

Innovation at Progressive

MKT7505 Strategic Market Planning
Case Analysis – Alpa Desai Gupta

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Executive Summary

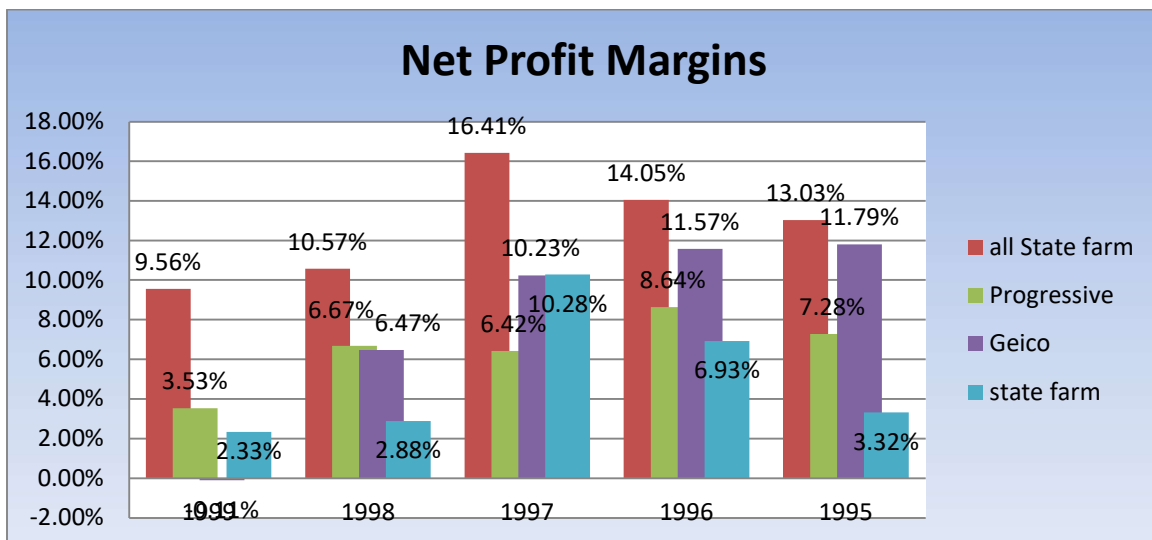
Instead of utilizing industry standard processes to calculate car insurance policy premiums, Progressive initiated a Patented technology called “Autograph”. A car insurance premium calculated on the “pay as you go basis” by utilizing global positioning system (GPS) and wireless technology to collect the data with regards to the utilization of the policyholder’s cars. Financial break-even analysis was conducted for the state of Texas. Based on the analysis if the customer base within Texas increased by 30% from the existing base (assumptions listed in the analysis) over the course of the next five years then the initial investment of the Autograph technology would prove to generate profit margins.

Company Background

Founded in 1937, Progressive’s core competency has been in auto insurance. After going public in 1971 Progressive through consistent innovation in technology was the fourth largest auto insurer in the United States by 1999. Product portfolio driven by Technological innovation combined with early to market advantages created Progressive’s leadership in technology within the car insurance premium industry. However in terms of revenue and market share State Farm and All state combined held 31% of the total market share. Specific innovations at Progressive such as immediate response in processing claims, comparison quote website and the latest Autograph are some of the key innovations described in this case.

Industry level competitive analysis

Chart below shows the % net profit margins of the largest market share holders in the car insurance premium industry in the united states in that time frame.



Technological Innovation at Progressive

Key differentiating competitive advantage was the ability to target customers based on price and specific segmentation criteria. The technology infrastructure including the underwriting software within Progressive in terms of data collection and statistically relevant analysis around customer behavior provided Progressive information which it utilized to customize its product to better meet the consumer's requirements.

The company culture encouraged experimentation and innovation at every level with specific guidelines such as rewarding people for taking risks, but acting harshly when the incorrect ideas are not spotted early on i.e cutting your losses as soon as possible. Having established a credible products and processes examples include quick claims and comparison quotes history Progressive was now looking to launch its latest innovation in underwriting car insurance premiums the "Autograph". The patented technology tracked specific information through GPS related to active use of the customer's automobile, the information was passed through cellular communication systems to Progressive's database where the automated underwriting software would then calculate the monthly premium. The product was market tested and results showed that customer's could reduce up to 25% of their car insurance premiums. The technology could increase the customer base if the value proposition was lower cost for the customer due to advanced technology.

Financial Analysis

Should progressive implement a technology "Autograph" where the consumers would pay a lower premium? Financial break-even analysis was conducted for the state of Texas based on the information provided. For the state of Texas taking into consideration the break even cost, the consumer base would increase by 30% for the investment and net working capital and capital expenditures to break even or provide marginal increase in revenue. Analysis below. Assumptions: Include cost per month for car insurance premium and discount factor.

