

Designing a Demographic Based Distribution Model

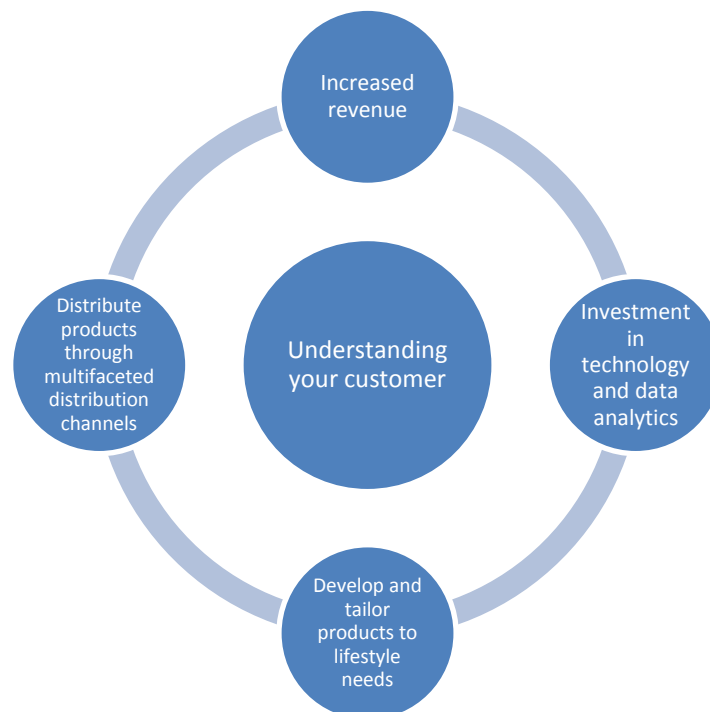
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DESIGNING A DEMOGRAPHIC-BASED DISTRIBUTION MODEL

In an age where information is now readily accessible, understanding the needs, wants and buying habits of any consumer base is essential to a successful business model. A customer centric shift not only benefits in the capturing of new customers, but also facilitates stronger retention after the initial sale transaction. Buying behavior plays an integral role in the success of the sales cycle. Understanding the demographic differences between generations is a key element for placing the client at the center of a business model in order to generate greater revenue. Further, with today's world becoming more data driven, there are tremendous opportunities and challenges for insurance companies to leverage this information. If used strategically, technology and data can be instrumental in heightening the customer's purchasing experiences. This in turn can lead to brand loyalty and ultimately growth. By better understanding and predicting your customers' behaviors and needs, insurance companies can stay relevant with consumers and improve their marketing strategies.

