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**RESEARCH ACTIVITIES IN NON-TRADITIONAL MARKETING**

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- o This panel will consist of research managers from prominent non-traditional marketing companies. Discussion items will include:
  - Structure and composition of research units
  - Methods currently used to conduct research
  - Specific examples of activities

MR. CHARLES N. COATSWORTH: Now I happen to know, after speaking with some of you, that there are skeptics as concerns the value of the research activity function. Let me address the feedback I have received thus far.

Comments were clustered around two general issues. First of all, there were concerns as to the validity of the results. An example which points out the importance of correctly performing and translating research data occurred when deregulation unlocked the market for residential telephones. A number of manufacturers, including AT&T, assumed that customers equated quality with a wide range of expensive features. They were soon proved wrong. Fancy telephones sold poorly while durable, reliable, and easy-to-operate sets gained large market shares. Not much has to be said about Classic Coke as another example of the importance of performing and translating research correctly. This indeed was a classic example.

Let there be no doubt, therefore, that research must be conducted and interpreted properly in order for it to be of value. Shoddy market research or, even worse, none at all can in fact add features to products nobody wants.

The other general concern I heard expressed had to do with depending too heavily on research to drive the new product introduction process. It takes a mix of research activity and willingness to act on educated intuition. You must be prepared to produce test products or enter test markets in conjunction with

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performing ongoing research activities -- i.e., in lieu of relying solely on what the consumer is or is not telling you.

The wine cooler is an example of this pitfall. Approximately five years ago researchers proved that a market for the product simply did not exist. The idea, no matter how it was couched, was vigorously rejected by every kind of consumer in every kind of focus group. While this research was being conducted, two gentlemen from California decided to take a chance on bottling their home recipe of fruit juices and white wine. Their lack of experience and knowledge stood in the way of nothing -- except doing consumer research. Coolers were soon selling 70 million cases for \$1.4 billion in retail sales. The research data still exist, however, to prove that wine coolers are a lousy idea.

Therefore, I would like to proceed with the understanding that research activity will be conducted and interpreted properly and that it will not be the sole determinant of whether or not a product is introduced into the marketplace. Research is simply one of many tools we need to employ in our attempt to maintain -- as well as increase -- our market share.

The ACLI conducts an annual survey that monitors public perception of insurance products, insurance companies versus other financial institutions, and agents. There has been a sharply declining trend in the past four years in the percent of the population which prefers to buy insurance in a non-traditional manner. This trend is most likely a result of a loss of interest due to saturation with mail and phone offerings.

I happen to believe that a primary use of research is to enable us to fight through this clutter with new products that meet the predetermined needs of the consumer. Unlike traditional distribution systems where an agent can provide timely feedback to the company on product needs and customer perceptions, we must rely on research activities to extract this type of information from the marketplace.

Most of the insurance industry, in my opinion, has just scratched the surface in terms of how to effectively use research to grow their businesses.

Just as the computer has evolved from the cumbersome ENIAC machine to the powerful models we all use today, I think that our effective utilization and understanding of how to employ research in non-traditional marketing are in their infancy. From creation and refinement of new product concepts to conducting a demographic analysis of your policy owner base, who knows what the future holds in terms of imaginative ways to integrate research into our planning and development activities?

In order to give you an overview of what is happening in the industry today with respect to research activities, I have invited individuals with manager responsibility for that function in their respective companies to participate as panel members. These individuals represent some of the more prominent non-traditional marketing companies in the United States today. Each will share with us information on three topics: the structure and composition of their units; some of the methods utilized to conduct their research activities; and specific examples of those activities.

MR. CHARLES F. THALHEIMER: I am going to be discussing research and product development activities at Allstate Life in our Group Direct Response

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area. Before getting into the development cycle, I will explain how we are organized at Allstate to support our Direct Response efforts.

With that serving as an introduction, I am going to discuss the product research and development cycle we go through at Allstate in general terms and, on a parallel basis, use our development of a long-term care product as a case study.

Allstate Life has been in the direct response business for some 22 years now. Our clients include not only Sears family members, that is, Searscharge, Allstate customers, Discover customers and Sears Mortgage customers, but also customers of Shell, Spiegel, and Texaco. We solicit these groups for a variety of supplemental life and health products and also credit protection products.

Direct marketing at Allstate is conducted with the cooperation of three major departments or areas:

- The Group Life Direct Response Profit Center
- The Direct Marketing Center
- Allstate Research and Planning Center

The Group Direct Response Profit Center, the area that I currently manage, is part of the Group Department within the Allstate Life Insurance Company.

Our primary responsibilities within the profit center include market development; that is, developing and maintaining client and customer relationships beyond the traditional relationships with a client's marketing and financial departments. This also includes working with the operations and systems departments of our clients.

As the profit center, we are responsible for the bottom line of our direct response activities. In addition, when we want to introduce or test new products or concepts, we are responsible for getting capital allocations approved within the corporation.

Once we have received a returned enrollment, the profit center is also responsible for processing the enrollment, fulfillment, billing (if not billed on a credit card), customer service, upgrades, claims administration and the processing of any terminations.

Finally, the primary topic is our responsibility for product development. More than any other function, product development is the shared responsibility of our profit center and the two departments that primarily support us. Although it is "our money" that is being spent, both the direct marketing center and the research center play critical roles in the research and product development cycle.

Taking a quick look at our specific profit center organization, we have 5 areas reporting to the profit center: marketing, operations, financial, technical support which is responsible for our advertising compliance, state filings and claim administration, and, finally product development.

