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Session 135CS
The Customer is King

Track: Product Development

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Summary: This session demonstrates principles that are discussed in the Market-Driven Product Development Seminar scheduled in 2000.

This session uses case studies to demonstrate the application of the market-driven product development process. Opportunities and pitfalls of the process are highlighted using sample products developed from such an approach.

Attendees learn about sample outcomes from the product design process when the market-driven process is applied.

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Mr. Novus E. Junus: We're going to focus more on the market-driven product development process. *Business Week* published an article called, "Why service stinks." I thought it was appropriate for this session. Companies know just how good a customer you are and, unless you're a high roller, they would rather lose you than fix your problem. That's food for thought.

I do want to mention a session format change. We're going to do more presentations and information sharing rather than a pure case study. Our speakers will present case studies of what they have done and what they are intending to do in terms of building a market-driven product development process. They will discuss their experiences in the market-driven product development processes viewed from their company's perspective.

I'd like to discuss a few key issues that really center around what people mean by the statement "Customer is King." Also, what do people mean by the terms *customer focus* and *market-driven*?

I am with Milliman & Robertson in Seattle. I just joined them about seven months ago. Garth is vice president for product development in Keyport Life in Boston. Their Web site says that it is a customer-focused company.

He's going to provide examples of the market-driven product development process. He has been through it, so to speak. At least, his company has.

Michael Kaster recently joined ILONA, which is Irish Life of North America. That Web site says that it is a new style financial services company. He is in the midst of building a market-driven product development process. It will be good to get that insight from him in terms of what he needs to do to build that.

Garth will start his presentation.

Mr. Garth A. Bernard, Sr.: What does market-driven mean? I can only talk about it from the perspective of what that means at Keyport. What I'd like to try to do is use a couple of case studies to highlight some of the issues in terms of who's doing the driving, and then definitely some experiences that we've had in the process.

So let's start with the case studies. The first one is the key index story at Keyport. Key index is the equity-indexed annuity that Keyport introduced in 1995. It introduces the perspective involved when you're doing the driving and when you're leading from the front. Innovation is definitely one of the elements involved in this process. The innovation style at Keyport is very free wheeling. We don't really have a formal generation process but, as the meter rises, we respond by coming up with ideas with respect to what's happening in the marketplace.

With respect to key index, this was actually not the first equity-indexed annuity introduced in the marketplace. In fact, I have somewhat of a unique perspective. I worked at a company which, about ten years before Keyport introduced key index, introduced an equity-indexed annuity, but it was introduced on the institutional side to a group equity-indexed annuity. That was in 1986. In 1992, that same company introduced on their retail side within one of their variable annuities—an equity-indexed general account guarantee.

What was the difference? Why did Keyport popularize the concept? I think the basic answer was that we happened to be in the right place at the right time. Timing is very important in this process.

What was happening in the fixed-annuity marketplace at the time? Keyport placed most of its marketing and sales emphasis on the fixed-annuity marketplace. From 1990 to 1993, rates were falling very dramatically; they fell 300 basis points over the course of three years. Fixed annuity sales were under some pressure.

When rates bounced back up, there was a little bit of a spike by mid 1994 until late 1994. Fixed sales came back a little bit. The 1995 rates started heading down again. The bottom line was that it was pretty clear that there was a segment of consumers who were very interested in fixed returns or the return of their principal. That's what the market, in a sense, was saying.

At the same time, what was going on in the variable annuity marketplace? I think we're all familiar with that history. The stock market or equity returns were pretty strong and, in the late 1980s and early 1990s, the 'A' market, out of nowhere, started growing very, very rapidly. I think it was a compound rate of about 25% per year. The marketplace and consumers were saying something. There was a desire for high potential returns, and they were willing to even risk their principal to get some of that.

So the question became, if fixed rates continue to go down while the equity markets perform, how could you meet the latent stated needs of consumers? How could you do it all? Give a guarantee of return of principal along with the possibilities for higher potential returns? Back in late 1995, that is what happened at Keyport. So again, timing is everything.

But that's not the end of the story. In late 1995, when the key index was introduced, the sales company actually did not go along with it willingly. It was saying things like, "Nobody's asking for this." "Brokers didn't say that they wanted this type of product." "Who's going to buy this?"

The point is that the sales organization didn't go along willingly, and we did it anyway. We said, "Don't listen to the customer." "If you don't want to do it, that's fine." We believe that the market indicators, the consumer behaviors are indicating that this is something that could work. History suggests that that was, in fact, the right bet. Keyport was the acknowledged market leader right in the early part of the introduction of this product. In 1996, we sold over half of what was sold in the marketplace. So one of the lessons was, don't listen to the customer. Another lesson was when you're leading from the front, you have to look over your shoulder.