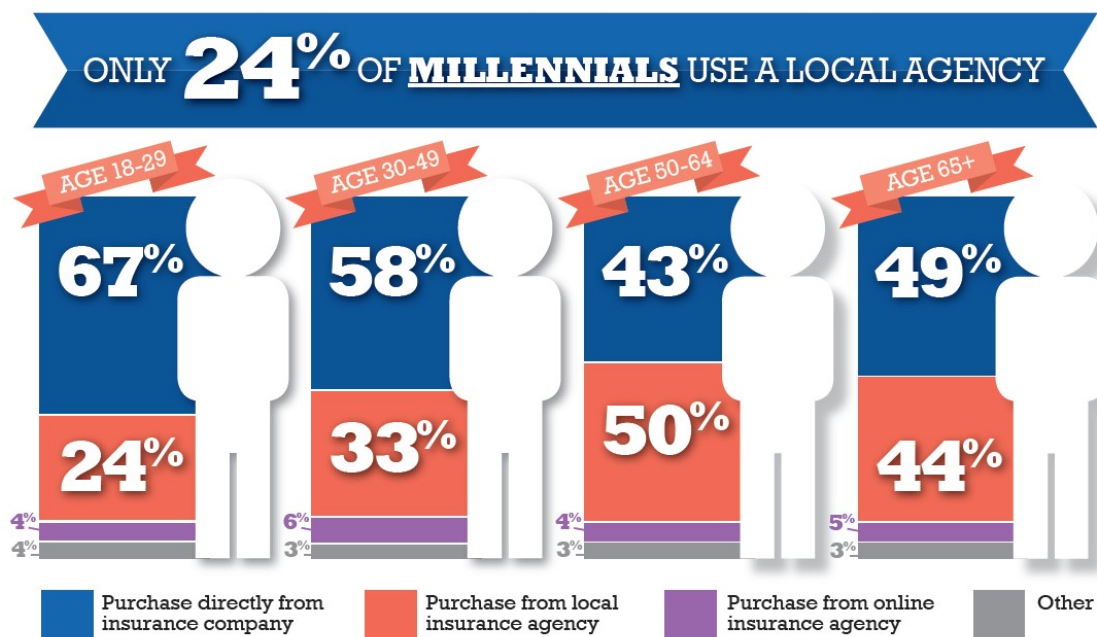
With a shift in the purchasing process comes a change in how companies take their products and services to market. In the past, the majority of companies focused on marketing, branding, advertising and promotions around the sale of a product or service. With the amount of information readily available through various online media platforms, consumers are now more educated on product and service offerings prior to the purchasing process. In addition, there is a need to become more proficient in supplying customers a full range of online capabilities. Why this fundamental shift? Buying habits for various generations have morphed and companies need to find new and creative ways to adapt and remain relevant. Insurance companies face a tremendous challenge in finding solutions as most buyers tend to distrust the insurance industry and overall purchasing process. "According to an IBM Institute for Business Value Survey of 12,000 insurance consumers in 24 countries, only 43% of respondents trust the insurance industry in general, a figure that has held steady since they began such surveys in 2007. Only 37 percent trust their own insurers highly or very highly according to the survey".¹ Transparency and trust will continue to be driving forces for consumer buying habits in the years to come.



Generational Differences

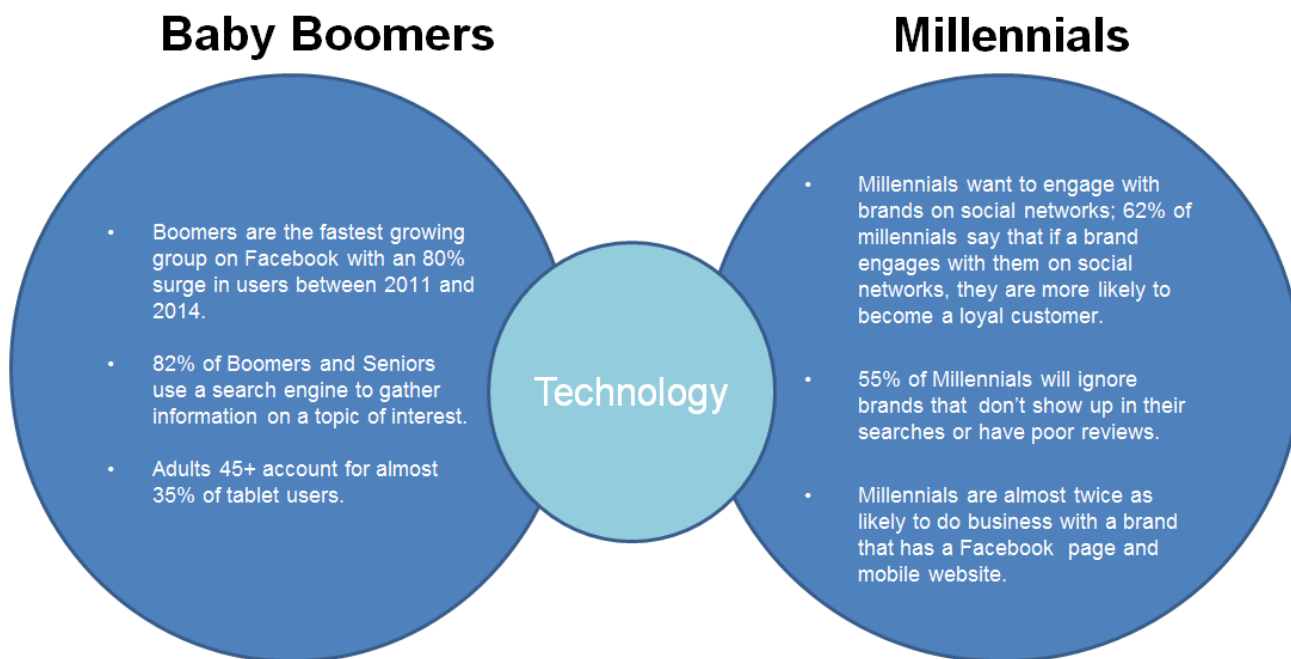
A key factor that helps to distinguish purchasing habits of consumers in today’s marketplace is the understanding of generational nuances. As one of the largest generations from a population perspective, Baby Boomers continue to use traditional purchasing habits. Furthermore, they are more likely to be brand loyal and pay a premium for consultative services. According to V12data, Baby Boomers represent approximately half of the US population and control 70% of the nation’s disposable income.² Gen Re recently conducted a study “where among those that met with a professional, over 65% had a one-on-one meeting”. In another study they found that older consumers prefer live communication at some point during the insurance process”.² This reinforces that Boomers still look for human interaction and advisor relationships and companies should continue to pursue these traditional marketing avenues to capitalize on these clients. The current trend for most companies tends to rely upon the Millennial generation as the focal point of new lead generation through technology and digital means. However, Baby Boomers should still be an important part of any marketing strategy given the sheer size of the population and revenue potential.

