



## **Affinity Marketing in the 21<sup>st</sup> Century – By John Hoey**

### **What Is It?**

There are almost as many definitions as there are affinity group programs – and there are tens of thousands of these programs in the insurance space.

A “tight” definition of affinity marketing starts with an established group. It could be a union, a professional association or a “membership club” established for some purpose other than merchandising products.

In one version of affinity marketing a group insurance policy, usually life, accident, health or disability, can be issued to the group and the coverage marketed to its members. Or individual auto, home or professional liability policies can be sold to group members at special rates.

While the nuts and bolts of designing and pricing the insurance products was simplified with these group structures, marketers were quick to notice that there was plenty of marketing lift from the underlying message.

### **Pushing the Envelope**

This affinity group concept is an envelope that was made to be pushed. The definition of an affinity group was stretched to include groups that had little in common beyond attractive demographics or a monthly payment relationship with a cooperating organization. Eventually, successful marketing programs that had most of the appeal of traditional affinity group marketing were developed with just a focused mailing list and an affinity-like advertising message - but no membership organization.

### **Shades of Gray: Sponsored and Affinity Programs**

Affinity Marketing is a big umbrella, spanning the “connectedness” dimension from tight knit organizations like AFL-CIO member unions with high affinity to programs with a well known “sponsor” - like national bank credit card or checking customers. Since affinity relationships are not all created equal, then affinity marketing programs had to be customized to leverage the strong points of each relationship.

### **Affinity Marketing in Other Verticals**

For different reasons credit cards and travel have been affinity marketing success stories. The cruise business, which was completely reinvented by Carnival Corporation as recently as the 1980s, relied almost entirely on group marketing to get the initial “trial” cruise experience. Going on a cruise with people that you knew you would be comfortable with eliminated one of the major barriers to selling large numbers of first time cruisers.



The credit card industry, lead by MBNA, used literally thousands of membership groups to bring credit cards to the middle income market. The message, typically, was that your association membership got you a better deal on your credit card because of the clout of their membership numbers.

These messages are all familiar to insurance marketers.

## **Why Does Affinity Marketing Work?**

### **Perceived Risk Reduction for the Affinity Group Member**

Buying an intangible feels like a risky transaction to most people, particularly the first time you do it on your own. Will I enjoy being on a cruise ship for a week? What should I get to supplement the Medicare that I have to sign up for in a month? If I save that promised 15% on auto insurance, will the company with the 800# take good care of me when I need them?

Most people feel comfortable if they see people like themselves already happy with the choice they have made. The seal of approval from an association is even better.

### **Affinity Group Endorsement as a Brand Alternative**

Brands were developed in the dawn of the industrial age to reduce the perceived risk of buying a company's product. But it takes a long time and a lot of money, even with a clever advertising campaign, to create a powerful brand. Witness the time and financial investment that GEICO has made.

If you don't own a brand that has the marketplace impact that you would like, sponsored and affinity programs are an alternative – think renting rather than buying. Teaming up with a well known national banking/credit card organization can be years quicker than mounting a GEICO-like advertising campaign. This is the logic behind “sponsored” marketing programs. The affinity partner needs to be well-known and respected by its members or customers. The respect needs to be somewhat transferrable – “I'm comfortable taking a look at this offer because it came to me through my ..... (credit card, alumni association, Reader's Digest subscription).

### **Group Buying Power**

Part of the appeal of affinity marketing programs to the affinity group members is the visceral reaction that there is negotiating power in the group – maybe because of the substantial amount of business represented, or because of the negotiating skill of the group's leadership, or because of the efficiencies of this method of doing business or because of any number of unstated elements of leverage created by joining forces with the like-minded group. Group insurance policies, special group rates and group discounts reinforce this perception. And the perception of the member is generally true. Group buying power can create a better deal.



## **Entitlement**

Even more powerful than group buying power is the sense of entitlement that members of some groups (legitimately) feel. Professional associations make for some of the better examples. In their view, teachers deserve to pay less for auto insurance because they are safer drivers than the general public. The career they choose attracts people like that. Add Police and Firefighters, Nurses and there are more. Entitlement is generally strongest with tight-knit professional associations, when the profession is stressful and perceived as underappreciated by its members. But don't discount this motivation with veterans, seniors and others.

## **Creative Strategies**

### **The Offer**

The rules of direct marketing are not suspended when there is an affinity group involved. A strong offer is central to the success of the program. Affinity marketing provides the opportunity for a stronger platform for your offer. The ideal net impression is that the offer is coming from the association, facilitated by an insurer/broker/TPA to the extent that regulations require.

