The Changing Face of Affinity Group Distribution
(Perspectives for PIMA by Al Drowne and Bill Tyson, July 2011)

A. Traditional “Affinity Channels” concentrated on a few defined areas of focus:

1. Delivering a value proposition to their membership/constituents that included:

   Access (via a limited number of channels) to Protection products and services that have been reviewed and approved by the organization’s governing body (serves like a good housekeeping seal of approval). Usually this is a committee that is looking out for the best interests of the group. Generally these programs provided better terms, more relaxed underwriting requirements, cost advantages, enhanced benefits tailored to a profession or group and provide a fee income to the group. With few exceptions (e.g. The AMA), most affinity groups have outsourced the brokerage, program marketing and Third party Administration services. Access to these programs (via eligibility definition) is typically broad to avoid disenfranchising members of the group.

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

   - **Traditional Associations**: Typically homogeneous groups (by occupation, common interest (i.e. NRA or, military service), Professional, Union, Club and fraternal– low Growth; plans are mature (insurance programs 15-30 years old) and stalled. Typically, not-for-profit. Most view insurance program as a key source of revenue and a retention (vs. recruitment) tool.
   - **Employer / Trade Associations** - Growth mature (insurance programs 15-30 years) and stalled or stagnant.
   - **Manufactured Associations**: Typically used for heterogeneous, underserved groups and under significant regulatory scrutiny.
   - **Financial Institutions** – Shifting business models. Recent financial meltdown, M&As and regulatory laws (e.g.: the Durban Amendment and Credit Card act) have put pressure on the banks and other financial
institutions to replace lost revenue from card fees. The approval process on new products and services has become stricter resulting in a longer and more arduous sales cycle.

**Product array – Past, Present and Future**

- Most affinity programs are dominated by Life, Health, Disability and A&H Group Insurance plans that offer more attractive rates/terms than straight direct-to-consumer products and services.
- Personal lines has been a growth area lead by companies like USAA (Military), AIG Auto, Unitrin and Liberty Mutual.
- Professional liability and BOP P&C programs are also thriving in serving some professional groups i.e. lawyers, accountants, nurses, realtors, etc.
- Fee for services arrangements, royalties and/or bounties were/are typically paid to the sponsoring organization.
- Some programs were/are supported by Experience Rating and/or retention agreements which can provide some professional groups with even greater equity in the pricing of the products.
- ROMI standards on acquisition campaigns were typically set at a TARP to Marketing Cost ratio of 2:1.
- Insurance company investment yields are at historical lows putting pressure on product pricing.
- As we look to the future, 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.”


Products that are relevant, products that “reward me” for being affiliated with the sponsoring organization, are life style and life stage products, products packaged or bundled with services and delivered at the right time and context will be successful. The financial models have shifted. Sponsors are acutely aware of the cost and incremental revenue and the customer life time value. Many sponsors now realize, “Nothing is for free”.
3. Methods of Distribution – generally, membership/account holder/employee base is geographically dispersed where a direct marketing approach is utilized:

- Direct Marketing – has evolved into multi-channel and multi-media; no longer the exclusive domain of traditional direct mail and telemarketing methods. Social and digital is becoming an essential part of the mix (even though some aspects are not fully developed).
- Worksite Marketing – Payroll deduction is attractive from a billing, collection and persistency standpoint; seriously impacted by the convergence of technology. Selling generally done by work site enrollers and supplemented by call center agents.
- More complex products, like LTC, may require a combined multichannel approach (mail, Internet, call center then agent, face-to-face).
- Traditional affinity groups (i.e. associations) are having a tough time with sustainability – which can be described as being consistently impactful, relevant and a continuously indispensible resource for their members.
- Large affinity groups treat their web sites as portals that are separate and distinct profit centers. In some cases, the affinity groups (i.e. top ten banks) are so large and sophisticated that ad placement in the most valuable real estate on the web site goes to the highest bidder.