The Direct Marketing Center is Allstate's corporate direct marketing resource. They develop our advertising materials and manage the production and mailing of our solicitation material. Beyond their role as an ad agency, they plan an important role in coordinating access to the Sears corporation marketing file, as

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well as assuring that scheduling conflicts do not occur with other areas within the corporation using direct response techniques on the customer file.

The final player in the scheme is the Allstate Research and Planning Center or what we simply call the Research Center. They provide a great deal of consumer research not only for Allstate but also for other subsidiaries of Sears. In a recent *Forbes* article John Gragnola, who runs the Research Center, was quoted as saying "We know damn near everything about everybody." Now this is a bit of an overstatement, but the Research Center is our source for consumer information. If they do not have the information we need, they will help design a study to help get it.

As you might guess, the Research Center plays a critical role in our product research. So, with that brief overview of our organization, let's get into the product research and development cycle.

With regard to Allstate's development cycle, we will use long-term care as our case study. Our long-term care product is a fairly standard offering, not terribly different from the product of the American Association of Retired Persons (AARP).

Our cycle begins with market analysis and brainstorming. In this "dreaming" phase of development, we try to keep an eye on what the marketplace or competition is doing while also trying to keep a finger on the pulse of the consumer. For this we use financial need questionnaires as well as studying general and customer-based demographic trends. Our fundamental philosophy in product development is to develop market-driven products.

Once a product takes shape, we consult with our Legal and Tax departments.

I do not think I have to enlighten any of you on the demographic, economic, and regulatory or environmental trends that have made long-term care one of the most discussed and debated new products in recent years. With the mature market representing the fastest growing segment of our population and the lack of nursing home coverage available at this time, the product need is apparent.

Once our legal and tax people have finished, we take our rough product outline and conduct focus groups to determine consumer research to the product's general and specific features. The focus group is an informal discussion with 8-10 participants conducted by a moderator. The moderator leads the discussion through a predetermined set of topics. We use focus groups in this phase of the development cycle to get the general market perspective for the product overall and for the product's specific features. It is also the most flexible and reactive method we have, but unfortunately it is the most subjective.

In developing long-term care, we conducted five focus groups interviewing a total of 48 individuals ages 60 and over. In trying to get a representative reaction from this age segment, focus groups were conducted not only in our home town of Chicago, Illinois, but also in Tampa, Florida.

The focus groups confirmed the need for coverage, but also clearly established three specific challenges to any marketing effort:

1. The challenge of dispelling the Medicare myth, the commonly held belief that Medicare takes care of most nursing home confinements. When the focus

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groups were held in September of 1986, consumer awareness was not as great as it is today.

2. The challenge of dealing with the denial of a need on a personal basis for the younger ages. People 65 or less who are in good health think they are too young to think about going into a nursing home.
3. The final challenge was dealing with the consumer's perception of a reasonable cost for this kind of coverage.

Once we are convinced that we have a product that provides a reasonable balance of product features and affordability, we are ready to conduct a simulator. A simulator is a mock offer accompanied by a survey or questionnaire. It is not a real offer to buy, and as yet we have not incurred the costs of filing, production, or establishing administrative support.

We use simulators to qualify consumer preferences on coverage levels and product features and to avoid undesirable product aspects. In addition, feature rankings indicate to us those features we may want to emphasize. They also allow us to get a sense of overall consumer acceptance or likelihood of buying. However, the research center reminds us time and again that because people do not actually buy the product, predicting response rates based on simulator results is inappropriate.

Six months after our product focus groups, we mailed 36,000 simulator packages. The 10% response rate was lower than we expected for a simulator to this age group. Those who responded indicated a high interest level and did some self-selecting. That is, our best responders were also our target market, ages 60-64 with average incomes in excess of \$25,000 a year.

With the simulator results in hand, we made some minor product modifications and our state filings. At the same time we were developing final solicitation materials.

As a safeguard against making an expensive mistake with a mailing, we have begun to use advertising focus groups in our research cycle. Their purpose is to let us identify problem areas in creative copy and make necessary modifications. There is also the opportunity to judge, albeit very subjectively, reactions to creative alternatives.

We conducted long-term care advertising focus groups last August. In six sessions we interviewed 58 people.

We found a number of areas that were either misunderstood, misleading, or too impersonal. For example, our groups reacted poorly to aggregate population statistics, preferring statistics that were more relatable for them. As a result of this step in the process, we made some changes in the advertising copy and were ready to proceed to a test mailing.

The next step is where all the hard work gets its first real road test, the actual test mailing. Its purpose is pretty obvious. It is the first time the consumer has the opportunity to really buy the product. The test mailing is designed to find out whether the product can be sold profitably. We use test mailings to determine whether some segment or, if we are really lucky, all of a particular market can be solicited profitably.

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Our long-term care test last October occurred 13 months after our initial focus groups. Except for the minor problem that the number of responses was disappointing, the test results met our expectations. The average annual premiums of \$1,300 per year and the distribution of sales by age and marital status were what our simulator research had indicated.

A conversion rate or take rate of more than 80% was reassuring for this direct billed product. But the overall response rate was poor and the next phase of the cycle took on more importance for us.

The buyer/nonbuyer analysis is a follow-up survey to test subjects to try and gain some intelligence on why individuals either made the decision to buy or not buy, and in what areas we should concentrate if we want to improve the future results.

Conducted primarily by the research center, we sent 5,000 surveys to individuals who were originally solicited, 11% responded. Their reactions fell into three major categories: too expensive, do not need coverage now, and coverage is not comprehensive enough.

