RECORD OF SOCIETY OF ACTUARIES
1986 VOL. 12 NO. 4B

NON-TRADITIONAL MARKETING SECTION LUNCHEON

Leader:	H. MICHAEL SHUMRAK
Speakers:	GARY A. KAUFFMAN*
	TERRE A. TUZZOLINO**
Recorder:	FRED M. SINGER

o This luncheon is organized by the Non-Traditional Marketing Section and will consist of a brief business session followed by an open forum discussion of recent trends in direct response marketing. This discussion will be led by two prominent direct response marketing professionals. Their initial remarks will provide a contrast of the growth strategies of a large established direct response company with those of a smaller, more recent entrant into this increasingly competitive market.

MR. H. MICHAEL SHUMRAK: Our two guest speakers are going to discuss achieving success in direct response. We will be particularly exploring this from the point of view of the two ends of the spectrum -- one is a company just starting out in direct response or a smaller organization with limited resources already involved in direct response, and the other one is a company that's already a proven success in the direct response business trying to expand upon that success in today's increasingly competitive environment.

Our first speaker is Ms. Terre Tuzzolino. After receiving a Master of Arts Degree in Speech and Communication from Northwestern, Terre joined Allstate in

* Mr. Kauffman, not a member of the Society, is President of Direct Marketing Advisory Service in Rye, New York.

** Ms. Tuzzolino, not a member of the Society, is General Manager of Direct Marketing Center, Inc. in Northbrook, Illinois.

1973 as a systems trainee with her sights set on marketing. In the past 13 years she has held a variety of positions in systems communications, agent support, sales promotions, advertising, and marketing. She is currently Assistant Vice President in Allstate Enterprises and General Manager of the Direct Marketing Center, a full service direct marketing resource for the Sears family of companies. Terre is going to share some of her thoughts on direct marketing, particularly on competing in the crowded marketplace. Our other speaker is Mr. Gary Kauffman, who is the President of the Direct Marketing Advisory Service (DMAS), which is a direct response specialist providing marketing management, creative development and production support. Prior to forming DMAS, Gary was involved in developing direct response operations for two companies that were primarily and historically agency-oriented companies. Early in his experience he was affiliated with the National Liberty Company in a senior marketing position. He is currently chairman of both the Direct Marketing Association Insurance Council (DMIC) and the Direct Marketing Executives Board.

MS. TERRE A. TUZZOLINO: You do not need to be an expert in direct marketing to make the judgment that there is increased competition in the marketplace. All you need to do is consider the daily contents of your own mailbox. There are offers in there for everything from credit cards to records to personal loans to catalogs for every conceivable type of merchandise, and they're all crowding yours and everyone else's mailbox.

Within this flood of solicitations is our industry's deluge of offers for insurance. Expenditures for direct mail advertising will increase by 10% from 1985 to 1986, and this is a trend that is likely to continue. I will admit to our contribution to this volume with some deal of pride. In 1986, the Direct Marketing Center will make 400 million offers on behalf of our clients.

The Direct Marketing Center is the newest member of the Sears family of companies. We were set up to provide a full range of direct marketing services to the Allstate and Sears-managed companies.

Some of you had the good fortune to join Jay Jaffe at his session on non-traditional marketing at this meeting, and you heard from one of my clients, in fact, one of my favorite clients -- Charlie Thalheimer. Just as a bit of background let me explain how we work with those client profit centers. Client profit centers managed by people like Charlie are responsible for the product. They develop the product and they price it. When the customer has signed up for it, they're the ones that insure that he gets his policy. They do the billing, and they do the backend customer service. They set the profitability criteria, which then feeds into us. You can think of us as being a distribution method, a way of marrying the product of our clients with the consumers who are out there, with any luck at all, hoping to buy that product. That then results in solicitations, which go to the prospect, which result in sales, which generate revenue, which goes back into the client profit center, which again feeds the distribution system. What I'd like to do now is share with you what we feel enables us, or anybody else, to compete in this crowded marketplace.