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 a prevalence of “marketing fatigue” across the entire direct marketing spectrum, putting some of the more mature programs at risk due to the inability to add new, younger members into these mature insurance pools. There have been cut-backs in budgets (both Carrier and TPA) and stricter adherence to ROI standards-of-performance by investors and senior managers who are responsible for approving budgets and/or strategic direction of the business. You used to be able to measure change in the affinity space in a decade, a period of years, now it is less than a year, even quarter- to-quarter.
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 (which provides the means to narrowly segment targeted demographics).
5) A socially-oriented constituency.
6) Increases in costs, particularly in terms of staff, paper, rising postage rates and compliance.
7) Fragmentation – with consumers having more options for consumption and visual entertainment than ever before.
8) A Shift of control from Advertiser to the Consumer. Consumers are opting out of traditional ad venues such as TV (using digital recorders) to tune out so-called “interruption” advertising and spending more time online.
9) Healthcare and Financial regulatory reforms, new rules governing sales practices, information security concerns because of data breaches and longer State filing and due diligence periods on insurance and investment 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” Where the Consumer is in control and there is a mistrust of both Advertisers and Institutions:

- **Traditional/“Individual Membership” Groups** – Broad national associations are challenged with declining relevance as a homogeneous association demographic. Specialty associations are growing and increasing and siphoning off members of national associations. In addition “communities” are being formed online, e.g. community of interest networks (coins) that serve some of the traditional association roles (without needing a formal or legal or traditional “association” structure or even having to “join”). Governmental Employee Unions benefit programs
are under tremendous pressure everywhere as States face cutbacks due to mounting deficits. The unknown outcomes of Healthcare legislation strikes at the core value proposition for many traditional association and union organizations and the value they bring to their membership base.

- **Employer/”Institutional Membership”/ Trade Associations** – Challenged with recent economic blows in certain industries (e.g. housing, construction), sustaining revenue when dues are an ‘optional’ expense and with competition from “like” organizations, there is a continuing trend of mergers in “institutional” membership organizations and declines in membership. Product innovation is a key element to new offerings.

- **Manufactured (aka “Air Breather”) Associations** – These affinity channels are coming under increased regulatory scrutiny. Regulatory challenges may significantly impact 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 their business models and product distribution platforms to new revenue generating models. Speed to market critical – target products to market within weeks, not months.
  - **Card Issuers** – Driven by analytics and segmentation, product innovation is the key driver. Relevance and timeliness are key.
  - **Program Managers** – Driving the growth in Pre-Paid, the fastest and most innovative growing card segment.
  - **Payment Organizations** – Nascent in their growth. These entities include Payment Processors, Program Managers, and Distributors.
  - **Alternative Payments Organizations**– Where Mobile meets Social these organizations are nascent and aggressively expanding their revenue platform with new product and service offerings.

- **Mobile Commerce Lifestyle** – Organizations with platforms that push and pull a wide range of products, services and content are emerging. Mobile is becoming a key marketing, sales and interaction device with downloadable Smart Applications, always on; always with you; 2 way; 1 to 1; real time, interactive and “track-able”.

- **Social** – Everything we do these days revolves around a social network. [American Express Membership Rewards](https://www.americanexpress.com) and others are offering loyalty
program/points rewards if you get friends to “Like” them on Facebook. (You would think a rewards program that’s been around 20 years would be set it in its ways….). Membership Rewards points are your currency for real-life social connections with friends and family. Don’t just tweet about life; get out there and enjoy it with products and experiences for which you can use your points. Organizations using social platforms are expanding exponentially (eg: Facebook, the top Internet site in terms of visitors per month adds 274,000 new users a day and has 750 Million community members spending an avg. of 1 hour 30 minutes per month). Keep an eye on Google + which is in beta but has 10 million members already and might be the next big thing in the realm of social media.