Let's discuss the history of the equity-indexed sales from 1995 through 1999. The industry sales statistics came out of the Advantage Group. This is public information. Jack's data have been published quarterly for a long time now. Our sales started off pretty strong for more than half of 1996. We had the most sales in 1996. We were at the top of the heap and then fell off as the years progressed.

Why did that happen? As I said, we were looking over our shoulders and not listening to the customer. As an analogy, it was like the customers were saying they liked chocolate ice cream, but we were offering them chocolate fudge or chocolate chip. We stopped listening to the customer and that was the effect. We intend to get that by going back the other way. I think that customers are now asking for yogurt ice cream, so we're going to give them some of that, too.

That's case study number one. There's another case study that I wanted to highlight today, which is what happens when you're bringing up the rear, so to speak. The example is Keyport's guaranteed minimum income benefit. In this case, we were not first in the marketplace. In fact, we were probably one of the later entrants into the 'A' market.

The income benefit was first popularized by The Equitable a couple of years ago. Keyport, at the time, had a reputation for some innovation in the income market.

That's an element for which we used to get attention and shelf space for our variable annuity.

So along comes a competitor and they introduced something that has to do with income. We have to take a close look at that and say, "Now, wait a minute, that actually takes a little bit away from our story. We have to respond." We turned to that sort of free-wheeling innovation culture within Keyport and came up with our version of the guaranteed minimum income benefit. I take it that everyone knows what that means. Basically, it allows you to guarantee a minimum level of lifetime income on a variable annuity at some point in the future.

In this case, timing wasn't everything. We were late. How do you lead when you're in the back? One of the things that we did was listen to the customer. In this case, the customers were some of the brokers that were selling other people's guaranteed minimum income benefits (GMIBs). What we heard from them was that there were a couple of elements that they didn't like. For example, if you attach a GMIB on some of the competitor's products, you have to take it even if you felt at some later date that you don't really want this benefit. You don't need to pay for that. So we came up with a revocability feature.

The other thing that we recognized out there was that many of these benefits had a roll-up that said take the initial premium and roll that up by 5%, 6%, or what have you. The thing about roll-up benefits is that if the funds outperform the roll-up percentage, the benefit ultimately goes out of the money. So you have a client paying for something that, perception-wise, might no longer have a benefit to them.

In response to that we came up with a greater of benefit. So we had the greater of a high anniversary and a roll-up that addressed that problem or that issue. Make sure that you listen. When you're in the back, one of the things you don't have to worry about is who's behind you because you're last. So much for that case study.

On the one hand, we had a situation where we sort of created the market and drove it, and then maybe made some mistakes on the back-end. On the other hand, you know, we learned a little bit from that. It's sort of like, we're late to the game. How do you catch up? How do you exercise some market leadership from the back?

There is something that I should have pointed out that happened after we introduced the guaranteed minimum income benefit feature. It didn't make sales take off or anything like that, but one of the things that we did observe was that about 30–40% of the variable annuities sales have that rider attached. It is appealing to somebody out there.

What is it that we learned from these two case studies? The first thing is market intelligence. You always have to know where you are in the marketplace. Knowing where you are doesn't necessarily just mean with respect to how much you're selling, but what is the marketplace doing? What are the behaviors that are being exhibited in the marketplace by end consumers, brokers, and everyone up that chain that might be leading indicators or indirect indicators of some of the latent needs that are out there?

The second thing is process. In the first case study, we talked about the free-wheeling innovation style that helped at the front end of the process. However, on the back end, because we did not have a more disciplined innovation approach, we forgot to continue to listen and take actions based on the developments in the marketplace.

So the bottom line is that you really do have to have a process for striking a balance between the disciplined innovation and the free-wheeling style. Both of these lessons are an important part of what it takes to be a leader in the marketplace and to demonstrate leadership.

We talked about the listening process. I call it selective listening. You have to know when to listen, who to listen to, when not to listen, and who not to listen to. That can move around over time. But you have to be very adept at understanding when the right message is being spoken. So you have to be able to truly hear so that you can figure out what's going on out there.

When listening selectively, you have to make sure that you're applying the right filters or that you recognize when filters are being applied to the information you're receiving from the marketplace. You also need to know when those filters should or should not be discarded.

Market vision. I spoke about this indirectly. You have to be willing to take an educated risk on where the market is going. That, too, is a form of leadership, but I think it takes it to the next level. In fact, those last two, market vision and selective leadership, are important elements of what it takes to create markets and lead from the front.

You have to know when to lead. Maybe it's better to lead from the front. You can lead from the rear as well, but it's best to lead from the front. The best way to do that is to be able to create the market that you can drive. In order to do that, you have to really understand who the customer is and what the customer is saying.

Those are the important lessons that we've learned at The Keyport.

Mr. Michael L. Kaster: I'm going to give you a couple of examples of some live product development case studies. I'm going to try to build on that and talk about an organizational structural issue to become a market-driven product development company. We're right in the middle of that situation right now. We are a company that has not been market-driven, and we're trying to become market-driven.