The research center obviously provided us with more detail than this. They gave us an in-depth look at the reactions by age, income, employment status, and marital status.

The next step is to revamp our product and with a creative approach to try and figure out how to cut the cost, broaden the coverage, and convince people that it makes sense to buy the product sooner rather than postponing that decision.

We are planning to make another test later this summer with what we expect will be improved results springing from the valuable information from our buyer/nonbuyer analysis. Hopefully, we will not require many more test mailings before we can reach the goal of any product development effort, completing the cycle and graduating into mass distribution.

MS. JANE E. BLACK: I am going to give you an overview of why we do research and certain other things at American Express and AMEX Life Assurance Company. AMEX Life Assurance is probably less traditional than a nontraditional life insurance company in that we limit our market specifically to the eleven million U.S. American Express Card members.

What this means is that we send 500 million pieces of mail to those eleven million card holders. AMEX Life Assurance sends 20% of the total, around 100 million pieces per year. We are competing with each other for mail time and the attention of the card members for very related products. It also means that we are able to use the expertise and research from these units. The American Express Card member base is considered an asset and what we have been able to do is know who we are and who we are marketing to. One source of data we use is Selection Research Institute (SRI) International. What this gives us is an overview of the American Express Card member base compared to the U.S. Financial Service user. What it does not do is say specifically that Mrs. Smith happens to be married and has a household income of over \$48,000. This gives us a generic sense of who the American Express Card membership base is and an opportunity to develop products that are generic towards the type of individual. One of our challenges with direct marketing is that insurance marketing is considerably different than direct marketing. By our sending 500 million pieces of mail a

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year, we have been able to get quite a bit of information about what you need to do to mail pieces effectively and get the highest response possible.

One difference is that you have to keep it simple. If you look at an insurance piece, typically you have to provide full disclosure and all the mandatory coverage or else it does not get you the clients. Secondly, if you state the product benefit personally, you have to do it with three million pieces of mail, so you have a generic personal invasion that you try to mail to male heads of households. When you contract that into an insurance sale where you actually personalize a proposal, an insurance agent will go in and look around and figure the exact income of the individual, the marital status, family status and personal life proposal. Third, direct mail says that you have to re-sign the offer on the reply device, the application form or the actual piece of paper that is mailed back to the Company. Many of you have seen the underwritten product application and most of those have five or six very explicit questions which go on and on asking whether you have had heart attacks, etc. You have information regarding the beneficiary, billing, and you cannot put the full mandatory copy on the application. You should offer strong reasons for the prospect to respond and again, most insurance salespeople will say insurance is sold, not bought. You cannot generically give strong reasons for the prospect to respond in a direct mail piece, because for each and every individual the reasons are different. Finally, by policy American Express can only market by direct mail. In insurance most of the leads, follow-ups and sales are done through telemarketing or direct mail.

The life insurance agent acts as the researcher for most insurance companies. The agent will talk to the client and personalize the proposal. At American Express we do not have the privilege of meeting with the client. Finally, the agents do a great deal of consumer research for the company.

For any requests that come in for unusual types of insurance or changes in insurance, the agent understands the professions of the people buying so he can look at the products and develop for an individual. The only information American Express has is the information on the application form that may have been filled out a year ago, in my case ten years ago. We also get information from receipts. Every time someone uses his or her card we learn more information.

We also use surveys, and one of the more recent things we have done concerns interviews by industrial psychologists who sit down with someone for four-hour therapy sessions where we talk to them about life insurance, planning for death, protecting their family. At the end of this session we are able to get a better sense of why people buy insurance, how they perceive insurance and what sort of things they are looking for. When you look at focus groups they usually reflect what you are trying to say. You have to be careful. This one says, "For crying out loud gentlemen, someone installed the one-way mirror backwards," so they are looking upon themselves and what they think they are saying.

Ideas are like seeds. To become full products you have to plant them and fertilize them. Most of you people are part of the fertilization process. Take this through the legal area and they add and subtract, put through a competitor review and they add a little, take it through the pricing and actuarial areas and they weed out some of the products. Finally, you are back asking the customer what he or she thinks of the idea. Obviously, marketing is important and where you do more market research. We do a variety of market research. Some

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individuals may not consider market research, but it helps us to target the market better and get a better understanding of to whom we are marketing. It also helps us with our marketing effort. We do a great deal of modeling. One form of modeling is simply to say we are going to mail to everybody who is 45 years and older who is male and who has a supplemental card (a second American Express card). We also do match key modeling, where we look at who has purchased before. Then we look at survey information combined with some focus groups and some one-on-one interviews to determine characteristics of individuals for the high dollar purchase.

The material and product test is a very strong point that we have to make each time that we send out a new package or a new product. The positioning check really looks at the value. What is the value to the consumer that we are trying to communicate? The communication check basically looks at the information we are saying. What does this say to you? Do you understand it? For example, universal variable life, lapse rates, surrender charges -- these do not mean anything to anybody except those of us in this room. People do not understand the terminology. We find over and over that we slip into insurance language. We have to sit down and ask if people will read it and see if they understand it. Third, market testing. This is the big money user. It is also what we do once the product is out in the market and we are trying to get a new marketing package. We have been looking at product configuration. Should this product have a level premium versus an increasing premium? A creative test is a big user of money. With this you might have five different creatives, different marketing pieces that have different looks, and you would test them from anywhere -- a cell of 20,000 individuals to 80,000 individuals, depending on what your expected response rate is. We also look at price. A recent test that we did is on a current product -- our term life product with some variations; we sent out one million pieces of mail -- 16 different cells ranging from 20,000 to 80,000 pieces. We tested five different creative and two different models, three different target groups. This is an example of one creative test. These packages are almost identical. What we are testing is if we put a logo on the side and put a card side by side, does that lift response rates? Or we might send out a totally different package all in the same mail. It looks slightly different, but the same product.