- **Employers** – Employers are shifting their focus (along with the cost) from being providers (and subsidizers) to enablers of insurance for their “consumer” employees. Portability of products is becoming necessary due to the dynamics of the workforce. HIPPA required portability of healthcare coverage—other products may follow. If tax deduction on healthcare premiums is eliminated then more costs will shift to the consumer.

- **Membership and Loyalty** – Organizations in a transforming space resulting from business strategies focused on the “customer experience”.

- **Call Center Organizations** – Creating expanded business platforms via “enterprise” business units that package and push product out to mass consumer segments. Many are flexing their capabilities through outsourcing arrangements – call center, fulfillment, etc. and are finding creative ways to monetize their traffic. A host of technology based, remote agent, “crowdsourcing” models are now mature, have nearly unlimited scale and threaten to undercut traditional the pricing models with cost per minute arrangements using independent contractor agents, here and overseas.

3. The changes in methods of distribution as a result of changes in technology and consumer behavior. Most Affinity Group Service providers have struggled to keep up with the proliferation of inbound and outbound channels, new methods of interaction and new service capabilities that consumers demand.

- **Worksite Marketing** – Historical worksite is significantly impacted by the convergence of technology. Technology enables a single platform to engage
multiple channels, simultaneously. Call center-assisted enrollments are common now, augmenting or replacing the traditional worksite enrollments.

- **Direct Marketing** – Direct Marketing is no longer the exclusive domain of traditional “push” Direct Mail and Telemarketing outbound efforts. E-Mail, SMS, On-Line, Mobile, Paid Search, SEO, viral video, Word-of-mouth, and Social channels are emerging as relevant channels, some as a secondary or support channel.

- **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 the 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 35 segment doesn’t use email much, preferring to text instead.

- **Social Channels** – Facebook, Google Circle, Four Square, Twitter, Swagg and Dwolla are all organizations with nascent marketing channels for products and services with new forms and definitions of sponsorship emerging. Gen Y prefers to take the recommendation friends over the sponsorship of an organized entity.

- **Mobile Channels** – The defining change is what is happening in the mobility marketing area. In the next 3-4 years there will be 10 billion mobile interchange devices. If Japan is any indication, the pace of smartphone adoption will be faster than any major technological innovation in the history of man. The average person in the US has four such devices (I pads, I phone, Xbox, etc.) Mobile phones are a global phenomenon and make it easier (via smartphone apps.) for foreign competitors to compete for US customers. Includes mobile offers, mobile loyalty, mobile coupons, QR Codes, scanning devices and mobile advertising. 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. The Drivers impacting each of these distribution “segments” include:
• A changing consumer and demographic landscape is creating a competitive environment where consumers are searching for maximum value. Over 300 million people will be joining an emerging middle class. In the US the underserved market is growing and expanding exponentially. All of this growth lies against a backdrop of a Gen Y, Gen Z (also known as Digital Natives being raised by Gen X) youth demographic that acts very differently than any previous demographic segment.

• PESTEL some differences exist across groups—political, economic, social, technological, environmental and legal.

• The need to generate new revenue streams to grow and replace mature programs.

• Improving the member/customer experience (towards one that is authentic, genuine and compelling) through cooperation and standards of performance that apply equally to internal staff and external partners.

• Again, an understanding that the consumer is in control, not the advertiser.

• Multichannel marketing proficiency is a key competitive advantage.

• Being Impactful – developing marketing and communications that have a wider and deeper impact, being proactive, innovative, relevant/authentic to younger members. All touch points and interactions need to be executed seamlessly with thoughtfulness, relevance, accuracy and precision (at the right time).

• Striking a Balance – between “monetizing” traffic and membership / accountholder base without being too intrusive (privacy is a big issue).

• Attrition/Retention/aging of their groups (swelling retiree populations, WWII Vets dying off at a high rate, etc.).

• Analytics – leveraging Knowledge about your customer to drive one-to-one promotional campaigns. Data is power in today’s affinity market. It differentiates, becomes the basis for new products, cross sells and can build trust. It turns risk into opportunity. Optimal exploitation is key.

