



SOCIETY OF ACTUARIES

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## Editor's Note

by Kiran Desai

As we race towards the SOA Annual meeting in New York, it is time to recognize that another year has come to a close. It was not the best of times, it was not the worst of times. (I am not sure if I should attribute the quote but, well, *NewsDirect* is not the *Boston Globe*. So what the Dickens, I will merrily continue sans attribution.) Members will little note, nor long remember, our efforts to serve them or the new communication tool introduced this year at our web page site, but will surely remember the Presidency held hostage by the "late night comics."

What, you may ask, is this new communication tool? Even before Steve Fedele expounded his noteworthy piece on "How to Get Nihilist Consumers to Listen" (page 1), the NTM Section Council was reviewing ways to provide members with an instant access to the "experts." If you have any questions, comments, or suggestions, you can go to our Section page (nestled in the SOA web site) and e-mail your query directly to our "monitor." The daily monitor will forward questions to the expert and the cogent answers may appear in your e-mail in short order. The editor will review your comments, suggestions, and so on, and provide an appropriate response.

*continued on page 3, column 1*

## How to Get Nihilist Consumers to Listen

by Steve Fedele

**Editor's Note:** *This article originally appeared in the July 7, 1998 issue of The Journal of Commerce and is posted on its web site at www.JOC.com. This speech was delivered at the SOA's 1998 Spring Meeting in Maui, Hawaii.*



Viewing several current events, and general public reactions to them, leads one to the conclusion that people are not following current events in the same predictable ways that they have in the past. For example:

Consumer confidence rose to a 30-year high during the recent Iraqi crisis, and the Dow Jones average rose from 7600 to 8400 during that time—a rather atypical response to an impending war.

Despite all of the media frenzy in January and February over "Monicagate," all three major networks had larger audience shares for the evening news over the same time period in the previous year.

The Winter Olympics in Nagano, Japan, had the lowest level of viewership in 30 years. CBS had to offer free airtime to advertisers who had contracted for higher ratings.

Despite low inflation, high consumer confidence and low unemployment, the 1997 holiday season was, for all practical purposes, a retailing bust. Stores struggled to realize just a 2% increase over 1996 sales figures.

In spite of the huge economic dislocation in the Pacific Rim, the "Asian flu" has yet to create the expected worry, fear and financial pullbacks. Rather, the price of gold, a traditional safe harbor during times of instability, has actually been declining.

Consumers are telling us: "These events are not important to us now." Let's face it, today we have nihilist customers.

External events such as confrontation with Iraq to Asian flu no longer influence their behavior. Yesterday's hot button issues leave them cold. Increasing the frequency and volume of advertisements and promotions runs headlong into a consumer wall of skepticism that acts to bounce away messages. As a result, although their insurance needs are relatively unchanged, our traditional approaches for providing product are no longer valid.

To be engaged, Americans are demanding a higher threshold of relevance and importance than they did just a short while ago.

Traditional marketing methods, like leveraging transactions with buy-ups and add-ons, are no longer working. Creating a relationship that survives a transaction is becoming the most effective way to do business. For example, a major home mortgage lender asks its customers to tell them what conditions would make them consider refinancing their mortgage. The lender then tracks those conditions and notifies the customers when the time is right.

*continued on page 4, column 1*

### In This Issue

	page		page
Autumn in New York— The Nontraditional Way by Carl Meier .....	7	"Emerging Markets for the New Senior Citizen" Seminar Rescheduled .....	2
A Case Study: Australia by Ian M. Robinson .....	6	How to Get Nihilist Consumers to Listen by Steve Fedele .....	1
Editor's Note by Kiran Desai .....	1	<i>NewsDirect</i> 1998 Papers Contest .....	5
Election Results .....	8	The Value of the Sentinel Effect— Revisited by Richard Bergstrom .....	3

## Sentinel Effect

*continued from page 3*

population, hence, the further proliferation of the Sentinel Effect. The effect is particularly enhanced by impairments dictated by lifestyle considerations, where the applicant more or less consciously chooses to live a risky lifestyle (smoking, drugs, and so on). Tables 2 and 3 show similar comparisons for urine versus OFT-tested cocaine and cotinine metabolites, respectively. "All ages" prevalence for cocaine detection is about two to three times higher than for urine testing, and cotinine detection by

OFT exceeds urine-tested detection by 30% to 45%—significant differences!

One final sobering thought: As more and more companies begin screening at lower testing thresholds, knowledgeably impaired applicants, seeking to secure coverage at standard rates, will migrate to those companies that have chosen not to reduce their testing limits. This, of course, increases the relative prevalence of impaired risks in the markets of these companies, a phenomenon whose antiselection can actually lend to higher

prevalence rates in some cells than in the general population!

If you think the value of the Sentinel Effect is significant now, what will you think when your company is the only one not testing?!?

*Richard Bergstrom, FSA, is a consulting actuary at Milliman & Robertson Inc., in Seattle, Washington and a former Chairperson of the Nontraditional Marketing Section Council.*

## Nihilist Consumers

*continued from page 1*

### Useful and Entertaining

Success awaits those companies that are seen to be extremely useful or highly entertaining, and that realize that for the present, consumers want to be left alone.

Entertainment is viewed as a reward, escape or source of excitement. Although the Olympics failed, last year, consumers bought record numbers of music CDs and movie videos, more adventure trips are being taken than ever before, with Costa Rica and Africa becoming leading destinations; mall spending is down, with the notable exception of Ontario Mills mall (east of Los Angeles), which has wilderness rides, a giant maze, 3-D giant screen television auditorium and a virtual-reality arcade. A typical trip lasts three hours, and sales per square foot are \$100 higher than elsewhere.