In the Direct Marketing Center we believe that successfully competing in the marketplace is dependent upon three elements. First is the understanding of what makes direct marketing different from other marketing efforts. Second is to accurately determine how much you can afford to spend to generate the sale. Third is the knowledge of your market's opportunities and constraints.

Let's face it, direct marketing is a different sort of animal. Those who successfully understand it can exploit the differences.

The first characteristic is that of market-driven products. By this, I mean products that are successful are the ones that are designed specifically to meet the needs of the targeted marketplace. When you have a sales agent, he or she can modify your product presentation to fit the conversation that's going on in that presentation. In direct marketing, you have just one crack at the prospect, so you have to offer a product that's needed in the marketplace in the most impactful way possible. One of the common mistakes in direct marketing is to have a product or product concept that was successful in one area and try to convert that success into direct marketing without adequately researching its viability.

A friend of mine once took that to the least common denominator. It only counts if the dogs eat the dog food. Product development that relies on quantitative and qualitative research in assessing the perceived consumer needs can be both time consuming and rather expensive. I admit that, but we believe that this is an appropriate trade-off that's necessary in order to to be sure that we're offering products that are likely to be successful in the marketplace; products that people want to buy, not just products that we want to sell.

The up-front capital resources required for direct marketing are considerable. A great deal of capital is often necessary, as you know, to fund a program before the revenue stream ever has a chance to catch up.

The direct marketing advertising approach has a very different focus from general advertising. It's advertising pull versus push. We have to pull the sale in. We're not laying down a level of general corporate awareness advertising that stays in someone's mind so when they're ready to buy the product, with any luck at all, they'll remember us and remember our company and seek us out. We have to grab the sale and we have to grab it now. I'd like to compare it to a commercial that may have played in your market. It was the Accutrim commercial. That is a diet aid, and you may remember a young woman sitting on the couch watching television in her robe and her fluffy slippers and suddenly, it was a scene out of the movie *Poltergeist*. Stark white light starts eminating from a room and, she's thrust horizontally toward the kitchen and a pulsating refrigerator. I liken that to our beautifully constructed product offer innocently waiting in the prospect's mail box feeling the vigorous tug of the waste basket. It's up to us in direct marketing to be sure that those offers stay in the hands of the prospects where they belong.

In direct marketing one of the significant advantages is the front-end marketing expenses. Once you have paid for the cost of the solicitation, the cost of the campaign, your marketing expenses are basically over. This front-end expense method, allows for amortization of the expense over the period relative to the revenue coming in.

Perhaps the most significant difference, and the greatest strength, of direct marketing is market condition flexibility, which can mean a number of things. Market condition flexibility means the ability to target very specific groups of consumers. It means the ability to quickly exploit new opportunities before the window of opportunity slams shut. It also means the ability to suspend activities as well. Should a sudden change require a suspension of the efforts, one very simply stops mailing or stops calling. The overhead is at a minimum, so the cost isn't all that great. You can turn the faucet on and you can turn the faucet off. It's very hard to do with an agency system.

There is one principle that we firmly believe in as the determinant of success, and that is to determine how much you can afford to spend to bring in the sale. Correctly determined, you have taken the most important step toward success. Incorrectly determined, or forgotten, and you have most likely failed before you even started; and unfortunately, you may not even know that for years. The first step in making your cost determination is an obvious one. Your direct marketing program has to be consistent with the corporate financial goals.

Running in concert with that last point is the evaluation of direct marketing expenses as an investment. The money to be advanced for the front-end marketing expense must return a yield equal to or greater than that which would be available through alternative investment methods. In short, a return on investment (ROI) criteria is required. Due to the risk involved, the return on investment has to be substantially greater than that available through other means.

The method that we employ is to form guidelines that express how much we can afford to spend to bring in the sale and still hit an acceptable return on investment. Once in place this ROI guideline provides the most important gauge that we have in making decisions.

