

## A Plea for Passion – Important Lessons from the Beer Industry

I love beer -- but I don't love the tasteless fizzy yellow beer that is mass produced by the global mega producers who dominate the US's production. In my youth, I would make pilgrimages to the single store in Syracuse that had a wide selection of over-priced imports that at least provided an alternative of color and flavor, despite the fact that the indelicate treatment inflicted upon these temperamental brews during their trans-Atlantic voyage made every purchase somewhat suspect.

I was thrilled when craft-brewed beers recently became less of a fad and more of a legitimate business. In fact, today the United State arguably enjoys the widest and most diverse beer selection of any country in the world. Most any store offers a decent selection of local favorites and when I'm traveling and have an evening free, the first thing I do is search around my hotel for a brewpub and invariably I am rewarded with a location that is easily within driving distance.

So, with my beer obsession confession out of the way, you can imagine my pleasure when I realized that very valuable lessons for insurance companies flowed quite freely from the frothy confrontations that define the beer industry. And what better excuse to indulge than to seek out inspiration while researching and writing this article? For a truly "multi-media" experience, I highly recommend that you accompany your reading of this article with a generous pint of your preferred peccadillo.

But before we jump into what insurance companies can learn from brewers, it's helpful to have some understanding of the state of the beer market in the United States. Despite the rosy picture I've depicted above, from a connoisseur's perspective, the state of the beer industry is shameful! According to the Brewers Association website, less than 7% of the \$101B in US beer sales in 2009 came from craft brew sales. In the 2009 documentary "Beer Wars", Anat Baron reports that 90% of the beer consumed in the United States was manufactured by "the big three" – Anheuser Busch, Miller, and Coors. More recently, the "big three" were consolidated into "the big two" as SAB Miller and Molson Coors merged in June 2008 and Anheuser Busch became part of Dutch conglomerate Inbev in November 2008. According to the movie, Budweiser dominated the domestic beer market with an incredible 50% market share. Although the insurance industry has its share of merger created giants, no single brand dominates our industry the way Budweiser does with domestic beer.

Obviously, there's nothing inherently wrong with well managed large companies dominating their industry. What makes this fact so interesting as respects beer is the virtual "indistinctability" of their products. In the movie, a number of rabid fans are interviewed making impassioned pleas for their allegiance to Bud Light, Miller Light, or Coors Light. Yet in blind taste tests (conducted unscientifically in taverns using brown paper sacks to disguise the bottle – it's hard to maintain academic protocol with any reasonably extensive test involving alcohol) – none of these opinionated consumers were able to successfully select their suds of choice.

It's hard to imagine a more compelling tribute to the power of marketing and the dominance of behavioral economics than the concept of millions of consumers stubbornly sticking to a preferred brand that is virtually indistinguishable from its competitors. Yet just try offering a Miller Light to a Bud Light man and see what happens. According to Baron, Bud spent \$500 million dollars in advertising to reinforce the fact that their loyal customers chose wisely. Drinking Bud or Miller has less to do with taste than with a statement about the sort of person you are – much the same way that pick-up truck owners differentiate their choices or smokers choose their cigarette brand.

Enter the microbreweries.

Honed in the kitchens and garages of individuals who simply wanted to share the excellent taste of their high quality product with others, they quite literally grew by one bottle and one bar at a time. With little to no marketing budget, no sense of brand, limited resources, and often with no practical business experience, the growth of most microbreweries more closely resembles that of a budding artist than an emerging manufacturer. Obsessed with quality, creativity, and flavor rather than growth, market share, and shareholder value, these small hand-crafted brews are a welcome oasis to the small segment of the population that actually wants to taste their beer. In fact, for those of us who truly love beer, the concept of remaining loyal to a single brand is ludicrous when there is so much selection and so many factors that weigh into deciding which bottle to open. Beer can be matched with food, with the climate, the season, or even with a preference for light, heavy, dark, bitter, full, or fruity. There is no single favorite – there are many favorites – depending on the circumstances. The most defining feature for a favorite is the fact that it's available!

At the end of 2009, there were nearly 1,600 breweries competing for that tiny left over slice of the US beer market – the most domestic breweries since prohibition. The largest of these is the Boston Brew Company, maker of the Sam Adams brand. In fact, as a result of all of the recent merger activity, Boston Brew Company is now the largest American owned brewery in the country. One would think that this lofty title endows some clout, but in the words of founder Jim Koch, Boston Brew Company's annual production is so small in comparison to Budweiser that "my passionate life's work is (equivalent in volume) to their industrial waste".

