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NEW TECHNIQUES IN DIRECT MARKETING

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- Developing market-driven databases
- Applying the integrated marketing concept
- Marketing with individual specific consumer information
- Development of new market niches
- Customized product offer design

MR. H. MICHAEL SHUMRAK: Many of us heard an excellent panel focused on the problems and promises related to direct response distribution. Our very distinguished panel is going to share with you some of the recent success stories and some of the emerging opportunities using direct marketing techniques to profitably grow your business.

Our first speaker is Ed Suiter of J.C. Penney. Ed is a Fellow in the Society of Actuaries who moved from the chief actuary position at Penney to become executive vice president of marketing. He's played a key role in Penney's recent success in greatly increasing its insurance customer base as well as maximizing the value of those customers. Ed's going to discuss the development of market-driven databases and target marketing using individual specific consumer information.

MR. G. EDWARD SUITER, II: The topic today is market-driven databases, and before we get into that, it might be worthwhile to take just a minute and give you a little perspective on the direct marketing insurance industry. It's an industry that is rapidly changing today. In the past, the direct marketing insurance industry was essentially mass marketing with very limited individual segmentation. In the future, what's going to happen in the industry is to approach one-on-one marketing with the appropriate offer made to the right market segment at the proper time. Companies that don't move in that direction are likely to fail. We're already beginning to see that among some of the direct marketing companies.

So, let's talk about why the focus is shifting towards a market-driven database. First, there are rising acquisition costs. Response rates are dropping, and the cost of marketing is continuing to escalate. Second, there's an awful lot of mailbox clutter going on. I'm sure we've all experienced that in our own mailboxes, and we're irritating customers pretty heavily if we talk directly to them. Another reason is that the competition is getting smarter. You must change and move in this direction or

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you're going to be left behind and not survive. And, finally, there's a shift to customer-focused, or relationship marketing. I refer to that much more as the "one-on-one."

Let's discuss some of the strategic benefits of database marketing. First, you can increase your marketing effectiveness. This is accomplished through effective segmentation of customers using database information and targeting of the future offers. This particular benefit is the most tangible and easily quantifiable of the various database marketing benefits. The second benefit, a very large one that's much more subtle, is that you understand your customers better. That's a real big key because you have to understand your customers to be effective in selling to them. Third, you can strengthen customer relationships through relevant, periodic communication with the customer. That's a real simple phrase for relationship marketing, but it's a huge key that has tremendous benefits.

The next benefit is the ability to develop niche markets. There is a very rapidly increasing demographic diversity within the marketplace with more specialized needs. So, instead of a mass marketing-type orientation, we're in a demassification-type market. Another benefit is help for managing different distribution channels. You can coordinate marketing between direct mail, inserts, telemarketing, or agency organizations, if you have a properly built and designed marketing database. A database also allows you to determine and evaluate how your various distribution channels interact. Also, a marketing database allows you to react quickly to trends, opportunities, or problems that you see. If your database can point these out quickly, it can help you to identify market segments that promise profitable future growth.

Now let's look at the three essential ingredients of database marketing: (1) you need the data that tell you all about your customer; (2) you have to have the technology that will enable you to manage and use those data in a very rapid economic way; and (3) you need analysis capabilities and the marketing expertise to turn those data into useful, profitable, successful marketing programs.

Database marketing can meet needs. The key is to put your customer at the center of your strategy. That's the end result of all success. Database marketing also allows timely, retrievable customer information, and there's a real difference here. Traditional system applications are policy based rather than customer based. They are operations-oriented rather than marketing-oriented. They tend to be transaction-oriented, single-event driven, and they do not allow you a clear understanding of the total relationship these customers have throughout their lifetime with your organization.

Let's look next at key characteristics of database marketing. First, they must be customer based. Second, they must be information intensive. Third, they must be long-term oriented, and fourth, they must link all the marketing efforts together. Each marketing effort that you conduct is based on the accumulated data in your marketing database to date. Each particular marketing effort goes in and adds to the information in the database.

Next, a marketing database provides excellent benefits for financial services. If you've ever done financial service direct marketing, you're aware that it's an extremely segmented market. It typically has low margins, and that dictates low marketing or selling costs. Also in financial services you can have effective cross-selling, you can build long-term relationships, and using the database, you can easily measure the customer lifetime value.

Before defining or examining how you actually go about developing a marketing database, I'd like to recommend a book for anyone who is interested in pursuing this direction. It's called *The New Direct Marketing: How to Implement a Profit-Driven Database Marketing Strategy,* by David Shepherd & Associates. It's by far the most attractive, easy-to-understand book on this subject that I've ever seen, and he almost gives cookbook formulas. He has some real technical areas, but it's very well-done.