In comparison, Millennials are now the largest population bracket in the US in front of Baby Boomers. Unlike Boomers, Millennials have been raised in a digital age and are like no other generation to date. Property Casualty 360 states, “With 80 million millennials worldwide there is a significant diversity of opinions, values and experiences within any one demographic”.³ This generation is also very distinct in the fact that they are the most educated and also riddled with the most debt from student loans. As a result, this impacts their purchasing behaviors as they tend to be more cost conscious and less brand loyal, but will spend their income on items they perceive as offering a value or experience. They also want to make sure they have mobile technology available to them in all aspects of the purchasing process. According to business.com, “68% of Millennials demand an integrated experience on and offline. They want the ability to seamlessly switch from a home computer, to smartphone, to brick and mortar with little to no stress”.⁴ The key to attracting this generation is having an integrated servicing platform and digital presence.



Generational Similarities

Even with variations between age brackets there is a commonality that links all generations together—technology. The younger end of the Baby Boomers, Generation X, and Millennials are all sharing a similar trend; technology is at the forefront of how they research and buy insurance. With that being said, insurance companies must continue to remain relevant when it comes to providing their customers access to multi-faceted distribution channels or direct to consumer platforms.



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The use of technology, availability of information and services is integral to Millennials, but is also becoming more important to Boomers. It is imperative to continue to use some of the traditional methods of attracting and maintaining clients while also making sure that we are leveraging and using the most robust online servicing and research portals.

Baby Boomers continue to be the leading demographic that accounts for the majority of the revenue with insurance companies today. In addition, they have the most disposable income readily available. Let's focus on how we can adjust the traditional marketing strategies to continue to capture, and more importantly retain, this segment. Companies now understand that a business that recognizes and embraces their loyal customer base and values can provide long-term benefits. The ability to connect with your customers after the initial sale transaction builds trust, which in turn translates to increased retention. This behavior attracts customers who become less concerned on price and focus on the ongoing customer experience.

How the Distribution and Marketing Model Should Work

Traditional Strategies

A key fundamental approach to customer interaction and point of sale continues to lie with a distribution model that offers a consultative approach. Insurance can be purchased through many mediums; distributing their products through captive agents, the web or other direct channels. Another common approach to the sales process is through independent agents and commercial brokers who provide consumers access to the products of multiple insurers.