The ROI guideline is an expression, of course, of the allowable cost per sale. With it, along with two other variables, we make the decisions. These variables are the cost of the solicitation and the response rate. Both can be manipulated. Cost can be manipulated by altering the components of a mailing package. The response rate can be manipulated by selecting more precisely who your likely buyers are.

Here are two simplistic examples of using the cost guidelines and the two variables of cost and response rate in making decisions.

This first example is used to determine what response rate is required at the anticipated cost that will still allow you to reach your ROI guideline. The formula is the cost per solicitation -- that is, the cost to produce the piece, the cost to make the phone call -- divided by the cost guideline, and that equals the response rate required to meet the ROI objective.

Using 30 cents as a cost per solicitation and a guideline of $50 for an allowable, .30 divided by 50 gives you your required response rate of six tenths of one percent. By lowering your cost to 28 cents, with a $50 guideline, your required response is reduced to .56 of a percent.

The second use is to determine, for an anticipated response rate, how much you can spend for the solicitation and still get your targeted ROI. The formula here is the cost guideline multiplied by the response rate yields the maximum amount you can afford to spend on the solicitation. Using the same numbers as in the previous example, the $50 guideline and the six tenths of a percent response, 50 times .006 equals 30 cents as your maximum allowable cost per solicitation. By adjusting the response rate, we can adjust the allowable costs.

As mentioned earlier, direct marketing expenses are front-ended and the business is capital intensive. This, of course, requires that a pool of adequate capital be available to fund these efforts.

As the first formula demonstrated, aggressive expense control can reduce the level of response required to achieve your goals. Reducing costs has the same effect as increasing responses, and it is often easier, or at least easier to control. I'd like to elaborate somewhat on this point as it is an area that we concentrate a lot of our efforts on in the Center on behalf of our clients.

While there are many areas where expense control can be successfully employed, none offers more opportunities than in the production of mailing packages. Simply stated, the more you can reduce your costs, the deeper into your list you can mail and the more revenue you can generate. More revenue can lead, to additional direct response efforts.

Techniques that we successfully use are in-house coordination of production rather than relying on an agency with their intended markup to do the production. When you mail over 400,000,000 packages a year, you have an opportunity to develop some very good relationships with your vendors. We have altered our mailing schedules in order to gang-run production of similar mailing packages so we can bring down the cost for our solicitation package over a number of markets.

The third aspect of successful direct marketing is one that's really common to all marketing efforts: Knowing your market's opportunities and its constraints.

Again, I go back to something I mentioned earlier -- market-driven products. Our experience is that the successful products are those developed to meet the perceived needs of the marketplace. This may seem rather obvious, but as you may know, the marketplace is littered with products that weren't adequately researched, products that we wanted to sell rather than products people wanted to buy. Unfortunately, there's a few of our own in there.

Because of that market-driven philosophy, product development requires research capabilities. Proper sampling and analysis techniques are essential to this form of product development and target market segmentation.

I don't know how many of you had an opportunity to see that terrific Broadway show, "Ain't Misbehaving." But it turns out that Fats Waller was not only a great musician, but he was also a premier marketer as well. You may recall that he admonished us to "find out what they want and how they want it and give it to 'em just that way!" That's true in human relationships, and it's even more true in direct marketing.

While we've talked so far about the need for market-driven products and the cost per sale criteria, without a doubt the most critical item necessary to compete in the direct marketplace is a list to which your marketing efforts are directed. If you are fortunate, as we are, to have a large and active customer list of your own -- capitalize it. These are individuals who already have a relationship with you. They are groups of people who have trust in you.

The next choice is probably a third party list in which the third party endorses your products and your efforts, thereby the translation happens in the consumer's mind of the affinity and trust that they have in that group to you and to your product.

The third option, of course, is renting or buying outside lists. These vary in quality, and will require some additional research techniques and opportunities to validate and find out which ones are the right ones for you and your product.