### **Strategies for Strengthening the Bond**

#### **Exclusive Product Features**

Exclusive product features that relate to characteristics of the membership add credibility to the power of the affinity group. Guaranteed renewability for AARP, summer skip payment options for NEA's teacher members, insurance coverage in war zones for USAA Life are some examples that have stood the test of time.

#### **Touch Points in Multiple Media**

Direct mail has been the sales workhorse in most affinity marketing programs. But there are usually print opportunities, in the form of association magazines and newsletters, which are a valuable and politically astute means of reinforcing the relationship with the group and its leadership.

Affinity group websites present another opportunity to build the relationship, present the full insurance product line available to the members and provide a convenient shopping situation. Strong affinity marketers will go beyond this to align themselves with the members by providing benefits tailored to the group. Liberty Mutual, one of the leaders in this arena, provides some good examples.

#### **Value Added Benefits**

Liberty Mutual's programs for teachers, which is highly visible on the web, is a good example of focused value added benefits that communicates a strong commitment to the group from a company with thousands of association group programs. From Liberty Mutual's website

*"Through a partnership with Pearson Education, teachers can access TeacherVision – the leading online teacher resource from the Family Education Network. TeacherVision features a robust collection of classroom*

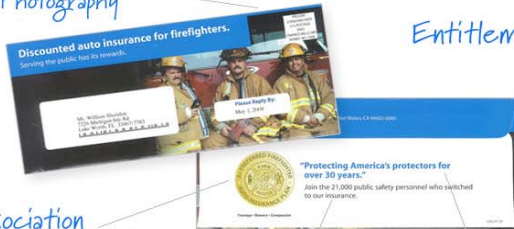


resources developed by the education community at large. Then, join the community of teachers who weigh in each week on our Raise Your Hand poll question to and share your thoughts.”

**Pictures Are Worth A Thousand Words**

Easily recognizable graphics, particularly on the OSE, can effectively call out to members. Pictures of identifiable members at work wonders in “getting the envelope opened” .

Member Association through Photography



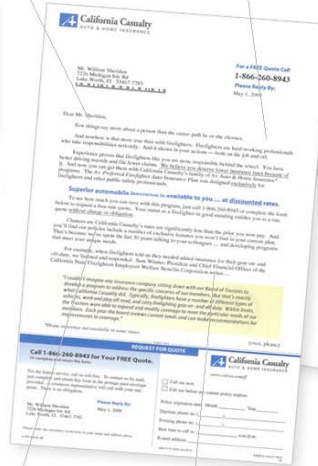
Entitlement

Exclusivity

Association through Branding

Positive Member Response

Credibility



Credibility

Testimonial



**Creating Credibility**

Once the envelope is opened, the credibility of the offer is built around the pillars of entitlement, exclusivity and group buying power. A testimonial from a recognizable name in the professional firefighter field is used to add credibility. This affinity program is successful without the need for a formal endorsement from an association.

**Economics**

**How Much Compensation Is Available for Affinity Partners?**

The advantages of affinity and sponsored marketing show up in better response and sales rates, better persistency and overall improved marketing profitability. Carriers understand this. Brokers and TPA's understand this. And most active, involved affinity groups understand this.

## Member Participation as the Goal

Best case, the affinity group's primary objective is to generate participation in the program by a high percentage of its members, while covering its cost of supporting the program. Altruistic as it sounds, widespread member participation is often the motive of the executive director of an association. That is a good marriage with most insurance carriers, who want to maximize revenues as long as marketing costs are within pricing allowances.

## Non-Dues Income as the Goal

Others will be interested in compensation in the form of commissions or administrative allowances, the higher the percentage the better. There is no free lunch. Higher compensation will come directly out of the allowable acquisition costs and will have a very direct bearing on the net amount available to promote the products.

Example: with 4% new and renewal commission versus no commission.

	4% New and Renewal Commission	No Commission
Annual Premium/Policy	\$1500	\$1500
Persistency	88%	88%
Loss and LAE Ratio	78%	78%
Other Expense Ratio	13%	13%
Investment Inc/Premium	4%	4%
Contribution Margin	9% (13% - 4%)	13%
Annual Premium Growth	2%	2%
PV of Premium	\$5900	\$5900
PV of Contribution	\$531	\$767

All else equal, the 4% commission in this simplified example reduces the Present Value of the Profit Contribution by about 30%. A 30% reduction in the Allowable Marketing Cost will reduce the direct mail solicitation volume that meets the Allowable MC hurdle by 50% or more in a typical spread of marketing results.

## New Competitors Often Overpay Commissions

It is not hard to calculate the marketing economics when you can look in the rear view mirror at results. In a competition for a new account, with no recent marketing results available, the strongest proposal typically comes from the most optimistic, i.e. the organization that projects the best results and the best compensation. Most experienced carriers avoid making unsustainable proposals by developing a "standard" deal, based on experience across a cross section of affinity relationships. New entrants can temporarily upset the market with excessive optimism - colored by a need to buy their way to a reasonable scale. The benefits of experience and a sharp pencil don't always show up in wins, but in mistakes avoided.