Finally, back in analysis, which Charlie went through. We do both nonbuyer quantitative and buyer quantitative. We also do a lot of buyer qualitative, where we will call individuals who bought and try to get a sense of why they bought, what they thought of the package, what their expectations are. This ideal process, taking it from nothing to a full-blown successful product, can take months of work. Since actuaries seem to like to know the price of everything, I thought I would give you an overview of what the costs are. Ideation -- talking with consumers about a new idea -- \$10,000 to \$70,000. Six focus groups cost about \$30,000. Ten thousand dollars to \$40,000 for Communications checks. Implementation and Marketing test takes from 12 to 20 weeks and can cost as little as \$40,000 up to \$300,000. Backend analysis -- \$100,000. Consider that in new product development, one out of every ten products that are taken to market is successful. Typically, one out of every 40 product ideas becomes a product. We are spending a lot of time and energy to get new products out there. You can see what the challenge is.

What is more realistic when you look at that time frame is it can take up to 18 months to get a product out there and can cost close to \$.5 million. What is more realistic is the time used for concept testing and some focus groups

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one-on-one. Then you will do some of the implementation and marketing research, the communication checks, positioning checks. You reconfigure, redesign and retest based on the results.

MR. DONALD P. WILLIAMSON: The Market Research Department or, more appropriately titled, the Consumer Research Department, is in its third life at National Liberty since the company's beginning in 1959. In the past, the Consumer Research Department was unable to weather the poor business cycles and the company's need to downsize its operating costs.

I could go into a number of explanations why I believe the present climate is *different from the past*, but the only real proof is in the ability of our department to deliver bottom line actionable results for the clients it serves. Bottom line results that lead to more quality customers, more profitable business, better renewal premium and not just through front end response which has traditionally been the driving force at National Liberty.

But before we go farther, let me give you a little background on our department and the clients we work for. Our department consists of an analyst with seven years of research experience from the supplier side and a manager who had the same number of years of market research experience with a direct response marketer, and a research trainee who has had seven years of experience in the claims end of our business. I have been with National Liberty for 17 years, having served in the marketing areas of TV, direct mail, telephone, policyowner loading, and conservation of current customers.

Including Art DeMoss, the founder, I have served under nine different presidents, CEOs or Executive VPs in my 17 years at National Liberty. While this frequency of change has had its challenges, it has also offered the opportunity to be exposed to a variety of business philosophies that have helped to shape my approach to running the Marketing Research Department at National Liberty.

Our activity has grown substantially in the last two years, having conducted 29 studies in 1986 to 42 in 1987. At this stage of 1988, I would forecast somewhat less activity for the current year; however, the studies will have a more strategic bearing on the company and less tactical focus.

We serve eight internal marketing clients, including such decentralized areas as Veterans, Credit Union in conjunction with our joint partner CUNA MUTUAL, 65+ marketing, and the endorsed marketing to name just a few. This latter category represents our third-party credit card accounts such as Shell Oil, Texaco, CitiBank, Chemical Bank, and the like.

We also get involved in studies for the insurance operations group dealing with general service levels as well as specific claims payment studies. We assist Human Resources in employee surveys and, finally, we are a major participant with a group of marketing and actuarial people in the area of product development. In fact, this will be the primary focus of my comments. I will only briefly mention that we do have a procedure for initiating, approving, conducting, reporting and determining future steps for each research project we accept.

I have required that we undertake no research project without clear-cut objectives from the sponsoring organization. In our brainstorming sessions, marketing research may help shape those objectives with the client, but it is the sole

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responsibility of the internal clients to define those objectives the same way they would define the key strategy for their product to an advertising agency.

I think you can see the reason for this. Without a specific set of objectives, marketing research cannot properly construct the research vehicle such as a mail survey or the phone questionnaire without knowing what the client wants to essentially learn. Secondly, without the set of objectives, we have no way of measuring whether our research was effective in ascertaining people's attitudes or behavior as it relates to those objectives.

I require that each division officer be aware of the research being conducted for his or her area. I do not want to do studies to satisfy the curiosity of an inexperienced marketer no matter how enthusiastic his or her motives may be.

We believe that research can be a critical tool to help us understand our current business better or point us in the direction of new opportunities. To accomplish these broad business thrusts, we need the knowledge, experience and support of the senior managers of our organization.

We are not in the research publishing business. We are in the business of doing actionable research that will help better focus current businesses as well as open up doors to new ones.

When we complete our projects, we insist on a meeting with the senior officer of the division as well as the sponsoring group to draft up a set of action steps that flow from the research findings. Sometimes those steps are obvious, sometimes it takes the interaction of different disciplines to produce new strategic or tactical changes to the business. Sometime it creates a whole new set of questions which occasionally leads to further research.

The main point I want to leave is that a marketing research study that is fielded, analyzed, written up and distributed, with no follow-up, can lead to two fatal flaws: (1) marketing research's abdication of its responsibility, and (2) possible death of the seeds of new ideas. Perhaps the same could be said of any staff function's role.

I want to show you how marketing research at National Liberty functions in the product development cycle. Since you are all actuaries and many of you either have or have had product development experience, I hope you will find this particular research focus of special interest to you.

