

Simple Market Concentrations Represent Straightforward Targeting Technique

Summary of a Presentation by
Dr. Fritz Yohn, MarketStance Founder
May 2003

Psychographics. Geographic. Demographic. It should be graphically apparent to anyone who has taken even a casual look at market targeting methods that there are a multitude of approaches to the challenges of defining, segmenting and identifying good customer prospects. That there are so many targeting options speaks to the benefits of narrowing the scope of sales efforts. And the payback is just as rich for insurance carriers and brokers as for the consumer goods companies more known for their targeting efforts.

For carriers, said MarketStance founder, Dr. Fritz Yohn, narrowing market focus holds an immediate pay off by facilitating the clear definition and articulation of underwriting appetites to producers. Such clarity, he said, supports higher quality applications and improved conversion ratios. Narrowing the scope of your market also supports generally improved resource allocation and facilitates a greater depth of market knowledge, which both improves underwriting expertise and performance.

Beyond this, a more precise market focus can facilitate development of product and service differentiations to provide competitive advantage and less pricing pressure. But the benefit that is perhaps the most significant, said Dr. Yohn, is the support a narrower market definition can provide to understanding you firm's actual pricing performance.

"These days, so many carriers choose not to file, or file quite selectively, with ISO. That has led to serious credibility challenges for loss cost data. Focusing more narrowly provides a defense against the deterioration of industry loss information," said Dr. Yohn.

With a more tightly defined slice of the market, carriers can develop performance data that has a higher level of accuracy. A more diffuse set of data that would result from a widely scoped market is unlikely to reveal trends quickly, if at all.

"A carrier might need to grow a typical book of business for five years before sufficient loss experience makes it clear that the business has been under priced. In contract, a smaller set of classes will produce data sufficient to illustrate trends that will allow a carrier to be more confident in the business being written as quickly as one year down the road."

Nevertheless, Dr. Yohn explained, there is an important balancing act to achieve when striving to narrow market focus. "How big is big enough? How small is fine enough? You must make sure that there is enough premium potential available to support your growth objectives."

A straightforward method for targeting, noted Dr. Yohn, is based on simple concentrations of premium. He explained: "A traditional industry approach to targeting may be based on line of business or a broad industry segment, such as manufacturing. Let's take the example of a regional carrier with a middle market manufacturing focus."

By describing its underwriting appetite at this level still means that the carrier was "targeting" more than 350 SICs. Looking more closely at this market reveals that many of those 4-digit SICs represent very small premium potential and a small number of accounts. In fact, one SIC had exactly one account. At the same time, there was huge variation in average premium, loss ratios and business outlook.

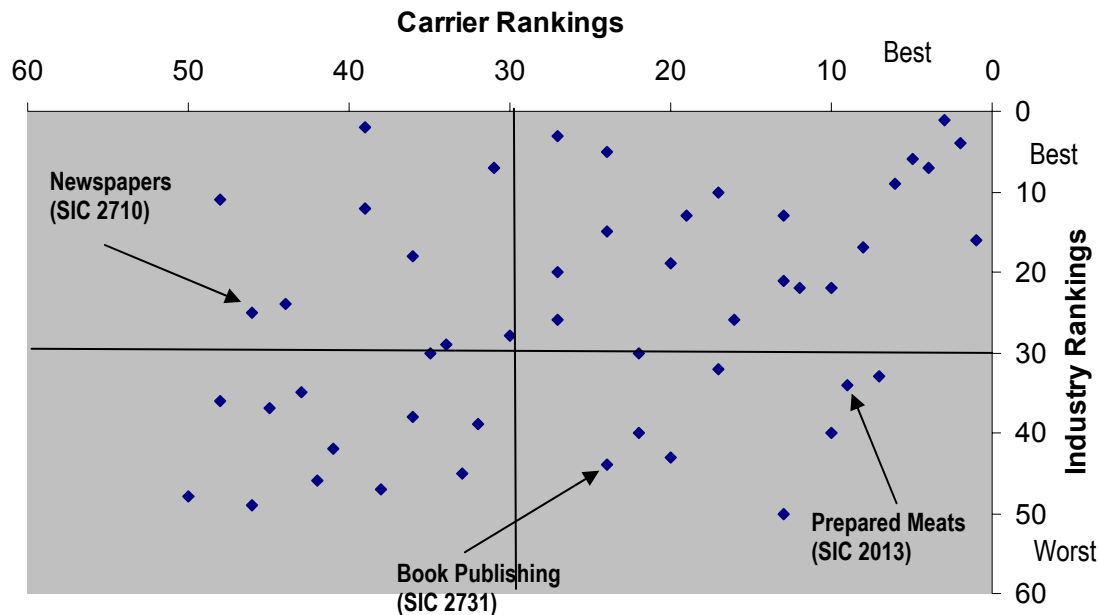
“That’s a market diverse enough that it would be very hard to effectively articulate,” said Dr. Yohn. “Surprisingly,” he added, “smaller market targets will often still offer 50% of the total premium available in a given locale. This means that you can focus production efforts on a significantly smaller number of classes, say 30 to 50 classes of the original 350, and find that the opportunity cost is not nearly as great as conventionally believed.”