How do you go about developing a marketing database? First, you need to define your functional requirements. These should include, as a minimum, the ability to analyze markets, products, profitability, and all of the interrelationships that are going on. It needs to provide campaign analysis for each mailing or offer that you make to your customers. Finally, it needs to contain capabilities for selection and promotion implementation so that the database itself has the capability of evaluating data and extracting those names for which different types of offers should be made.

After defining the functional requirements, you'll need to identify the data sources and the important data elements that you want it to contain. These should include, but are not limited to, individual customer data, life events about individuals, product ownership and purchase history, other relationships they may have with your company, and promotion and response history with regard to those particular customers. To give an example at J.C. Penney Life, we have found numerous times that the single, correct bit of data about the customer, even yes/no type variables, will increase response in the vicinity of 100% or more. So, having the right data is critical. After that, you need to identify your available resources, including not only your internal resources (systems people, data processing, hardware and software), but also any external vendors and consulting services that might help you. It can be a very, very expensive process, and if you don't get proper direction, you can waste a lot of money.

Finally, I would suggest the stage development of a prototype. If you build a prototype first, then that's going to enable you to understand your needs and requirements better for the database. It's going to give you a better understanding of your customer. It's going to help you go through a long learning curve of the best methods of using the database to make it a value. You want to learn all that on a small scale before you get on a very large scale that becomes very expensive. Now, what is database marketing? Database marketing is:

1. Relationship marketing -- to enhance the likelihood of a lifetime relationship with that customer;

2. Directed marketing -- directed to the right person, rather than mass marketed; and

3. One-on-one marketing -- the appropriate offer to the right market segment at the right point in time.

Now let's look at some of the data elements that you might want to have. These are just examples of marketing specific to the individual: age or date of birth, gender, occupation, income, and marital status.

You'll find that those particular five are very, very important and critical in almost any direct marketing that you would do. Next, just look at information specific to the individual's lifestyle. Examples of this would be dwelling type, home ownership and the value of the home, and auto ownership and type. As an example, you can very readily think to yourself that an individual that has an old Ford station wagon as his transportation leads a different life and is a different type of person than, say, an individual that drives a brand new Corvette. So as each of these things are together, you can begin to see a pattern about the individual that enables you to become much more effective and specific to their needs. Other similar examples are the length of residence, household size, and resident relationships.

Next, let's look at information specific to the individual's buying habits, because you're trying to get this individual to purchase something. Examples here are the degree of mail order responsiveness, and various credit card types and their use. This would include not only the types but when the person obtained them and how long he or she has had them. Another one would be the buy ability and credit limit. Buy ability really refers more to the open-to-buy for the individual -- how much immediate credit they have or whether or not they're going to have to get additional credit before they can purchase. Other data would be the purchase type and amount, the specific actual purchases or types of purchases the individual is making, not only with you but also with other organizations, and the amount of it. Being associated with Penney, we obviously have access to tremendous volumes of data about our customers based on their purchase history and what they're buying with Penney's.

Another key element would be promotions received and the response history both on insurance and noninsurance offers since there are many other offers being made to that customer. Another data element would be their payment history, and by payment history I mean, are these individuals slow-pay people?; do they tend to pay their bill late?; do they tend to be delinquent?; do they tend to pay the minimum size on the balance?; do they pay it off in full each month?; what's the degree of revolving account finance charges that are accumulating over the last 12 months?; etc. Those all give you indications of the type of individual you're dealing with.

Let's look at how the individual data can be used or look at some other types. These are individual data identifying key life events. They are:

1. birthday,
2. marital status and length of marriage,
3. a recent relocation,
4. previously divorced,
5. children reaching college age,
6. birth of a child,
7. death of a spouse,
8. home purchase or sale,
9. retirement.

We're all familiar with these items. Most life insurance agents, for example, use date of birth as a real key in influencing and making sales. They go in with the basic sales pitch of buy it now before you become a year older and it costs more.

Let's look at using individual data to identify the lifestyle of the person or their stage in their family cycle. You can have young families that have a marriage or birth of a child. An example of this: I think a lot of insurance is sold whenever a new child is born, particularly the first child in the family.