The independent agency model, in theory, provides a variety of products and services to serve the client's needs. The advisory approach that is at the core of the independent agency provides both the necessary background on products and services while also facilitating a relationship between the client and carrier offerings. This model still maintains relevancy in a digital age as it tends to cater more towards Baby Boomers.

As a result, the independent agencies that continue to invest in the overall purchasing experience can provide individualized value propositions to their customer base. To play a critical role in an increasingly technological-driven world with regards to purchasing habits, agents will need to expand upon the quality of services, variety and transparency of products that best suit the client's needs. Tailoring these products and services to meet the needs of the individual can help the consumer see beyond price only.

The independent agency distribution channel is just one means to offer products. For any company to stay pertinent, there are many driving factors that need to be contemplated to maximize client base.

Exhibit 1: Structural Components to Maximize Client Base

Investment in digital platforms for client access needs	
<i>Potential Solutions</i>	<i>Benefits</i>
<p>Search engine optimization (SEO) and web-based presence</p> <p>Development of micro sites and mobile capabilities that showcase specialization of product, claims and service offerings.</p>	<p>Increased exposure to new clientele by providing more efficient access to web-based search engines via mobile apps. Digital presence is integral to capturing Millennials, but Boomers are also becoming savvier to online applications. In addition, mobile apps and websites compliment traditional communication channels.</p>
<p>Utilization of social media platforms</p>	<p>Maximizing the usage of social media platforms increases brand awareness and also positions companies to be thought leaders.</p>
Hiring practices that support diverse staffing that suits various demographics, clients and their exposures	
<i>Potential Solutions</i>	<i>Benefits</i>
<p>Collaborate with specialized recruiting firms to help attract new diverse talent</p>	<p>By cultivating staff that are relatable to end users, companies will be able to expand their consumer base. "Based on the US Census bureau over 15% of US citizens age 20-34 were born in a foreign country, making it the highest percentage since the immigration wave of 1910".⁵</p>
Customer advocacy, servicing, relationship and trust	
<i>Potential Solutions</i>	<i>Benefits</i>
<p>Niche market expert</p>	<p>Provides companies the ability to make strategic marketing plans focused on specialized segment offerings. Both Millennials and Boomers appreciate knowledge and integrity over a sales pitch. Being able to provide specialized products and services tailored to meet their needs will increase new client and retention base.</p>
<p>Dedicated claims and risk management liaisons</p>	<p>The overall claim experience has a multifaceted impact on consumers, which include both financial and emotional implications. Claims interactions are one of the most influential impressions that a company will have with a current or potential customer.</p>
<p>Net promotor</p> <p>Voice of the customer</p> <p>Providing the ability for new and existing clients to communicate and provide on line commentary and feedback.</p>	<p>Customer satisfaction is essential to retention, loyalty, and increasing market share. Utilization of these tools provides companies with feedback via surveys to determine what customers like, dislike and look to improve upon. In addition, voice of the customer offers potential clients a resource to see how well other clients rated their overall satisfaction, which builds trust through shared experiences. By providing a portal, companies can monitor and participate within the conversations and promote credible and influential experiences. This also provides the opportunity to evaluate and respond to negative commentary which can be detrimental to existing and future clients.</p>

Use of data analytics	
Potential Solutions	Benefits
<p>Develop workflows to capture and integrate data from internal systems and historical performance of products</p> <p>Partner with consulting firms to overlay information with the broader purchasing trends</p>	<p>Data analytics provides companies the ability to target and capitalize on profitable segments within their existing client base and maximize growth opportunities. It also plays a role in key performances indicators, which can assist with cross-sell and increased revenue.</p>

Direct to Consumer: Referred to as “D2C”

The Direct to Consumer distribution model uses a mix of traditional marketing and advertising as well as robust online capabilities. This segment encompasses a large amount of overall market share and tends to rely more heavily on data analytics. Companies have also taken advertising and marketing to the next level with the introduction of memorable marketing campaigns. The D2C model provides significant new prospects and makes it easy for the consumer to find the right information online or via phone, obtain a quote and purchase coverage. Once a prospect is transitioned to a client, the majority of these companies use their brand awareness to help cross-sell other products, which in turn increases overall retention and growth. This approach is critical to attracting younger generations as they rely primarily on technology as part of the purchasing process.

