S&P Capital IQ

CONTENTS

The Progressive Corporation NYSE:PGR

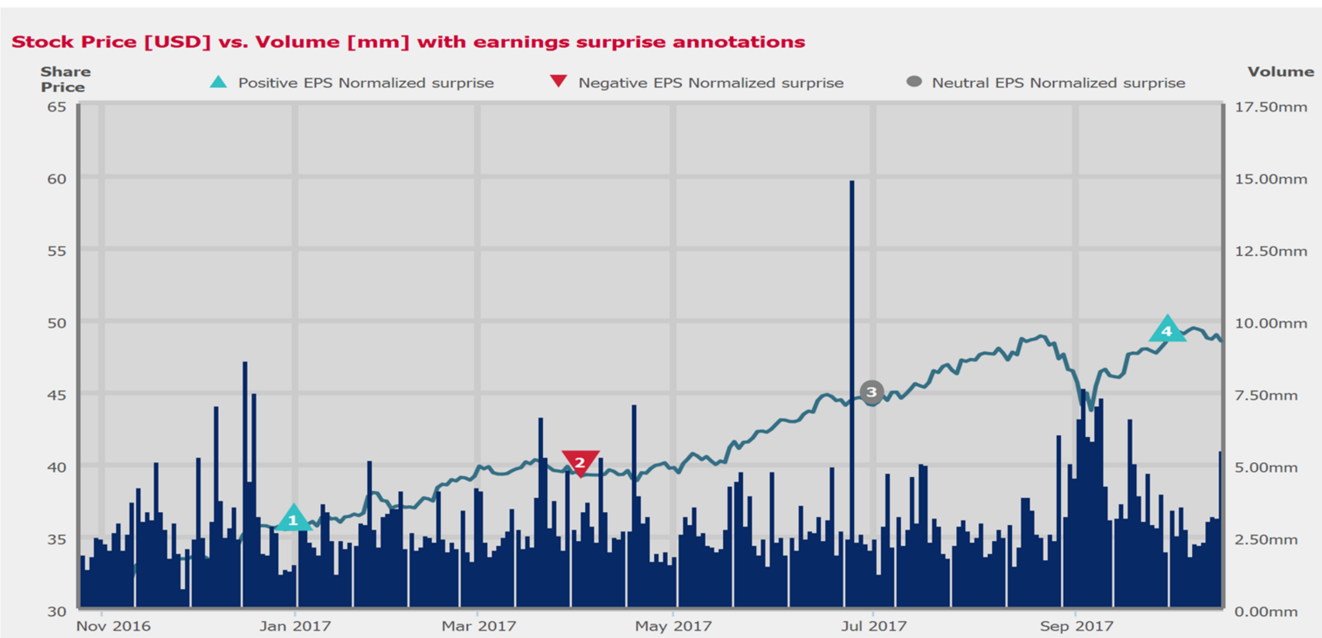
FQ4 2017 Earnings Call Transcripts

Thursday, March 01, 2018 6:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2017-			-FQ1 2018-	-FY 2017-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	0.77	0.80	▲3.90	1.04	2.44	2.48	
Revenue (mm)	6619.32	6752.60	▲2.01	7589.71	26981.45	27132.10	

Currency: USD
Consensus as of Feb-28-2018 6:41 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2016	0.51	0.62	▲21.57 %
FQ1 2017	0.69	0.67	▼(2.90 %)
FQ2 2017	0.59	0.59	0.00 %
FQ3 2017	0.35	0.42	▲20.00 %

Call Participants

EXECUTIVES

Catherine Kolodij

Dan Witalec

John Peter Sauerland
Vice President & CFO

Julia Hornack

Susan Patricia Griffith
Chief Executive Officer, President and Director

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Gary Kent Ransom
Dowling & Partners Securities, LLC

Ian Gutterman
Balyasny Asset Management L.P.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Michael Zaremski
Crédit Suisse AG, Research Division

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Presentation

Operator

Welcome to The Progressive Corporation's Investor Event. The company will not make detailed comments related to quarterly results in addition to those provided in its annual report on Form 10-K and the letter to shareholders, which have been posted on the company's website, and will use this event to respond to questions after the prepared presentation by the company.

This event is available via moderated conference call line and a live webcast with a brief delay. Webcast participants will be able to view the presentation slides live or download them from the webcast site. Participants on the phone can access the slides from the Events pages at investor.progressive.com.

In the event we encounter any technical difficulty with the webcast transmissions, webcast participants can connect through the conference call line. The dial-in information and passcode are available in the Events page at investors.progressive.com.

Acting as moderator for the event will be Julia Hornack. At this time, I'll turn the event over to Ms. Hornack.

Julia Hornack

Thank you, Latoya, and good afternoon to all. Today we will begin our presentation -- today we will begin with a presentation about efficient marketing to maintain a leading brand. Our presentation will last approximately 45 minutes and be followed by Q&A with our CEO Tricia Griffith; our CFO, John Sauerland; and our guest speakers, Dan Witalec and Cat Kolodij. Our Chief Investment Officer, Bill Cody, will also join us by phone for Q&A.

As always, discussions in this event may include forward-looking statements. These statements are based on management's current expectations and are subject to many risks and uncertainties that could cause actual events and results to differ materially from those discussed during the event. Additional information concerning those risks and uncertainties is available in our 2017 annual report on Form 10-K, where you will find discussions of the risk factors affecting our businesses, Safe Harbor statements related to forward-looking statements and other discussions of the challenges we face. These documents can be found via the Investors page of our website, progressive.com.

It is now my pleasure to introduce our CEO, Tricia Griffith.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Thanks, Julia, and welcome to Progressive's Fourth Quarter Webcast.

During the last few webcasts, we talked a lot about top line growth as far as revenue. We really outlined on the addressable market on both the auto and home side. It's almost $300 billion, of which we have about $30 billion. So a lot of runway. And we're very excited to continue to execute on that plan and continue to gain market share.

For today and the next webcast, we're going to talk a little bit more about bottom line growth, specifically efficiency. Today will be on brand efficiency and in creative. But before I go into that, I want to talk about how we think about winning at Progressive and winning in the right way. And we use what we call our 4 cornerstones: our core values, who we are; our purpose statement, why we're here; our vision, where we're headed; and our strategy, how we're going to get there.

Let me start with our core values. Our core values were penned by Peter Lewis back in 1986. And although the words have been tweaked a little bit along the years, they are really special to Progressive and really special to our culture. They are not just posted on the wall. We really try to bring them to life all the time. In fact, I think I've mentioned before, I attempt to do every new hire class across the company. And believe me, that's been a lot in the last couple of years because of our growth. And I do so, obviously, to welcome the new hires, but to be able to talk about our core values and how important they are and make sure that they know that they need to nurture our culture, and it starts with our core values: integrity, golden rule, excellence, objectives, process, all of them woven together to create a really special culture.

Our purpose. So our purpose statement is relatively new. I wrote a little bit about it in my annual letter. Our mission statement was an amalgam of some from Peter, a little bit from Glenn, a little bit from me, and it really became what we do. And for us, that's second nature. So we wanted our purpose statement to be who we are. And so we went to the company, and this statement was influenced by many different areas of the company, and we ended putting it out to a company-wide vote. And the chosen statement, which is ours, is true to our name, Progressive. What that means to me is really the first 8 letters of Progressive: Progress, moving forward, doing better today than yesterday, our rich history of innovation and transparency and always thinking how to be better for our shareholders, for each other and the customers we're privileged to serve.

Our vision. Our vision is to become consumer's #1 choice and destination for auto and other insurance. We've had this vision for some time. We added destination and other when -- full force into the Destination Era. Clearly, becoming consumers #1 choice is a big challenge. But as we continue to gain share and as we continue to help customers choose us and then choose to stay with us, we get closer and closer to that vision.

