

Focus Simplifies Marketing to Minority-Owned Businesses

By Claude Fongemie

California is an example of a commercial lines writers' fondest dream – and its worst nightmare.

The state's small commercial marketplace clearly illustrates the dilemma commercial lines writers have faced in developing differentiated marketing programs for ethnic-owned small businesses. Minority businesses' share of the California market place is impressive at more than 26% of all commercial risks. However, the diversity of minority-owned firms and their geographic distribution have been overwhelming, rendering cost-effective and differentiated marketing for ethnic/minority businesses illusive for most if not all insurance carriers.

The California map at right illustrates this dilemma. While the share of ethnic-owned businesses in aggregate is high, it varies greatly from one county to the next. In some counties, the ethnic share of insurable risks is modest (less than 10%) while in other counties these minority businesses are a crucial part of the business landscape— accounting for 25 to 49 percent of the insurable accounts.

Commercial insurers, in particular, have shied away from targeting minority businesses. In

part, this can be attributed to carriers' general lack of experience in differentiating their product for the various market segments they serve. It has been easier for many carriers to simply assume that their agents will make the appropriate connections with minority businesses in their marketing areas. And yet, by failing to differentiate underlying coverages and services, carriers have allowed their products to remain commodities that are subject to all the negative pricing pressures they so regularly rail against.

Nevertheless, the allure of minority-owned small commercial

business segments continues to grow. Recent Census Bureau pronouncements on the rapid growth of ethnic-owned businesses no doubt have played a role. So, too, does the industry's growing appreciation of the benefits of targeted marketing efforts, as well as the growing scarcity of agents positioned to capitalize on small commercial opportunities.

The good news is that some straightforward segmentation techniques can greatly simplify a carrier's – or agency's – challenges in approaching minority-owned businesses. In particular, recent MarketStance research confirms that most ethnic-owned businesses tend to be heavily concentrated in a limited number of counties – often in or near large metropolitan areas (MSAs). By applying the “80/20” rule, carriers can focus their ethnic marketing activities on a surprisingly manageable set of ethnic/geographic markets (the 20%) and develop an ethnic marketing capability that reaches the bulk (the 80%) of the state's total ethnic market potential. Put simply, 80% of the ethnic market gain for only 20% of the pain.

The following map illustrates just what we mean. In this case limiting our focus to Hispanic-owned firms, we're able to readily identify the handful of California counties in which Hispanic businesses are a crucial part of the

Map 1- Ethnic-owned businesses share of all businesses



Legend: White <15%; Lt Green 15 to 15.9%; Med Green 16 to 24.9%; Dk Green 25%+

business risk mix. In fact, only 11 counties have Hispanic-to-total-business ratios greater than or equal to 15%.

Also of note, most of these high concentration counties are not part of core metropolitan areas.

Let's see if we've got this straight: California...Hispanic-owned businesses...11 key counties. The thought process for developing an effective ethnic marketing program for this massive state suddenly becomes much more straightforward and manageable.

Recently developed data on the ethnicity and gender of small business owners enable commercial lines insurers or agencies to answer a key set of questions:

- **Concentration** – In what states and metropolitan areas do these businesses tend to congregate?
- **Focus** –What minority-owned

Map 2— Concentration of Hispanic Owned Firms by County in CA



Legend: While <8%; Lt Green 8 to 10.9%; Med Green 11 to 14.9%; Dk Green 15% +

Business groups are most important in my marketing territory?

- **Fit** –In what classes of business are these minority business owners most active that are within my underwriting appetite?
- **Potential** – How large do these minority businesses tend to be relative to their non-minority counterparts?
- **Dynamics** – Which of the minority / territory / class of business segments are the fastest growing?

Let's look inside one market cluster and try to answer these questions.

Take the Los Angeles-Riverside (LA-R) metropolitan area as an example. Both its size and diversity illustrate many of the tactical issues –and opportunities – carriers will confront in developing an ethnic/minority market focus that profitably taps this area's enormous growth potential.

In terms of geographic concentration, the Los Angeles-Riverside metropolitan statistical area, contains more than half (56%) of the state's minority businesses – or some 440,000 firms. (The five counties that comprise the area are Los Angeles, San Bernadino, Orange, Riverside, and Ventura.)

