The Changing Face of Affinity Group Distribution

Perspectives for PIMA by Al Drowne and Bill Tyson

A. *Traditional "Affinity Channels" have concentrated on a few defined areas of focus:*

1. Delivering a value proposition to members/constituents that included…
access (via a limited number of channels) to protection products and services reviewed & "approved" by the organization's governing body. Generally these programs provided better terms, more relaxed underwriting, cost advantages, and/or enhanced, tailored benefits to individuals *and* provided income to the group. Most affinity groups outsourced the brokerage, marketing and TPA services.

2. A few Vertical Markets where Sponsored Group Programs could be established:

- Traditional Associations (typically, not-for-profit).
- Employer/Trade Associations.
- Manufactured Associations (typically used for heterogeneous, underserved groups).
- Financial Institutions.

Product array – Past, Present and Future

- Dominated by Life, Health, Disability and A&H Group plans
- Professional liability and BOP P&C programs also thriving
- Personal lines has been a growth area
- Some programs supported by Experience Rating and/or retention agreements providing some professional groups with even greater equity in pricing

ROMI standards on acquisition campaigns were typically set at a TARP to Marketing Cost ratio of 2:1. (Low insurance company investment yields are now putting pressure on product pricing.)

As we look to the future, products that are relevant, that "reward me" for being affiliated with the sponsoring organization, that are life style and life stage products, packaged or bundled with services, and delivered at the right time and context, will be successful. Financial models have shifted. Sponsors are acutely aware of the cost, incremental revenue and the customer life time value.
This quote captures the trend:

> *"There is a blurring of lines between "products" and "services" as consumers shift from functional performance to a more broadly satisfying experience."*
> (Source: Change by Design, Tim Brown, Harper Collins, 2009 p178).

3. Methods of Distribution :

- Direct Marketing – no longer primarily direct mail; evolving into multi-channel and multi-media. Social and digital becoming essential. (More complex products, like LTC, have used a multi-channel approach.)
- Worksite Marketing – Payroll deduction with selling generally done by work site enrollers and now supplemented by call center agents. Technology impacting selling methods.
- Large affinity groups have used their Web sites as portals that are separate and distinct profit centers. In some cases, ad placement in the most valuable real estate on the Web site.

B. Today's "Affinity Channels" look vastly different than 10, 5 or even 3 years ago:

1. Both who we distribute through (e.g. the Sponsor) and how we distribute (the method, e.g. worksite) are being impacted. There is "marketing fatigue" across the entire direct marketing spectrum, putting some more mature programs at risk due to the inability to add new, younger members into these mature insurance pools. There have been cuts in budgets and stricter adherence to ROI standards-of-performance by investors and senior management responsible for approving budgets and/or strategic direction of the business.

Affinity channels are being defined by these 9 key drivers:

1) KPIs, ROI and Lifetime Value calculations.
2) Technology and automation of workflows and processes.
3) A sea change in consumer behavior.
4) Segmentation and Analytics (the means to narrowly segment targeted demographics).
5) A socially-oriented constituency.
6) Increases in costs, particularly staff, paper, postal rates, and compliance.
7) Fragmentation – with consumers having more options than ever before.
8) A shift of control from Advertiser to the Consumer.
9) Healthcare and Financial regulatory reforms, new rules governing sales practices, information security concerns, and longer State filing and due diligence periods on products and programs.

From the authors' perspectives, it seems that anything the internet touches in the affinity space is a tornado that sucks up the landscape. It is no longer a "buyers" market or a "sellers" market but a "we are all in this together" experience economy.

2. A changed landscape of "Mass Distributors" in the age of "Creative Destruction" and a mistrust of both Advertisers and traditional Institutions.

