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Long-Term Customer Value Not Just Policyholders

by Jay M. Jaffe

Nowadays a company's best customers want and expect special treatment. If you fly a particular airline, you get cheap or even free upgrades, a special phone number to call for reservations, offers to buy flowers, hotel and car rental discounts, investment offers, additional miles if you take out a mortgage with the airline's mortgage partner, term life insurance proposals and offers for many other products.

But if you have more than one policy with an insurance company, you're treated basically the same as every other customer. There may be a few insurance companies with special programs for their most important customers, but, as a general rule, insurance companies don't use any of the proven programs for enhancing long-term customer value:

- Rewards
- Rebates
- Appreciation offers
- Partnership programs
- Affinity offers

Kurt Johnson's article in the June 1998 edition of *Direct Marketing* provides a simple and comprehensive discussion of these Long-Term Customer Value programs. He describes each of these programs as follows:

REWARDS: A rewards program aims to "borrow" the interest of a customer in an idea or concept that has nothing to do with the brand being advertised. For example, travel certificates are available to Sprint customers based on telephone usage.

REBATES: Rebates are the simplest form of value exchange and clearly state to your customers: "The more you purchase from me, the better price I'll extend back to you." One of the most effective programs of this type is promoted by Canadian Tire in Canada where its rebate certificates have even become collectors' items.

APPRECIATION OFFERS: Appreciation programs are similar to rewards programs except that the offer is for "in kind" services. For example, airlines provide their best travelers with free upgrades to first class.

PARTNERSHIP PROGRAMS: The objective of partnership programs is to acquire new customers with an interest in a partner's product and then reward the customers with more of the original product. An example of a partnership program is MCI phone service to airline frequent flyers who then receive frequent flyer miles for MCI usage.

AFFINITY PROGRAMS: Affinity programs increase the lifetime value of customers by building strong customer relationships without the use of rewards. These programs add value through information-intensive communications, value-added benefits and recognition. For affinity programs to be successful, customers need to be acutely interested in the product and willing to invest more time to learn about it. The Burger King Kid's Club is an example of an affinity program.

"Because of the unfair discrimination and anti-rebate statutes, lawyers may cringe when preferential customer programs are suggested for use by insurance companies."

Because of the unfair discrimination and anti-rebate statutes, lawyers may cringe when preferential customer programs are suggested for use by insurance companies. These are laws with their origins in problems that are nearly a century old. It is a shame that proven Long-Term Customer Value programs such as rewards and rebates are not broadly available to insurers because of ancient legislation.

The unfair discrimination rules are not intended to prevent "fair discrimination." It seems that an insurance company that treats its least expensive

customers (e.g., current customers with several products) differently isn't, by definition, being unfair! Rather, it is recognizing that it is less expensive to provide protection to certain customers.

What could an insurance company do for its best customers? Here are just a few ideas:

- Billing discounts when multiple policies are billed together
- Availability of policyholder data via the Internet
- A special unit to expedite the handling of new applications for preferred customers
- Special anti-lapse protection provisions to owners of multiple policies
- Access to special services related to insurance for your best customers
- Lower premiums for more persistent customers

P&C companies have multi-car discounts and other incentives for customers to carry both automobile and homeowners insurance with the same company. However, life insurance companies just don't seem to have found ways to reward and provide special treatment to their best customers.

Long-Term Customer Value

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programs will increase insurance company sales and profits over time, but they don't provide instant results. While it makes good sense to add programs that tie an insurance company's most profitable customers to a company, in the short term the installation of these programs may require radical changes to the way the company is operated, and insurers may be forced to push for changes in current insurance regulations. However, companies can't flinch even if the required changes hurt for a little while. The old expression "no pain, no gain" applies in this instance.

A couple of possible impediments that insurers may have to address when installing Long-Term Customer Value programs are accounting practices and employee bonus formulas. Often these areas are oriented to achieving short-term results and will act as disincentives for Long-Term Customer Value programs. Accounting practices need to allow for amortization of any marketing expenses that are incurred to bolster Long-Term Customer Value, even though such expenses may exceed the marketing allowance for the initial product. Employee bonus formulas that only consider one year's results are obviously not consistent with the goal of developing long-term relationships with customers.

The insurance business needs to ratchet up the way it treats and serves its best customers if it intends to retain these people as clients. There are now alternative distribution channels available to customers and even alternative products that provide basically the same benefits as many traditional insurance products. If the insurance industry is not careful, it could find that "clone insurance products" issued by noninsurance companies that operate in less regulated and more flexible environments could replace products offered by traditional insurance companies.

Creating a vision of Long-Term Customer Value programs within an insurance company is not an easy task. But the insurance company that is successful in implementing Long-Term Customer Value programs will be the envy of the insurance industry.

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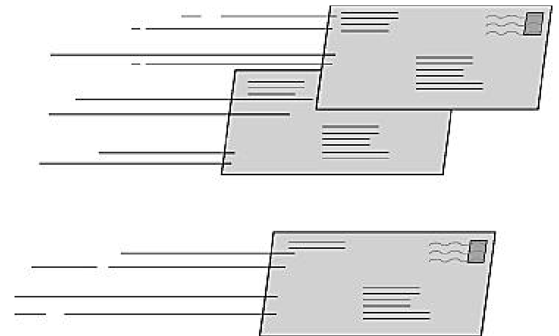
Direct Marketing: Part 1—Analysis of Solicitations

by Neil Lund



Editor's Note: This excerpt is reprinted with permission from Issue 15 in the June 1993 issue of NewsDirect.

Bob Stone, in his book, Successful *Direct Marketing Method,*[1] notes that " . . . underlying all direct marketing success is the ability to trigger a direct action, a measurable action at the right cost."

This brief article covers measurement of key actions by presenting an approach to the analysis of direct-mail insurance solicitations. The analysis also can be adapted easily to telemarketing, television, newspaper inserts, take-ones, and other forms of mass marketing.

The basic analytical approach is displayed in the table on page 9. The table sets out the data needed, the analysis performed and the formulas used in the various calculations. While the analysis and therefore the table are relatively straightforward, several items deserve some elaboration.

The key measurement in the approach is the ratio of converted premiums generated to marketing cost, commonly referred to as the TAP:MC ratio (item 21 in the table). The TAP:MC ratio approach is superior to using response rate targets only, because the TAP:MC ratio is a dynamic measure that adjusts for changes in costs, response rate, and average premium size. It also allows for a valid comparison of the cost effectiveness of various approaches. (Before we go further, a small discussion on terminology may be appropriate. Direct marketing, like much of the insurance industry, does not have a set of precisely defined standard terms; other terminology is equally accepted. For example, the term "TAP" also is known as "TARP" [total annualized renewal premium], as annualized premium, and as gross annualized premium. Similarly, some companies use the ratio of marketing cost to premiums as their measure. While the terminology may vary, the basic concepts remain the same.)

When using a two-or three-drop mailing, data should be captured and