Turning to ethnic focus, Asian- and Hispanic-owned firms predominate the ethnic-owned businesses in this metropolitan area. Irrespective of firm size, ownership is divided roughly evenly between Asians (44.5 percent) and Hispanics (44.1

percent) within the metro area as a whole. However, Asian-owned firms account for 58 percent of jobs generated by LA-R's minority businesses, and 65 percent of the MSA's minority sales. Reflecting their smaller average size, Hispanic-owned businesses account for about 35 percent of jobs generated by the region's minority firms, and 30 percent of ethnic-owned firms' sales.

The LA-R region's minority business market is, however, far from homogeneous geographically speaking. Minority businesses are unevenly distributed across the area – by owner ethnicity, business size, and business class (Chart 1).

By itself Los Angeles (LA) County is home to about two-thirds of the metro region's minority-owned businesses with some 290,000 such firms. In addition to sheer size of the county, this large number reflects the appreciably higher concentration of ethnic businesses – with ethnic-owned businesses accounting for 33% of all businesses.

To put that in context, if LA County were a stand-alone state, it would rank fourth in the number of minority firms domiciled within its borders, behind the rest of California, Texas (367,000), and Florida (306,000). San Bernadino County has the second-highest concentration (31%) of minority businesses in the region – or about 78,000 firms. Reflecting its much smaller size and much lower concentration, Ventura County is at the opposite end of the spectrum with only about 11,500 minority

businesses – or about 18% of all businesses in the county.

The minority businesses domiciled in LA County represent more than half, or \$1.2 billion of the region’s minority business commercial insurance premium potential. Orange County, meanwhile, is a *distant* second, but still offers over \$400 million of premium potential.

While these concentrations might suggest a specific set of tactics, the fact that the ethnic mix of minority business owners is uneven across the five counties presents additional challenges to effective execution that speaks to a need for further assessment. For example, minority-owned businesses in LA County, with its substantial lead in potential premium, are split about equally between Asians and Hispanics, with 43.0 and 44.1 percent ownership, respectively. Elsewhere, Hispanic-owned businesses dominate, except in Orange County, where a very large share of minority businesses are Asian-owned.

Carefully assessing the question of potential (or the relative size of minority businesses) sheds still more light on the LA-R region’s prospects. Counter to common perceptions, many minority-owned businesses are rather substantial enterprises. Collectively, they represent a formidable economic force. According to MarketStance, minority businesses in the overall LA-R metro area provide over 1.4 million jobs, meet an annual payroll exceeding \$48 billion, and

generate approximately \$287 billion in annual sales.

Focusing on larger firms sheds additional insights on the insurance opportunities within LA’s minority-owned business community. For example, the share of ethnic-owned businesses with 20-plus employees varies greatly from one ethnic group to another, and indeed, between the various LA counties. The share of ethnic-owned businesses with 20-plus employees varies greatly from one

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The share of Hispanic-owned businesses with 20 or more employees is less than 2 percent in Los Angeles County, but is considerably higher in San Bernadino, Orange and Ventura counties (Chart 2).

In contrast, the share of Asian-owned businesses with 20-plus employees exceeds the all-business norm in each of the LA-