Our strategy, which is what we're going to talk about today, has 4 pillars. Let me talk a little bit about those. Our first one is our people. Our people and our culture, we believe, is a true competitive advantage. Am I going to be able to prove that on a spreadsheet for all of you? Probably not. But I will tell you, over 30 years ago, I walked into the Indianapolis claims office. My intention was not to work for an auto insurance company in Cleveland for 30 years. My intention was to pay off my school debt so I can get my MBA and go back into debt. So what I did was I got a claims rep training. I went to the claims office, learned how to estimate cars, learned how to talk to attorneys about injuries. I will tell you, about 8 months in, I fell in love. I fell in love with the people, the culture, the values and every day coming to work and learning something new. In fact, my team of 12, we have a cumulative tenure of 305 years. So it's a place where you want to say. This is something really important to us.

The second pillar is meeting the broader needs of our customers. We like to think of this as where, when and how customers want to shop. In our last webcast, Heather Day talked about our HomeQuote Explorer, you'll hear us call it HQX, just an easy streamlined way to have HomeQuote online or on your digital device. And we will continue to iterate that to make it easier and easier for our customers. Our latest innovation in terms of where, when and how customers want to shop is our Flobot, our chat box through Facebook Messenger to get auto insurance quotes. We'll continue to innovate because this is really important for us to serve any sort of a customer demographic.

Our third pillar is offering competitive prices. We do this by having leading segmentation in the industry. We do this by having great claims accuracy, which is the most of any dollar premium that comes in, and most importantly, being very efficient. The efficiency part will be the subject of our next webcast. We're going to talk about LAE efficiency and what we call NAER, non-acquisition expense ratio, and we'll talk about how important that is. When you look at the companies that grow and grow profitably, they're very efficient.

And today, we're going to talk about brand. We're going to look at it from 2 aspects. I'm going to have Dan Witalec, our leader of acquisition, come up and talk about the metrics around brand, how we use our money wisely. We have a very big budget, and we want to make sure that every incremental dollar is gone to great use. Cat Kolodij, who is our leader of marketing strategy, will be on the other side talking about that creative that works with what Dan is buying. The 2 work together, hand in glove, to make sure we are really proud of our brand. So we're very, very excited to tell that story, really about the science and art around our brand, acquiring customers and keeping customers.

But before I invite Dan up, we thought we would step back and say, what questions would you have that you would want us to answer this next 40 minutes while they talked? And here's the 5 we came up with. Are you being smart and efficient with your spend? What are you getting for the extra spend? The media landscape is changing. Are you on top of those shifts? Has Progressive evolved its messaging as our business model has evolved? And lastly, we see a little bit less of Flo, what are the results of the new creative? We hope to answer all 5 of those questions and maybe more. But again, after they speak, we'll be able to answer any other questions you have.

So Dan, why don't you come up and talk about the science around acquisition?

Dan Witalec

Thank you, Tricia. So why are we talking about marketing spend today? As you likely know, we have seen a real explosion in industry -- insurance industry advertising spend over the last 2 decades. This chart shows U.S. P&C insurance advertising from 1996 through 2016, the last year that we had industry spend available. And you could see there's been about an 11% average annual increase in advertising spend in the insurance industry. When you compare that to overall advertising spend in the U.S., only going up about 2 or 3% per year, you can really see why insurance has become one of the most heavily advertised industries across the entire country. Progressive has certainly been a big part of that and increased its spend along the way, actually slightly outpacing industry spend during this time.

So that's why we're here with all of the spend going on. We want to make the case that we're spending it efficiently, and we'll do that by hitting on these 4 different topics. So I'm going to talk a little bit about the discipline and controls that we have around our media spending. Then I'm also going to talk about our media mix, and then I'm going to turn it over to Cat Kolodij to talk about some of our efforts beyond auto and our creative network.

So let's start on discipline. The natural question is, are we getting a good return for all of that spend that we have going on? And so one simple way to look at that is are we getting incremental sales as we spend more. Here's a chart that shows a scatter plot that has media spend on the horizontal axis and direct auto unit sales on the vertical axis. Each dot here is a year. 2001 is in the lower left-hand corner, 2017 in the upper right-hand corner. So the great news for us here is that in general, we see a linear relationship. We have seen them and we continue to see a generally linear relationship between spend and sales. So as we spend more, we are getting incremental sales. And in fact, if you look at 2017 in particular, we had a large increase in our media spend, but we got those incremental sales to go along with it, even slightly above the line here. So we generally feel great about that incremental benefit we're getting.

So what are some of the controls that we have to ensure that we're spending efficiently? So at a high level, our most important single control on our spending is looking at our cost per sales and ensuring that, that is less than or equal to our target acquisition cost. Let me explain each of those. Our cost per sale is simply our total acquisition cost, which is mostly media but also includes other items like the cost to generate new creative, and we divide that by the direct auto unit sales in a given time period. So we want our cost per sale again to be less than or equal to our target acquisition cost. And think about our target acquisition cost simply as our maximum allowable spend we have to acquire a new customer. It's also how much we recover for acquisition expenses over the life of a policy. So it is fundamentally tied to how we price, and that is obviously, very important for us. But this all fits into our overall pricing and economics.

Now I'm going to show some data at a high level in aggregate for our business on cost per sale versus target acquisition cost, but know that we actually have the data and make decisions at a very refined segment level. So for example, a auto and home bundle customer in a high premium state is going to have a very different cost per sale and target acquisition cost than a auto insurance customer who rents in a low premium state.

So let's look at some data on cost per sale. So this is our cost per sale from 2010 through 2017. You can see it's actually been pretty flat over that time period, despite some pretty significant increases in spend. This is actually one chart of my presentation I don't want to rocket up into the right. We're actually pretty excited that we've been able to keep cost per sale relatively flat over this time period. Perhaps the bigger story here is that we've actually seen a nice increase in our target acquisition cost over the last several years. Now remember, we generally want our cost per sale to be less than or equal to our target acquisition cost, so we actually feel great about that gap. And I think it's really a testament to many of the Destination Era strategies we've been talking about, playing out.

So what's driving up that target acquisition cost? Probably, most notably, our retention has been increasing significantly. This has long been a goal of ours, and we are really seeing some nice benefits over the last several years. In fact, our retention is up about 15% relative to 2013. When you have customers stay with you longer, their lifetime profit increases. And so you can spend more to acquire new customers, and that is certainly what we're seeing with retention increasing. On a related note, we are also seeing a nice shift towards longer-retaining customers.

So at the last investor call, Heather Day talked a little bit about our Robinsons segment. That is our home and auto bundlers. Now they are our smallest segment right now, but they are growing the fastest, and that's a segment that retains the longest. So you can see on this chart, that Robinsons segment is growing really quickly. They retain longer as they become a bigger portion of our book. That is certainly contributing to our retention as well.

So another way to look at our marketing spend efficiency is to look at our total acquisition expenses in a given year and compare that to the projected lifetime premium of a new cohort of customers coming in, in that given year. If you look at that over time, it's actually been coming down for us. So again, we feel great about this, a nice testament to the fact that our Destination Era strategies are really paying off for us.

While cost per sale relative to target acquisition cost is our single most important control, we look at several other things that could potentially constrain our spending. So first of all, we need to make sure that our direct auto lifetime combined ratio is at or below a 96%. So cost per sale and target acquisition cost refers to our acquisition expenses, but we also want to make sure our other parts of the combined ratio still all fit together to be at a 96% or less. And we feel great about that.

We also need to be able to service our customers well. It's rare, but there have been times where we're growing so quickly in a state that we don't feel good about the staffing levels. And we have to pull back on our growth by pulling back on media spending. This hasn't been the case recently, but we always put customers first/so we are willing to do that if we need to.

And then the final constraint here is we need to make sure, as you well know, we have an aggregate, company-wide, calendar year combined ratio at 96% or less. In 2016 in particular, we were worried about our calendar year 96%, and so we did pull back on media spend that year because of that. So those are 3 key constraints.

I also want to talk about a fourth one, and that is really thinking about our incremental cost per sale and ensuring that, that's sufficient. When I talk about incremental cost per sale, I'm really thinking about the last dollar we spend, making sure that, that is a good use of funds relative to alternative uses of those funds. This is a harder thing to measure, but really critical for us to ensure that we are being efficient overall.