The first point I want to make is that marketing research is a continuous and integral process in launching new products at National Liberty. We help give birth to the idea, we help nurture the idea, we help massage the idea, we help decide the future of the idea.

Product ideas at National Liberty come from various sources. We have specific brainstorming sessions devoted to new idea generation sometimes assisted by outside consultation. We also examine the external world looking at competition both in the direct response area and in the more traditional channel of agent distribution.

We also look at the external world examining demographic and life-style changes to see if new ideas can be developed based on those emerging trends. Finally, our own research can be a source of new ideas. Qualitative research may, in

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fact, produce a brand new idea that we didn't perceive going in. That, of course, can be the richest finding of all. Because, now, the public is telling us what they want instead of our bringing them our ideas.

The copy group working with marketing research and the marketing people will draft up concept statements succinctly describing each of the ideas. The actuarial group will also attempt to give us a "ball park" price for each of the product concepts.

Marketing research will then take these product ideas into a qualitative session where the ideas are exposed to a focus group or, in some cases, they are exposed on a one-on-one basis, that is, a moderator interviewing a single individual.

Whether we are using focus groups or one-on-ones, we are careful to screen for a set of demographic and sometimes life-style characteristics so that people who review the concepts come as close as possible to representing the target group we are intending to market to. For example, if we are doing work on Medicare supplements, we want people 65 and over with certain incomes and with or without various forms of Medicare supplement insurance.

Based on our own observations of these sessions as well as the moderator's report, our actions tend to lead in one of three directions. We either modify our ideas based on what we have heard, or add a brand new idea that resulted from the stimulus of our tested concepts, and finally, we may delete concepts that were soundly rejected in the qualitative sessions.

For those concepts that survive, the next step is to expose these ideas in a quantitative study. We do this by using a mail survey, sometimes supported by phone, that contains the following: (1) an explanation of what we are asking the respondent to do; (2) a statement of the concept, including tighter pricing examples for three or four illustrated ages; (3) a series of need and likelihood to purchase questions; and (4) some key demographic information we wish to collect.

Each respondent sees or hears only one idea. When all returns are in, we review the various new ideas versus a known product we call control. This control product has also been researched in a similar fashion as mentioned above. Based on the information received, we decide that either all ideas are "losers" versus control, or that certain ideas show real promise and deserve further scrutiny.

To help us make a selection on what ideas to test further, we examine answers to questions dealing with need, their perception or price as it relates to the benefits they read or heard about. We also review the answers on likelihood to purchase.

Here we are not interested in the absolute number but the relative responses for each idea, as well as comparison with the control, and, finally, we take a look at a question that we think gets closer to ultimate behavior. This question deals with the matter of the respondent indicating a favorable reception to receive information should the product ever become a reality.

Here as well, market research will assist in the creative and media strategies. We will participate with marketing and creative departments in giving direction to

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external or internal creative and media personnel. This is to ensure that the people doing the media and creative execution have the benefit of all the research wisdom that can be brought to bear on the assignment.

In this area, we have less of a role. I have included it to point out that we often assign creative strategies for new products to more than one creative source. Sometimes, it will consist of two or more external agencies as well as one internal creative person. We are after as many quality executions as we can get for this new product concept.

Once all the creative concepts have been submitted, there is an internal sorting process that takes place, based on business judgment. The surviving executions are then taken into one-on-one qualitative research. The purpose of this research is to surface issues of how well do the people understand the product concept before going into live market testing.

Does one execution seem to do it better than another and, if so, why? Do people readily play back the key element of the product or do they surface something that is more important and yet is not being emphasized in our copy? Do they believe the offer and, if not, why? What could we do to make them believe us? Are there any areas of major confusion? Do they understand the rate chart and the application form?

Based on the findings from these one-on-one sessions, we go back and rework our creative strategies. In all the sessions we have done to date in this area of creative research, I can't think of one that hasn't produced a major creative improvement. And, much to our delight, the marketing and creative people are the strongest proponents of this kind of research. We have at times found ourselves running creative research sessions in the same week for different internal clients.

Depending on how much of the creative concept was redone, we will sometimes reschedule a new round of creative one-on-ones to see if we have overcome the major roadblocks from the previous sessions. Sometimes, if the changes are modest and obvious, this step is eliminated.

Once the creative method is buttoned down, the kit produced, the media ordered, and the telephone scripts prepared, the mail is finally dropped and we sit back and hold our breath waiting for the applications to arrive. I can tell you, marketing research is as vitally interested in the results as is the marketing area that commissioned the study. We have a sense of ownership and partnership along with the marketing organization.

Our homework, however, is not over yet. On all new products, we conduct buyer and nonbuyer phone research. We will interview the people who have applied and paid at least one month's premium. We will also interview people who applied but never made a payment. In our business, we have what is called "send no money." A person can fill out an application, send it in, get a policy issued, and have 21 days to send us a payment. Many people fall into this camp and never send us a payment.

We will talk to both the buyer and nonbuyer groups to understand the following: why they applied, that is, their purchase motivations; how well they understood the product; their recall of key copy points; if there were any areas of

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misunderstanding and what they are; their perception of cost as it relates to the benefits offered; and finally, collect key demographic information.

We will, of course, compare the results between the two groups to see if we could fix anything in subsequent programs to convert some of the nonbuyers into future buyers.

At this point, we gather with the marketing people to determine whether we have a product that can be rolled out as is, whether the product or advertising needs some fine tuning, or whether the overall results indicate there is no help for the product and it should be killed.