## Contract Length and Allowable Acquisition Cost

Affinity programs depend on the continuation of a relationship between the carrier, the broker/TPA and the affinity partner. Legal details vary, depending on the marketing agreements and the products involved – regulations require individual auto policyholders to be offered a renewal by the incumbent carrier in some circumstances – while Group Life policies are often easily transferrable from one carrier to another. Managing the marketing investments when the life of the agreement is within the planning horizon is not for the faint of heart. Take a look at the sensitivity of the Present Value of the profit contribution from the example above when the agreement gets closer to a potential termination date.

	No Contract Termination	Termination @3 Years, 100% Lapse	Termination @ 5 Years, 100% Lapse	Termination @3 Years, 50% Lapse	Termination @5 Years, 50% Lapse
Annual Premium/Policy	\$1500	\$1500	\$1500	\$1500	\$1500
Persistency	88%	88%	88%	88%	88%
Contribution Margin	9%	9%	9%	9%	9%
PV of Premium	\$5530	\$3066	\$4098	\$4298	\$4813
PV of Contribution	\$498	\$276	\$369	\$387	\$433
Index	100%	55%	74%	78%	87%

Most of the profit contribution occurs within five years, even with a high policy persistency. As you get closer to the potential termination date of the agreement, it becomes difficult to justify an aggressive marketing program. The most effective solution is to renegotiate and extend agreements well before the marketing economics are jeopardized.

## Analytics and Segmentation

Broad market direct mail programs are cost effective only because of a data and model driven list segmentation process. With 100 million plus US households available, cost-effective strategies that target the most attractive 25% - 50% can generate significant scale and attractive economics. Here postage accounts for 50% to 60% of the unit cost, printing and lettershop costs 15% to 25% of the unit costs and the list, appended data and analytics 20% to 30% of the unit costs.

Applying the same data and analytic costs to a small to medium sized affinity program puts a lot of pressure on the economics and, at the same time, the scale of the program. A simplified example illustrates the point.



<b>Base Case:</b>	<b>Solicit all members</b>
Membership:	500,000
Response rate when mailing full membership:	0.5%
Sales:	$500,000 * 0.005 = 2500$
Representative unit cost:	$\$400/M * 500 = \$200,000$
Cost/Sale	$\$200,000 / 2500 = \$80$

**Comparison Case:      Append data and solicit the most responsive half of the membership.**

Assumptions:	Selection increase average response by 30%.
	Data append adds \$100/M to the unit cost.
Sales:	$250,000 * 0.005 * 130\% = 1625$
Unit Cost:	$\$500/M * 250 = \$125,000.$
Cost/Sale	$\$125,000 / 1625 = \$76.92$

Here a 30% lift barely improves the cost per sale with realistic unit cost assumptions. The participation in the program, an important objective for most association executive directors, drops by about a third.

For small and medium sized associations it is almost impossible to sell the strategy of segmentation and shrinking the mailing universe to achieve profit goals. Hard to convince the association executive director. Hard to convince the carrier.

**Cost-Effective Segmentation Opportunities**

There are some options. Some analytics can be applied without a material cost for overlay data – generally leveraging information on the association membership file. New members are typically more responsive to offers from the association. And members who have been active, inquiring, participating, buying similar products from the association are better prospects, and worth multiple efforts in many cases.

Association size matters. Associations and affinity groups with millions of members can get plenty of marketing lift by focusing on the top two or three deciles of a response model and still have a program with interesting scale. By the same logic, associations with 100,000 members provide little opportunity for selective marketing unless they can be co-managed with a good number of similar programs to build scale.



## **Future Directions**

### **Social Media**

Facebook and whatever comes next in social media could be made to order for membership organizations, particularly the high affinity organizations that are the basis for some of the most successful insurance programs. This has to start with the associations, those that want to engage their members beyond the limits of newsletters, journals and passive websites. There is a need for timely content to sustain member interest. Executive directors get this. There is a need for funding to support the creation and distribution of content. Part of the answer can be insurance sales commissions. Not today, but soon.

### **Bottom Line**

Some of the biggest direct marketing programs in the insurance business are affinity programs – think AARP - or build on natural affinity – think USAA. Well run affinity programs continue to be successful with the right products and marketing strategies. There is a reason for it. There is real power in affinity relationships.

### **References:**

“Creating an Affinity” Best’s Review October 2010

“Affinity Marketing – Old Formula ...New Solutions” Conning & Company 1998