Our company has been the traditional structure of product development. I'll talk a little bit about what we've concluded as the ideal structure to enable us to be a market-driven company. I'll tell you a little bit about how we built the team, and how we tried to pull this together. I'll tell you what we think the benefits of this are going to be. We don't have a live example of this yet, so we're kind of betting on this getting us there. I'll tell you a little bit about some of our restructuring problems. There are some real live issues that you have to deal with when you're trying to undo what has been the traditional way of doing things and you must do it a new way.

ILONA Financial Group's vision is to become a new style financial services company. What does that mean? We're trying to be a company that is giving the customer what they want and they're coming to us. So we're going to be providing all financial services to the customer.

We started off as Irish Life of North America. That's what ILONA stands for. We were founded in 1987. We currently own three domestic, very different insurance companies. They were bought for strategic reasons. They had a special expertise, and we envisioned pulling them together at some point in time in order to leverage the individual skills of each operating entity. In addition, we own a broker/dealer company and a financial services company. So we're right in the middle of trying to pull these entities together to create this new structure. We're getting there, but we're not there yet.

What is the traditional structure of the product development process? Let me tell you what we've been. Earlier this year, we were separate individual insurance companies; each company had its own process and each had a different way of doing things. They did not have a common vision or a common mission. There was an effort to establish a mission, but each was purchased and established for its own reasons. So we weren't there.

And what ended up happening is our product development was very reactionary in nature. As opposed to the customer being king, I think commission is king, and has been king for our companies. We react to what the sales force wants and needs. So it hasn't exactly been working the way we envisioned it.

So where do you start? We took the first step and organizationally reorganized. ILONA Corporate is the main company. We have taken each individual entity and put them together into one insurance operations company. This one insurance company is the entity that is going to create a product for customers and service the customers.

We have a separate intermediary organization. This is basically a traditional distribution outlet. We have an independent marketing distribution broker/dealer distribution. This financial services company that I told you about is in this organization. We were putting them all together to figure out how to get to customers.

We do have some specialty expertise in marketing and direct response business. So we've kept them as stand-alone entities. That's not the insurance company. That's the marketing of products to the customers in a direct manner, which requires a very specialized expertise.

So what does it mean? How should we structure product development within this high-level organizational operation? What has traditionally been the structure? It has been the actuarial department versus sales and marketing. I'm sure many of you are in a structure where you have the actuarial department and a separate sales and marketing department. They don't necessarily have the same interest in mind. They definitely have some competing interests. The actuaries are there to protect the solvency of the company. Sales and marketing are there just to sell. They don't naturally mesh. Neither one of them tends to win and neither one of them really knows what the customer wants.

So what have we done? We created a product management team. It actually resides under our insurance operations structure. We're pulling all the people together that do product management, and they'll then provide everything to our distribution people.

The mission of our organization is consistent with this desire to be a market-driven company. That is the mission of our new style financial services company. To that end, we've determined that there's going to be a dedicated team. We've also said that we need a steering group. We don't want to just put the marketers and actuaries together and say, "they'll know best."

We still need some guidance and counsel to the process from our separate entities, the distribution people. We are creating this dedicated team, which includes traditional marketing functions, the positioning of products, the engineering and research and development. Actuaries are basically financial engineers. the team also handles the implementation of those products when we're done. Now we have a product management team and they're going to be working with the products steering group.

What else do we need to do? I'm sure this is not new to many of you. We need a cross-functional team. The product team is going to do the work; build the products and become market focused. You still have the systems and the administrative issues and everything else. We're creating this product implementation team.

This is not a dedicated group, but it's there to organize and coordinate all the processes across the company to make sure that what is done by the product team gets done well. We have the product management team with a steering group and its implementation team to help get it all done.

This is not rocket science. It's pretty basic. What has really been needed is a desire to create this structure. If we had these silo companies still wanting to do it their way, and our way is the best way, we were never going to get to be a product-driven or a market-driven product company. It had to start at the top.

That dedicated team is going to be responsible for all aspects of the product management function. You have to develop it, but then you have to figure out if it's working in the market. Is what you developed really serving the customer the way you expected it to? We're saying this team is going to be responsible for all aspects of the product from start to finish, even while it's enforced. They're going to be organized around the work to be done. The two basic functions within the team are the traditional marketing and product positioning.

We have a new job called the product manager, and that product manager is responsible for positioning market research, understanding the customer, working with our sales and distribution to get feedback, and then work with the engineering group, and the product actuaries to build it. They're physically located next to each other, and we hope they will work together well. So again, it really starts from the top. We have the support of the top management of the organization to get this working.

How do you build the team? You start at the top. You organize around the work that needs to be done, but then you must start evaluating which people are involved, what their capabilities are, what expertise they currently have, and so on. Otherwise, you must deal with what you have. You have to start there. You can't just throw out everything and start from scratch. You must really deal with the people that you have.