This is a key step to have the discernment on knowing what to fix and what to discard. Since people, time, and dollars are involved, we need to be especially careful where to spend additional energy and where not to.

And, finally the process starts all over again. At National Liberty, we may do two or three of these complete cycles a year. Each time we do one, we perfect the system to become more sensitive to the customer and the decision-making process.

But we truly believe that it is the right way for us. And we are on the right track. We have come to realize that we can't run into the marketplace with any idea we have. It's too costly to operate without customer feedback and that feedback starts with the creation of the idea.

Unless the potential customer sees merit in the idea, we may be better off generating another new one than proceeding to jam the rejected one down his or her throat. But there are occasionally the "wine cooler ideas" and business sometimes has to override the research in favor of business intuition. But if we did that all of the time, we could go broke in the process. In all areas of business, as well as in life, the right balance is the key.

MR. DAVID F. STEPPAT: I'm Assistant Vice President and Manager of the Marketing Research Department for Mutual and United of Omaha. As I talk about our marketing research operation, I should tell you that it is a fairly new operation -- at least in its present form. We've had marketing research areas for our companies for a number of years, but we've recently just reorganized and consolidated a number of our functions.

This has just been happening over the past several months. We had some good reasons for the changes, so as I describe our structure, I'll try to highlight some of the reasons why we made the changes that we did.

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Let's talk a bit about our direct response operation. I know the term I'm supposed to be using is "non-traditional," but we call it direct response and that's the terminology I'll probably lapse into. We have long had a direct response operation; however, our present configuration dates back to approximately 1981. At that time, we began a revitalization of the operation, which led to a tremendous expansion in the types of business sold and the volume of business. Currently, our premium volume is about \$50 million a year from that channel of distribution.

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We sell a number of products through this channel, including AD&D, term life, Medicare supplements, cancer, hospital indemnity and whole life. We consider this to be a very viable method of reaching our customers.

At our company, the direct response area is run very much as a separate operation, but its need for research is very much the same as throughout the rest of the company. We assist it in strategic planning, product development, and on market positioning. This last function includes not only positioning in the marketplace against competitors, but also positioning within our own production lines.

### RESPONSIBILITIES

What are our major responsibilities? Broadly speaking, our primary charge is to support strategic planning, product development, and our channels of distribution. For those of you familiar with Mutual and United of Omaha, you know that in the past we tended to operate as very separate companies. We've recently consolidated our marketing operations, and with them, marketing research operations. So now marketing research supports all lines -- health, life, property and casualty and mutual funds. At the same time, we're also supporting our agency operation and our direct marketing operation.

We're responsible for a broad range of research -- consumer research which we're rather new at, but getting better, research on competitors and the industry in general, and what we call "environmental research" -- dealing with societal and legal/regulatory issues which may affect us.

We try to take a very proactive stance. My feeling is that marketing research should act as a kind of antenna for the companies. We should be very sensitive to changes in the world around us and to how those changes might affect us. And if we need to alter our operations because of change, we feel it is our responsibility to initiate action.

### ACCOUNTABILITIES

As a part of reorganization we've redefined our accountabilities. Within the framework of our various product lines and channels of distribution, we consider ourselves to have five major accountabilities.

The first one is to define, locate and describe our target markets. As a part of our recent marketing reorganization, we took a very close look at our markets, both the people we're selling to and the people we want to sell to. They're not necessarily the same group of people. Our job is to more clearly define and describe our target markets for better input both on the strategic and tactical levels.

It is also our job to measure sales potential and market penetration. In this we work very closely with those people managing our channels of distribution--agency and direct response.

Competitor research is, I think, a major function of any marketing research department in our industry. We're no different -- we keep extensive files on our competition. Interestingly enough here, we have something of a split between the traditional and non-traditional companies. We found that the non-traditional companies are generally sufficiently different and discrete from agency companies to warrant some special monitoring efforts.

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I just spoke about identification and descriptions of our target markets. One of the most important ways we can define those targets is in terms of their buyer values and needs. We're heavily involved in consumer research to do just that.

We also spend some of our research resources on assessing the impact of environmental events. A recent example of this is the potential effect on our Medicare supplement business of recent federal legislation. This is a product that we sell through both traditional and non-traditional channels.

### STRUCTURE AND ORGANIZATION

Our marketing research area is a brand new organization that we have just implemented and that hasn't been tested yet (keep that in mind as I talk about it).

Aside from the line supervisory positions, I have two specific functions reporting directly to me, our clerical people and our computer technical support. We use extensively both time-sharing systems and personal computers, and our computer technical support person is our in-department expert on the use of these. I have these two areas reporting directly to me as they seem to be the areas where we have the most "discussion" about priorities.

We have two research supervisors. Each has six or seven people reporting directly to them. These are the people who really make sure the research gets done in the manner in which it is supposed to. They and their staffs are the people who formulate the approaches, talk to resources, do the necessary quality checks, and do most of the work directly with our customers.

We also have a position we call a specialist. This is a person who has all the skills and experience of a research supervisor but does not have the people responsibilities. We created this position for two types of people -- the first being a person we feel has real potential as a research supervisor but needs some additional polish with his or her people skills and the second being someone who is very good technically but has no desire to manage. These people act as leaders and as consultants both to the customers and to myself.

We have a number of analysts, and these are the people who really get the work done. In general, we look for people with degrees, industry experience and a fair level of project expertise in marketing or consumer research.

We also have junior analysts, which are our entry level positions, and this is generally where we intend to hire most of our new college graduates. We don't expect much experience here, but instead we look for potential.