The science of direct marketing is the identification of profitable target segments -- mailing fewer, but mailing smarter. Without the availability to target your list into targetable clusters that yield the sales at an acceptable cost per sale for you, you simply can't compete in the marketplace. Fortunately, there are a number of very good software packages and services in the marketplace to help you in those efforts.

As in all business environments, analysis of the competition is essential. In the direct marketing of insurance products the competition includes people like us mailing the products. You're competing against other distribution systems for insurance and competing against every single piece of mail that arrives in anybody's mailbox.

One of the constraints that can be glaringly recognizable or one that's totally overlooked is that of possible conflicts with both existing and future distribution systems. In your organization, if you have an employee sales force, how will they react to the introduction or the expansion of direct marketing? Experience shows that it will probably increase their sales, but their perception is that it's probably going to take sales away from them. If you think about what taking sales away means to an agent, it means braces and shoes and food and station wagons. We're talking about emotion here as well as ego.

If you use an in-house agency, if you use a brokerage system, what impact will direct marketing have on the relationship? The same is true of future planning for distribution systems. Will the presence of direct marketing restrict, in any way, future plans? In the direct marketing of insurance products for our clients at Allstate, particularly to the current Allstate customer list, many conflicts and many concerns have surfaced among the employee distribution systems. Some we've resolved; some we're still working on. I don't think it's a situation that's ever completely laid to rest.

Lastly, there is the need to be cognizant of potential legal constraints. Insurance, as you well know, is legislated up one side and mandated down the other. Direct marketing advertising is guided by the NAIC model regulations for advertising. Many states restrict third party endorsements. The insurance industry can protect itself, of course, by strict adherence to truthful, non-misleading advertising and products with pricing that offer real value to the consumers while still providing a healthy return on investment to the company.

Successfully competing in the marketplace is tough. Staying alive in the marketplace is even tougher.

Allstate has been in it since its beginning. As you may know, we started as a direct marketing company. We had a page in the 1931 Sears catalog offering accident and auto insurance.

Our current method of operating began in 1966 with a third party endorsed travel accident product with Shell Oil. I'm happy to say we just recently celebrated our 20th anniversary with them. The Direct Marketing Center through that evolution is now, as we understand it, the largest financial services mailer in the country; mailing, as I mentioned, over 400 million pieces and making over 2 million phone calls on behalf of our clients.

Over the years we've changed directions, we've organized, we've reorganized, and we've refined our methods but we've remained mindful of the basics: knowing what makes direct marketing different, capitalizing on those differences, knowing what you can afford to spend to get the sale and sticking close to the marketplace.

We approach the crowded marketplace with confidence and you can, too.

MR. GARY A. KAUFFMAN: After listening to Terre talk about the 400 million kits she is mailing, those of you who are considering direct response or other ventures may wonder if there is room for you. We want to talk about how a smaller company or how a large traditional company can still find a niche in direct marketing.

The way I'd like to start off is to tell you a little story that I think sets the tone for where much of the financial services industry is today. The story takes place during the Depression. There was a young guy, and like so many people, he lost his job. On the way home he thought about it, and he decided he needed to retrain himself. He went over to a bookstore and bought a book on morse code. He went home, and for two straight weeks, day and night, he learned morse code backwards and forwards. Then one day he picked up the paper, and he saw an ad. He got on his bicycle and rode right over to the office, very excited, except that when he walked in the door, he saw about 100 other men sitting there waiting to be interviewed. He sat down as well, and rather dejected he put his head between his legs, and he sat there for about a half hour. All of a sudden, he lifted up his head, there was a big smile on his face, and with big bold steps he walked forward to where the boss's door was. He opened the door, went in, and he closed it. About ten minutes went by, the door opened, and the boss said, "The job is filled; you can all go home." The other 100 men looked at each other, perplexed, and one guy said, "You know, I don't understand; we've all been sitting here for hours; you haven't interviewed us. This guy just came in and he got the job." And he said, "Well, for the last three hours I've been playing morse code on the window of my office; and the message has been: If you want that job, open my door and come in and ask for it. You all sat there and heard the noise; he listened to the message."