You might need to adjust your ideal structure to fit the current people in the locations. I'm going to get into this and some of the problems around it. We have three companies in three locations. We are pulling people together that are physically in three different locations, which represents a challenge in and of itself. You always have to keep your ultimate goal in mind.

Something I'm very focused on is keeping the objective out in front of people. They tend to lose sight of what we're ultimately trying to do, and we just keeping reminding them, "We're not there, but we're going to get there. This is what we're shooting for."

What have we concluded? That we're cannot allow people to stay within their comfort zone. Somehow you must convince personnel from each company to take on new roles.

What we've decided to do is take a couple of lead marketing people. One of them is going to be our product manager for annuities, and you're going to deal with all annuities: variable, fixed, equity-indexed, or whatever. Even though you weren't doing this before, we're going to help you to learn what the base need is. The base need is to provide a preferred retirement annuity of some sort. There are different ways of doing it.

Then have a life insurance product manager. On the engineering side, we have experts who know very well how to create new things, so we're going to have them focus on doing just that. We got a couple of people that are really good at dealing with existing stuff; how to make it work, and tweak it and poke it.

Underneath the marketing product managers we are creating a true dedicated market research team. At the moment, that's one person, but, over time, that will be even more. We'll do some of the things that Garth was mentioning, like some consumer research. Competitive analysis is always something you want to do, but you have to reach the point where you understand what the customers are really looking for. We're going to create that function within this group. They're also going to do the support and the traditional marketing stuff, like the illustrations, the marketing materials, and so on. That work still has to be done, but we're pulling them all together and making them do it under one common theme.

On the engineering side, you have your traditional actuarial support, all the pricing, design, and all the calculation work that needs to be done. They're the ones that are going to create the blueprint of the products. This is all working within the whole organization with one common focus in mind. As an aside, we've said the product forms and filing registration is a special expertise. We put that under our legal area. But the leader of that group is going to serve as a member of our product management team because he or she needs to be able to work with us and do what we want to do and do it well.

That's what we're in the process of doing. How do we view some of the benefits of this to the market and distribution? Customer orientation will allow us to have a little bit better and longer product lifecycle. Some of our products right now don't work. You throw it out in the field and it doesn't sell. We've had a distribution person come to us and say, "I've got this great new idea. Here, go build this." What if we put a lot of time and effort into building this thing and it doesn't sell, or it doesn't go anywhere. We hope to avoid that going forward.

A well-organized effort is going to assure more timely delivery to the market. If you're floundering around, and you don't really know what you're trying to achieve, it's going to take you a lot longer to get there. If you have a pretty good focus, you understand what the customer is looking for, in the ideal world. You're going to actually deliver that to the market faster. Structurally, by putting all these people together, we hope that it's going to create a lot of teamwork and an ability to do it well and do it right the first time. We'll have a better, efficient company, and reduce some duplication of effort.

Again, in our silo world, with three separate companies, we probably had some crossover. A company was trying to serve a market and a customer with one product, and a company was doing it with another product. We were duplicating efforts. We're hopefully going to eliminate that going forward.

In the ideal world, the distribution will actually come to us. We'll be able to recruit people that want to sell for us and take our products to the customers because we've done it well and we're going to grow naturally. The constant problem that insurance companies seem to have is growth. Again, we're right in the middle of this, so we don't have a success story to tell like Garth has, but we're hoping to get there.

What are some of our problems? When you go through this effort as an organization, you're going to run into some problems. I'll tell you one of the most frustrating things to me is that it takes so long. I've got this vision in mind of where we should go and where we need to be. It just takes time. You're dealing with people. It's not going to happen just like that. There's a buy-in process and everything else. It just takes a long time.

As I said before, you have existing people who were hired by that company. That company had a mission, and they bought into that. They have varying interests. Someone might say, "I worked for this company and we were doing it right." You were doing it right for that one little need, and we'd like to broaden the horizons a little bit. We have to deal with that.

As I said before, we have three locations. Trying to pull together a dedicated team from the resources from those three different locations is not an easy thing for us to get accomplished. We're finding the Internet, e-mail, video conferencing, and day travel to the other locations is something we're doing an awful lot of right now. Doing it well for the customer is not an easy thing to pull off.

So what are some conclusions that I've drawn here? We feel a well-organized product management structure will yield a more cost-efficient organization. Everybody is dealing with expense issues. With a well-organized structure, we're going to be more efficient and do it right and do it well. The product efforts will become a pull strategy as opposed to a push. We won't be trying to push products on people. We'll actually influence them to want to come to us for our product, thus, creating a much more successful organization overall.

Mr. Junus: So why did I choose ILONA and Keyport versus companies like USAA or Fidelity? I believe USAA has a captive market. Because of that captive market, and, because of the fact that they have a very good brand name and they have an existing block of business, so to speak, it's easier for them to get to the customers than it is for most insurance companies.