So as I talk about incremental cost per sale, that's a natural segue into our media mix. So media mix is simply of our total marketing spend, which particular media types are we spending those dollars on? Is it TV, digital, direct mail or other media types? So any presentation on media mix has to start with this quote attributed to John Wanamaker many, many years ago, "Half the money I spend on advertising is wasted. The trouble is I don't know which half." Our goal really is to try to understand every dollar and make sure we have little to no wasted media spend.

So how do we accomplish that? Our main tactic in trying to really understand our incremental cost per sale and making sure that we are efficient is focusing on randomized control test or A/B test. So what's an A/B test in the media space? It simply means that we will have a group of consumers, call them the test group or the B group, that will receive one of our ads and we'll compare the results or the effect of that ad to a control group, the A group, that doesn't receive that ad. So the difference between those is the lift of that ad.

Now A/B testing is not new. As long as we've had progressive.com or auto quoting funnel, we've been doing A/B testing, and we continue to do them heavily to this day. In media, however, it's traditionally been quite a bit harder to actually do A/B testing robustly, especially in our -- some of our off-line media. So I'm going to talk about that in a bit.

But let me first just give you an example of why we think A/B testing and incrementality is important for us. So here is a fictional car shopping site, where you can see a Progressive ad in the lower right-hand corner. So traditionally, how we measure the effectiveness of that digital ad is we can actually see when a customer -- when a consumer goes to this site and sees our ad and then comes to progressive.com and actually buys an auto insurance policy from us. So when we measured in that way in the past, we actually felt really great about these car shopping sites and the effect of that digital ad because we saw a lot of sales after somebody visited a car shopping site and saw our ad.

However, several years ago, as we thought more about incrementality, we added a new layer to this test. We had a holdout group or a control group that saw a public service announcement ad, like this ad here for the American Red Cross. And that group, we looked at how often they actually bought Progressive insurance from progressive.com when they saw this public service announcement ad. And we found that there actually wasn't that much of a difference in terms of sales for people who saw the Progressive ad on this site versus those that saw a public service announcement ad. So this was a great insight for us. It led us to advertise, at least at that time, much less on these car shopping sites, because we saw that we didn't get true incremental sales from that advertising.

Now the main point of this isn't specifically for this example. I think this example is unique to Progressive's particular situation and the power of our brand and our other advertising, the fact that a lot of these people who came to the car shopping site came to progressive.com regardless of whether we had a digital ad. The bigger point here is that having that system in place is the best way for us to really understand the effectiveness of our ads.

So I guess the other thing I'll say on here, you've likely heard various news articles over the last several years about how problems in digital media reporting. So there's some fraud or other reporting issues that may cause wild miscounts of impressions or clicks. This is a big problem in the digital advertising industry. We are less vulnerable to those types of issues because we are measuring incremental sales directly, and we get that data on incremental sales without having to depend as much on our partner sites. So just another reason why incremental media is really important for us and incremental sales are really important for us.

So let me now turn to TV. So you likely have also heard a lot about TV and various things going on there. Here's some data that we look at on what's going on with TV. So if you look -- this data shows total hours per week of viewing of traditional TV in the blue line versus nontraditional TV in the orange line. And for nontraditional TV, think of Netflix or Amazon Prime video. If you add those 2 lines up, you see that total viewing has actually been relatively constant over this time frame, from 2002 to 2017. But we are seeing a clear shift from traditional TV to nontraditional TV.

Now as an advertiser, the issue with that is that nontraditional TV, and again think Netflix and Amazon Prime video in particular, generally has less advertising available than traditional TV. So that means that there are fewer impressions available in the marketplace. So supply is down. Demand for this content is actually up or at least constant, which means that the cost of this media is going up, and we measure that typically in CPMs or cost per thousand impressions. That's a difficult situation to be in as an advertiser, if the cost of your media is fundamentally going up, and in some cases, pretty significantly, but we still have to hit our clear cost per sale targets.

So how do we deal with that? We've really responded by trying to be smarter about how we buy TV and building a data set to help us do that. So let me take you through the data set that we're building out and how we're approaching this problem. So we have always known which Progressive ads are on which shows. Obviously, we buy the media directly so we have a good view of that. The new data set that we have is from set-top box data or think of digital video recording devices, DVRs, from your cable companies. They enable us -- they have data that enables us to see which individual households are watching which shows. Now we've always known that in aggregate across the population, but we haven't known it previously at a household level. So if you combine those 2 data sets, you actually know which households are seeing which Progressive ads.

We also have a great view of which households are buying Progressive policies. So if you combine that Progressive sales data with the other data I talked about through a third-party matching service, so we actually don't see any of the individual household data, that's all anonymous to us, but we are able to then link which Progressive ads are linked to actual Progressive sales.

That may seem like a pretty simple thing, and honestly, in the digital space, we've had this for a while, but in TV, this is a real step forward for us. This type of data allows us to do things like look at a frequency versus response rate curve in TV. And frequency, let me just explain real quick, that's not how many accidents you get into in a given year. In this context, it is how many Progressive TV impressions, TV ad impressions face -- household sees in a given week. So you can see, as they see more Progressive ads, the good news is they're more likely to buy a Progressive policy. But there is a diminishing returns nature to that curve. So that first Progressive TV ad impression is worth a lot more to us. It's much more likely to get a boost in Progressive sales than the 9th or 10th ad that a viewer may see in a given week. So the fact that that's the diminishing returns curve isn't new news, but having the specific quantification of it is very valuable for us.

We also can now see, for individual programs, a frequency histogram. So we know what percentage of viewers are seeing their first Progressive ad on that TV show in a given week versus their second, third, fourth, fifth, or sixth. Let me share a quick example of how we actually use this to make decisions. So let's take a given program that we're advertising on with a particular Progressive creative. Let's say it has 1 million impressions, a cost of $15,000, so it's CPM is $15. We've always had that information. The new information is we now have a good view of the frequency histogram for that particular show. So we know how many viewers are seeing that ad for the first time in a week versus the 10th time. And then based on the frequency response curve I shared on the prior slide, you can actually calculate the incremental sales from that TV ad and then the incremental cost per sale as well.

So let's compare that program A to a different program. So consider it maybe a high-profile award show or something like that, that might be a little bit more expensive. So this case -- in this case, program B has a CPM of $18, so more expensive than program A. But the frequency histogram is very different in this example. You have a lot more viewers who are seeing their first or second Progressive ad of the week on that program, and remember, those first impressions are so much more valuable to us. So we're actually able to put a value on those and actually generate more incremental sales from this program than program A and, actually, despite the higher cost, have a lower incremental cost per sale from program B relative to program A.

So this is a really powerful data set for us and really shows how we're able to tie some great external data to our Progressive internal data and knowing our economics to make the right business call, not just on cost of impressions, but really cost of incremental sales. We actually buy a lot of our media in-house. And having this type of data available to our buyers is hugely important. In many cases, as the buyers are negotiating with networks, it may mean that they simply walk away from deals if we can't hit our incremental cost per sale target. In other cases, it means we're able to negotiate harder knowing exactly what we need in terms of a price to be able to hit our goals, and it's been a really powerful benefit for us. So that's a TV example.

To be clear, digital is really important to us as well and, in fact, has been growing quickly as a part of our overall media mix. In fact, digital is our single largest media spend category right now, and there are several kind of established platforms that we're on. We're also constantly testing at newer platforms. So video, we referenced before, certainly, YouTube, Hulu, others. We are advertising on and continuing to test there. Mobile is a huge portion of the new quotes that we get. Actually start on at mobile device, and so we are advertising heavily on mobile. Social is certainly another big category, especially as we go into homeowner's insurance. We've found some new social networks that are particular interesting to us in that arena. Games are not just for teenage boys anymore, especially in kind of the mobile social era. Games are huge, so we advertise within games. But we've also created several games from Flo or Superstore that our customers can play and are natural advertising tool for them -- for us. And then certainly voice. As that really explodes recently, we are testing with voice assistance and in podcasts and other areas. So a lot going on for us in the digital arena.

So in my portion of the presentation, I really focused on incremental cost per sale or the acquisition economics to bring in new customers. What's really exciting for us as we look forward though, we have new data sources and new information to make some of our media and marketing decisions. We, for example, now can often understand not only the impact of an individual media type on acquiring new customers, but also its impact on retaining existing customers. I shared earlier just -- the importance of retention in terms of driving our overall budget and our allowable target acquisition cost. Obviously, if you have an ad that can increase retention, it becomes that much more valuable to us.

