
Focus. Focus. Focus.

Demographic Segmentation Simplifies and Accelerates Commercial Lines Marketing to Ethnic-owned Businesses

Remarks made by
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MARKETSTANCE

Focus. Focus. Focus. Demographic Segmentation Simplifies and Accelerates Marketing to Ethnic-Owned Businesses

When I think back to my days working for a carrier, I often recall how many times a project would be commissioned only to quickly become a “Big Hairy Deal” (BHD). By the number of heads nodding, I can tell it’s a familiar occurrence.

Big projects have a natural tendency to take on lives of their own and, in the end, become results that get put on a shelf and never really acted upon. To me, that has always placed high in my “top ten ways *not* to do target marketing.”

To too many people, the whole issue of ethnic marketing quickly takes on the aura of a “BHD”. Everyone agrees that there is a lot of ethnic-owned businesses out there, but the prospect of effectively targeting them seems off-putting.

What is alluring about the ethnic business market?

- In 2003, 2.2 million US businesses were ethnic-owned.
- This equals 13% of all US businesses and
- Generated \$13 billion in Commercial Lines premiums.
- Plus, growth in the number of these firms has been about double the rate for non-ethnic-owned firms.

Unfortunately, there are many excuses as to why carriers haven’t really progressed the idea. Some of the perceived obstacle include:

- The diversity issue – that is there are so many local pockets of business that the notion of ethnic marketing seems overwhelming,
- The misconception that ethnic-owned businesses all are small and that they are in only a few business classes,
- The belief that these accounts are only in a few states and in the higher-risk center cities

But, some of what is perceived as obstacles can just as easily be viewed as opportunities. The whole point of this presentation is that concentration helps to markedly simplify the whole process of targeting ethnic-owned businesses – and skip the BHD all together.

The fact is that the concentration among ethnic-owned businesses can be a true opportunity. With it, you can gain access to 80% of the target premium with only 20% of the headaches that would come if you tried to mount a national ethnic business program. The whole objective here is to simplify and accelerate.

Why are Commercial Lines Carriers Such Poor Marketers?

Yesterday, someone asked me why Commercial Lines companies were such bad marketers. I didn't have an answer then, but I've come to conclude that the answer lies in how class of business so predominates the way we think about commercial lines that every approach to segmentation starts out with class of business and underwriting appetite. We wrestle with that first, then hope that the market does what we want to write.

In contrast, as we continue on here today, notice that class selection comes later in our multi-track decision tree. One way to think about this is as rebalancing the priority of these various issues. None of the issues is unimportant, but if you start out differently, you'll get far simpler, more actionable results. Let's see...

Working through the decision tree

One of the truly remarkable facts about the ethnic-owned business markets is that you can select the 20 largest counties for each ethnicity and clearly see what share of that market segment's total commercial lines premium exists in those counties.

Even non-ethnic-owned businesses show a 25% concentration in its top 20

counties. But the concentration in Asian and Hispanic-owned businesses is especially concentrated.

To make this concentration work to our benefit, we first need to answer five key questions. We work our way through all five of these decisions and then come back to tackle the sub-issues. For example, were we to decide to focus on Asian-owned businesses, before we go ahead we would need to know whether our target was Chinese, Japanese or Korean.

At the early point in our decision tree, we've still got a lot of complexity, as well as a lot of premium opportunity. But, as we move along the decision tree, the complexity will decline, while premium opportunity remains relatively high.

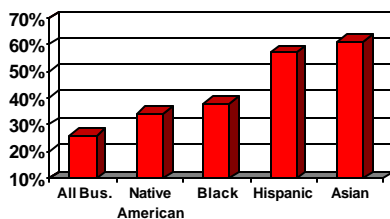
The first decision is one of focus. What ethnicity is more important to the carrier's territory?

Let's take a look at a carrier writing in California. We start with a state-wide view of all ethnic-owned businesses, which comprise 13% of the state's total commercial accounts.

Only 11 counties in the state have Hispanic-to-total business ratios of greater

Ethnic business concentration potential

National Top 20 Counties Share of Each Ethnic Groups' Business



Source: MarketStance Ethnicity & Gender Cube



Focus: Hispanic-owned firms



White <8%, Lt. Green 8-10%, Med Green 11-14.9%, Dark Green 15% +

Source: MarketStance Ethnicity & Gender Cube



than or equal to 15%. What's more, these 11 counties account for 80% of all of California's Hispanic-owned businesses.