I think that describes a lot about what's happening today; because we're existing in a very fast-changing environment. The social, economic, political, technological environment is changing rapidly; and yet we're an industry that's traditionally been characterized as complacent. Certainly complacency will not move us forward in the years ahead. We're in a fight, and we're not in a fight for growth, we're in a fight for survival, because in today's business environment you either grow or you die.

After hearing what Terre's talked about, we'll talk about some of the ways that your company can reorient itself to succeed. But before you can really do that, you need to know what your competition's doing. So let's take a couple of minutes and look at what other companies are doing.

We found that by going through annual reports we could find quite a bit of information about companies. For example, Sears -- over 8,000 locations, over $40,000,000,000 in revenue, over $60,000,000,000 in assets, about 30,000,000 active credit cards. As Charlie Thalheimer said, they hope to have 10,000,000 active Discover cards. They own Allstate, Dean Witter, Caldwell Banker, Sears Savings Bank, and in their report it simply states that Sears' philosophy is to serve the changing needs of the consumer.

Prudential says that they insure over 50,000,000 people. They have over $70,000,000 in assets, and they say that to maintain and strengthen their leadership position in the years ahead, they must make their organization more flexible and effective. The competitive pressures and the changing financial services market are unrelenting. We have put into place a new structure that will streamline decision-making to allow us to make fuller use of new technology in developing innovative marketing and competitive products. By redefining our products, by broadening our product line, and by streamlining decision-making, Prudential is in a better position than ever before to serve the financial security needs of the consumer.

Let's take a look at one more, American Express. Perhaps small by standards of Sears and Prudential, they only have 15,000,000 active cards, but they own Fireman's Fund, IDS, and Shearson/Lehman. If you look at their annual report, it says, "Our blueprint for the future is strong, brand name identification and distribution through many different channels to meet the changing needs of the consumer."

All three of these giants have one common thread that you can find through their strategy and that is that they are organizing around the consumer, they're organizing around markets.

Can a small company survive and grow in the future? All of this change has created more life styles and more consumer segments than ever before. Clearly, the smaller companies, once they identify their opportunities, are better equipped to take advantage of those.

What do you need? To be able to capitalize on these opportunities, the first thing you need is vision. You can't determine where you're going to go unless you have a vision. What is the essence of your company going to be? What are you going to excel in? What's going to be your purpose for being? Your vision can't be emulating somebody else. You have to realize and look at your fears, your ambitions, your opportunities, your weaknesses, your successes, and create that vision. Someone once wrote, "The best way to create the future is for you to invent it."

The second requirement is strategic planning. That's a great buzz word. I'm sure we've all gone through organizations where we've heard strategic planning talked about. You have to think strategically and act strategically, but not too many companies really practice it.

Some companies utilize what they call momentum projections. What is a momentum projection? They sit and look at what has happened over the last few years, and they project it.

Strategic planning isn't about the past; strategic planning isn't even about the present. Strategic planning is about the future, and I'm not talking 20 years from now, I'm talking five years from now. Before you can develop strategic plans, you have to know what the environment is. What is the internal environment? What are your strengths and weaknesses? What's the external environment? That's really composed of two elements. Who is your competition? Do you know who they are; do you know what their purpose is for being? What is the external environment as far as megatrends are concerned? Until you know those, you can't react. In fact, a lot of companies don't even understand completely what a strategy is. They confuse tactics with strategy. Time is spent developing products, changing pricing, and coming out with new commission schedules for the agents. Those are tactics. When we go back to the basic definition of strategy, a strategy is a plan by which you obtain an advantageous position over your competitor. You don't do that through products, you do that by organizing around markets.

Who is your competition? Insurance companies have a very interesting concept. They traditionally compare themselves to what they call peer companies. I'm not sure that that concept has much validity today. It may have 20 years ago, but with the advent of ATMs, credit cards, and toll-free 800 numbers, your peer company is not a regional company. A regional bank can't compare itself to another regional company. Local state boundaries have been knocked down. Your competition is virtually anyone in the country.