- **Traditional/"Individual Membership" Groups** – Plans are mature (insurance programs 15-30 years old) and stalled. Specialty associations are growing, increasing and siphoning off members of national associations. In addition "communities" are forming online, e.g. community of interest networks – "coins" - that serve some traditional association roles (without a requirement to join). Public Employee Union benefits programs are under pressure.
- **Employer/"Institutional Membership"/ Trade Associations** – Growth mature (insurance programs 15-30 years) and stalled or stagnant. With economic blows in certain industries (e.g. print media, construction), revenue, and with dues an 'optional' expense and competition from "like" organizations, there is a continuing trend of dissolutions and mergers in "institutional" membership organizations.
- **Manufactured (aka "Air Breather") Associations –** Increased regulatory scrutiny, significantly impacting their use as an enrollment vehicle to the fastest growing market segment – the middle market - mass consumer (formerly the underserved).
- **Financial Institutions:**
    - **Banks and Credit Unions–** Shifting business models and product distribution platforms to new revenue generating models. Speed to market critical.
    - **Card Issuers –** Driven by analytics and segmentation, product innovation a key driver.
    - **Program Managers –** Driving the growth in Pre-Paid, the fastest growing card segment.
    - **Payment Organizations –** Nascent entities include Payment Processors and Distributors.
    - **Alternative Payments Organizations –** Where Mobile meets Social. These organizations are aggressively expanding their revenue platform with new products and services.
- **Mobile Commerce Lifestyle –** A key marketing, sales and interaction method with downloadable Smart Applications, real time, interactive and "track-able".
- **Social –** Facebook adds 274,000 new users per day and has 750 Million community members.

- **Employers -** Employers are shifting their focus (and cost) from being *providers* (and subsidizers) to *enablers* of insurance for their "consumer" employees. HIPPA required portability of healthcare coverage – other products may follow.
- **Membership & Loyalty –** A transforming space . Business strategies focused on the "customer experience".
- **Call Centers** – Creating expanded business platforms via "enterprise" business units that package and push product out to mass consumer segments. A host of technology-based, remote agent, "crowdsourcing" models are mature and threaten to undercut traditional pricing models with cost per minute arrangements using independent contractor agents, here and overseas.

3. Changes in methods of distribution due to changes in technology and consumer behavior…the proliferation of inbound and outbound channels, new methods of interaction and service that consumers demand.

- **Worksite Marketing** – Historical worksite is significantly impacted by technology enabling a single platform to engage multiple channels, simultaneously. Call center-assisted enrollments are common now, augmenting or replacing traditional worksite enrollment.
- **Direct Marketing** – Direct Marketing is no longer the exclusive domain of traditional "push" Direct Mail and outbound Telemarketing. E-Mail, SMS, On-Line, Mobile, Paid Search, SEO, viral video, Word-of-mouth, and Social channels are emerging as relevant channels.
- **Memberships and Loyalty** – No longer the domain of frequent flyer programs and used increasingly to improve "the customer experience". Relationship rewards, product, offer and pricing innovations are driving revenue. Engagement, "Voice of the Customer" and Customer Experience Management are the three most important aspects of loyalty.
- **On-line & Digital Channels –** These channels have marginalized the now traditional e-mail marketing channel. The under age 35 segment doesn't use email much, preferring to text.
- **Social Channels –** Facebook, Google Circle, Four Square, Twitter, etc. are all organizations with nascent marketing channels for products and services, with new forms and definitions of sponsorship emerging.
- **Mobile Channels –** In the next 3-4 years there will be 10 billion mobile interchange devices.
  The pace of smart phone adoption will be faster than any major technological innovation in the history . The average person in the US has four such devices (I pads, I phone, Xbox, etc.)…so are using mobile coupons, QR Codes, etc. Sponsors customize their products and services which are then "bundled" into customized packages relevant to customers. Price points reflect the cost of mobile apps. and games which averages $4.95 per month.

4. Drivers impacting each distribution "segment"

- A changing consumer and demographic landscape and competitive environment where consumers are searching for maximum value. More than 300 million people will be joining an emerging middle class. In the US, the underserved market is growing and expanding exponentially. Gen Y, Gen Z (also known as Digital Natives being raised by Gen X) youth demographics that acts very differently than any previous demographic segment.
- Differences across groups–political, economic, social, technological, environmental and legal (PESTEL).
- The need to generate *new* revenue streams to grow and replace mature programs.
- Improving the member/customer experience (to one that is authentic, genuine and compelling).
- Again, an understanding that the consumer is in control, not the advertiser.
- Multi-channel marketing proficiency.
- Being impactful, e.g. being proactive, innovative, relevant/authentic to younger members. All touch points and interactions executed seamlessly with thoughtfulness, relevance, accuracy and precision (at the right time).
- Striking a Balance between "monetizing" traffic and member/accountholder base without being obnoxious and intrusive (privacy is a big issue).
- Attrition/Retention/aging of groups (swelling retiree populations, WWII Vets dying off, etc.).