Now let's look at using the individual data to track buying habits. If you have the database and you have all of this in it, then pretty soon you can put together patterns that can provide, for example, a measure of affinity between products. You can correlate buy ability to persistency. You can correlate payment history to persistency. You can target future offers based on past history, and we have found the more data you have, the more you can build strong correlations that, from a marketing perspective, tell you why the individual is acting or making a certain decision at a certain time. By putting that together, you can target individuals in a similar situation and make your sales much more successful.

Let's talk about marketing strategies next. The database will allow you to have customer-based targeting programs and promotions. The more the offer is relevant and based on the data you know about the customer, the more successful you're going to be in marketing. While you can target efforts using statistical models, only the right message will motivate the customer. You need to create the right message for the right people at the right time. We have found in modeling and targeting that modeling and targeting by themselves will give you one degree of success. Marketing judgment by itself will give you a different degree of success. The combination of the two will give you a much greater success than either one by itself.

Your markets are defined at the individual customer level. By that I'm simply saying if you take what's relevant data and you find individuals in similar situations where they are much more apt to purchase, then that defines your market. You start out being market-driven rather than product-driven. A final key here is to have customized promotional efforts. You need product selection and positioning that identifies and relates to the individuality of the consumer and truly focuses on their real and perceived needs.

Finally, let's talk about something that's overlooked normally, and that's sensitivity to customers. It's a key factor and it will provide long-term relationships and significant rewards. You can reduce ill-will by not bombarding customers with unwanted solicitations. I'm sure a lot of us get offers over and over again, very frequently from the same organization that doesn't seem to know much about us at all. Another thing you can do with the database is present a unified image of your company to the customer. This enhances the customer's perception of your company. And sensitivity also means that you target customers with the right offer at the right time. You need to make customers feel important. Doing things right and asking customers their opinion does this. You can tell when you're dealing with a company that markets to you on a direct basis. If they really have a feel for who you are and what you're like and what you're interested in, that makes a big difference. One of the easy things to do is to go out and ask your customer, in a survey, about a particular segment or idea. Customers like to give you feedback, particularly if they know that it is going to make your company much more personally related to what their needs are.

The better a company understands potential markets and customers, the less they'll spend selling to people with no interest in what they're offering. You need to leave the customer feeling like the company knows him intimately, because marketing is targeted and timed to their life events.

One of direct marketing's strengths, for those of you that are in it as a promotion medium, is this potential ability to make customized promotional offers to individual customers. At J.C. Penney Life, right now we're in the process of building a market-driven database prototype. It'll be about five million records, combining data from the J.C. Penney Company, The Life company, external credit bureaus, plus many, many other sources of information. Based on the testing we did, even with a fragmented arrangement of how our databases were structured, we're extremely confident that it will be very valuable and allow J.C. Penney Life to achieve tremendous progress in one-on-one marketing.

MR. SHUMRAK: Sy Okner is currently president of Market U.S.A., one of the country's top 50 telemarketing firms. Previously, Sy was president of Montgomery Ward's Signature Insurance Companies. He's a recognized leader in the direct response marketing industry, and his name is synonymous with direct response and telemarketing. In 1986, Sy was named Direct Marketing Insurance Executive of the Year by the Direct Marketing Association (DMA). Sy will be discussing how to apply the concept of integrated marketing and also how to develop approaches to new market niches.

MR. SY OKNER: When we think of niche marketing, we think of broad categories. We think of credit unions or credit card bases, there we think of retailers or people who shop by TV, or banks, or debit cards, or petroleum companies like Exxon and Texaco. We think of alumni groups or other associations. We think of employer/employee groups. We think of age groups -- seniors, juveniles. There are also event-driven niches that Ed just referred to: birthdays, marriages, home purchases, new births, new moves, divorces, deaths. We think in very, very broad terms, and that is the traditional approach to direct response marketing -- finding these large segments and going after them. It's no secret to those of you here. It's been done and done again, and some companies (like banks) are on their third or fourth supplier.

Now, when you think of niches the way we've been talking about them, in very, very broad categories, you undoubtedly belong to many so-called niches. So much information is available. For example, there is a list that's available of birthdays. Let me tell you the information or categories that you can select: geographic (state, zip code), age range, exact age, sex, marital status, head of household, household income, dwelling type, homeowner, ethnic, presence of children, type of credit cards, noncredit cards, credit line, other phones. All this information is available to anyone who wants to buy it. When you're looking for niches, they certainly exist.

