



A tale of two companies

How two regional carriers approached a market expansion decision

Cost-benefit analysis or ROI calculation, whatever you call it, it's an important preliminary step in deciding on a product or territorial expansion to determine whether the time and investment necessary will be worthwhile. Will the market offer sufficient opportunity to exceed the cost of entry?

How you make that initial assessment could cost you an opportunity, or cost you time and money. Underestimate the potential and you may decide against proceeding, possibly missing a business opportunity. Overestimate the potential and you may proceed only to later find that the resources applied have been wasted. This story of two regional carriers illustrates this point.

The first company is Independent Mutual, based in Ohio. The second company, Midland Insurance, is based in Wisconsin. Both carriers have successfully written habitational business in their home states and feel that expanding upon their expertise and programs represents a sound growth strategy. As such, both are considering expansion into new states. Independent is eyeing Indiana, especially the eastern part of the state. For Midland, it's Minnesota that's calling.

An Independent Point of View

Sizing the market is key to evaluating an insurance expansion opportunity. To size the habitational market in Indiana, Independent Insurance made use of the US Census Bureau web site, checking the number of establishments under "Real Estate and Rental and Leasing."

They then modified those numbers by guesstimating the number of condo and homeowners associations since these numbers weren't included in that Census category. They used some national numbers that they found in Rough Notes Magazine to help their guesstimate.

When done, Independent had the habitational market in the state of Indiana sized at slightly fewer than 2,000 establishments with a little over \$1 million in annual revenue. That did not look right.

Independent believed that this number was too low and got feedback to that effect from some agents. But wherever they found additional information on their target market segment it tended to provide just one small part of the picture.



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When they combined the various bits and pieces of facts they had gleaned from multiple sources Independent did not feel they had a solid picture of the marketplace.

What Independent could document about the habitational opportunity in Indiana wasn't especially encouraging, nevertheless they decided to pursue the expansion based on their belief that the market was actually more robust than their numbers showed. Because they were hazy about the actual market size, however, Independent was reluctant to commit too many resources to the effort. So, they planned to work the expansion by placing a marketing rep in Fort Wayne and another in Indianapolis. This advance party would be serviced from existing offices in Ohio.

Getting to the Heart of the Matter

Midland Insurance, on the other hand, sized the Minnesota habitational market using MarketStance.

Their tally for the Minnesota habitational market equaled 14,876 accounts and more than \$111 million in all lines premiums in small commercial prospects (0-49 employees) alone. More significantly, Midland was able to drill down to individual counties and size the market in each of those territories. That let Midland look for opportunity concentrations that offered added opportunity for initial success.

Midland also went beyond number of accounts and premiums in their analysis. They pulled the two-year forecast growth rates in number of accounts, payrolls and sales from the MarketStance data. They ranked each exposure growth rate by county and used these rankings to calculate a score. That score provided Midland a quick way of understanding where the best opportunity in Minnesota existed.

With this rich information at its disposal, Midland not only decided to pursue its Minnesota expansion, but saw enough opportunity in the southeastern part of the state to focus its initial efforts there. The territory Midland would first expand into included five of the 20 counties in the state with the highest opportunity scores, 15% of the state's habitational premium opportunity and 13% of the habitational accounts.

Because the territory was contiguous to Wisconsin, it was logistically convenient to Midland's branch in Eau Claire, Wisconsin. Additionally, because the territory was not centered in the Minneapolis/St. Paul metro area, Midland felt its ability to make inroads in the marketplace would be easier.

Midland set up a service office in Rochester. It was small, just a production underwriter, and underwriting assistant and a CSR, but would ensure that Midland

Being able to see a concentration of potential in southeastern Minnesota allowed Midland to effectively align and apply its resources to support success.

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The class and country level market information enabled Heartland to target their production mix, not just volume.

provided agents and policyholders in Minnesota the kind of responsive service that was part of its formula for success in Wisconsin.

Midland knew the number of accounts and the potential all lines premiums in each of the seven classes they considered appropriate for their habitational programs. That insight allowed them to fine tune their plans and underwriting guidelines to target a mix of business that had performed well for the company in the past.

Midland management felt confident in their decision to expand, and in their Minnesota operational strategy.

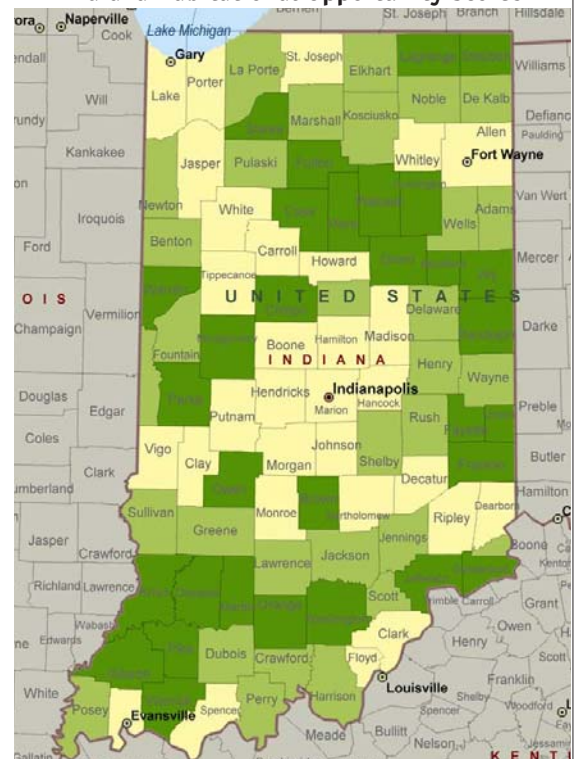
Acting on the Numbers

The greater level of market information available to Midland for its decision-making made possible both better-reasoned decisions and more specific plans. Not only will this make the performance targets more transparent, it will help Midland better monitor its progress in Minnesota.