• Strategic marketing frameworks are expanding from the traditional “Paid” model (i.e. direct mail) to include “earned” media – when your 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.

- Leveraging Social Media – becoming a “social enterprise” – a moderator of sorts and potentially a unified voice representing their constituent’s collective voices in the sharing of knowledge, expertise, addressing issues, problems, best practices, case studies, ideas, career advice, networking, peer review, facilitating commerce, opportunities, etc.

- Environmentally conscious and a recognition that “going green” is good– for example, utilizing recycled paper for direct mail campaigns, eliminating paper billing statements, promoting electronic practices such as eSign and ePolicy delivery, online document storage, etc.

- Managing 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 (whether Employer based, Labor Union, etc.)– more states enforcing separate filing requirements. This applies on 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. This applies on in-state and out-of-state (ET) basis.

- Regulatory agencies are not even caught up with the advent of the Internet, let alone the “real-time” nature of what is being done now from a marketing perspective (on-line, social, digital, mobile, etc.).

- Significant complexity to multichannel marketing, sales and fulfillment: filing requirements, record-keeping requirements, licensing requirements, privacy, data security, compliant handling and sales practices.

- Cutbacks (workforce reductions, furloughs, etc.) in State Depts. Of Insurance has led to a longer and more complicated product filing, review and approval process.
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 their customer value proposition, as needed, to reflect ever changing market conditions.
- Make change leadership, growth, and innovation core competencies.
- Create an Adaptive organization – become flexible and adaptable, willing to change tactics at short notice and work increasingly in conditions of uncertainty.
- Foster Innovation – invest in and develop relevant, unique, innovative and sustainable products and services.
- Seek New Market Entry – exploit new market opportunities (e.g. serving the under-served), partnerships, channels and media approaches.
- Master Multichannel marketing - utilizing a balanced, “hand in glove” approach where the traditional “push” marketing and sales supports interactive “pull” marketing (and vice versa).
- Update Sales Processes – from the old “A.I.D.A.” sales funnel to a Customer Experience Model with “points of influence” managed appropriately.
- Enhance consumer engagement, interactions and improve the customer experience. This includes being impactful (having a wider and deeper impact), being proactive, innovative, relevant/authentic to the younger members, listening to (i.e. a voice of the customer program) and ultimately, delighting customers.
- Promote operational excellence and flexible operating models that enables your business to compete while continuously delivering on the value proposition to all
stakeholders keeping customers, vendors, sponsors, investors and insurance companies (if you are a broker or agent) satisfied.

- Battle rising consumer disloyalty towards financial institutions in general – particularly TARP recipients, those deemed too big to fail (AIG), so-called zombie banks (Bank of America and Citi) and “houses of ill-repute” (J.P. Morgan Chase and Goldman Sachs) - all who have received massive fines and bad press.

- Use Data and Analytics – leverage all program information, making it actionable.

- Trim MC costs - deliver more marketing services and productivity with less costly resources. With budget cuts many marketers are forced to rethink media mix, testing plans and tighten up marketing calendars (considering seasonality and other factors that may affect a go/no go decision on a particular campaign). Shift marketing dollars to enable adoption of inbound campaigns (i.e. Paid Search, SEO, Social, Word-of-mouth, Viral video and Blogs) that have a much lower acquisition cost. Outsource certain functions--decide what you will do (and NOT do)).

- Hire and retain the right talent.

- Implement an effective Enterprise Risk Management program to deal with what an E&Y survey suggests are the top business risks that corporations are dealing with:

The Top 10 Risks
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\footnote{Ernst and Young Report: Business Risks Report of 2010. Also See http://www.ey.com.}

- Accept consumer driven creativity as the “new normal” - drive greater creativity in traditional ads, while also pursuing new ad formats and venues (i.e. Facebook) across media devices (including mobile) to attract and retain affinity insurance program customers.

- 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: support consumer and business model innovation 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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