The new niches that we're talking about are those respondents that we can identify profitably, those niches that we have exclusive relationships with, as Ed mentioned, because the broad niches are available to everybody. Ed talked about his J.C. Penney customers. I don't know how many there are. Let's assume there's 10 million, as a working figure. But those 10 million belong to all or many of these other groups we've talked about, and hundreds and thousands more that we didn't talk about. So, is there no such thing as an exclusive niche? The exclusivity, the newness, is your ability to contact these people at a certain time with a certain offer that only you can provide. You know something about the policyholders of your company. You know their age and you know how long they've been with you. You may or may not know who their beneficiaries are, depending on the type of contract you wrote. But, that's a great deal of information that you alone have -- information that you have exclusive entree to. So, when looking for new niches, look in your own policyholder files.

The question is, how imaginative can you be in structuring an exclusive reason for them to respond to you? Ed referred to segmentation. Segmentation is the ultimate niche "definer." Segmentation allows you not only to interface with your exclusive niche but also to structure niche offers; to vary the product, the premium, the presentation, and to appeal to known respondents based on their previous buying habits. That is what exclusive niches are going to be today and in the future -- not that you're going to go out and find one that no one else has, for a given market that no one has ever written to or no one has ever called upon, because they don't exist. It's a question of whether you can relate to that person at a time that is either event-driven or with information that no one else has, or through media that no one else can use at that time, for example, a premium notice. That's where you're going to find new niches. The marketers that take advantage of their own people are going to be the cost effective, successful marketers of the 1990s.

The niches are there, and they aren't really new. It's a question of finding them, how you access them, and making the most of them.

The other topic that I was asked to talk about briefly is integrated direct marketing. With all the mailbox clutter that you receive, making an impression in the current environment is extremely difficult. It's a staggering challenge. How do you do it? Obviously there's solo mailing. There are credit inserts for those of you who have that ability. There are print opportunities available, newspapers, magazines, TV, point-of-sale, and of course, telemarketing.

Let's talk more specifically about mail and telemarketing. Mail can be pretested. You can choose the best cell from your tests or you can use simulators. You can use various devices to find what you think will be the best offer, but the possibility of some external event happening always lurks in the background. Imagine if you had a massive mailing the week of the San Francisco fire going out to the west coast, the area that was consumed by fire. That doesn't mean that your targeted home had to be one of the homes that burned, but how many people do you think in the area of the fire are reading their direct response mail? How much of it is actually being delivered? Was the post office functioning well? Did they, in fact, even destroy some third class mail?

There are external events that happen that can interfere with your mail. If you're using telemarketing with your direct response marketing, you have a lot more control.

First of all, you can stop it. One of our clients called us up the night that the Persian Gulf War erupted and said, "Stop calling." It was a good move. First of all, our own people were very upset. They didn't want to call. They wanted to listen to the news. Imagine being on the other end when someone calls you to say, "Good news, you've been preselected for this wonderful offer," and you're glued to the TV watching perhaps one of your loved ones go off to war. If your campaign is an integrated program, you have the ability to stop or start. You can really do what you want. You can rescript in integrated marketing. If the program isn't going well for whatever reason, stop it. Start it. Change it. Go back and do it again. You can screen the data that are coming in. Maybe the people are telling you something that you really weren't aware of when you planned the campaign. You can go ahead and reformat the offer -- a very, very important opportunity that is available with integrated direct marketing.

Now, what happens when you go out and do that? Do responses double? Triple? Ideally, in a large universe with responsive markets, you're going to get somewhere between a 0.5-1%. I don't know of anyone who's doing 1% or better by direct mail or with today's insurance offers, but let's assume that you're going to be somewhere in that range. In telemarketing you're going to get somewhere between a 6% and 15% response, but of a smaller universe. I'll explain later how those figures change.

Ideally, when you put together a direct marketing program with integrated direct marketing, you achieve synergism, so that the total is greater than the individual parts. You'll observe two effects here. First, you see a response compression so that while the mail hasn't changed, the telemarketing has moved over and overlaps on the mail. You also see a better response on the mail, and that raises the question, how soon after a mailing do you do a telemarketing dovetail? As soon as possible. If the program can be timed so that your calling begins two or three days after the receipt, it's ideal. You have the recipient aware of the direct response package. They may or may not have opened it. Now the call comes in. It's interactive. It's personal. It's commanding. And what you observe is one and one adding up to three instead of two. There used to be a great deal of fear that calling after a mail package would cannibalize the mail, that you would cut out the response. In program after program that we've seen, that doesn't happen. What happens is the mail still pulls its share of the response, but the telemarketing increases the response, often dramatically.