In addition, increasingly in some media, we're able to tie a specific media type to individual customers that, that media type is bringing in. So we can then look at the profitability of those specific customers by media type and really factor that in, along with retention and the acquisition economics, to a unified lifetime value model that helps us make smarter decisions in media. So for example, we may have had a media type previously but had a great low incremental cost per sale. But then we may have found the customers that we were bringing in from that media type at a high loss ratio or low retention, which certainly would make us feel very differently about how much we're willing to spend for that media.

Where we're really going is expanding the lead that we've always had on the pricing side of our business and segmentation and really applying that to the marketing arena. I started at Progressive as a State Product Manager. And segmentation, the importance of segmentation was drilled into my head. And I think we have a ton of opportunity to really take those learnings from the pricing side of our business into marketing and ultimately get to the right message for the right person at the right time. That's not an easy task, and we're not completely there yet. But we have the right team and the right systems in place to really get there over the next several years. I couldn't be more excited about the opportunities ahead of us.

Now the marketing and media engine that I talked about wouldn't work for us if we didn't have really effective creative that resonates with our target consumers. So I'm going to turn it over to Cat Kolodij to talk about that.

Catherine Kolodij

Well, thank you, Dan. I think we've made it pretty clear why marketing loves to work with acquisition. In fact, Dan did a really nice job of explaining how we measure and distribute our marketing message is critical in today's highly competitive environment. Now we're proud to be able to do so efficiently and effectively because of this disciplined approach to media planning and buying.

As we flex our marketing edge in for the Destination Era, what we say and how we say it is going to become as important as where we say it. I'm thrilled to be able to take some time with you today in order to talk about how we're expanding the brand so that we're known for more than just auto and also how we're evolving our creative platform so that we really can manage a network that's more likely to connect with more types of people.

Now with everything at Progressive, we've taken a disciplined approach to both message development and creative management in order to generate growth. Let's talk a bit about how. Let's begin actually by talking about how we are efficiently expanding our brand beyond being known as an auto insurer.

Now a moment ago, Dan spoke about the importance of driving shift in our customer mix. In order to attract additional customer segments, we actually need to improve how we talk about our product and the kinds of services that we provide in order to meet the new and emerging needs of these segments, and specifically, meeting these needs as they evolve over their lifetime. This means we need to expand what our brand is known for, which means we have to begin with a customer segmentation.

Now as a reminder, you've probably seen this before if you've actually been participating in some of our webcasts. But we have 4 major consumer segments. The first 2, Sam and Diane, have simple insurance needs. Sam, our frequent auto insurance shopper, they're often driven by price. Diane are our biggest customer segment. They also are interested in price but for a very different reason because Diane are trying to save money in order to fund major life events. So both Sam and Diane are interested in our price space message but for very different reasons. And both Sam and Diane will always be our core audiences, and they remain vital to our growth. And in fact, most of our broad-based marketing is targeted to their needs.

Now our emerging segments are our homeowner segments: Robinsons, who bundle their home and their auto together with a single insurance company; and Wrights, who are auto owners, but they actually have insurance for their home with a different carrier. Now homeowners, as a group, tend to really not want to shop a whole lot. So they're really great for our customer retention but not really good for our customer acquisition. Per previous broadcast, we've actually talked a lot about our strategy to focus on the younger segments, and we continue to do so today.

Because of the inert nature of homeowners, we focus our acquisition efforts on a group that we call future Robinsons. With a more favorable opinion of Progressive and a more active shopping behavior, we actually think that this segment is perfect for us and shows great promise. Now our strategy is to attract them and retain them so that as their needs change, we actually can graduate our future Robinsons into Robinsons. But to do this we have to first understand who are they and what do they need, and in particular, what do the Robinsons need.

So who are the Robinsons? Representing 41% of the auto and owner households in America and 7% of our customers, now that's the percentage of households that we have, not necessarily the percentage of premium, the Robinsons segment bundles their auto and home insurance with a single provider. Now savings do remain important to them and is a key driver of bundling. Savings is not the only reason they bundle. In fact, many Robinsons bundle because they do have complex insurance needs. And by keeping all of their insurance with one insurer, it actually just makes things a whole lot easier.

What is interesting is many Robinsons need to insure much more than just their auto or their home. In fact, our research indicates that up to 16% of Robinsons have other things in their garage, other things that belong in our special lines product portfolio, like motorcycles or boats or RVs. The thing is that, given our leadership position in special lines, we feel really good about our ability to cover all of their needs, whether it's auto, home or even more.

Now as you might imagine, it's going to take a little bit of time for us to build our reputation among the more mature Robinsons. However, the same isn't true for their younger generations. In fact, if you take a look at the future Robinsons, their needs are much more aligned to what we can offer today. Let's take a look at the chart on the right. If you take a look at the red dots with the dark outlines, those are the Robinsons. You can see their needs diverge greatly from that of the other segments. Now if you take a look at the red dot with the hash, that's actually our future Robinsons. Their needs are much more closely aligned to the other segments that we've always been very successful with. And we think because of that, we're going to be building on a solid foundation with our future Robinsons.

Actually, let's take a closer look. You probably already understand that Progressive has always been known as a value brand. This is a position that we really do want to maintain in the future years. Historically we've actually put a lot of money into our savings or price-based messaging in order to build up this value reputation. But the thing about value is that it actually has 2 parts. Price is very important, but so too is quality. Now we know our reputation as a quality provider will be increasingly important to us as we grow. After all, I just got through telling you that quality is actually quite important for our Robinsons.

Here, you'll see a chart illustrating the degree to which people believe that Progressive is actually a quality brand. Here, quality is a 10 attribute number that include statements like: cares about customer, gives me confidence, resolves problems quickly or is a company I can trust, just to name a few. Now as you can see here, we actually do fairly well across all the segments. After Sams though, future Robinsons have the second-highest perception of our quality. And after that, it's Diane's. So building on our quality perception is actually increasingly important for us as we expand beyond our Sam and Diane cores.

Now to be clear, this is going to be a balance. Let me talk a little bit in what way. You also probably have seen this before. We actually measure our position in the marketplace on a 2 by 2, where savings perceptions are actually on the vertical axis and quality perceptions are on the horizontal axis. As you can see, the top 10 national carriers all cluster in the lower left quadrant with Progressive leading the pack.

Now unlike Dan's caution that we don't want to see the cost per sale rocket up and to the right, we'll be okay with this perception rocketing up into the right.

So let's take a closer look. Zooming in, you will see that Progressive is leading the top 4 auto carriers in price perception and is slightly lagging another major carrier in quality perception. Now to be honest, we actually do like our position here, but we do think it could get just a little bit better. So we will begin to change our messages so that we have more quality messages. And the truth is we think we have a lot of quality stories to tell, whether it's about our product or our service. However, we will always be a value brand. This means we will maintain what we internally call a price plus position. We will seek to improve perceptions of quality while maintaining our price perception.

Now one way to do both at the same time is to consider looking at -- sorry, to focus on looking at considerations. Let me talk about how. When we look at consideration across our segments, like many insurance companies, we're actually doing very well with our customers. As you can see here, future Robinson customer have the highest consideration of all our segments. This is a strong indication that we're going to do well as these segments graduates to Robinsons over time.

Now the story actually changes just a little bit when you take a look at prospective customers. Prospective customers' consideration is actually significantly lagging that of our customer. Now as I mentioned, this is not unique to Progressive. In fact, many major carriers have a very similar picture. This is because people tend to trust their insurance carrier more than the rest of the entire industry. But if you take a look at our claims satisfaction ratings and our long customer retention among Robinsons, it's really clear that our customers know and understand us far more than prospects do. In marketing, it's our job to tell the story of how we take care of those customers more broadly so we can shape the opinions of both our customers and prospective customers at the same time.

Now doing so with discipline is going to be extremely important. I want to take a few minutes to talk about how we might do just that. What you can see here is a chart with the 5 major attributes that actually are most correlated with consideration. In other words, these are the things that people believe are true about a carrier that they would consider for their insurance needs.