Try to imagine the competition in the life insurance industry defined in a similar manner with nearly 95% of sales coming from a few global giants offering virtually identical products differentiated by the effectiveness of vast marketing budgets rather than the product itself. Then try to imagine the remaining crumbs of the market being wrestled over by more than 1,500 small competitors who rely solely on quality and creativity to distinguish their products.

It raises an interesting question: what would quality, creativity, and flavor look like in the life insurance industry? What would a small regional insurer look like if it were started in someone's kitchen and inspired solely by the desire to share a truly appealing product with the general public?

Interestingly, although the market share breakdown is different, from the consumer's perspective our products certainly seem to share the same "indistinctability" that defines the major beer brands, albeit without the cool marketing to go along with it. Those of us in the industry may debate the differences in dividend scale or premiums per thousand among competitors, but to the consumer, all whole life contracts are pretty much the same and all types of life insurance are equally confusing. Certainly there are a few unique and even moderately creative life products being offered, but it's the rare consumer who has even the remotest understanding of these distinctions.

This commoditization of life products certainly puts the small, regional insurers in a difficult position if they can only offer the same product as their highly heeled competition. Smaller companies can't compete on marketing dollars and will have a hard time winning the case for superior financial stability. Certainly service and responsiveness is one area that smaller companies may have a leg-up, but once a life insurance transaction is completed, there's not a tremendous amount of urgency for ongoing interaction with the purchaser.

Frankly, most of the differentiation between insurance companies is directed towards their agents rather than consumers – and that brings up another interesting lesson from the beer industry. Although there are 2,850 independent beer distributors in the United States, the vast majority of their business is generated by the largest manufacturers. As a result, the craft breweries have very little influence and even less truck space. Their products are largely carried as an accommodation since they represent such a small portion of a distributor's total volume. The same holds true once their merchandise gets into the store, where it's all about shelf space and product placement. Consumers are greeted with a virtual billboard of brands from the large manufacturers, all strategically positioned in the coveted eye level position, while the craft brews get pushed to the bottom, the back, and off to the side of the rack.

This contrasts greatly with the insurance industry. While small companies may have difficulty recruiting the largest IMOs, there is still plenty of distribution to go around. In fact, given the fact that larger companies require such significant volume to increase sales by a meaningful measure, the current state of distribution in the life insurance industry may actually benefit the smaller companies better than their larger competitors.

This brings me to my final point about how smaller life insurance companies can learn from the beer industry. In the movie "Beer Wars", Sam Calagione, founder of Dogfish Head Brewery, talks about the \$9 million dollar loan he and his wife were undertaking personally in order to expand the brewery operations. Sam mentions that he had been approached by a number of venture capitalists who were interested in investing in his company and helping him take it public. Sam resisted their overtures because he didn't want to grow at a rate that would distract him from their labor of love. He felt that people were choosing to support smaller companies that are on a human scale rather than the big behemoths. How many of us approach our jobs or our companies as a labor of love? How many of us have spent our entire careers in the insurance industry but have never used the words "job" and "passion" in the same sentence? And how many of us would leverage our personal assets in order to fulfill a dream of providing more people with a quality life insurance product?

A striking example of this passion is evident by looking at the history of the Boston Brewing Company. Jim Koch is a fifth generation brewer who recreated in his kitchen the original recipe that was developed by his great (and then some) grandfather Louis Koch in 1860. He was so impressed with the brew that he wanted to share it with the world. This was in 1984 – well ahead of the craft beer revival. He named the beer Sam Adams after the Boston patriot who also inherited a brewing tradition from his father. Further fostering a personal touch, in the mid-nineties, Boston Brewing Company bought the Hudepohl-Schoenling Brewery in Cincinnati – the same brewery where his father apprenticed in the 1940's. Despite having grown into a fairly large publically traded company, the Boston Brewery still rests upon a foundation of family tradition and integrity.

Contrast this with the experience of August Busch IV, also a fifth generation brewer with the Anheuser Busch company. In April of 2008, IV stated that his company would never be bought under his watch. In June 2008 Inbev made an acquisition offer which was rejected, resulting in a lawsuit in July 2008 to keep Inbev from contacting Anheuser Busch's shareholders. By November 2008 the acquisition was completed, IV was relegated to board member, and the new owners began undertaking an aggressive series of budget cuts, layoffs, and consolidations.

So, smaller life insurance companies can take heart -- by comparison craft breweries have a much more difficult challenge to overcome in their industry. I'd like to propose a toast to the innovative and courageous microbrewers whose lessons from building a business model based upon passion and

quality are as practical as they are inspiring. Now if I could just decide which microbrew to do the toast with – thankfully there are so many choices!