Earlier, I said that you won't get the kind of response we're talking about. That's because the universe for telemarketing is somewhat different than for mail. If you had a mailing of 1,000, and you got 0.4% response on the direct mail, that would give you four applications per thousand. Now the telemarketing, coming right in the same period, is going to give you, say about a 10% response. However, if you start out with 1,000 people, you may only have phone numbers for about 500. So, you reduce your universe from 1,000 to 500. You're not going to reach everybody by phone. You're going to reach maybe 70% or 80%. Let's say that you're going to reach 80%. That means you're reaching 400 people. Of the 400 people, we said you're going to sell 10%, which is 40. So, your net result is 40 sales for the 1,000, or a 4% response, but 4% is a lot better than 0.4% and very, very cost effective. So, if you keep in mind that your numbers shrink as you go through the various processes, you'll find that it'll work well, and you'll be very happy. You won't be disappointed with your results.

How many of you have ever been involved in fundraising for one of your local or pet charities, a church, a synagogue, the PTA? How do you usually do it? You send out a mailing or a bulletin, you get some responses, and then what happens? Somebody gets on the phone and makes calls, and the money starts coming in. In the truest sense that's integrated direct marketing or integrated solicitation. Or, if you give a party for a large number of people and ask them to R.S.V.P., but close to the day of the party you find 30 people haven't responded, you will get on the phone and call them -- that's a type of integrated marketing. Public TV in the Chicago area is now using another form of integrated direct marketing. They used to have these telethons where they would solicit funds, and people would call in, which was integrated direct marketing. They now have you calling a 900 number, and when you call that 900 number a $10 charge is automatically added to your phone bill unless you ask for a larger bill. They now have an automatic minimum donation of $10 for everybody who calls, a beautiful example of integrated direct marketing for solicitation for fundraising. We use it all the time. It's so apparent; it's so logical.

So, when do you use integrated direct marketing? You use it whenever you have a campaign where you can use more than one media. Why use it? Simply because it works, and it works well.

MR. SHUMRAK: Gary Kauffman is president of the Direct Marketing Advisory Group. He's one of the nation's leading direct marketing authorities, and like Sy, last year was named Direct Response Executive of the Year by the DMA. Gary's been credited with strategically positioning new entrants so that they can successfully compete with established direct marketers. He also has been instrumental in helping existing direct marketing operations revitalize their prospects for profitable growth in the face of stagnating markets and increased competition. Gary's going to be discussing designing product offers.

MR. GARY A. KAUFFMAN: Sy and Ed just talked about the first major part of an equation. What's important for us to remember is, since there are all actuaries here, as I talk about the front-end marketing, I'm making the assumption that we're dealing with front-end marketing based upon profitable segments. We're not forgetting the word profitability.

When we're doing marketing, there are three pieces to the equation. Market segmenting through media, which is what Sy and Ed talked about, is really 50% of our success or failure in the business. I can give you some absurd examples to drive home the point. For example, you could have the best stereo system ever built and have the best marketing materials to promote it, but if 80% of your list comprises people who are deaf, you're not going to sell too many systems. Similarly, insurance companies selling a health plan that promotes mostly maternity-related benefits isn't going to do too well when it goes to the Grandmother's Association of America. That's the first part of the equation. The second part of the equation is the offer. That gives us 35%.

The last part is creative which is 15%. Creative is the icing on the cake. It's what's going to maximize your profit or minimize your loss. It's interesting to note that when we go through most of our organizations, we find that marketers spend 80% of their time in that area. It's the area that's fun. It's the one that everybody likes to be involved with. It's the easier one. As Ed and Sy described, market segmentation is no piece of cake. This is tough work. So is offer development, and that's where our leverage is. When we talk about offer, those of you with agency companies will know that agents always say that insurance isn't bought, it's sold. I'm going to give you what I call the direct marketing corollary to that. People do not buy products. They accept offers. There are not enough people at any one point in time who are out there wanting to buy an insurance product to maximize our opportunity. I'm not suggesting to you that you can't have a niche market and make money. You can if you've done a good job segmenting and your media are correct. You can market a product and make money, but you're in the business of being able to remarket over and over to those people and maximize profitability. You want to market to that group two, three, four, seven, eight times; and therefore, if you want to maximize that opportunity, you'll have to create an offer.

What do we mean by an offer? Well, I'll relate to some other businesses, and then we'll come back to insurance. You see in your Sunday magazine a back page ad from the Columbia Record Club advertising six tapes for a dollar. They're not doing it out of the goodness of their heart. What they know is that after 18 months they're going to generate more revenue and profit per new customer acquired for their marketing dollars than if they offered tapes and records for $9.95 apiece. It's not that they couldn't make money doing that, but the six tapes for a dollar maximizes profitability.

