

JoS A Bank Clothier Provides Ideas for New Convention Promotions

“Joseph A Bank. Buy one pair of socks, get five suits half price. Today and tomorrow only.”

Anyone who has watched TV lately has seen the enticing ads by this company touting incredible yet limited deals. It made me wonder why anyone would even bother to go into a JoS A Bank store on a non-sale day. On the other hand, I also noticed that every time I strolled past a JoS A Bank store in the mall, it was *always* a sale day! I can't recall a single time I didn't see their store front littered with huge sale signs.

However, what's more interesting than the perpetuity of the company's promotions is the underlying purpose. The key to retail is driving traffic to your store. Once the customer is there, it's difficult to resist the urge to accessorize those cheap new suits with shirts, ties, belts and shoes that aren't on sale and can be sold at full mark-up. Sales can also be used as a means to drive traffic on what would otherwise be a slow day. They also must do wonders in terms of staff planning since the advertised sales probably generate relatively predictable response rates. Furthermore, it's a great way to move slow merchandise, especially when it's time for seasonal style changes.

In other words, the benefit of the JoS A Bank sales are far more than just increasing sales.

Certainly life insurance companies don't have the pricing flexibility of clothing stores. No self respecting actuary would ever sign off on a “loss-leader” product as a means to attract sales of a higher profit item. But that's not to say that life companies haven't thrown in low risk riders such as AD&D or small amounts of dread disease coverage as an automatic benefit on their other products. However, it's fairly safe to say that life insurance really never “goes on sale”, and “buy-one-get-one-free” is as actuarially unlikely as a lottery ticket pension fund.

So how do insurance companies influence sales? Probably the biggest factor in terms of dollars spent is agency conventions. In fact, if you look at the blue books of the 35 smallest LIC member companies, these companies paid a total of more than \$10M in convention expenses in 2010 for an average of nearly \$300,000 per company or 1.2% of net new premium. And that's for the smallest companies. The larger companies spend millions of dollars each every year.

Most companies I've spoken to have a love-hate relationship with their conferences. On the one hand, it's deemed to be a necessary evil since large producers have been known to factor this feature into determining how much business they give a carrier. On the other hand, it's difficult to quantify whether the amount of money spent and productivity lost is justified in terms of quantity and quality of business. Many companies are simply resigned that they have little choice.

One thing is consistent with virtually every company's conventions – they reward top producers. In other words, the single most critical qualifying factor is producing a specific amount of business within a specified time period. In addition, just to make sure that they aren't rewarding bad habits, most companies employ certain minimum persistency, mortality, and other quality of business standards in order for an agent to qualify.

The key word here is “minimum standards”. Why do companies deploy their single largest discretionary marketing expense so passively to encourage sales volume rather than sales quality? What is more

profitable long-term – a large block of mediocre business or a moderate block of high persistency/low mortality business?

The thing is, this doesn't have to be an either/or equation. With a little imagination, a touch of creativity, and a pinch of the JoS A Bank mentality, companies can have both high volume and higher quality sales. For example, since the qualification periods for most sales conferences run more than 12 months, there are ample opportunities for short-term promotions similar to what JoS A Bank runs. However, for insurance companies, "buy one get one free" becomes double qualifying points, an entry into a prize drawing, eligibility for an additional conference night, or some other incentive. The key is to build the mini-promotions around incentives to drive the type of business your company prefers rather than strictly rewarding volume.

Does your company prefer:

- Younger or older applicants?
- Higher face amounts and/or higher premiums?
- Multiple policies per insured or household?
- Clean apps with no significant medical history?
- Applicants who have recently had a voluntary annual physical?
- Active lifestyle or non-smokers?
- No diabetes or heart history?
- Do certain riders generate significant profit?

I think the reason why so few companies do this sort of strategic promotions is due to the complexity of the actuarial models. I know – when in doubt, blame the actuaries! But in this instance, it's less a question of blame and more a statement of fact. Actuarial models really *are* complicated so it's difficult to quantify exactly what type of business a company might prefer. There are so many variables, assumptions, and uncertainties that we have to look at the overall performance of a block of business rather than get caught up in the nuances of individual policies. But that shouldn't override common sense. A number of the bulleted items listed above are intuitively preferable to the alternatives. It shouldn't require an actuarial model to confirm that clean apps are probably preferable to extensive and marginal health histories.

When I ask companies what type of business they're looking for they usually respond with the less than specific "good business". Upon further questioning about exactly what constitutes "good business" it's rare to hear anything more specific than "people who keep their policies and live a long time". That's a bit like saying that your company's investment plan is to buy low risk investments that pay high returns. Good luck with that.

So what is your company doing to find these elusive folks?

For most companies, what they're doing is relying on their agents, but if you look at the focus of the typical agent's business model, it's on sales efficiency and productivity. Don't get me wrong, every agent is certainly incented to produce business that is persistent and relatively claims free, but is that their primary focus? Consider what factors a good agent measures religiously – referral and phone call volume, number of appointments per week, number of cases opened, closing ratio, apps written and business placed. If they aren't focused on the activities that produce sales, they won't be in business long enough for persistency and claims to be a factor anyway.

And just as our convention qualifying rules put the primary emphasis on sales volume with a nod towards meeting “minimum quality of business standards” so do our commission schedules reward quantity over quality by shifting the majority of the compensation to the first year and paying “service fees” in subsequent years.

I know – when in doubt, blame the agents *and* the actuaries – but once again this is less an indictment than a statement of fact. The truth is, if companies want to improve the quality of the business their agents produce, they have to make it more worth their while.

LIMRA CEO Bob Kerzner spoke at the 2010 LIC 100th Annual Meeting on compensation planning with an opening slide that simply stated “READ YOUR PLAN”. His point was that most often agents (and employees) are doing exactly what we’ve asked them to do – even if it’s not what we intended them to do.

There are a number of exceptions to what I’ve written here. In fact, I’ve already met with a few companies who cleverly and creatively incorporate persistency bonuses, mortality incentives, and other quality of business enhancements into their compensation agreements and convention qualifying rules – and these initiatives are necessary and effective. However, for the *typical* agent (if there is such a thing), the fact remains that if they want to stay in business, they need to produce a fairly consistent amount of new premium, and if they want to attend a company convention, that amount has to be significant as well as consistent. It’s doubtful that even the most generous persistency bonus will be enough to offset the reality of the previous statement.

And that brings us back to JoS A Bank. JoS A Bank wants to sell clothes at maximum profit while their customers want to spend the least amount possible for each item. On the surface, their outrageous promotions appear to reward exactly what their customers are looking for but the reality is that all of the peripheral benefits result in higher profits for the company overall. It’s a win-win for everyone. Life insurance may never go on sale, but there’s no reason that it can’t be dexterously promoted in the same manner. Our agents want to produce sales as efficiently and effectively as possible while we want to attract those elusive people who pay their premiums and live past life expectancy. The two objectives don’t need to be mutually exclusive – and at least it’s a heck of a lot easier to find those elusive perfect policyholders than it is to find the perfect low risk/high return investment!