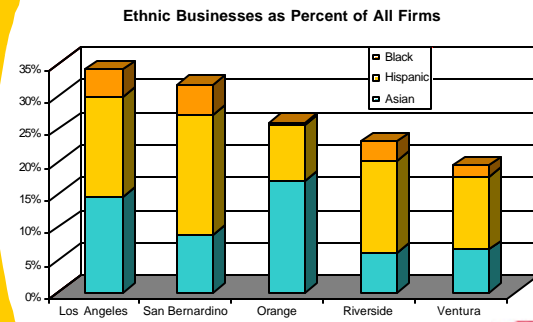
Eleven counties for 80% of the premium begins to be more manageable. You only have to worry about agency appointments and all the other issues in those few areas.

Alright, we've made decision #1 – to focus on Hispanic-owned businesses. Now we want to focus on concentrations. Within those eleven counties, where is this business most heavily concentrated? In which of these areas will growth be the strongest?

Today we'll focus on the Los Angeles-Riverside MSA, since it's size and diversity illustrate many of the tactical issues and opportunities of developing ethnic/minority marketing effort. This is decision #2. Our choice provides us:

- 56% of California's minority businesses (440,000 firms).
- 44.1% of which are Hispanic owned.
- These firms account for 35% of the jobs generated by minority firms and 30% of sales
- They generate premiums of \$460 million.

LA-R minority businesses as % of all firms



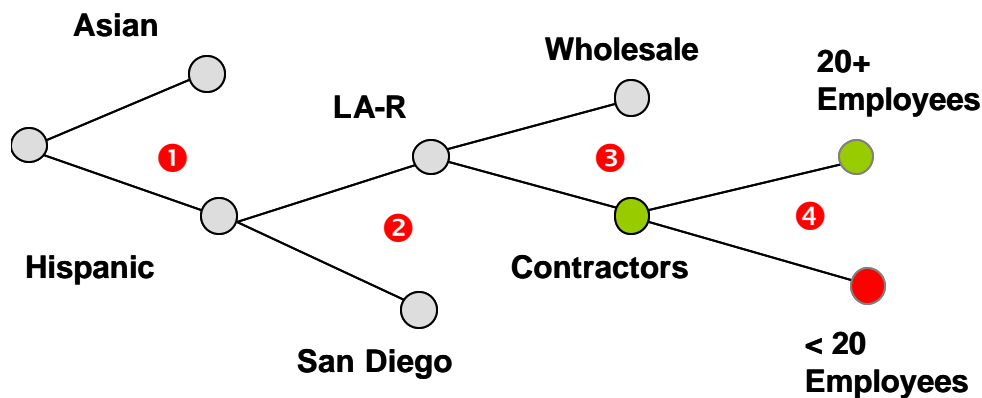
Source: MarketStance Ethnicity & Gender Cube



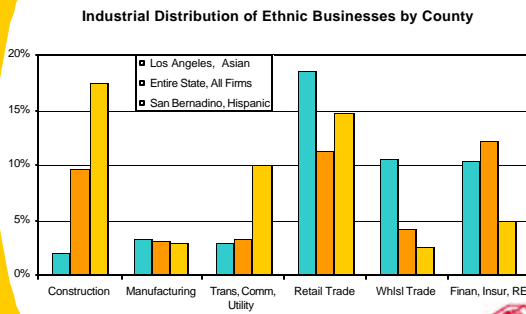
Now we need to separate out the counties within the LA-R MSA and look at how they differ. If we had focused on Asians, Orange county would stand out as the most important. In contrast, by focusing on Hispanics, three counties are revealed as most important (San Bernadino, Riverside and Los Angeles), while the other's are less so.

Think about a phased program in which you start out in one county, learn from what you do and then expand. You will know all you need to about what priority to put on which county.

Decision #3 is where we finally get to the class of business issues. In which classes are the business owners in your chosen counties most active? Which can be



Class of business varies by ethnic group



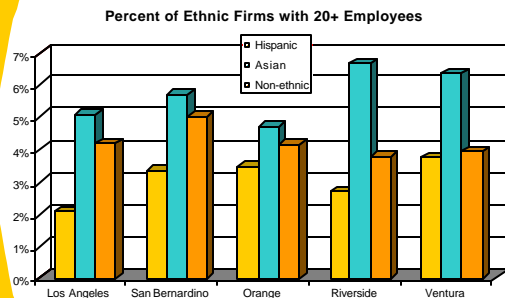
Source: MarketStance Ethnicity & Gender Cube



accommodated within your underwriting appetite? Far from being focused only in food service or landscaping, actual class of business concentrations vary significantly by ethnic group.