If you happen to need a suit, let's suppose there are three stores in different parts of Toronto: Store A, Store B, and Store C. They all have identical inventory, but Store A is just selling suits, Store B has a 50% off sale, and Store C has a sale that says "Buy One, Get One Free." There's no question that the latter two are going to sell more suits over a two-week period than the first store. It may seem that the latter two offers are similar. They net you out the same price if you buy two suits. The fact of the matter is they are distinctly different offers, and the store that said "Buy One, Get One Free" will sell twice as many suits and bring in twice as much revenue as the store that has the 50% off sale. It's an offer.

I was going through this in an insurance company. There was an actuary sitting in the back of the room, and he was getting annoyed and he was telling me how much of a gimmick this is. It's not an offer. Insurance companies have to sell to meet a need. I noticed at the time he was reading *Sport* magazine. I asked him where he bought it. Did he get it at a newsstand? He replied, "Oh, no, my secretary brought in a coupon that said I could get a year's subscription at half the newsstand price." I said, wasn't that an offer? He said, "Well, that's different. That's *Sport* magazine." It is no different. True, if you're an insurance company without name recognition, the offer may be perceived as a gimmick, but if it comes from an organization or a third party or a niche you know, it is not a perceived to be a gimmick. It's an offer and one that people will feel good about. I'm going to give you some examples.

I'm going to use an accidental death product that was alluded to at another session. It's a common carrier benefit of $250,000. It has a $100,000 auto benefit, and it has a $50,000 24-hour benefit, and it costs $8 a month. That's a product. The company marketed it, and it had marginal results. When it analyzed its market it clearly identified two distinct groups of people that the market comprised. One group was people 30-45 that were married with young families. The second segment was a large group of empty nesters. The company wanted to know why their results were just marginal. The problem was they were selling a product that they designed from the point of view of the home office product developers rather than from the target customer segment point of view. The monthly rate of $8 is cheap enough, but think of the two markets we talked about. Why is the $250,000 benefit in there? It creates a perception of a lot of value for a little money, doesn't it? But how do you think the young family at 30-45 with young kids perceives that? They know they spend much of their time in an automobile. That's how they think they are going to die, in an accident. In their minds, they're not willing to pay an inordinate portion of this $8 premium for the huge common carrier benefit that they're not likely to use if they don't fly very often. It's a case of perception versus economic reality. The common carrier benefit, in fact, does not represent a major portion of the total cost of benefits.

The older people are more receptive because they do a lot of traveling. Now, how can we turn their product into an offer? Very simple. Offer $100,000 of automobile-related accidental death and $50,000 24-hour benefit for $7.50 a month, and if they apply before October 31, they can get a quarter of a million dollars of common carrier coverage for 50 cents more a month. This approach gets us much closer to the six tapes for a dollar scenario. The response to this offer went up dramatically in the younger group because customers perceived they were getting what they wanted to buy. Incidentally, almost all opted to take the quarter of a million dollar benefit, because now they saw how cheap it was. We have converted the product into an offer. The older group's responses increased because they realized how susceptible they were to accidental death, auto or otherwise. They saw how much better the value was that they were getting for the travelling they did. This illustrates the difference between a product and an offer. I never use the word product in a company. I advise clients they should construct offers because that's what people buy.

There are a lot of components of an offer. Most of them you'd recognize as applying to a product, but each and every one of them is important in how they're expressed. Many of you have seen in your own companies or in the mailbox offers for $2,000 of free Accidental Death (AD) with the opportunity to buy voluntary insurance on top of that. It's done very well. If that base offer at $8 generated $450 of premiums per one thousand people mailed and the acquisition costs were 80% of premium, the $2,000 of free insurance may have generated $900, double the result at a better acquisition efficiency. Was the product any different? The fact of the matter is the product is the same AD product that's been sold for 20-some years. What changed was the offer. Companies now are selling what's called bonus accidental death where you can get three months coverage at no cost. After that your credit card is billed. While the old product generated $450,000, the free AD offer generates $900,000 in premiums.