Then we have our technicians. These are the people who spend most of their time manipulating databases, compiling results, and generally making sure that the rest of us have our heads on straight about what can and can't be done in the world of collecting and analyzing the numbers that are the basis of our research findings.

We generally seek people with both experience and educational qualifications. However, we are big supporters of future education and provide a large amount of in-house and outside training in research methods, quantitative skills, and computer skills. We also enthusiastically support the formal industry programs.

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Right at this point I will anticipate a question. No, we do not have any actuaries or students on our staff. However, we do work very closely with our actuarial areas on a number of projects. We often form project teams which are jointly staffed by actuarial and research personnel, and we have a tremendous amount of day-to-day contact. As a result of all of this, we have forged a very close relationship with the actuarial areas.

### OPERATIONS

One of the questions that I'm very often asked is, "Where do you get all of your information?" Generally, that's an opportunity to smile and look mysterious and pretend we're a lot smarter than we really are. I give into that temptation every once in a while.

Actually, data are not at all hard to find. We use a number of sources, and we find that a lot of these can be used quite effectively and economically in research operation.

One example is purchased databases. There are a lot of different kinds of databases for sale. We happen to use two geodemographic databases, Claritas and Donnelley, and we find these very useful in the work of locating and describing our target markets -- both for agency operation and potentially for the direct response operation. Other databases that we've been using are from the government such as the Current Population Survey and the Consumer Expenditure Survey which are giving us a real idea of some of the spending habits of our customers and potential customers.

Speaking of the government, it has an absolute wealth of data, and most of it is dirt cheap. It is usually a fair amount of hassle to get it, but for those willing to make a number of calls, it is often good information and doesn't cost much. There are also other regulatory bodies, such as state insurance departments, where we can find a lot of information on industry products and practices.

Often a good source of information is other insurance companies themselves. You would be amazed at how often if you call someone up and ask, they will tell you what you want to know. This is not for anything, of course; we all have a pretty good feel for what is proprietary and what falls under antitrust. But, even steering very clear of those two areas, there is lots of useful information available. A number of you may know of the Network, which is a semiformal organization of research persons at a number of companies who have made themselves available for inquiries.

There are always the third-party research organizations such as the Life Insurance Marketing and Research Association (LIMRA). We actively participate in consortium and customer studies with organizations such as LIMRA, Gallup, and others.

We have found excellent sources of information through our own sales and administrative offices. For us that means field claims and other specialty offices. We make a real effort to forge communication lines with our people in the field; they can alert us to many things.

Other sources are standard information resources we all know about -- libraries, information searches such as DIALOG, that sort of thing.

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### INTERPRETATION

Quite honestly we have very little problem getting data. We can find absolute reams of it. Current technology can provide us with more data than we can ever use. The real trick and the most difficult part of the whole process is turning that data into usable information.

We do four things that help us do this. The first is selected screening. We just do not let everything through the initial screen. There are many things that are "nice to know" but that we don't really have to know. A good part of my job is making sure that our efforts are focused toward corporate goals which are specific and well communicated so that we have a standard.

Once something gets through, we find that a high level of computer skills can help us immensely. For instance, we have found with third-party researchers that it often does not help us much to get paper copies of their cross-tabs and analysis. Often what they have done is so generalized that it is of little real use to our own organization. What we do insist on is a computer tape of the results. With this, we can use our own facilities and expertise to produce the information that we need.

Another factor is just plain old-fashioned judgment and experience. We have been very careful to place people in the key positions of research supervisors and specialists who have experience in the company and who have shown good judgment on the informational needs of our customers. This can provide invaluable guidelines on what is important in terms of information. One of the most important things we try to do is talk among ourselves about our output on various projects. It is amazing how often this adds insight to enhance research findings. This is an area where one has to do some careful groundwork in terms of team building and creating a nonthreatening atmosphere.

### PROJECTS

Enough about organization and how we go about doing things. Let me expound about some of the specific projects we have been working on in conjunction with our non-traditional marketing area. There have been two recent ones which may be of some interest -- a recent profitability study and development of a new senior-age product.

The profitability study was an exercise which I am sure many of you have gone through. We wanted to work our way backwards from a pricing point for a number of direct response products to the necessary assumptions regarding morbidity or mortality and expenses which would produce given levels of profits. We did this by defining what we call the "market standard" on benefits for various products -- such products as hospital indemnity, term life, AD&D, and Medicare supplements.

Once we defined the market standard of benefits, we assumed a necessary pricing point, for example within the top 25%. Then, given the benefit structure, we worked our way backwards into what assumptions would be necessary to produce profit on the product. We then compared those assumptions to the real world and what we knew of our own operations. That was then our base point to determine if there was anything we could or should change in our own operations, expense levels, or product design to produce what was needed.

Marketing research's role in this project was to identify and define the market standards for these various products. As you can imagine, that took a fairly

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close examination of the competitive environment for each of the products being sold. We already had much of this information in our competitor files, and what we didn't we were able to supplement with inquiries with competitors and visits to our local state insurance department. Our files also revealed information on pricing, and with that we were able to define the pricing environment for each of the products.

We also participated in the "reality check" portion of the project. For instance, if we found a certain claim cost level was necessary for profitability, we asked the question, "Is this level something that can exist in the real world?" Needless to say, this was one of those projects with a lot of give and take between the research and actuarial areas.

We also recently did some work on our senior-age product lines, particularly the Medicare supplement. I am sure all of you have done much the same thing in light of the recent legislative uncertainty regarding these products.

Again, research played a major role in the development of the new products and contingency products that we currently have.