Most insurance companies have intermediaries, which is distribution. What does it mean to be customer-focused especially when it's still a push product? Most annuities and most life insurance products are still push products. Insurance companies are transitioning away from an agent distribution. We've tried direct response, but we have not had that much success. Even Fidelity hasn't had that much success in "selling complex products" over the Internet or through direct marketing. Vanguard has, but Vanguard is a different matter. It has a fantastic customer following.

So my first question to Garth and Mike is, what does it mean to be customer focused?

Mr. Bernard: One of the questions that has not been asked yet is, Who is the customer? If you're going to ask, What does it mean to be customer focused? you have to start off there. I've never really understood that question. because it polarizes the discussion into two camps. One camp says, "It's the consumer, the end buyer is the customer." And the other camp says, "No. It's the distributor that's the customer." Because of my leadership and experience, I'm going to bring these two camps together.

The real issue is that there is a customer chain and everyone in that chain is a customer. It's as simple as that. But it's actually not simple because the real issue is the degree of ownership in that customer chain. You can't ever have 100% ownership in the end consumer unless you're going direct, or unless you actually own the distribution. Even then, you don't truly have 100% ownership. That's what the issue comes down to, in my mind.

Being customer focused means that you have to be looking at every part of that chain and understand what every part of the chain needs. If you start with that premise in mind, I think you come to better answers.

Mr. Bernard: I'd be interested in hearing from the audience as well.

Mr. Kaster: I go with what Garth is saying because, with our direct channel, we definitely feel we own the customer a lot more, and so we know the customer. We actually have database marketing capabilities where we try to drill into understanding what the customers do and how they react, and what works best with that customer. But with other channels, we don't really "own the customer as well." So it is much more of a challenge, but understanding how you're getting to the customer is definitely a key part of being customer-focused.

Mr. Junus: I think this is similar to the auto industry where the auto dealers have direct contact with the customer and the auto manufacturers are trying to get closer to the customer.

From the Floor: One difference with the auto industry is that the manufacturers do a great deal of promotion of their products to the consumer independent of the dealers; whereas, in the insurance industry financial services industry, most of the companies do not do as much promotion to the customer independent of the distribution system.

I've always thought that the customer was the person who paid the premium, the person who shelled out the money ultimately. The agents are here to make money just like we are; therefore, to me, the agent is a partner, or the distribution system is a partner of the effort rather than a customer. It's also very difficult to embrace agents as partners, but it's one of the challenges we have. I'm told they find it difficult to embrace actuaries as partners. The distribution system should be your partner in your activity rather than your customer.

Mr. Bernard: When was the last time your partner told you exactly what you needed to do? "Here's the commission I'm going to sell for, and I'll accept nothing less. Otherwise, don't talk to me." It depends on what channel you're talking about. You mentioned brand, for example, and I think you're right. In the auto industry, for example, there's more promotion of brands. But I think a brand is situational, even in the auto industry example.

Let's talk about Firestone. Do you think that Ford Explorer customers believe that they're Firestone customers also? I'd say yes, because they're suing Firestone over those accidents. So brand, in a sense, is situational.

From the Floor: This question pertains to the equity-indexed annuity. It seems to me that you could have been stopped cold by state regulators or the SEC. I was wondering, to what extent you consider them customers or something else?

Mr. Kaster: You mean the regulators?

From the Floor: Well, no.

Mr. Kaster: The SEC?

From the Floor: The regulators could have decided that wasn't the legitimate annuity. The SEC could have decided that it should have regulated it.

Mr. Junus: How would you consider them in the customer chain?

Mr. Bernard: I think you could use the word loosely. You have to take into consideration the regulatory issues, regulatory challenges, risks, and so on. I think part of the process of coming up with that product was looking at the regulatory issues and those types of risks, and taking the necessary steps to ensure that, with a specific understanding of the risk, you will try to address the issues.

For example, take the equity-indexed products. You can talk about credited rates all day long. However, if somebody out in the field is crossing the line and talking about your total returns, saying things like, "This is just like a mutual fund except better," you could get into trouble.

So that means you have to take the necessary steps in view of those types of constraints or issues. That means the training and the disclosures, and so on. But I wouldn't call the regulators or the SEC your customers; they're an important aspect or element in the process of meeting customer needs.

Mr. Kaster: To some extent, the regulators are there to protect the customer. So if you present an argument about what is good and the right thing for the consumer, you can actually get the regulator on your side. It is not easy to do, but it is in theory.

From the Floor: I have another question. The original question was who is the customer, and that generated a lot of discussion about whether you are making a comparison between selling automobiles and life insurance, selling automobiles through auto dealers, and selling life insurance through agents. I think that raises another modeling question. An auto dealer is clearly selling an automobile. There could be some service element there. Who is the producer? What is the agent selling? Is he selling your product, or is he selling some other financial service that can be satisfied with your product? You can ask, not only who the customer is, but what is the product?