By the way, the actuary that I discussed earlier who subscribed to *Sport* magazine also picked up *The Wall Street Journal*. I said, "Oh, *The Wall Street Journal*. Where did you get that?" "Oh," he says, "it was a great deal. I saw it on CNN. I can get 26 weeks, and I only have to pay for 22. I got four weeks free." I started asking him where he bought his suits and what other kind of offers he accepted. He now recognized the power of an offer. If we need offers to get people to buy radios and TVs and cars and books and suits, how can we be naive enough to think that people are going to pull a letter out of an envelope and run to buy insurance? People who are going to do that are just the people you don't want to get a concentration of. If I can generate $2,500 per thousand with an offer that's like six tapes for a dollar instead of $4.50, doesn't it stand to reason that, in addition to my lowering my acquisition cost, I'm going to have a much better selection criteria? I'm going to have a much lower loss ratio. In our business we must move towards offers.

There was another session at which they were talking about living benefits. I will use that as another example. We get carried away by adding features to existing products. We think they're going to work. Much of the time companies get carried away with these things more than the consumer. Living benefits is an interesting idea. The problem is, we in the insurance industry, for the most part, don't do something that every other consumer industry does. We don't do our research first. We do it second. For example, assume you're offering $100,000 term life, along with $50,000 in critical illness living benefit payable if you are diagnosed with cancer, a heart attack, or stroke. I'm not talking about terminal illness coverage. Why do people buy it? They're not buying it for the $100,000 death benefit. We as a company would like that. The fact of the matter is we sold them on the early payout of 25% or 50%. Prospects perceive they're paying too much for the $100,000 as opposed to the $25,000 or $50,000 payout that they really want. Market research tells us is that we should come out with a product limited to the early benefit for diagnosis of the critical illness. From a consumer standpoint, it would sell. In fact, customers would pay almost as much for that offer as companies wanted to charge for the same product including the death benefit. The problem is perception. When you offer the death benefit, people perceive they're paying too much for something they don't want.

The same thing applies when you do research on dread disease health product offers. We sell cancer, heart attack, and stroke policies. We find that consumers want them. How do we find out? It's like buying glasses. If you sit down in the eye doctor's office, he covers your left eye and starts putting on lens A and B. He asks you which one is better. Then he covers your right eye and repeats the process. He does that until he has the right prescription. Then he makes the glasses. That's what good market research analysis does for us in insurance. We research people first to find out "from the right eye" which benefits they want in priority order, and then "with the left eye" we determine how much benefit they want for what price. What are the trade-offs? What is the benefit priority and the amount of benefits versus what they'll pay?

An example we can see ties into what Ed was talking about regarding the right offer to the right person at the right time. The fact is that if you're going to succeed in direct marketing, you can't mail two million people the same offer. I don't care if they're all active. You shouldn't be mailing them all the same offer. They're not all the same people. You need to identify specific segments within the group, whether it's based on age, sex, marital status, event driven or some combination of those things. You only have about 13 seconds from the time mail is retrieved until it is either tossed or read. Think of your own reaction when you open your mailbox. You have three decisions. Am I going to open it? Am I going to read it? And am I going to buy it? The first two questions take about 13 seconds to answer, so you have to be very careful about the package you send.

Consider Pepsi-Cola. Pepsi used to have one soft drink. Now they have Pepsi, Diet-Pepsi, Caffeine-Free Pepsi -- Pepsi just about any way you want it. Why? Because they recognize that in the market of soft drink buyers, they could increase their market share by expanding their offers to hit defined market niches. We have to do that in our business. It's not easy. J.C. Penney Life Company went from issuing about a quarter of a million new policies a year four years ago to 1.5-2 million a year now. How did they do it? They did it by applying the concepts of market segmentation.

I hope that will give you a quick outline of what the concept of offer entails and how you can tie it into what your company is doing.

MR. HENRY T. PARRISH: I have a question for Sy. What do you think the impact of 900 telephone service has been on telemarketing in general?

MR. OKNER: I don't think it's hurt outbound telemarketing. Nine hundred is for inbound work. Because of some of the sleazy products that are being offered, sex by mail and all that sort of thing, the 900 numbers are getting a bad rap, but I just saw it used in Chicago for fundraising for public TV. It was a very effective use. The call cost $10, which became the minimum donation, and they collected on every call. They don't have to worry about sending out for a response. In any process, you're going to see abuse, but I think it's like retailing. For example, how many of you have had a bad experience in a store, been mistreated by a clerk or couldn't get waited on? We don't give up on the process. We say retailing is still a good way to buy. We just had a bad experience with that store. I think the same thing is going to happen with 900 numbers. People are going to determine which one's bad and which one's good. I think the process is good. I think it can be abused. It certainly won't affect outbound telemarketing.

