

Case 18: Vitality Insurance, Inc.

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Case Question

- Our client, Vitality Insurance, is a leading provider of supplemental insurance products in the United States.
- Vitality agents partner with companies to offer their employees optional, supplemental insurance for such conditions as life, cancer, etc.
- Vitality has undergone fairly steady growth in the past two years, but they suspect that some of their costs may be out of whack. *Is this indeed true, and, if so, what should they do about it?*

Case tracker

- **Industry:**
Financial Services
- **Level of Difficulty:**
Medium
- **Case Format:**
Improving profitability;
Reducing Costs
- **Concepts Tested:**
 - Supply/value chain
 - Marketing strategy
 - Customer strategy

Fit Questions

Spend first 15 min on fit

- Give me an example of when you had to motivate others who did not report to you
- How would a friend, or a professor who knows you well, describe you?

Guide to interviewer

- This case is primarily about diagnosing the source of cost increases for an insurance firm and then determining whether those increases are justified by increased profits
- The case is fairly structured in that the interviewee will need to “peel back” the layers of this case in the following process
 - Recognize that sales costs are out of whack
 - Identify the shift in sales contest mix for 2010
 - Evaluate the effectiveness of the new contest mix
- With any cost reduction case, an interviewee may seek information on other cost drivers. If this occurs, politely tell the interviewee nothing else exists and then refocus

6
Quants.

7
Structure



Reducing
costs;
profit

Clarifying answers and case guide

Clarifying answers to provide

Client Characteristics

- Vitality is the leader in its category and has over 10K field sales agents
- Vitality sells all policies through its field sales agents who are solely compensated on a % commission of total new premium, defined as premium from new customers or additional premium (up-sell) from existing policyholders
- In addition to the commission, short term priorities are often communicated via sales contests that focus on a particular customer segment or activity
- Major costs: sales, G&A, and advertising

Competition

- Vitality has a few other competitors in this market who have seen similar growth, but Vitality is a leader in the space and thus competition is not the focus

Industry trends

- Mature market
- Agent turnover is very high on a yearly basis (though was lower during the recessionary period)

Guide to case / Guide to handouts

Exhibit 1– Provide once interviewee receives clarifying information (left pane) and asks for more detail on costs

Interviewee should recognize the following:

- All line items except for sales costs growing at 10% per year
- Sales costs grow at 10% from 2008 to 2009, but at 45% from 2009 to 2010 (while premium growth remains at 10%)
- Stronger interviewees will quickly note that something is strange w/the 2010 sales costs, but will calculate to confirm
- Finally, profit margins are declining significantly from 09-10, suggesting that the increase in sales costs is not paying off

Exhibit 2– Provide if interviewee asks about the value chain or selling process. If the interviewee asks about the new contests focused on premium, provide the following information:

- Vitality launched a contest called “Sweeps Week” that aimed to drive increased premium in weeks that were traditionally low volume for the company. Vitality paid an extra 10% commission on all premium booked in those two weeks.
- Sales agents thought “Sweeps Week” was a great contest
- We have no info on the additional two contests on new accounts

Exhibit 3– Provide if interviewee asks for further detail on the effectiveness of “Sweeps Weeks”

Key elements to analyze

Supply/value chain

- As seen in **Exhibit 2**; Vitality's sales agents are engaged in several activities along the sales process, and that new premium can be generated in many ways.
- The interviewee should recognize the shift in contest mix from 2008/09 to 2010. Coupled with the additional information provided in the previous slide, the interviewee should realize that Vitality has shifted its focus more toward total premium and new accounts in 2010

Marketing strategy

- **Exhibit 3** shows weekly premiums for all of Vitality from 2008 – 2010. The chart is shown in a way that compares each year's actual premium to the average of historical premium for that year, so as to provide for a "benchmark" comparison.
- The "Sweeps Week" contest launched in 2010 is shown in weeks 4 and 20 in the chart, and clearly yields high premium volume for those particular weeks. However, it is done at the expense of the weeks surrounding the sweeps week.
- This implies that agents may be "gaming" the system by pushing/pulling sales into that week to earn the contest \$\$