In examining some responses to Monica-gate, people have said:

- Sex lives are nobody's business
- Phone conversations between friends shouldn't be taped
- Zealous prosecutors are frightening.

### Personal, Not Political

These statements are not so much political as they are personal, reinforcing a desire for privacy. Note also that "push technology" on the Web was labeled invasive, rendering Web surfers passive and eliminating fun from the Web experience. A *PC World* survey found only 8% of the group actually preferred to get their information "pushed" at them.

When dealing with consumers, and attempting to meet the higher thresholds,

it is important to note that a "link" merely facilitates a consumer and company transaction. Whether electronic, agent-based or branch-based, links do not of themselves sustain relationships. When a new link emerges that is faster, cheaper or more entertaining to use, customers break the original link.

A connection with the customer is a sustainable link and offers more than a low price. It may also be more efficient to create connections than to sustain links.

As for the explosions of offerings on the World Wide Web, a close look at what is working on that venue shows the top five product categories to be books, computer hardware, airline tickets, software, music CDs, and tapes.

And the top five categories for percentage sales growth are 301%, airline tickets; 291%, stocks and mutual funds; 111%, computer hardware; 105%, car rentals; 94%, books.

Furthermore, 16% of new car buyers used the Web for shopping in 1997, up from 10% in 1996.

What is the common thread in all of this? These are commodity products. The customer has no need to feel or handle the material, check it for fit or evaluate the look of the products. What you see is exactly what you get.

Realize as well that these products are "display insensitive," in that any truly novel Web site can be easily and quickly duplicated.

A review of offerings that have not worked on the Web would include:

- New Century Network—a joint effort from *Knight-Ridder*, *Times Mirror*, *Gannett*, the *Washington Post* and the

*New York Times*. Users could receive content from over 140 member publications. This effort was dissolved on March 9, as it appeared to be a service without a demand.

- Charged magazine—an "extreme sports" publication, which was recently pulled after its owners could not find a buyer to take it off their hands.
- Slate magazine—critically acclaimed and owned by Microsoft, it has begun charging users, since the anticipated advertising revenues have not materialized.

These publications were "content and service" without demand. Magazine and newspaper content is complex. Slow Internet links tend to frustrate skimmers waiting for the download process to complete. Also, a contradiction arises between how people read (on a chair or couch with feet up) and how they surf, which is interactive, in the search and acquire mode. The new content doesn't fit the medium. Remember: Be highly entertaining!

So if price is the major consideration, what other factors can be used for product differentiation?

*continued on page 5, column 1*

## Nihilist Consumers

*continued from page 4*

Ease of use is a requirement rather than an option. Any difficulties, inconsistencies or time wasters will at best result in a lost lead ... at worst, you could get spammed. Freebies and giveaways translate rather nicely to this venue. Last year, *National Academy Press* posted 1,700 complete books on the Web, and their sales actually went up.

Customization of the product can give a short-term advantage: Dell Computer began this trend with personal computers, but was quickly matched by Gateway computers, leaving Dell with no net long-term advantage.

Sales of proprietary products—CD compilers that allow users to create their own “mixes” by downloading specific songs, rather than entire CDs. So far, major recording labels have shunned this practice, probably fearing that it would cannibalize overall sales.

Engaging the customers—creating a dialogue with a customer or prospect can add to enjoyment of the overall

experience and allow for better product customization. Amazon.com is a leader in this respect, by tracking reader preferences. However, this will be duplicated by similar software at Barnes & Noble.

One key area that may allow companies to charge a premium for their products is by creating or participating in a Web community. Sites such as Tripod, GeoCities or the 3rd Age all cater to specific audiences, which may allow offers to command premium prices if they are targeted specifically to those audiences.

### Who Will View the Site?

As marketers are increasingly drawn to the Web, it may prove beneficial to keep in mind who will view your site, and how their preferences on this venue differ from all of the other media that you have used in the past.

And finally, we can't assume the new model is static. Consumer preferences will continue to change. Knowing when and how requires constant monitoring.

In conclusion, we need to be mindful of the three cues from today's nihilist consumers:

1. “Be extremely useful.”
2. “Be highly entertaining.”
3. “Leave us alone.”

The key is make a sustainable link with the customer. Although they want to be left alone, the bar has been raised in terms of a demand for customer service and a “connection” with the provider of goods and services.

By adapting these types of approaches to our business, we can put insurers back on the radar screen.

*Steve Fedele is Assistant Vice President of Marketing at Cigna Reinsurance in Philadelphia, Pennsylvania.*

## NewsDirect 1998 Papers Contest

**T**he Nontraditional Marketing Section is still accepting original papers that would be of interest to Section members for publication in *NewsDirect*.

As an incentive, the Section is holding a contest for 1998. A cash prize of \$250 will be awarded to the author of any paper accepted for publication in 1998. In addition, at the end of 1998 a prize of \$1,000 will be awarded to the best paper submitted. *NewsDirect's* editorial board will decide which papers are acceptable for publication, and the Section Council will decide the grand prize winner. It is not required that papers be submitted by members of the Section.

Articles should be approximately 500 to 2,000 words in length, be educational in nature, include real world examples, and cover current issues or original research. A list of suggested topics include:

- Banks and insurance
- Preneed life insurance
- Credit insurance
- Payroll deduction
- Direct response
- Other.

This is a great opportunity to share your ideas and get some recognition—so, start writing. If you have an idea for a paper but are not sure if it is appropriate, please contact us. Articles should be typed in Word or WordPerfect and submitted via e-mail to [kdesai@voicenet.com](mailto:kdesai@voicenet.com) or [joseph.e.brennan@prudential.com](mailto:joseph.e.brennan@prudential.com).