Mr. Bernard: In a sense, some of this is situational. For example, if you're selling through independent distribution, you'll ask, What is the product? At some point, service, for example, becomes a product. In that case, who's the end consumer looking to for service? To some degree, they're looking to who sold the product to them, but they're also looking to the manufacturer for service. Again, that's situational. It's not true in every case. In those cases where you're acknowledged as a service provider, the services that you provide is a product that that consumer is counting on.

I want to hear some answers from the audience.

From the Floor: This is a topic I've been interested in for a number of years. I'm curious about some of the cultural issues you might come across and, in particular, if you changed any measurement systems to become more customer-oriented. Are you actually measuring customers now, looking at profitability by customer or market segments? Are you giving yourself credit for having better knowledge or markets as opposed to just having your producers have that information at this time?

Mr. Kaster: We have not actually done anything like that yet. We've certainly talked about different ways of measuring profitability, and we have looked at it from the customer's perspective. But we actually haven't gotten to the point of actually implementing that. Our focus to date has been organizing to be able to do the work. Then, we must figure out what are the best measures and the best systems to put into place to do so.

From the Floor: Has anybody else experienced the possibility of measuring things a little differently around the customer?

Mr. Bernard: At Keyport, we measure things down to the end consumer level. I've not experienced what you are suggesting. There are some aspects of it on the service side. We look at how fast the phone gets answered, how quickly the client gets the problem solved, and we service the agent. How fast does an application turn around? How quickly does the commission get cut? We do try to figure out what things are important, at least in that aspect of the equation, to the various customers in the chain.

I think some of the other financial services segments are better than we are at things like measuring profitability by customer or trying to price on a customer basis. Part of it is that they have more ownership in the end consumer. I have worked at other companies where, we attempted to do things like come up with customer behavioral profiles and, things like that. The question is, what do you do with it? How does it make you better at what it is you're trying to do?

At another company, we tried to say to the independent distributors that we worked with, "Look! We think we have a better way of looking at customer behavior. Maybe we can turn this into better prospecting tools, or things like that." There is not so much done directly with respect to how to make it better at the end consumer level, but how to make it better at the point in the chain that we have most of our connection with—the distribution system.

Mr. Kaster: You also asked about cultural issues. One of the more difficult cultural transitions we're having lies with our independent marketing organization. We have been very focused on the driver being what the distributor wants as opposed to what the customer wants. To be honest, we haven't figured out how to transition through that yet. We have products that are driven by commission and not by what the end consumer gets. We're having a very difficult transition.

From the Floor: I think companies are starting to do a good job of putting a process together to get to the street fast, but I don't hear a lot about how they really determine what the customer wants. I mean you might get an idea from a distribution system. It might be one person's idea, or it might actually be what's really going on in the markets. So I'm wondering what sort of market research resources you have. What tools can you use to try to get a sense of where the market is and where it's going?

Mr. Bernard: Let me take a first crack at that. We use several sources to figure out what end consumers want. I think the first and natural place to look is where you have access to end consumers. For us, it's distribution systems. We try to spend time with wholesalers, the people on the sales desk and with the brokers. What is it that your clients are looking for? What are some of the issues that you're faced in trying to solve their problems that you don't seem to be getting responses to? We try to make sure that we understand what's going on on the customer service lines.

What I'm describing is not necessarily a good source of what the consumers really want. That question itself is a really a hard one because, oftentimes, people don't know what they want, or we don't know how to ask and really service those needs, especially the latent needs. Sometimes you have to do it indirectly. For example, a direct approach might be focus groups. We've done that from time to time, but that turns out to be very difficult. You have to be very careful in terms of that selective listening process.

I think it's more along the lines of looking at behaviors and trends, and other indirect sources of information. For example, outside of your own industry, or outside of other financial services segments, or even outside of the financial services altogether, there might be, lead users and trends that you could look at. You have to look at demographics and many other things. I don't think there's one right answer. You have to look at different places and different sources for that type of information. What are other companies doing, or how do other people think about that?

Mr. Kaster: I'll just tell you what we are currently in the process of doing. We started at ground zero on market research, so we had nowhere to go but up. One of our first steps was to actually get the organization to commit to budgeting some money for market research. That was actually a very difficult challenge. The senior management team was saying, "We need to be more customer-focused. We need to understand the customer. We understand the need for market research." We get into the budgeting process and put in $100,000 in for market research, and it's the first area that gets cut. We ended up with $50,000.

Mr. Junus: That's $50,000 more than you had.

Mr. Kaster: That's true. What we're doing now is getting a person that is going to work with outside firms to do this. The Insurance Advisory Board is an organization that we're going to use to get some good market research. There are a couple of firms here in Chicago that do more competitive analysis than anything else, but they try and pull customers as well. So I would highly suggest trying to go that route first, as opposed to building a full- blown market research function within your organization.

From the Floor: What will the marketing research resource do for you?