How might more granular and reliable market information have impacted the decisions made by Independent? At a minimum, Independent's management likely would have felt more comfortable with its decision to proceed with the expansion had they known that Indiana actually offers habitational potential totaling 12,514 small commercial accounts and more than \$97 million in all lines premium.

More concretely, had Independent been privy to the same kind of county-level scoring that Midland benefited from they may well have adopted a different expansion strategy. Rather than locating a marketing rep in Fort Wayne, for example, they might have been better served to locate a second rep in Indianapolis, if not Gary, given the potential there between the northwest and central corridor of the state.

Indiana Habitational Opportunity Scores



Lightest colored counties are those with the highest opportunity scores. Darkest are those with the lowest scores. This level of insight would likely have prompted the carrier to focus its expansion resources differently.

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Taking a closer look at the numbers

Midland defined the classes appropriate to its habitational programs to include:

- Lessors of Apartment Buildings
- Lessors of Dwellings (except apartment buildings)
- Residential Property Managers
- Condo and cooperative owners associations (engaged in property management)
- Homeowners and Condo Associations not providing property management

Data on the first three categories are relatively easy to get through the Census Bureau web site. Data on the latter two are harder to find, especially the last group which is classified within the services sector (8641) and not within the real estate category at all.

But Midland also learned from MarketStance of additional habitational classifications that are typically invisible. They are Apartment buildings and Lessors of Dwellings (except apartment buildings) whose owners—and therefore the habitational risks—are categorized under a different business classification code. For Midland, in the 11-county southeastern Minnesota territory they decided to focus on, these two classes alone offer premium potential in excess of \$7 million.

Midland also knows to pay heed to the potential offered by non-employers. This is an often overlooked segment of the market place, but far from being comprised only of small, home-based businesses likely to go bare, non-employers can represent substantial accounts and opportunity, especially in the habitational classes.

The County-level Minnesota Habitational Market

County	Lessors of Apartment Buildings (651310)		Apartment Bldgs. owners elsewhere classified 651380		Lessors of Dwellings (xcpt apt. bldgs.) 651410		Dwellings (xcpt. apt. bldg) owners elsewhere class. 651480		Condo & Coop Owners assoc. (engaged in prop. mgmt) 653150		Residential property managers 653130		HO & Condo Assoc. (not providing prop mgmt) 864130	
	Accts.	AL Prem	Accts.	AL Prem	Accts.	AL Prem	Accts.	AL Prem	Accts.	AL Prem	Accts.	AL Prem	Accts.	AL Prem
Dakota, MN	545	\$4,917	242	\$4,552	89	\$532	89	\$532	22	\$88	134	\$368	4	\$21
Houston, MN	36	\$311	0	\$0	6	\$38	1	\$9	0	\$0	6	\$6	0	\$0
Winona, MN	60	\$284	17	\$149	10	\$36	26	\$277	0	\$0	8	\$7	0	\$0
Mower, MN	38	\$335	8	\$119	5	\$30	2	\$17	2	\$17	3	\$2	0	\$0
Goodhue, MN	21	\$72	96	\$1,040	2	\$4	16	\$97	3	\$9	8	\$8	0	\$0
Olmsted, MN	203	\$1,288	0	\$0	32	\$132	32	\$132	11	\$49	24	\$71	1	\$6
Fillmore, MN	13	\$37	2	\$10	2	\$4	6	\$36	0	\$0	3	\$3	0	\$0
Dodge, MN	12	\$30	0	\$0	1	\$2	1	\$6	0	\$0	0	\$0	0	\$0
Wabasha, MN	6	\$50	0	\$0	0	\$0	0	\$0	3	\$7	0	\$0	0	\$0
Rice, MN	84	\$543	44	\$465	13	\$47	21	\$135	3	\$9	16	\$17	1	\$11
Steele, MN	72	\$229	4	\$71	12	\$28	12	\$28	0	\$0	0	\$0	0	\$0
Total	1090	\$8,096	413	\$6,406	172	\$853	206	\$1,269	44	\$179	202	\$482	6	\$38

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Non-employer data is not presented with the core Economic Census information on the Census Bureau web site. So when Independent attempted to size the habitational market this way, they did as many others do and missed the counts of non-employer firms. In Indiana these businesses account for 56% (or more than \$43 million) in potential habitational premium.

Of course, good planning and successful execution are two different things. It can be argued, however, that because Midland has more feet on the ground in its expansion state, and the greater opportunity to build momentum that comes from a more focused marketing territory, that Midland is likely to produce more growth than Independent. In fact, the decisions made by Independent without benefit of more detailed information, will probably result in an under-funded expansion effort and that carries a significant opportunity cost.

About MarketStance

For ten years, MarketStance has been effectively harnessing information from dozens of government and industry sources to transform raw data into information that is up-to-date, reliable, actionable and relevant to the business of commercial insurance. MarketStance enables carriers to turn to a single, comprehensive information resource to power a range of strategic, tactical and operational decisions.

The MarketStance Bundle consists of an optimized, multi-dimensional data cube including a wealth of information on the market for insurance. The data covers over 24 million U.S. businesses. It includes information on:

- Number of accounts
- Exposures
- Loss ratios
- By line premiums
- Growth rates

All of these measures can be analyzed by account size, by business class, or by geography to the county level and ZIP code level using either a desktop tool or web-accessed interactive reports.

This story about how to apply MarketStance data and analysis tools to common insurance company operating challenges has been developed from multiple client accounts and anecdotes rather than a single case study.

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