Chart 1 – Minority businesses as a percent of all firms in LA-MSA

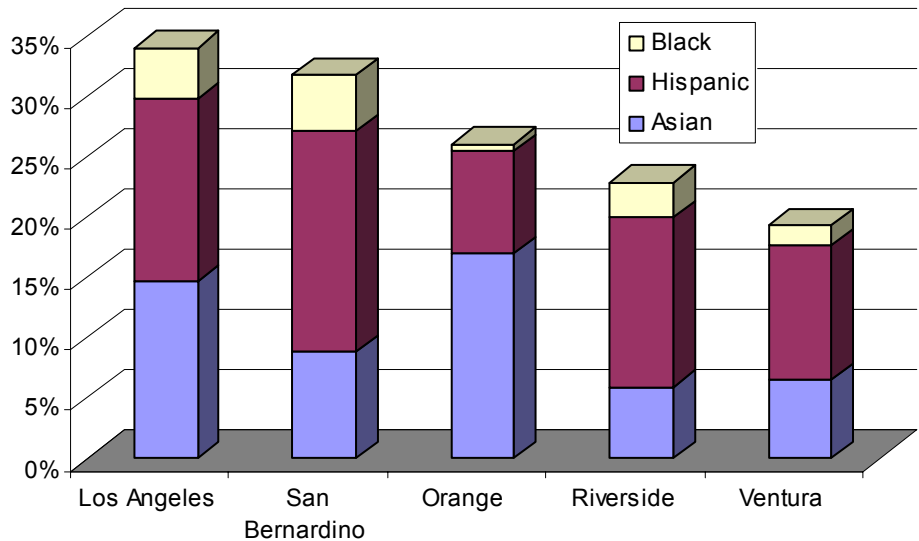
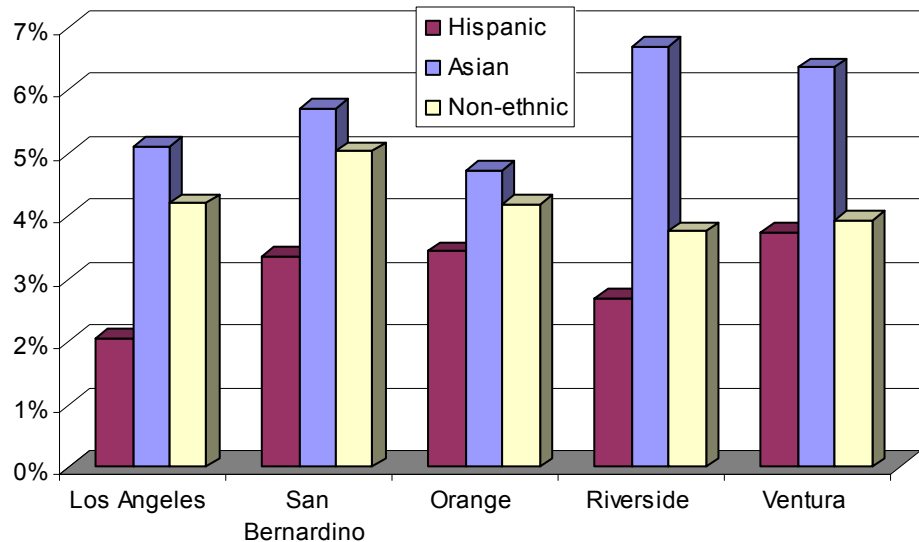


Chart 2 - Percent of minority firms with 20+ employees.



MSA’s five counties. This is especially so in Riverside and Ventura where the share of larger Asian-owned firms is more than two percentage points above the comparable all firms’ share.

All else equal, larger firms normally have higher insurance exposures and therefore higher premium potential than smaller firms. Minority firms hold true to this norm.

Among Asian-owned businesses, firms employing 20-plus workers account for between 52 and 56 percent of this group’s premium potential across the five counties in the LA-R metro area.

In comparison, firms with one to 19 employees represent from 40 to 44 percent of the premium potential, and businesses with no employees represent approximately 3 to 6 percent of the region’s Asian firm potential.

Similarly, among Hispanic firms, those with 20 or more employees represent 48 to 54 percent of group’s premium potential in the metro region. Firms with one to 19 workers account for 37 to 43 percent, and those with no employees represent between 7 and 15 percent of the LA-R premium potential for Hispanic-owned businesses.

Carriers can gain even greater insight, and better market place alignment, by looking more closely at how class of business lines up with the distribution and premium information already developed.

In Los Angeles County, for example (Chart 3), Asians are

more likely to own retail or wholesale trade businesses compared with the industry distribution for all firms in California. In contrast, Asian-owned businesses have a markedly below-average presence in the contracting industry.

San Bernadino County provides an interesting example of the differing industry concentration of Hispanic businesses. Hispanic-owned firms in this county have very low presence in the wholesale trade and finance, insurance and real estate industries. In contrast, they have well above-average presence in the construction, transportation and retail trade industries.

Rather than allowing themselves to be put off by the diversity and distinctions characteristic of minority-owned businesses, savvy carriers will take advantage of the more accessible market information and do the basic segmentation work that will open the door to the robust growth opportunities minority-owned business represent.

By focusing fledgling ethnic marketing efforts – say on Asian-

owned service businesses in Los Angeles with 20+ employees – the challenges of effective targeting diverse and dispersed market segment become manageable. Even more enticing is the fact that the top five of these “mini-segments” combined are likely to account for more than 2/3 of the entire minority-owned small business potential in California. By taking the time to segment and narrow its focus, a carrier can develop programs addressing the bulk of this premium at a fraction of the complexity a broader effect would entail – and greatly improve its chances of success.

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Chart 3 – Industry distribution of ethnic firms by county