Three noteworthy benefits of Direct to Consumer include:

- **Online capabilities tend to be more robust in their offerings** providing an end-to-end sales process from quote to issuance often in one seamless transaction.
- **Policy issuance, claims processing and servicing capabilities are readily available online** and often include mobile capabilities.
- Direct to Consumer model **maximizes technology, which reduces expenses** that are able to be passed along as savings to the customer as a result of a more streamlined sales approach.

These benefits play an instrumental role in capitalizing on both Millennials and Boomers. “With the advancement of internet connected devices and sensors that are projected to reach 50 million by 2020”,⁷ companies will have the availability of real-time information at their disposal. Insurance companies that capitalize on the usage of this data will improve underwriting and loss control results while benefiting in overall customer experience and competitive advantage amongst their peers. The use of technology also enhances the buyer’s purchasing decisions as customers can potentially be presented with a variety of choices. Technology now provides ways to easily compare, refine and understand the value of the product throughout the buying experience in a more simplified manner.

Market Proposition

A theoretical market opportunity is the use of the Direct to Consumer model in offering a suite of products designed around a lifestyle. Demographic trends show that Millennials are purchasing homes later in life. With a shift in buying methodology, there is a need in the market to develop products and services that fit their current lifestyle. Let's take for example bundling renters, auto and travel insurance coverage. Millennials are known to spend a significant amount of their disposable income on travel. Capitalizing on these trends improves the opportunity to acquire Millennials at the start of their insurance experience. This in turn will increase retention throughout the tenure of their insurance purchasing life cycle. Let's keep in mind that the "Millennial customer base will have estimated \$8 trillion in spending power by 2025".⁸ Over the next three decades, insurance companies will be able to benefit from this consumer base as they will begin to purchase homes, autos, jewelry and other insurable assets. Eventually, they will also require additional products in the life and health sector.

As Baby Boomers are continuing to age in population, entering the next phase of their spending cycle and ultimately becoming empty nesters, a similar approach can be used to market to them. For example, the purchasing of urban townhomes/condos, recreational vehicles, retirement communities, vacation homes, and health and life insurance are all in the top 10 spending categories according to Economy and Markets Daily.⁹ These are all segments in which Boomers will be spending the majority of their disposal income. A potential program offering could incorporate townhome/condo, recreational vehicle and travel insurance products. Another example that focuses on the creation of products around lifestyle needs is the bundling of coverage that addresses the well-being within this aging demographic. Product offerings that are traditionally sold independently such as long-term care and disability should be key considerations. Historically, long-term care has not sold well for various reasons such as instability in the marketplace and rate increases. Boomers know they require this coverage as they are living longer, but often are faced with complexity in understanding benefits and the expense cost associated. Consumers are also confronted with the notion of never requiring the use of these products thus making it difficult to understand the value of their offerings. Combining these products together in a simplified sales package would provide coverage for the risks along with the ability to take advantage of the cash value that these product may offer. Ultimately this translates to protection of assets and a savings vehicle. The bundling of products and services can assist companies in retaining their maturing client base while also attracting new Boomers. Utilizing the Direct to Consumer model built around a client's purchasing and lifestyle habits allows for a more simplified buying experience in an ever changing consumer market while avoiding alienation of any specific buyer demographic.

Based on the information presented above, insurance companies should look to optimize their distribution model by blending traditional strategies with those of the direct to consumer approach. With this philosophy they can look to retain their current client base and attract new customers. If companies focus on understanding what drives the two largest demographics, Boomers and Millennials, they can adapt their current distribution methodologies by using a mixture of technology-driven solutions and interpersonal interactions to build trust and loyalty with both generations. By understanding their purchasing habits and lifestyle, products can be tailored around their needs in turn providing a more refined insurance experience.

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