Have you looked at those megatrends? Did your strategic plan address who the consumer groups will be? Are you aware of the fact that, by 1995, 30% of households will be headed by single parents? Do you realize that by 1990 it's projected that 50% of the work force will be age 25-44? Or that the single most sought-after consumer group will be two-income retirement families? Have you evaluated those megatrends?

What about deregulation? Are you one of the companies that's supporting lobbyists to try to stop it? All you can do is defer it; it's a reality and it will become even more of a reality. You need to be spending your time finding out what opportunities deregulation will give you. Find what those emerging trends are and act upon them.

Deregulation is going to create another challenge. As there is a blurring of distinction between financial services companies, as insurance companies resemble banks more and banks resemble insurance companies, and stockbrokers try to emulate both, there are going to be comparative products. In your strategy, what are you going to do to differentiate yourself?

If you look at the chicken industry, until Burger King and McDonalds got in there creating a shortage, there used to be an excess of chicken. A chicken breast was a chicken breast until Frank Purdue came along. He created brand name recognition. That's what American Express says they're going to do; create strong brandname recognition. I don't know if Frank Purdue's chickens are better or worse than someone else's, but he's created a perception that they are, and he even charges more for them!

What are you going to do to differentiate yourself? After you create this vision and the strategic planning, you have to develop a focus.

When you classify most of the businesses that exist within a corporation, they can either be classified as cows, dogs, or stars. Now the cows are the cash cows; that's what has produced the profit in the past. But you can't hold on to them. If they're not producing profits in the future, you have to milk them. Because cash cows aren't producing profits, companies tend to take cost-cutting steps. We must cut costs; we must streamline. It's fine to cut costs, but you're kidding yourself if you think it's going to increase the profits from those businesses. You have to take that money and feed it to the stars.

We all hear about the 80/20 rule; it's true in most of our businesses. Twenty percent of your efforts probably produce 80% of your revenue. What are you doing to pare down that other 80% and to focus on funding your new stars?

The fourth thing you have to do is alter corporate image. That's easier said than done, but it's essential. If we look at the traditional structure of an insurance company, it's characterized as being highly functional, highly centralized, highly specialized, and highly formalized. It always has a long chain of command.

That's a terrific structure when you're operating in a stable, predictable, and certain environment. That certainly describes the insurance industry for 100 years, at least up till 1970. I don't know about your company, but I haven't worked in a company for a long time that would consider itself living in a stable, predictable, and certain environment.

That type of structure just doesn't work in today's scenario. You must be uncentralized, unformalized, unfunctionalized, unspecialized and have a short chain of command.

The companies that are succeeding and organizing around markets are doing just that, because the old structure is characterized as one that emphasizes efficiency and operations orientation. What's efficient isn't always what's most effective. What's easiest isn't always what works and what's best. The problem is that in an insurance company and many of the banks, new ventures can never get off the ground because that old formalized structure is just not geared to success.

If you look at the banks that are becoming successful, the Citibanks and organizations like them, they have an unformalized and unstructured and short chain of command. They're organizing around markets, not functions. They have retail banking, they have investment banking, they have institutional banking, and they have insurance. That's the way you grow in the future.

Because insurance companies are operationally oriented, they tend to start new ventures with a very different point of view. We'll use direct response as an example. Because the companies are highly operations oriented and operations driven and have many of those people, they are very quick to recognize that for direct response marketing, as an example, the marketing technology and expertise needed is totally different than on the agency side of the business.

Why is there a reluctance to recognize that the same differences exist in all the operational aspects of the business? Why do we tend to say we'll try the marketing and let everything else force into the existing system? You don't go out and build a prototype of a new missile or an airplane or a car by putting two new pieces of the engine together and hoping the thing's going to work. You either go all the way and build the prototype or your chances of success are rather limited.

