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“The Price Is Right”—Market Research for Insurance Companies

by William R. Horbatt

The Actuary of the Future Section sponsored a half-day session devoted to market research at the Society of Actuaries 1997 Annual Meeting in Washington, D.C. Presenters included Sam Ray and Jon Parsons, both from Nagdeman & Company, a Wall Street firm devoted to marketing issues for the financial services industry.

This session introduced attendees to various market research *models* that are used by the market research profession. The objective of market research is to find ways to increase sales to potential customers by better understanding consumer behavior. Responding to the perennial request to reduce prices, one panelist remarked, “Price is only an issue in the absence of perceived value.”

Different market research models are applied to different aspects of consumer behavior. One stage is *image*

formation, where consumers begin to place value on products or organizations. Products with better images are perceived to be of greater value, producing “brand equity,” which permits major consumer products firms like Proctor & Gamble to charge higher prices for their product than competitors. Two types of models were discussed to evaluate consumer image formation:

- **Attribute models** determine what product characteristics are important to customers, which customers value particular attributes, and how existing products are perceived.
- **Brand models** evaluate consumer awareness and loyalty to particular brands, including the brand’s esteem and consumer perception of differences between brands.

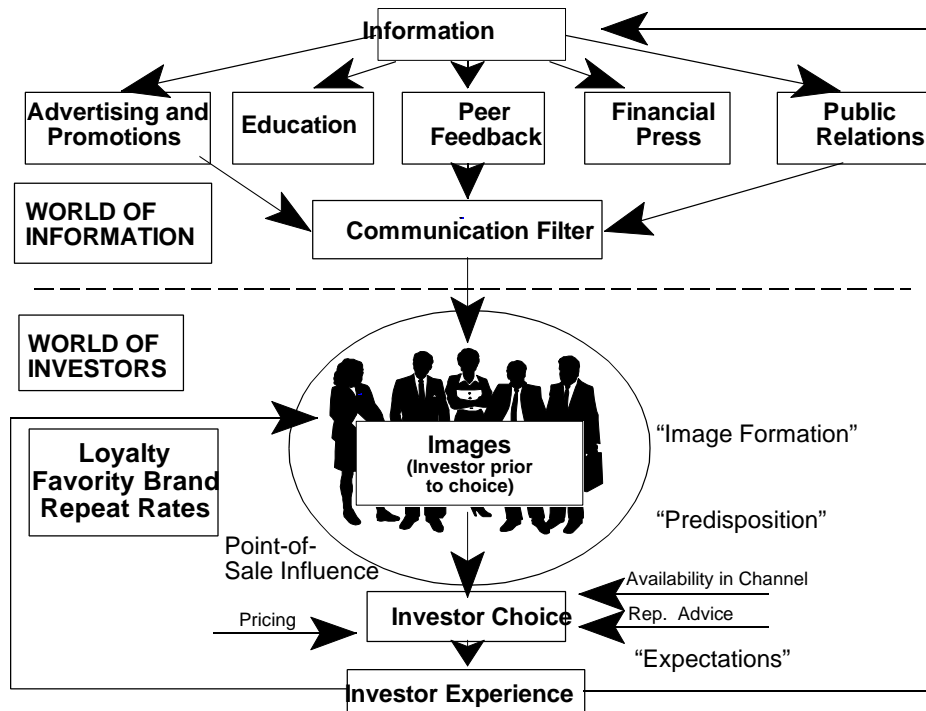
At another stage, consumer *choice*, trade-off models simulate the customer’s

decision-making process. Two separate methodologies were demonstrated: discrete choice measurement where consumers pick between two alternatives, and multivariate analyses such as price elasticity studies where sales volumes are correlated with prices and other factors.

Finally, market researchers evaluate *usage* through customer satisfaction models. These models give the selling organization valuable feedback on whether it is delivering what its customers want.

Some attendees were surprised by how robust the market research models are and were pleased to return to their employers with an enhanced awareness of new approaches for improving sales and persistency.

William Horbatt, FSA, is a Consulting Actuary with KPMG Peat Marwick, LLP in New York City and a member of the Actuary of the Future Section Council.



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