competitors and in terms of their resources in order to know how we can get to a better place. So we are basically doing an evaluation of where we are right now.

How can we get some information that would help us make this evaluation? This is the kind of information that we could get from our marketing

analysis function. Remember, I mentioned three different components to the market research department and the marketing analysis person is a very, very key person. This is the person who is typically found hunched over the computer terminal with all sorts of incoming information that can be broken down as finely as the producer level. Based on the producer's sales level and loss ratio, you can take this data and aggregate it in all kinds of ways, and look at all different kinds of things and feed it the kinds of information and knowledge that we need to know in order to determine where we are in the market place right now.

The fifth step in Strategic Market Planning Process is to look at our different products, different market segments and see if they are really optimal. Do the products fit? What are the consumer's needs? Are they really meeting our own particular marketing objectives? There are a number of decisions that have to be made about our products every time we go through a strategic planning cycle, and this happens whether we have one product or a portfolio of fifty or sixty products. These decisions have to do with whether we should keep the product. That is the most obvious decision and that is a very, very hard decision to make when lots of people have been committed to a product for a while. Should we keep it? Should we add to or modify the product? Is there any other feature that we should delete from the product? In terms of not only our product, but in terms of our segments are we focusing on the right segments or is there a different way that we should look at our marketing segments? I know that New York Life, for example, has done some very interesting work on focusing on certain segments of the female market in terms of this product.

There are all kinds of new segments that are opening up based on demographic changes that are going on that one might want to consider. So we want to try all distribution methods. Is it time for us to plunge into direct mail for any of those segments and products? Do we want to use a different mix of producers? These are some of the basic questions that we want to look at. What kinds of information can be fed into this decision making process? We then have all of our three basic types of marketing information, market research data, and market information reports, which are going to be telling us about the financial end, and premium data that we have analyzed and our marketing intelligence reports, which are going to be telling us about what are competitors are up to. The final component in the decision making process is management judgment which can synthesize all of these.

The last real decision step in the strategic planning model is to select the optimal marketing mix. If you take a Marketing 101 course in school, you will know that the marketing mix consists of the four P's: the product, the price, the promotion and advertising, and the physical distribution of the product. That is what marketing mix means and this is on the most molecular level of decision making about strategic planning. When you get down to this point, you are really making the nitty-gritty tactical decisions about what kinds of particular advertising you are going to be using, your pricing decisions, your promotional decisions and so forth. You have to make that decision for every product that you are going to be putting out there. When you make your decisions, you have certain criteria

that you want to match these decisions with. Are these decisions consistent with your objectives? Do they fall within your budget allocations? Are they optimal in terms of the scenario that you are projecting? I did mention briefly in talking about the AHP that when you go through a strategic planning process, you typically go through it under various scenarios. That is so we can anticipate what might be happening in terms of future crises or if things should happen in the future, we'll be prepared and know what to do, as plans have been made for a number of scenarios.

Last but not least in our model, we have to organize information for control. It is very important in setting up to institute a feedback mechanism so that you can monitor your plan. Your implementation can determine whether or not they are actually keeping up with the objectives. I have given you an hors d'oeuvre tray of market research methodology. There is just so much more that can be said about it.

I think marketing research is really undergoing kind of a very major change right now. I think that our management is beginning to question a lot of the traditional uses of marketing research. I think Barb brought up some very valid points about being very careful about using market research and not just running out and doing surveys to get your fingers on the consumer's pulse. Try to make your marketing research projects fit in with your strategic decision making. I think that's a very crucial thing. I think the other trend that you'll be seeing in terms of market research in the future is using market research on managers, just like I showed you with the AHP today. You will be seeing a lot more market researchers in the future using methodological and conceptual sophistication to study managers and analyzing their decision making and attitudes in a very systematic way. My objective was to show you the importance of strategic planning and marketing and also to give you an idea of some of the more interesting marketing research techniques that are fitting in with marketing today.