Let's take the first attribute. Our model shows that if you believe Progressive is for people like me, then you are many, many times more likely to consider us for your insurance needs. So how are we and other insured doing against these 5 drivers of consideration? Well, the answer is just okay. If you take a look at the chart, you'll see that between 20% and 30% of people believe these attributes are true of any of the major carriers with only one carrier doing well again is for people like me.

So what does this mean for us? First, there is a big opportunity here to focus our messages and our stories on the things that are more likely to help people believe that we are this kind of company. In fact, we've recently done just that. We've increased the number of messages that we're delivering in mass media so that they're more aligned with homeowner insurance. Why do we do this? It's because the easiest way to show that we're for people like me is to talk more about the products that people like me need. And for many of those, that's home. It's one of the reasons that we've actually increased that message, to be almost 40% of the market with a target of 40% by the end of the year.

Second, we think we have an opportunity to focus innovations, to solve for these needs. So that in the future, we'll have more stories to tell that are more likely to drive up consideration. Now don't get me wrong, we actually do believe and are beginning to tell stories about our products and services today that we think will do just that. But believe me when I say that Dan and I are very excited about the possibility of the new stories that we'll be telling about our innovations in the years to come.

Now I'm going to shift gears for a second and talk about how quality is important, not just in our consumer marketing but also with the relationships that we have with our agent partners. Now you heard Dan talk a lot about our direct marketing business, and that's clearly important for us as a company. But it's not the only thing that's important for our growth. Agents have always played a critical role in everything Progressive. After all, we do know that preferred customers do tend to trust and like the advice and counsel that their agents give them.

Now we feel fortunate that we're actually the most advertised brand in the independent agent channel. And we know that from speaking with agents, this goes a really long way. We know that because agents feel like we have a brand that people can trust and because they believe our brand is getting better over the years, they have greater confidence recommending Progressive to their customers.

But to be a good partner, our brand reputation is not just enough. We have to be a supportive business partner too. And it's for this reason, that we will continue to be investing in the things that we know our agents need, like more advancements in technology, building stronger business relationships with our agent partners and improving customer service.

The strength in our agency channel -- we've actually just recently launched another brand campaign to help tell a different kind of story of the power of the partnership with Progressive. Let me show you just a couple of examples. This campaign is called Agents Of, and it actually turns the camera from focusing on us to focusing on our agents. And we think it does a really nice job of telling the story from an agent's perspective while occasionally talking about the benefits of partnering with Progressive. We think this partnership is going to be critical in our future, and we will continue to do everything we can to improve this.

One of things we've been doing to improve it is by doing optimizations to drive referral traffic from progressive.com to our independent agents. In fact, we have seen since 2016, a 52% increase in "find an agent" activity on our website. We're really happy to see this and hope that this growth will continue over time because we know that our agents play a very important role in preferred customers' lives, and we will make sure to do everything we can to support it.

So I hope that, from the first part of my presentation, you understand that we're doing everything that we can to expand our message so that we tell stories about the things, the products, the services that these new and emerging segments need most from us.

I'm going to shift gears a little bit and talk about our campaign management. Now for anyone that has ever heard any of our broadcast before, when we talked about marketing, you know that we manage our brand like a network, and we will continue to do so over time. And as most of you know, the centerpiece of our network has always historically been Flo. Over the past 10 years, Flo has played an important role in establishing our brand and making it recognizable in households across America. She has always been a representation of our employees and a reflection of our culture as being approachable, open and honest. We're very grateful that Flo has helped us tell a story that's going to allow us to differentiate our brand in what is obviously a highly competitive category.

The thing is, is that Flo is both a strength and a weakness. She is highly recognizable, and in fact, she triggers a memory of what everyone already knows us to be. That means they often think about how we make it easy to shop and save for insurance, specifically auto insurance. Now while that's a really great thing, it makes it very hard to deliver other kinds of messages in a way that will get attention. What you're going to hear today is a story of how we're managing our network by broadening the campaigns that we have in order to have different kinds of campaigns that might be more relevant to different people at different points in their lives so that we can make sure to build the core, but also expand to meet the needs of our emerging segments.

To do so, we actually have 3 campaigns that we orchestrate together. Now most people when they think of our brand, they think of Superstore. In fact though, we have 3 campaigns. Yes, Superstore is definitely one of them. And when we talk about Superstore, we mean it's a campaign that you usually recognize from us. It usually has Flo or other shop assistants and/or The Box. We will continue to have this campaign in markets because it will continue to be our shopping campaign. We will continue to deliver stories about how we make it easy to shop and save for your auto insurance because that's important to our core.

But what's equally important is telling a different kind of story for the different kinds of audiences. So let me talk about the 2 campaigns that we're managing alongside Superstore. The first is something that we call "Funny Because It's True". This is a platform that we consider a relevancy platform. It's designed to help people take a second look at Progressive so they maybe wonder, do I really know all that they can have to offer.

The third campaign is one that we're calling Extend. Now the Extend platform is our service platform. It's designed to help people see themselves staying at Progressive.

These are 3 platforms, 3 strategies all designed to expand the brands for the Destination Era and each playing its unique role. I'd like to take a few minutes to do a deeper dive into each, starting with the Superstore. Now the Superstore, as I mentioned before, is the world of Flo. It's comprised of a store, characters and icons. Now as I mentioned, this campaign will continue to be important to us as long as it continues to perform well and contributes to our business growth. Celebrating 10 years this year, marketing will continue to evolve this campaign to ensure that it continues to be relevant.

Now here are couple of ways that we're doing so. You've recently seen greater integrations with pop culture, to make sure that we are continuing to have a relevant conversation and maybe introduce something that's me, more me, me-worthy. You've also seen us introduce other characters, characters that might look a little bit more like the kinds of customers that we're hoping to acquire. We've increasingly been creating new situations like Superworld, where somebody in a man cave is turning white just like it's turning into a Superstore, or lab, where we launched our HQX or HomeQuote Explorer platform. We think lab is a great platform for us to talk about future innovations. And finally, we have spinoffs. These are ads that are driven by characters that originated with Flo but have gone on to be the future or the star of a different creative execution. A good example of this are our Rivals or The Box.

By changing how we tell our Superstore stories, we keep the concept fresh. By treating Flo like more than a character, we think we can have the brand live on for even longer. Let's discuss how. What you can see here is something that we call the Mark of Flo. This was actually introduced a few years ago internally, but actually has become much more important for us over the years because the Mark of Flo is helping us transition Flo from a character on television to an icon that can leave into perpetuity. Though it has only appeared in a couple of spots, people are already recognizing the Mark of Flo as belonging to us. In fact in recent research, 61% of people age 18 or older recognize the Mark of Flo as belonging to Progressive or as being Flo. This is really good considering that these numbers are rivaling that of icons that have been in the market for years or even decades longer. So we feel really good about the promise that the Mark of Flo represents for us as a brand.

What's even more powerful is the kinds of attributes that people associate with a company that might have a mark just like this. In fact, asking those same people what they would think about a company that has a mark like Flo, they say, "Well, I would believe it has friendly, personal and accessible service." Or that it would care for customers or is for people like me, remember, an important driver of consideration, or even as an industry leader.

Now over the next few years, marketing will continue to build equity in our mark so that Flo will withstand the test of time. Now as with everything else that we do, we're going to do this with discipline. The Mark of Flo will be a symbol of our promise to customer, appearing as the Flotection badge, reminding customers that we will protect them and the things that they hold dear.

She will also fulfill her ultimate destiny to be an assistant appearing in all of the channels that are emerging, where people are going for service and for help. In fact, Tricia already mentioned an early example of this with our Flo chat box app in the Messenger app. Now this is built in an AI platform and is a highly branded virtual assistant that answers questions you might have about insurance, what is Flo's favorite color or even start a quote. What we love most about it is that Flo's personality, her approachability and her spirit will continue to live on even if it's in the virtual channels, where people are increasingly going for help.

Now the service brand that we've been talking about for years is our Extend platform. Now we know that our customer brand will become increasingly important as we look to retain more and more of our customer base, and we will continue to optimize our Extend program in order to do that. Take for example the e-mails that you see here. These are our renewal e-mails. And they were launched in order to read help customers see the value of the relationship that they have with us and to build confidence that even as their needs change, we will have what it takes to make them happy so they may stay.