Increase in customer base		30%				
	(\$ USD)					
	1999	2000	2001	2002	2003	2004
# of people	1100	330	429	459	468	470
Car insurance per month	\$150	\$150	\$150	\$150	\$150	\$150
Assume individual car premium per year	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800
Revenue in terms of car premium	\$1,980,000					
Impact of autograph on revenue (first year	\$495,000.00	\$594,000.00	\$772,200.00	\$825,660.00	\$841,698.00	\$846,509.40

25% reduction)						
Additional cost per consumer	\$500.00					
Total additional cost of installation (one time fixed cost)	\$550,000.00					
discount factor (assumption Beta =1)	0.0867					
Free cash flow analysis	1999	2000	2001	2002	2003	2004
Additional Earnings before interest and tax for car premium in Texas	(\$495,000.00)	\$594,000.00	\$772,200.00	\$825,660.00	\$841,698.00	\$846,509.40
taxes	0	\$178,200.00	\$231,660.00	\$247,698.00	\$252,509.40	\$253,952.82
net operating profits		\$415,800.00	\$540,540.00	\$577,962.00	\$589,188.60	\$592,556.58
depreciation	\$0.00	\$23,571.43	\$30,642.86	\$32,764.29	\$33,400.71	\$33,591.64
Net working capital	\$0.0	\$59,400.0	\$77,220.0	\$82,566.0	\$84,169.8	\$84,650.9
Capital Expenditure (technology installation charge)	\$550,000.00	\$165,000.00	\$214,500.00	\$229,350.00	\$233,805.00	\$235,141.50
Free Cash Flow	(\$1,045,000.00)	\$214,971.43	\$279,462.86	\$298,810.29	\$304,614.51	\$306,355.78
Net present value	\$1,087,895.93					
Investment	(\$1,045,000.00)					
Total Net present value	\$42,895.93					

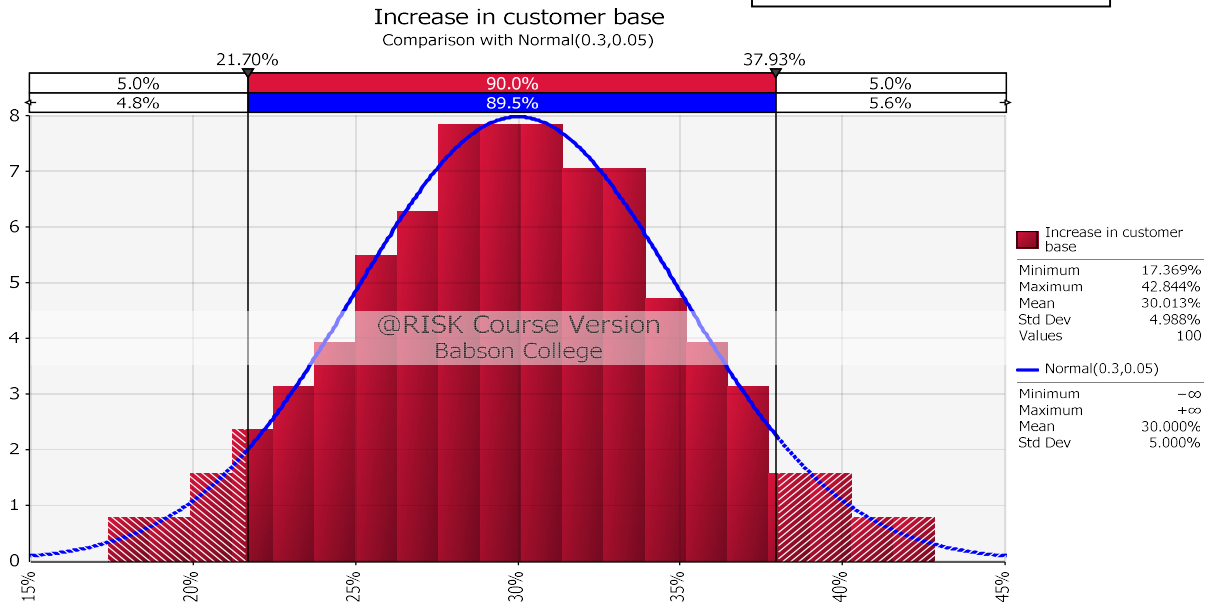
Risk Analysis

Varying the % of increase in the customer base the following risk analysis can be created. A normal distribution with mean of 30% and 5% standard deviation was used for the increase in the customer base. Charts shown in the next page.

Conclusion

If the customer base can be increased upwards of 30% of the existing customer base than this improvement in technology and process will generate higher revenue and profit margins. The assumptions need to be clarified and validated when scaling the model nationally.

Varying input parameter



Output value