That's one of the reasons so many new ventures, direct response and otherwise, fail within that existing functionalized and formalized structure. Within that structure, decisions are either not made or delayed. New ventures, new products are rejected out of hand because they're creative, and different. There's uncertainty, there's risk involved; and those are words that don't fit that old traditional organization.

Products are priced beyond what the market can bear. Overhead crushes the new operation. There is an inordinate allocation of existing overhead to a new venture that has no support. In fact, the irony is that in traditional companies there ends up being such a large allocation that not only does it crush the new venture that has no renewal premium, it sometimes creates a false sense of security that maybe the cash cow is being revitalized, and it makes it look better than it really is.

The last problem is that things are done that are easiest, not necessarily what's best.

You need to become excellent in direct response; you need to master direct response because direct response offers tremendous flexibility and control. You can create a data base that you control.

One of the secrets, I think, in the industry as we go forward, whether it's direct response or agency or any other distribution system, is that it's becoming more and more expensive. The cost to buy a customer is becoming incredibly high. That's why a lot of companies are diverting away from agency business. But don't kid yourself. The cost of obtaining a direct marketing customer is also increasing. The future people who will be successful are those who learn how to intensify the relationship with their existing customers.

Many of us have sold products through agents over the years, and have complained that maybe agents only go back to call 40% of those customers. Today, with the intensive pressures on high commissions and competitive product, even if you had the ability to intensify that relationship, you're intensifying it with products that have low profit margins just as the original one. What direct marketing allows you to do is to buy your customer. But you then control that person. You can market to them as frequently as you're able to create new products and services that will work. What's interesting is that your acquisition efficiency will be significantly improved, and your profit margins will be significantly higher, because you're now marketing to your family. So one of the secrets in the future will to be able to buy and intensify relationships. This would be a terrific advantage for a company like Allstate because it already has great data base in Sears.

My personal feeling is that direct response is like a lot of emerging industries. There are a lot of people who got into the business in the beginning that were small entrepreneurial companies. They've succeeded up to a point. But there's now a lot of stagnation, and a lot of parody of products.

I believe that the future is there waiting to be taken by a company that has brand name identification. Some company out there, whether it's a State Farm, a Travelers, a John Hancock, a Metropolitan, or some company that has brand name identification is going to wake up and realize that they can be the Frank Purdue of the insurance industry. I think they're going to be the major players ten years from now.

We talked about intensifying the relationship, and another reason it's important is that if you look at your product line, how much of your new premium today is coming from products that you sold five years ago? If your answer is "not much," as I suspect it will be, that's an indication to you of how important it is to be innovative in your product development, especially when you're intensifying your existing customer relationships.

The next point I want to make is that you need to create joint ventures in the future. There's a tendency to feel that you should either buy it or build it. With the varied consumer segments that we have in the new emerging markets, there are just far too many for us to be excellent in all of them. What you need to do is marry your strengths with someone else's strengths where you both compliment each other's weaknesses. It will give you an opportunity to be in more financial services markets without over-investing. Remember, just as you won't be able to enter all those markets, neither will your competitors.

We've talked about seven basic factors that are important if you're going to be successful in direct response or any other venture.

1. To have a vision
2. To have true strategic planning
3. To have focus
4. To become an expert at direct response
5. To alter your corporate culture
6. To intensify relationships
7. To develop joint ventures.

Excellent companies, the companies that are going to grow, and the companies that are going to be successful, are those that have a bias for action. They try it, they fix it, and they try it again. They're not tied to tradition, and they're not going to have centralized structures except to milk the cash cow. They're going to be decentralized so they can take advantage of emerging opportunities.

Most of all, they're going to be entrepreneurial. They're going to encourage it and reward it and not stifle it. Without that entrepreneurial spirit, there is no innovation. Without innovation, there's no growth, and without growth you can't survive in today's business environment. You must be entrepreneurial, you must be innovative, you must be flexible, you must be effective, you must be consistent, but above all you must be committed. The test will be ten years from now when we find out how many companies listen to the message of morse code and how many of them just heard the noise.