Now this brand, this platform was actually launched in creative communications and focused on the areas where people were either the most confused, felt the most frustrated or, in fact, were disgusted with us from us the most. This means that we're focusing Extend on onboarding, renewal and talking more about our loyalty program.

We feel really good about the partnership between marketing and the customer experience group in building a new branded experience that, today, has showed great promise and an ability to extend relationships and extend PLE. But what's even more exciting are the places where we're bringing Extend. Because it's our service brand, it should not just be reserved for customer marketing. In fact, with the launch of Progressive Answers, we brought the -- sorry, Progressive Answers, let me explain what that is. It is a website that actually allows for people to ask questions they might have about insurance, and we will give them simple answers, ones that they can actually understand. We think that there's a great opportunity to bring the Extend platform into the broader prospective consumer space so that we can show people just what it's like to be taken care of as a customer at Progressive.

Now finally, I want to talk about the third campaign. It's dubbed Funny Because It's True. This platform was actually meant to encourage people to take a second look at Progressive. Using humor to talk about a human truth that is highly recognizable, this campaign is meant to be a bridge from the humor and the "not taking ourselves too seriously" aspect that people have come to love about the Superstore and Progressive brand overall.

Our Funny Because It's True campaign launched with an online video quite a few years ago. Today, it has successfully helped young homeowners quite take another look at Progressive so that they might see that they really haven't outgrown us, even if their insurance needs have become a little bit more complicated. Focus on moments when they're experiencing some kind of life transitions, those moments that we call grown-up moments, this campaign is helping to position Progressive as being there and helping them navigate change over their life.

Now recently, our campaign has focused on the moment that you first become a homeowner. With the launch of Parentamorphosis, this campaign takes a human truth that when you start to realize the responsibilities of owning a home, you start to become a little bit like your parents. With the success of this campaign, we actually continue to evolve it with the launch of Prized Possessions. This campaign was driven by the insight that you have a couple of things in your household that are really precious to you and maybe nobody else understands it, but we believe if it's important to you, then it should be protected. And we will hear -- we are here to help you with that. You can expect to see a lot more of these campaigns in the future, particularly with an expansion into a campaign for the small business owners.

Now Tricia mentioned that we often get questions about, "Well, I've seen a little bit less of Flo. How are these campaigns without Flo doing?" I'm really happy to stand here telling you that Parentamorphosis, which was launched across both digital and broadcast channels, is among our highest-performing campaigns in terms of both auto and home quotes. And as a result, we're actually graduating the Parentamorphosis campaign into our anchor campaigns.

Let me talk quickly about how we're doing just this. When we think about our campaign and we're managing it like a network, we have our anchor campaign. That is Superstore. Both Extend and Funny Because It's True are pilots. As the pilots continually show performance, we will graduate these to the status of anchor, which is exactly what we do with Parentamorphosis. And as this graduation happens, we will actually be able to test into new and emerging campaigns to feel the response.

So Dan told you about the complexities of managing both media and message across a complex ecosystem. Let me quickly step you through an example of that for future Robinsons. We launched heavy strong stories in awareness channels, developed content to drive up considerations in digital channels where people go to seek for information. And finally, make sure that we had quoting creative in channels where they go for shopping. We think by orchestrating our message and our campaign across the different channels that people are naturally going to for information, we're going to be able to expand our brand efficiently over time.

So in summary, as we increase media spend to drive new business growth by diversifying message and launching more relevant creative, we will drive up demand and shift the customer mix to higher retaining customers, which, in turn, will help increase our customer retention, allowing for a more efficient growth in our book of business, which, in turn, increases our efficiency so we can invest more in media. It's something we like to call the virtuous cycle, and something we're very proud of and will continue to nurture over time.

So thank you for your time. Please give us a few minutes as we set up for Q&A.

Julia Hornack

[Operator Instructions] Before taking our first participant from the conference call line, Tricia and John would like to answer a question that is likely on the top of many minds.

Susan Patricia Griffith
Chief Executive Officer, President and Director

So John and I are were talking a couple of weeks ago and considering a lot of the questions we're seeing around the Tax and Jobs Act of 2017, so we thought we'd get out in front of it and how we think about it really from all 3 constituencies, which all we are both aware, both customers, employees and stockholders. So we're going to answer sort of a high level. If you have other questions, we can answer them. We also have our resident expert. [Jim Cruzman] in the audience, if you want a deep dive into anything tax-related.

So let's think about investors. So as a growing company, we need more capital for more growth and to satisfy our regulators. So any profits will help with that. It's always our first choice to reinvest in the company. In addition, our annual variable dividend considers the tax rate. So all things equal, we'll be about 21% higher. So that's really how we think about it from an investor perspective, growing the company and our annual dividend.

When we think about customers, we sort of put customers and communities together. So we have a Progressive foundation. It's been in force for over 15 years, and our employees really like it because they're able to give and get a match up to $3,000. In fact, the average amount we paid out of the foundation over the last 5 years has been $4 million a year, and they can give as long as it's a not for profit of 501(c)(3) to either national or local communities, a lot of people love giving to the local communities, which, of course, where our customers are, to churches, to schools. And so we continue to fund the foundation. And because it's based on underwriting income, it will also, all things equal, increase about 21%.

In addition, it is the Tax and Jobs Act. And so since the beginning of 2016 to today, we have hired over 13,000 new external hires. So having those jobs, and they're not just in Cleveland, they're around the country, specifically in the claims organization and the CRM organization, having those robust jobs, we believe, really help the communities that we serve.

And lastly, our employees. So we are market-based for both compensation and benefits, and we'll continue to be market-based. As the market changes, we will shift, and we'll watch any inflationary trends. We'll look for key indicators like high turnover in area or people not accepting our jobs. We no longer ask for your prior compensation, but people might give us some anecdotal information, so we are prepared to shift as the market shifts.

In addition, and this isn't related to the tax plan but how Progressive has always thought about employees is really through our gain share plans. So I know a lot of companies gave onetime bonuses, which I think is great. We have had a gain share plan for over 25 years. And in fact, last year, to gain share of 1.79, our median bonus was $8,100. So our philosophy has always been when we gain, we share with our employees and our shareholders.

So that gives you kind of an overview of how we've been thinking about the tax changes. And now if you want to open it up for other questions that would be great.

Julia Hornack
Great. Latoya, we will now take our first question from the conference call line.

Question and Answer

Operator

The first question comes from Ian Gutterman of Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

So I guess, first, just to follow up on what you're talking about on the employee growth, I think there was a newspaper article around you and they suggested you were hiring 7,500 new people, which is, I guess, a 20-plus percent growth rate. And given there's probably a little bit of wage in there too, should I -- does that put pressure on the expense ratio? Or am I reading too much into that? Is that a gross number, not a net number as there's attrition that offsets that? Just how should I think about that?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes, Ian. There'll be some attrition that offsets that. What we've been trying to do is grow in customer-facing organizations. We've been trying to keep our non-servicing headcount fairly flat and add when we need to. But again, as we grow, it's a ratio of our premium. So as we've grown and added people, it's worked out. So it hasn't put the pressure, you would think, on our expense ratio or LAE.

Ian Gutterman
Balyasny Asset Management L.P.

Got it, okay. I actually was going to ask you on LAEs, but you got that. So then just one other topic real quick is on capital. I think there was some language in the K about essentially the strain from growth, and you mentioned maybe having to raise some debt. I guess I was hoping you could give a little more detail on that. I guess as I was -- I was just taking sort of consensus numbers just as a proxy. And it looks like if I look at where premium growth is in Street models, that requires at a near 3 to 1 as much as $1.5 billion of capital for growth, which is greater than your dividend capacity. So when I look through that, it seems that I shouldn't expect much of a [stack dividend this year. Is that the right way to think about it, that essentially earnings growth is going to fund the growth and the [stat] dividend will be kind of small and the debt will pay the corporate dividend, the debt raise?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Here's how I would think of it, and John you can weigh in. Earnings are a material source of our capital. And when that's not enough, then you could expect that we'd go to the capital markets for more. So we do have a lot of earnings coming in, but that's how we think of it. And literally, John and I and Bill Cody from our capital management and Patrick Brennan, our Treasurer, we talk about the capital all the time in terms of how we can continue our growth, knowing the regulatory constraints that you put on a 3 to 1 on the auto, and so we think about that all the time. But earnings will be a material source of our growth. But again, we could expect to go to the capital markets if, in fact, we need more.