Dr. Yohn outlined the process involved in identifying premium concentrations and refining defined appetites. Using the MarketStance database, the first step is to rank four criteria:

- Number of accounts
- Average premium per account
- Future growth
- Loss ratios

for the specified SICs by state, country and size segment. Drawing from the detailed information on the more than 1,000 4-digit SIC classes contained within MarketStance, and using the same methods on carrier specific information, insights into market opportunity and current penetration can be gained. The classes offering optimal opportunity also become apparent. (Figure 1)

Figure 1 – Distribution of SIC Rankings on Industry and Carrier Bases



The resulting list of classes provides the foundation for an effective narrowing of the sample company’s market definition. But, Dr. Yohn warned, reality checks are needed. Step two is to delve from the regional level down to the territory or state level to ensure that adequate premium potential within each (Figure 2)

“Ensuring that the targeted market represents a big enough opportunity in all of a carrier’s operating areas may mean selectively expanding the overall market definition, or simply including additional classes that are state-specific,” noted Dr. Yohn. “Yet another approach might be to look at and rethink market size definitions, say expanding the definition of ‘middle market’ to include firms with 10-19 employees.

Figure 2 – Synthesized Industry and Carrier Classes

Top 25 Manufacturing classes middle market

		Market Information				
Class		Number of Accounts	Premium (\$000)	Avg. Premium per Account	Combined Avg. Loss Ratio	5 Year Employment Forecast Growth (2001-06)
1	Misc Publishing (SIC 2740)	131	\$21,062	\$161	0.53	7.00%
2	Periodicals (SIC 2720)	278	\$33,813	\$122	0.535	1.10%
3	Paper Mills (SIC 2620)	109	\$106,883	\$981	0.71	0.00%
4	Automotive Stampings (SIC 3465)	335	\$94,727	\$283	0.695	-1.00%
5	Soft Drinks (SIC 2086)	161	\$59,111	\$367	0.73	0.80%
6	Comm Printing, Litho (SIC 2752)	951	\$121,215	\$127	0.63	-1.00%
7	Photo Equip & Suppl (SIC 3860)	69	\$12,740	\$185	0.67	0.80%
8	Poultry & Egg Proces (SIC 2015)	141	\$30,998	\$220	0.745	1.60%
9	Intnl Comb Eng, NEC (SIC 3519)	66	\$21,646	\$328	0.725	4.60%
10	Carpets and Rugs (SIC 2270)	104	\$14,326	\$138	0.67	6.20%
11	Meat Packing Plants (SIC 2011)	85	\$17,992	\$212	0.655	1.20%
12	Book Printing (SIC 2732)	103	\$24,177	\$235	0.635	-2.40%
13	Mobile Homes (SIC 2451)	108	\$16,251	\$150	0.69	1.20%
14	Flavoring Extr & Syr (SIC 2087)	32	\$15,255	\$477	0.69	1.00%
15	Clay Refractories (SIC 3255)	30	\$4,556	\$152	0.59	7.10%
16	Cheese, Nat & Proces (SIC 2022)	115	\$26,869	\$234	0.705	1.30%
17	Farm Mach & Equip (SIC 3523)	127	\$24,723	\$195	0.745	3.50%
18	Motors & Generators (SIC 3621)	133	\$22,776	\$171	0.745	3.80%
19	Prim Btrs, Dry & Wet (SIC 3692)	18	\$6,855	\$381	0.505	0.00%
20	Eng Electrical Equip (SIC 3694)	79	\$14,960	\$189	0.635	1.90%
21	Fabtrd Plate Work (SIC 3443)	211	\$28,795	\$136	0.715	0.80%
22	Prepared Meats (SIC 2013)	184	\$35,255	\$192	0.745	-0.10%
23	Weaving Mills, Synth (SIC 2220)	170	\$43,036	\$253	0.695	-2.20%
24	Relays & Ind Contrl (SIC 3625)	155	\$17,991	\$116	0.735	5.30%
25	Sheet Metal Work (SIC 3444)	290	\$32,896	\$113	0.73	1.00%
Totals for Top 25 Classes		4185	\$848,908	\$203	--	1.74%

MarketStance 2.0 Data

“It might also mean both,” he added. “The point here is that some rather straightforward assessments can yield market definitions that are sufficiently refined to deliver the value of targeting. The art is to get enough potential premium to support success, but not so many classes that underwriting and communication is diffused.”

Dr. Yohn noted that finer grained targeting has become increasingly necessary. The changing economy means that certain niches no longer offer as much potential (eg: manufacturing), while growth classes (eg: technology) can be tougher to sort out from an underwriting perspective. “The depth of the recent cycle has also complicated the market assessment picture,” he said. “Parsing market data is becoming an increasingly vital tool in helping insurers outperform the norm. That’s why we developed MarketStance – to deliver the kind of demographic, economic and industry data in a way that’s directly on-point for commercial property/casualty companies.”

To learn more about how your company can use the MarketStance database to refine market definitions, or to have MarketStance analysts help you do that, contact Armand Benoit (860-704-6390) or Gail DeLucia (860-704-6382) or email info@marketstance.com.