For our company, one of the first steps we needed to do was to identify the Medicare supplement buyers' needs and buyer values. Particularly important in our case was the difference between those supplements sold by agents and those sold through direct response. Through a number of sources we found that one of the primary differences between the two groups rested in the area of price sensitivity. The direct response buyer tended to place a high value on price of the product, viewing it as a commodity product and one that was fairly easily understood. In contrast, research revealed that those persons who purchased Medicare supplements through agents placed a much higher value on a relationship with the agent and the services that the agent provided. Price sensitivity was clearly not as large a factor. They also had less confidence in their ability to understand the product.

With this as a basis, we designed two very similar products, but with the direct response product positioned to compete in a price-competitive, commodity-type of market and the agent-sold product aimed to be sold to persons who highly value an agent's involvement.

Of course to do this, we had to define the competitive environment both in terms of benefits being offered, pricing levels, and in terms of the strategic approaches of the major competitors. We also did some work in surveying of other companies as to their feelings toward legislative changes regarding the product.

We also spent a fair amount of time examining the legislative environment regarding senior-age products and assessing the potential impact on our products and operations. Out of this I learned two very important lessons: (1) it is dangerous to try to anticipate any direction that Congress may be going, and (2) "It ain't over 'til the fat lady sings."

Where do we see research in the non-traditional market going in the future? I see nothing but expansion for a number of reasons.

One reason is that companies seem to be getting more and more into non-traditional marketing. A recent survey by Ernst & Whinney of executive officers of large insurance companies found that very few companies who currently utilize

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non-traditional distribution methods expect to discontinue those methods. Additionally, the number expected to use non-traditional distribution systems in the future is much greater than the number using them today.

Secondly, it appears to be more and more difficult to extract a good return out of a direct response operation. I believe the only way to better returns, more sales and better persistency is more complete knowledge of the customers. We need to have a better handle on their needs, wants and desires. And, the only way to do that is through better research.

MR. ROBERT J. POLILLI: Don, I remember a motto we had when I was still at National Liberty. We had it on the cover of our annual report and it was "Test, Research and Explode." It was Mr. DeMoss's motto at the time. It struck me that the process has gotten real long in the last five or six years. Is there a reason for that? It appears to me that we are spending more time and effort in identifying markets and the products than was done in the 1970s and early 1980s.

MR. WILLIAMSON: I think it was more like test and explode. I think the way we think of research today should have been on the front end. Research, test and explode. Back then, or not too long ago, we could all afford to be out in the marketing place in the sense that it was the determining place. You could go into the marketplace and probably come out with a winner, or even if you lost in a particular product you would not lose badly. So your response rates to your marketing costs were livable. That, at least in our experience, has changed dramatically in the last few years.

As I said earlier, I do not see us as being able to do that anymore. There is too much good competition out there and a lot of something none of us talked about -- "mailbox clutter." I am not talking about insurance, I am talking about non-insurance offers that are fighting for the consumer's time to read. A lot of things have changed in the environment that are leading to the need to do more solid upfront research to enhance the likelihood that when we do go into the marketplace and test we will have a winner rather than a loser. I think things have changed and it has led to a lengthening of the time period that it takes to bring new products out, but has increased the chance that when we do it will be more successful. We are getting a lot of pressure and heat from our CEO about why it is taking so long, so that has not gone away. They like the process, but they want to be able to condense it into a much shorter time frame.

MR. KIRAN DESAI: One of the things Bob mentioned, was "ready, fire, aim" which seems to be prevalent in many places still. Research hopes to aim better before you fire. If you are developing and spending so much energy in developing new products, can the consumer in all the mail clutter see it is the same product? Do you people see more innovative products coming through?

MS. BLACK: We are trying. We have put a couple of new products out. They are variations on the cash value products. The biggest concern with direct response is to keep things simple. If you try to look at the whole range of products sold by agents -- they are not all that different. We are trying to expand into Medicare supplements and other health insurance products.

MR. WILLIAMSON: I agree with you about the mailbox clutter. There are things we can do in our research to try to get better visibility and hopefully our mail will get opened. We must also use other distribution systems.

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FROM THE FLOOR: How do you convince the CEO that the research area has value and is worth spending money on?

MS. BLACK: We have new management that believes in market research. Dollars and cents trade-off pays for itself in higher response and/or renewals.

MR. WILLIAMSON: We need a "champion" who can convince the CEO either from within or without.

MR. STEPPAT: As companies emphasize strategic planning and target marketing you need to research to accomplish the best way.

FROM THE FLOOR: Essentially how much production is needed to justify the cost?

MR. WILLIAMSON: Each of us knows what our respective research budgets are. Ultimately, someone will determine what the rate of return is. Most have a bottom-line goal per year.

MR. MICHAEL G. WARREN: Give us some examples of mistakes or problems you have had.

MR. WILLIAMSON: I have an example that bombed. We were convinced that there was a need for comprehensive insurance -- major medical coverage. Peoples' perception of the price to fill this benefit gap is where it bombed. The average consumer has no idea how much they actually get for their major medical insurance unless they are self-employed.

MS. BLACK: We have a hospital indemnity plan which we have sold for years through the mail. Response rates have been slipping and we decided to re-search to find the answer. After talking with consumers, we realized they do not understand the terminology (didn't understand an overnight stay was required for hospital indemnity).

MR. RICHARD D. PITTS: How is the cost of the research function reflected in pricing?

MR. THALHEIMER: At Allstate we treat it as a corporate expense.

MR. COATSWORTH: At National Liberty we treat it as corporate overhead expense as well.