John Peter Sauerland
Vice President & CFO

And to that, you mentioned our dividend. Our dividend is an annual variable dividend and is tied to our gain share score, which is a function of growth and profit across our business lines multiplied times 1/3 of our x [stats] under the income. So we have established that dividend program for the year. And we would use any capital beyond that, obviously, as efficiently as possible, and today, that means reinvesting it in the business.

Operator

The next question will come from Gary Ransom of Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I had a question on the announcement that came across recently about Uber and your relationship with Uber that it has expanded. I know you went into Texas a couple of years ago, but you haven't talked about it recently. And it seems like it's an important source of additional data that can be used in Commercial Lines, and maybe there's some overlap with what you learned in Snapshot with that. I wondered if you could just update on how you're looking at that program, what it might mean for your data analytics in the long run and any other thoughts you have on that program?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Thanks, Gary. Yes, so we started with Uber in Texas in 2016 when -- it was a pilot on the Commercial side, and we've been learning a lot and of course this move from pilot last year to full borne. Then we've added on as of today, Arizona, Colorado and Florida. I wouldn't say it's necessarily related to UBI. I would kind of bifurcate those. But I would say that we're learning a lot about the transportation industry and the TNC industry. And so we're really excited to continue to work with Uber and add on 3 more states. Again, because it's new to us, we're going to take a measured approach, and I think we're really excited about that. But I wouldn't necessarily correlate it to our usage-based insurance.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Maybe you could talk about a little bit then about the usage-based. Is there anything that you've learned or discovered? Or just update us how powerful you think your Snapshot program has become.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes. What I would say is we're really happy about the mobile device, specifically on the direct side, and the take rate on the mobile device. And so we're learning more and more, and I would say we're learning more and more about distracted driving. We're not ready to use that data in rating, but we're learning a lot. So more to come on that. It takes a while before you gather. And our customer still have the option to have the dongle or the mobile. But we're finding we're gathering a lot of data on the mobile, and we're learning, I would say, very interesting segmentation things around distracted driving.

Julia Hornack

All right. Latoya I'm actually going to take a question from the webcast now. The next question is frequency was a surprising benefit in 2017 and one that you probably didn't plan for. In fact, I think we've said we didn't plan for. How do you view giving back some of -- the possibility of giving back some of that "excess profit" to further accelerate growth?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes. So when we think about -- yes, one, you'd -- it's really hard to understand and predict frequency. And in fact -- so the last trailing 12, we have been -- we've had our frequency much more negative than the competition. Third quarter 2017, the rest of the industry kind of changed a little bit, as we saw from PCI results. So we're seeing it as an industry. Again, we don't necessarily bake that into our rates. We don't see where we're at as of the end of 2017 or even January as excess profits. We think about it as continuing to invest in the business. And again, this is very capital-intensive when you think of the regulatory capital that we have to have. But in addition, I might think differently if we weren't growing. So we have that balance of growth and profit. And so I believe we're in a really sweet spot in able to grow really fast and make, at least, $0.04. Remember, it's at least $0.04. We want to do both. And if either one of those change, as you know, from 2016, we will monitor that and react to that. But we're going to need capital to grow.

Julia Hornack

Thank you. Latoya, if we could take the next caller from the line please?

Operator

Yes. The next question comes from the line of Brian Meredith at UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Tricia, I'm just curious, as I look at your loss ratios and loss ratios going forward, are you seeing a benefit from the Robinsons on your loss ratios kind of increasing the mix? And is that perhaps maybe mitigating some of the kind 10-year effect that you typically see with the growth you're putting on?

Susan Patricia Griffith
Chief Executive Officer, President and Director

We would say that our Robinsons are considered lower pure premium, in that they're less likely to get into a loss. The hard part is we look at everything so granularly in terms of states, channels, the products, and I think you would see -- what you'll see probably more movement on, when you think about ratios, would be more on the LAE or NAER side. Do you want to add anything to that?

John Peter Sauerland
Vice President & CFO

Yes. I think you start hitting on the fact that we priced all segments to a common combined ratio target. And the preferred segment, we look at both the loss side as well as the expense side. So both of those are considered in the pricing. There are some segments that drive higher expenses. We build that into the prices as well. So you will find segments for our business that have actually lower loss ratios, higher expense ratios than perhaps the Robinsons in aggregate. But the point is, is that we are looking very granularly at each segment and making sure that we're pricing to the same lifetime combined ratio target.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then my second question, I'm just curious, going back to the tax stuff, and thanks for the -- your answers there on that one. But my question is more from a regulatory perspective. How do you deal with regulatory potential pushback? Do you expect it, particularly when you make rate filings? You've obviously got very attractive margins and returns right now. Are we going to see pushback? And how do you respond to that?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I haven't -- it's too soon to tell would be the answer. I haven't really seen -- we have good relationships in the 51 jurisdictions that we're in. Really, a regulator's job is to make sure that we are not excessive, inadequate or unfairly discriminatory. And if they look at that and they -- we have actuarial justification, that should really be the job of the regulator. And so again, it's too soon to tell, but we have not had any pushback at this juncture.

Operator

The next question comes from the line of Yaron Kinar of Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

I had a couple of questions. First, on the Snapshot mobile device. Tricia it sounds like one of the aspects of the device or the app, sorry, may give you access to is distracted driving behavior. Are there any other real significant differences between the data collected on the mobile app as opposed to the dongle?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I would say it collects the same as the dongle, and then we're able to see if you are -- if it's handheld, a call or an app and hands-free. So we're able to see that, and not sort of using that for rating but just understanding that, as well as location. So those are the things. Again, we're not rating that. We're just gathering data to kind of understand if it correlates to different losses depending on what we see.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Got it. And then the other question I had was more on the agency side. So I think you had added about 1,500 new agencies in 2017. Can you maybe talk about what the main drivers for that were? And then is there any difference in the profile of these agencies?

Susan Patricia Griffith
Chief Executive Officer, President and Director

No, I wouldn't say so. I mean, we have a very broad distribution of agents. And if we believe they follow our values and they will sell our products, then we will likely have them be a part of the Progressive family. So they're kind of strewn across the country, 35,000. So some come and go, but I wouldn't say they have anything necessary. The different agents that we talked about in the past really are around our Platinum agents, which we give a different commission base to and access to annual policies on the auto side as well as the home and the ability to earn more, depending on how many Robinsons that they get us.

Operator

The next question will come from the line of Meyer Shields of KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

John, I want to dig in a little bit to one of your earlier responses when you talked about pricing to lifetime profit. Does that imply a bigger initial, I'm going to call it, new business penalty on the Robinsons because they're expected to stick around for a longer time?