Mr. Kaster: They'll collect the data.

Mr. Bernard: We have an area that's widely staffed that's responsible for market research, but it uses outside resources to get the work done. It uses various consultants and organizations.

From the Floor: We have actually developed within our company a market research area, and we're a multiline. The market research area does research for all of our lines. One of the things that it has done is created a database for more than one thousand of our customers. Some were previous customers that have left. Some are new customers. Some have been existing for a period of time, and they send out quarterly e-mails to people to do the actual research of our database.

The other thing we've done is created a competitive intelligence database where we have people that do nothing but pull information pertaining to what's going on in the industry, then you can go out and look up any of that information.

Mr. Bernard: What do you do with the information once you're getting it?

From the Floor: Do you mean from the competitive intelligence database?

Mr. Kaster: I'd be interested in what others are doing to address that issue I think we need to get some direct feedback from our sales people. I'm very worried that if we go all the way over to the customer focus, and do something for the customer like you're saying, the producers won't sell it. So I'd be interested in knowing what other people are doing in that arena.

From the Floor: We have certainly built up market research units from time to time. They have reported to me, and I axed them because we weren't getting any good out of them. They popped up in other areas, and I think we're back on the wave where we tend to be building that. We're spending a tremendous amount of money on developing customer information. We have data warehouses developed in the actuarial department that are more policy-based at this time, but we are moving towards a more customer-oriented effort by buying hardware and software people.

Our hope on this whole issue isn't the end buyer versus the agent. We hope to really be able to provide our agents with information in the form of leads. Not only the type you're thinking of, but also in terms of what the customers are doing. Again, that was the hope at this time, and it sounds good, but there's a tremendous amount of work that needs to be done.

From the Floor: How do you manage innovation? I have some creative people working for me, and they come to me with these creative ideas. What do you do? Do you have formal incentive programs? Is it in job descriptions? I think that's a huge issue that we need to address.

Mr. Bernard: I think it is partly cultural and partly just part of a whole management process of how you take care of the ideas and make sure that, you're encouraging people to come forward. You're looking at all the sources that are good breeding grounds for ideas. At Keyport, as I mentioned earlier, it tends to be a more free-wheeling style. We don't really have a formal idea generation process. Frankly, it's something that we're looking at, and we feel that we should have one. But even if you put one in place, the real issue becomes what happens to the ideas? You're going to get tons of ideas. You also have to have a process. I think several processes need to be in place. One is sort of a prioritization process that asks, what might be some of the really good ones and how do you make sure that those rise to the top of the list?

Is there some sort of incentive that you could put out there to encourage the really good ideas? Regardless of what that process is, you have to have something in place that says, "Here are the top three good ones. Where do we take that now? How do you fit it into the rest of the stuff that's going on?" I don't know about your company, but at mine we're trying to do 10,000 different things and to get all these ideas coming from the side. How do you fit it into that process?

If you're creating brand new concepts or brand new markets, it takes dollars. It takes an investment. It's like trying to build a business so that you have an innovation or venture capital type process at your company. Somebody talked about budgets. Oftentimes, it's hard to get the funding for some of these things.

Finally, you have to have sponsors. Somebody has to be interested in taking that idea and being the champion of it and driving it through the whole internal political process. Putting all those things in place is extremely difficult, and there have been many books written on some of this stuff. We're not even close.

At the very least, you should have the ad hoc or more free-wheeling process in place because you will often be called upon to respond to what's going on in the marketplace. You're either going to do it by trying to follow everybody else, which is usually not a very good route to success, or you have to try to differentiate yourself with new things. For us, the free-wheeling process has certainly worked, but it's not sufficient.

Mr. Kaster: Who else has processes in place?

From the Floor: We have built a data warehouse, and we use primary and secondary research. All of that market research flows through our sales area. So we're providing all that expertise to our sales folks so, hopefully, our ideas will still come from the distribution. It will come from them with a whole lot of education that will be provided to them about the customer. They'll see that as a service. The goal is to create that partnership to gather the customer that you talked about earlier. We are trying to eliminate the we/they mentality that can exist. We want the commission to be the driver.

Panelist: What's your distribution system? Is it independent?

From the Floor: We're dealing with banks, and direct through the Internet. We also deal with general agents and we have captive agents. We provided this to all the distributions, and their market research function reports through the sales area. I don't know if it's going to work yet, but our strategy was done to try to link sales and market research and to get those ideas coming from the distribution that are customer-focused.

From the Floor: I want to build on this. How do you become innovative? I think that's a very cultural thing. If the culture of the organization allows for it and promotes it and doesn't suppress it, you have a chance. If ideas are shot down regularly, people are going to hesitate to bring up new ideas. I think the leaders, and I'm hoping to take on the role of this in our organization, should promote the idea that you can bring new ideas to the table and not shoot them down right away. Let's push the idea a little bit. Let's see if it can happen. It is very critical to have openness to new ideas within the senior team.