MR. KEVIN P. MCGLYNN: I have two questions, the first I direct to Ed. You've mentioned the benefits of database marketing, but what about the costs and the common mistakes that a company can make in setting up a database? And the second question is to Sy. You mentioned mailbox clutter, but what about the increasing amount of, I'll call it phone box, or rather, phone clutter -- people getting an increasing number of calls. There's more answering machines.

MR. OKNER: Do you want to take the phone, and I'll take the other one?

MR. SUITER: No, I'll take the other. You're right. If you're not careful in database marketing, you can spend a fortune and get very little value for it. That just emphasizes the need, first of all, to set up, on a small scale, a prototype operation to test out and validate benefits that you would expect to receive. Second, the approach we've taken is to use the external expertise of individuals and organizations that have been through this many times with various companies. They know the pitfalls and the blind alleys where you can spend a lot of extra money. It is important to use people who are very knowledgeable in that area -- those who know the proper vendors, the way to set it up, the hardware, and the scale, plus have the good judgment with respect to how to arrange and structure the data within that database to make it more valuable.

MR. OKNER: As you know, there's a great deal of agitation in the states to regulate outbound telemarketing. The agitation seems to be coming from the political sector more than anywhere else. One of the bills that's being considered now is a national database regulation where people could put themselves on a list and be exempt from being called. The two exclusions to that group would be political and not-for-profit. So, even though commercial telemarketing would be excluded, you could still be called by a recorded voice saying this is Ronald Reagan calling to endorse a candidate, and that would be perfectly okay. Companies that market so-called not-for-profit products would still be able to do the same thing.

The interesting thing, though, is that there is no clamor from the public. It's coming from the legislator, but if the public were saying we don't like telemarketing in sufficient numbers to make it unproductive, it would stop. The fact is that there's an increasing amount of telemarketing going on every day. The fact is that it's economically sound and viable, and to me that's the real gear, it's the real measure. When telemarketing stops being profitable, we'll know that it's oversaturated. Right now there are more people coming into the marketplace. There's a distinction between good and bad anything. People take exception to the fact that telemarketing calls are scripted, and yet the same people will go to a play like Cats that may have had 3,000 performances and is still running year after year. That's good scripting. The actors are well-trained. Well-trained telemarketers don't sound like they're using a script. They sound like they're using a message that's designed to get the best effort in the shortest amount of time, and when you're dealing with a regulated product like insurance, you like to be sure that they're all saying the same thing to the same people. So, I don't think there's a clutter in telemarketing. I think there's going to be a fallout of bad telemarketing. I think good telemarketing will continue, and when it stops being profitable, it will stop.

MR. SUITER: I'll just add to that. We do an awful lot of research on that particular topic, and as Sy points out, there is an extremely small percentage of people that, if we gave them the choice, would have their calls stopped. Most of what you hear about, particularly from the politicians, is primarily in their camp. It's caused by a relatively small number of telemarketers that abuse the situation, and I think we'll have regulation that will tend to eliminate the organizations that abuse the phone and make what's left for the rest of us a more attractive situation.

MR. OKNER: By the way, there is a telephone preference service that the Direct Marketing Association conducts, and anyone who doesn't want to be telemarketed can put their name on that list. Most telemarketers will run their client list against that preference list. Some of the states like Florida also have an asterisk legislation, and, again, most responsible telemarketers will run the list they're calling against the Florida list so that you're not calling anybody who doesn't want to be called. The truth is, why waste your time calling someone who's indicated that they don't want to be called? That's the same as direct mail. There's a mail preference list that we all use exactly the same way. Why write to someone who doesn't want your mail? So, the mechanism exists for people to be excluded, and hopefully those who don't want to be called or mailed to will use it.

MR. E. PERRY KUPFERMAN: I think it was Ed that used the phase "we have correlated buy ability to persistency." I was wondering if you would elaborate on that?

MR. SUITER: We take almost all the information we have about the customer and do an analysis on what common characteristics correlate to persistency variations. You have some direct marketing insurance sales at the upper income bracket but most of them are down lower, where people tend to have used up their credit limit and are living from paycheck to paycheck. Those individuals value the insurance that they purchase, and they just retain it better than other individuals that are not in that situation. We look at other data elements that we have about a customer, and we measure the correlations after the fact so that we're not necessarily going to those individuals that respond the best but to those individuals that will respond and *persist* the best. So, it's just a simple analysis technique to look at what the characteristics are of the individuals that persist very well.

MR. KUPFERMAN: Do you have any major conclusions?

MR. SUITER: There are so many answers and so much variation that it's kind of hard to give a general statement.