John Peter Sauerland
Vice President & CFO

Great question. It depends on the channel. It depends on the segment. Certainly, in the direct channel, we have a material "new business penalty." We don't think of it as a penalty. We think of that as the cost of acquiring new customers that we're going to keep for a long time. And we, again, are pricing in the target acquisition cost, as Dan was talking about, across the life of that policyholder. So even though we will run well above 100 combined ratio for a new direct customer, we are going to recoup that over the life of the customer. So the Robinsons end of that spectrum certainly is, generally speaking, a longer retaining end of the spectrum. So we have longer to recoup those costs. We'd normally then would be able to have a smaller load, if you will, on each policy term. But again, the new business combined ratio for direct is going to be far higher. In the agency channel, there's far less disparity across the expenses for new and renewal customers. And on the Robinson, the spectrum, there's actually less disparity on the loss performance as well relative to sort of the Sam-end of the spectrum. So there's certainly a new business penalty for growing. We think the lifetime combines for all those customers are well within our targets. So we're very excited to be growing at the pace we are and delivering the calendar year combined ratio results we are as well.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then I guess -- that's very helpful. Really, just second question. Is it -- are there any calendar year constraints that you're enduring right now?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Right now, calendar -- our calendar year constraint is the same as always been. It's 96% calendar year grow as fast as we can as long as we can service our customers. So when we were in this pivotal position a couple of years ago, with being able to get out in front of hiring and make sure that we can service our customers, and we will have this competitive price and a great product. Our 8 4 product on The Street, we really wanted to make sure to capture as much of the market as we could. Of course, you remember in the fall of 2016, we pulled back on advertising because of the CAT losses. And so that's always our constraint. Every calendar year, our constraint is going to be 96%. That is a constant. It's part of our culture. It's not a solve for, and so that'll always be a constraint. Clearly, right now, one month in its results, we're not seeing that as a constraint. But again, we've got one month of results in. It's a long year. We don't know what's going to happen with Mother Nature. I wouldn't have thought that 2017 would been -- would've been a more difficult CAT year than 2016, but of course, it was. That's really our biggest constraint is our year -- our profit goal and making sure we can take care of our customers. And we have been very, very happy, I wrote it in my letter of what I call our recruiting machine, not just the amount of people we've been able to hire, but the caliber of people. When I'm in these new hire classes, I'm amazed. And one of the ways we look at that, especially in the claims organization, is how their accuracy going. So that's a large part of what we pay out in loss costs, and our accuracy continues to be at record levels. So that's really what excites us about having very few constraints right now. It's a good time here.

Operator

The next question comes from the line of Mike Zaremski of Credit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

I had a follow-up to the earlier ride-share question, but along different lines. So specifically within the Personal Auto segment, are you able to comment on whether you feel a ride-share services are impacting your loss cost? I guess one of the reasons I had asked is because an increasing number of insured drivers are making ride-share services a part of their lifestyle, and I'm also pretty sure your client base is relatively more tech savvy than many peers as well.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes. We have a Personal Auto endorsement in 22 of our states. So we always offer that and ask, when we're getting an application as well as a loss, if you're an Uber or a Lyft driver. And so we do try to flesh out any of those, to understand if we need to charge them differently, add an endorsement, if it's covered. It's really hard to understand fraud that could happen if people aren't honest, but that's really why we're offering the endorsement. And so I think we believe we're asking the right questions to the right people at the right time.

John Peter Sauerland
Vice President & CFO

It's very hard, I think, to tease out what you're getting at. We do generally have a younger clientele than some of our competitors, certainly on the direct side of business. We think we skew more towards urban areas where we would expect there would be a higher penetration of TNC users. But it's very hard to definitively understand if and to what degree people using Uber, Lyft, et cetera, at different times of the evening or the weekend, are helping our loss experience at all. But it certainly is a great hypothesis, but one that we really can't answer with any surety.

Operator

The next question will come from the line of Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question was related on -- in your letter, Tricia, you mentioned an Internal Strategy Council that you guys are forming. I just was hoping to get some additional color there. Is this in response to autonomous vehicles or something else in the industry? And how would that potentially include Progressive potentially expanding into underwriting small commercial policies on your own balance sheet or potentially include additional M&A?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Okay. So if you recall, a couple of webcasts ago, I went over sort of our horizons concept: So we have horizon one, which we talked a lot about today, execute; horizon two, which was expand. And that's what we talked a lot about the commercial that you talked about a little bit, Elyse, with Bob in small business. What I'm having the Strategy Council really focus on is horizon 3, which is explore. So you could think of it as assume there's a day where all vehicles are autonomous or half of that, et cetera, so we're been modeling out opportunities for us. And so right now, the Strategy Council is fairly new. John and I meet with them very regularly. It's a group of 10 folks within the company. Andrew Quigg, who I think you have met, is doing it as a side to his job of retention and PLE. I mean, we have other people taking some of his work. He's doing a tremendous job. And the team around him, we picked because they had a diversity of a careers for Progressive, and so we're able to leverage those careers to kind of think about what are things that we do really well and if we want to either grow our revenue or replace revenue; if the market gets smaller, what are opportunities we can do. So we're excited about this council. Again, we're pretty new there, 90 days in. So I'll have more to come as we flesh out more. But we're really excited, and I've been very impressed with their work today.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And my second question, you guys have been growing a lot over the past couple of years. As some of your peers have been retrenching, taking a lot more rate as they've seen pretty high frequency and, in some cases, severity trends, as we think about the overall, it seems like most players in the space are more or less at peak rate taking levels. We'll take less rate and look to grow in '18. As you envision that environment, how does that play into how you think about continuing to go after the Robinson cohort and growing your policies in force?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes. So we've always talked about rate in terms of not having to rate shock our customers. When we've had to do that, you see PLE decline. So we've got out ahead of rates, probably 2015. And we've often said, it's better to have smaller bites of the apple. So 3 1 is better than 1 3 in terms of increase, and so we're really comfortable with our rate right now. And we have watched our competition, and that's what happens. And that's why shopping occurs. This hard market, we've been privileged to get those customers while they're shopping. And because we have a competitive rate, we've been able to grow. So at this juncture, I don't know, obviously, what all the competition is doing. Very few companies -- when we look at statutory data, actually, I think as of Q3, only 2 companies were growing profitably. And so I imagine those companies are going to want to get out in front of rate. And hopefully, as people shop, we will continue to be the recipient of those customers, Robinsons, of course, but actually, every customer. We want every Sam, Diane Wright, Robinson we can get as long as we can service them. We have obviously talked about the Robinsons a lot, because that's really the customer that we want based on our acquisition of ASI on the agency channel and working with other affiliated -- unaffiliated companies on the direct side. So we'll continue to push those. But I think Cat talked a little bit about our changing creative. And really when you think about the Parentamorphosis and owning your first home, that's really addressed to the Robinsons. And so we are seeing -- we're seeing that happen. So we're going to continue with more creative around trying to retain more Robinsons.

Operator

Yes. The next question comes from the line of Jeff Schmitt at William Blair.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Just a quick question on some of the comments from state insurance commissioners recently about passing on the benefits of the new tax rate or the lower tax rate on to consumers. Do you have any view on the likelihood of that or a sense on what that impact may be?

Susan Patricia Griffith
Chief Executive Officer, President and Director

It's hard to say. It's hard to say. There's a few states out there that will likely do that and we'll react to that. Remember, our combined ratio goal is pretax. So our CR for 96%, that goal is pretax. So we will work with the department to make sure we have a product for the citizens of the states. Again, our hope is that most regulators regulate in terms of what I talked about in terms of not being -- not having our rates inadequate, excessive or unfairly discriminatory. But again, we're nimble, and we'll work with it to make sure that we provide a good rate for the customers and not change our stance on our 96% combined ratio goal.

Jeffrey Paul Schmitt
William Blair & Company L.L.C., Research Division

Okay. And then I'm not sure if you mentioned it, but did you say what the growth of the Platinum agents was in '17? And what percentage of total agents is that now?

Susan Patricia Griffith
Chief Executive Officer, President and Director

It's still a small percent. We didn't say it. It grew, let's say, like 2,000-ish?

John Peter Sauerland
Vice President & CFO

In terms of agent [indiscernible], it's a reasonable number, yes.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes. It's around 2,000, 2,500, somewhere in there. We've sort of stopped mentioning it just because we're really focusing on the agents that we have and making sure they have all the tools necessary to get those Robinsons. Again, when we rolled out the Robinson model, we really rolled it out as a scarcity model because we wanted to be able to have these agents really -- one, do they have access to these customers? So they had access. That was great. And then do they want to have us be #1 in their shop? So we're really working now -- especially as we've integrated the companies, really working on making sure they have everything they need to have us be their #1 choice in their agencies. So it's less about adding so many more. I'm sure we'll add more this year. But it's really more about the ones that we have really making sure that they have what they need to provide more Robinsons for us.

Julia Hornack

Well, we've -- actually, exhausted our scheduled time. And I -- so that concludes the event. I'm going to hand it back over to Latoya for the closing scripts.

Operator
That concludes The Progressive Corporation's Investor Event. Information about a replay of the event will be available on the Investor Relations section of The Progressive website for the next year. You may now disconnect.