One other thing that's important to our organization is to have some fun in the workplace so people can get those creative juices going.

Ms. Lynn D. Davis: I can help a little bit with the innovation and some things that we're trying at our company. First, we've organized around our process rather than around our products, which is going to create some challenges.

We have a special innovations area that is responsible for bringing new ideas forward. They generally combine some of the free-wheeling, which Garth was talking about, with some of the process or structure where there is free-wheeling. We have a fun center where we go and talk about certain subject matters or certain segments. We bring forward the best ideas that are agreed upon by the group. Those will be put in a list that will go into a concept-shaping process, which includes a lot of research about both the idea in general and daily report (DR) contacts. They listen to focus groups on the front end, which also helps generate ideas. That's how we have combined the two, and this is fairly new. We're just coming up with our first ideas coming through shaping, but we think that this, perhaps, gives you some methodology.

Mr. Kaster: What did you call that area?

From the Floor: Innovations.

Mr. Junus: The long–term-care market and the immediate annuity market is still very much evolving. I think a lot of this free-wheeling means a lot of trying to figure out solutions to problems that exist, so to speak, but that might not be at the forefront of the customer's mind. Or, the price might just be too much, like it is for long-term care. As for immediate annuities. I think people might just want to manage their own money instead of giving it to an insurance company. For better or worse, I think it's still a push product. Insurance products are push products because of their complexity. You still have to deal with the solution.

If you do want to go direct, you're going to spend a lot of money. You must have a lot of sales that come through, and that might not happen. We're still transitioning away from agent distribution. The point that we want to make (that I have surmised from the discussions with Garth and Mike) is that you have to know the market and the customers enough so that when people talk to you, you'll be able to filter the right information and understand it.

From the Floor: I'm not really commenting so much on my Pan American experience because I've only been there about three years. One of the things that I've found is that agents, by and large, are not a very good source to determine what the customer wants. You can easily find out what the agent wants, but agents talk about what they heard recently, what they've read, or what they think might give them an edge.

By and large, they're not going to be able to tell you very much about what the end consumer really wants or needs. We are trying to go after an answer from the consumer that is already tied into some sort of a product notion in our head.

We should be trying to find out what you need. What bugs you? What are your problems? Gather some non-specific, more generalized research, and then go back with that and ask, "Is there some way we can come up with a product now that speaks to that?" We have a tendency to go out with product ideas, and product overlays, if you will, in our minds and then immediately start fitting those consumer answers into these product niches. I think we have to divorce ourselves from that and ask those questions later, in more of a basic research context. Then we can come back and ask, "Is there something we can do? Maybe we don't do anything like that now, but we could do it."

Mr. Bernard: I agree with a lot of what you said. I think if you say, "I'm going to listen to, the distribution and the agents and the brokers, and they'll just tell me everything that I need to know about what people need." that would be a mistake. I get an earful from some folks about what's not working. If only you could do X. It's not about them. It's about the issues that they're running into with their clients when they're trying to make the sale. So I think it's still a good source of good information if you sift out the right stuff from it.

I also run into several folks out there who are in the sales system. Some of them are very mathematically inclined; you've never seen so many charts and graphs in your life. They check this out. "Could you do something that does this or that?"

So I think that there is some information that you can get out of your agents and brokers.

I don't think we could ever get away from the push in the process. Dealing with independent distribution and sales people, is a natural part of what makes the process successful. I think what has to happen is that we have to inject more pull into the process, which comes down to marketing. That's a skill set. I find it's very absent in our industry, by and large. I mean there are pockets of really good examples of companies that get it right from a marketing perspective.

The other mistake that I think we tend to make is that we get good information, we have good ideas, and we're about to really close the deal in terms of taking that idea to the market, but we come back with a product solution. We try to solve everything with the product, and that's not always the answer. When you think about marketing, it's really about packaging and looking at the whole customer's need, the whole agent's process, the sales process, and what's really needed there. It's about bringing a whole package to the table, not just a product.

Mr. Kaster: One thing that I've found very enlightening for myself is understanding what we're selling, especially in life insurance. How many people woke up this morning and said, "I have to buy a life insurance policy. I need more life insurance." The customer doesn't think about that on a regular basis. So it's still going to be very important to think about how we present the product to the end customers because they're not out there saying, "I need more life insurance." When you sit down and go through the analytics of it, everybody knows they need a little bit more.

From the Floor: They may be thinking that, but we don't want to sell it to them because they're bad risks.

Mr. Kaster: One thing we are in the process of doing is creating a needs-based selling tool to help customers understand the need for insurance and why they need it more. That's not a new tool, but we're trying to integrate that with our products. That can be a product in and of itself as opposed to the end product and forcing that on people.

Mr. Junus: I would like to leave you guys with these final words. Take it however you like it. It's going to be a journey. It's an evolution, not a revolution.