- Analytics – leveraging knowledge about customers to drive one-to-one promotional campaigns. Data is power and becomes the basis for new products, cross sells and can build trust.
- Strategic marketing frameworks are expanding from the traditional "paid" model (i.e. direct mail) to include "earned" media – when a product is recommended to a friend; "owned" - when someone has registered to receive additional offers from your company; "sold" where your company offers your product or content through another marketer; and "hijacked" where consumers have banded together in opposition to your campaign or product and taken it hostage. (Gen Y trusts friends' recommendations vs. an institution.) Gen Y takes the recommendation of friends over the sponsorship of an organized entity.)
- Social Media – becoming a "social enterprise" and a moderator of sorts, representing constituents' collective voices in the sharing of knowledge, expertise, addressing issues, ideas, facilitating commerce, etc.
- Environmental consciousness and a recognition that "going green" is good, e.g. recycled paper for direct mail, eliminating paper billing statements, promoting e eSign and ePolicy delivery, etc.
- Business risks such as information security, regulatory and compliance.

5. Legal and Regulatory Challenges

There is increased regulatory scrutiny and enforcement across all types of groups and distribution which is confusing, costly and time-consuming.

- Associations – more states enforcing separate filing requirements (in-state and out-of-state (ET) basis).
- Discretionary groups (includes "manufactured" trusts) - more states enforcing separate filing requirements. Some states not recognizing discretionary groups (in-state and out-of-state (ET) basis).
- Significant complexity to multi-channel marketing, sales and fulfillment, e.g. filing requirements, record-keeping, licensing, privacy & data security. Regulatory agencies are not caught up with the advent of the Internet, let alone the "real-time" nature of on-line, mobile, etc.
- Cutbacks in State Depts. of Insurance have led to longer and more complex product filing, review and approval processes.

Conclusion – Some Thoughts on Developing "The Way Forward"

As a result of these transforming trends, Affinity program managers and marketers have to embrace change, adapt, balance and manage various pressures, while considering various options to define their futures. Here are some of our thoughts on what many of industry leaders can do to compete in this dynamic marketplace:

- Define and redefine customer value propositions, to reflect ever changing market conditions.
- Make change leadership, growth and innovation core competencies.
- Promote operational excellence and flexible /adaptive operating models, including a willingness to change tactics at short notice and to work in increase conditions of uncertainty, enabling your business to compete while continuously delivering on the value proposition to all stakeholders keeping customers, vendors, sponsors, investors and insurance companies (if a broker or agent) satisfied.
- Foster innovation– invest in and develop relevant, unique, sustainable new products and services.
- Seek New Market entry to exploit new market opportunities (serving the under-served), partnerships, channels etc.
- Master Multi-channel marketing so that "push" marketing supports interactive "pull" marketing. Accept consumer driven creativity as the new normal. Drive greater creativity in traditional ads, while pursuing new ad formats.
- Trim MC costs. Rethink media mixes, testing plans and shift marketing dollars to enable adoption of inbound campaigns (i.e. Paid Search, SEO, Social, Word-of-mouth, Viral video) that have a much lower acquisition cost.
- Update Sales Processes from the old "A.I.D.A." sales funnel to a Customer Experience Model with "points of influence" that are managed appropriately.
- Enhance consumer engagement, interactions and improve the customer experience.
- Battle rising consumer disloyalty towards financial and other institutions, in general.
- Use data and analytics -- leverage all program information and analysis, making it actionable.

- Implement an effective Enterprise Risk Management program to deal with what an Ernst & Young survey suggests are the Top 10 Business Risks that corporations are dealing with:
    1. Regulation and Compliance
    2. Cost Cutting
    3. Managing Talent
    4. Pricing Pressure
    5. Emerging Technologies
    6. Market Risks
    7. Expansion of Government's Role
    8. Slow recovery/Double Dip Recession
    9. Social Acceptance risk/CSR
    10. Access to Credit[1]
- Conduct Business Model reviews: *a. The structure and forms of partnerships; b. Explore New Revenue models; c. Advertising formats; d. Lead sources; e. Reporting metrics*
- Deploy Enhanced Business Design through *redesigned* organizational and operating capabilities across the direct marketing and advertising lifecycle through enhanced: *a. Consumer analytics; b.Channel planning; c. SaaS – Software as a Service/Taas – Technology as a Service; d.Outsourcing- non-core activities; e. Buying/selling; f.Creation; g. Delivery; h. Impact reporting*

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