Next let's think about the other big perception – that all ethnic businesses are small. Well, as you can see below, in LA County, we find that there is a lack of larger Hispanic-owned firms. The situation in San Bernadino is not quite as bad and in Ventura, the number of Hispanic-owned firms is about par with the non-ethnic accounts.

Percent minority firms with +20 employees



Source: MarketStance Ethnicity & Gender Cube



But, don't be misled. We've been looking at numbers of accounts and when we look at the premiums generated by the larger firms that are available we find that Hispanic-owned firms with 20+ employees represent

54% of all minority premiums in the metro area, or nearly \$250 million.

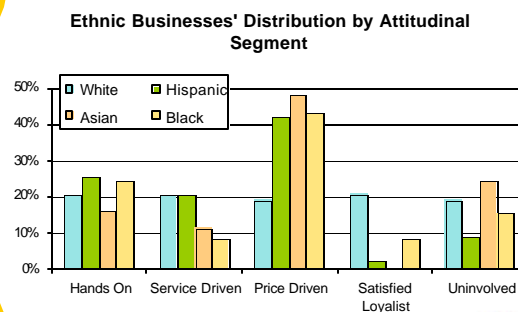
At this point in our decision tree, we start looking to answer questions about the buying attitudes and service expectations of our targeted Hispanic business owners. Let's stop here a moment and reflect on what would have happened had we tried to do attitudinal research up front, before we defined our target demographically.

We would have launched another Big Hairy Deal. We would have spent a lot of money and when we finally found the narrow markets we were interested in knowing about, we would not have had enough of a sampling left to get reliable readings.

In contrast, by doing the rest of segmentation leg work first, when we're ready to do primary research on insureds, we'll have the market narrow enough to afford the observations that will give us meaningful and actionable results.

In this case, we see an almost total absence of Hispanic and Asian business owners in the satisfied loyalist segment, and a heavy concentration of these prospects in the price-driven category. And being price driven correlates with much lower than average carrier loyalty. Again, with our target narrowed, we can begin to

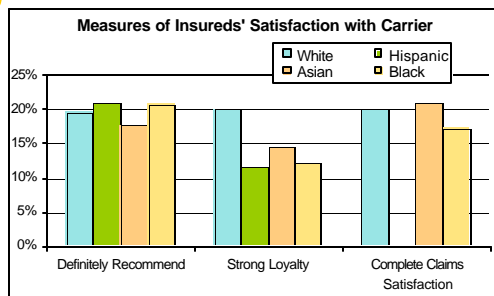
Insurance buying attitudes



Source: CustomerStance



Satisfaction with current carrier



Source: CustomerStance



So, which segmentation comes first – the attitudinal or the demographic.

To me its crystal clear. Start by narrowing your markets with the demographic data. Follow a decision tree that deals with the skillion other issues, so that when you get to the issues of service and process – the issues carriers have the most control ove. If you do this, you will have the recourses to effectively probe how much of that price driven number is a defacto result of not being well served or reached by carriers and can be converted to satisfied loyalists.

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Basic market segment work will open doors in new ways, show you the path to success – and away from those frustrating BHDs.

MarketStance Ethnicity and Gender Resource

MarketStance has available Ethnicity and Gender information as an add-on to its business demographic and insurance data. This information expands the capabilities of both the MarketStance analytical service offerings and of its data analysis products.

The MarketStance Ethnicity and Gender information is derived from the integration of two government data sources:

- The Survey of Minority and Women Owned Business Enterprises, which is part of the Economic Census
- The household information comprising the US Census

The MarketStance Ethnicity and Gender information tracks male/female business ownership, as well as the highest level of ethnic distinction (that is, Asian, Hispanic, Black and Native American).

The information adds these dimensions to the MarketStance data and further amplifies market understanding. Ethnicity and Gender information can be related to SIC, firm size and locations to the lowest level of classification.

For more information, contact MarketStance at 888-777-2587 or email us at info@marketstance.com.



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