Notes to interviewer

- Assume the types of contests run in 2008 and 2009 were fairly similar
- Do not share **Exhibit 3** until the interviewee recognizes this shift in mix and begins asking questions about the new programs

Notes to interviewer

- If asked, confirm that agents have authority to "book" sales whenever they want by influencing the enrolment timing by up to one week
- Strong interviewees will also recognize that, despite not having charts to support it, a shift in customer focus toward acquiring new accounts in 2010 will likely also hinder profit margins, as acquiring a new customer costs considerably more than retaining (or up-selling) an existing customer

Solution and recommendations

Solution & Recommendations

- The interviewee should conclude that Vitality overspent in 2010 on the “Sweeps Week” sales contest, thus hurting its profitability
 - Exhibit three indicates that the contest influenced the sales force to conduct undesirable selling practices by pushing / pulling forward business to earn the extra commission
 - Further, the contest’s focus, driving new premium was duplicative with that of the main commission system, therefore it did not add much value
- Recommendation: eliminate “Sweeps Week” for 2011 and potentially repurpose those funds toward an activity that is not already covered by the main commission structure
- It is unclear whether we should remove the increased contests on new accounts, as this could be a new customer focus that we do not know about

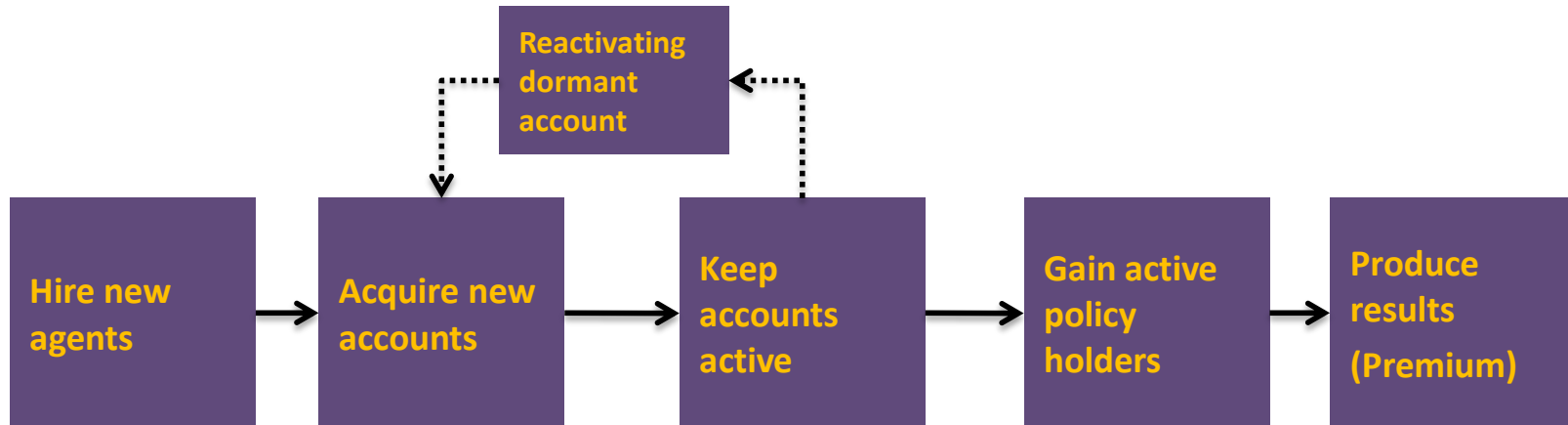
Bonus/Guide to an Excellent Case

- Strong candidates will make the following observations:
 - Recognize that the likely decline in profit margin from 2009 to 2010 is linked to the abnormal increase to sales costs
 - That the “contest mix” in Exhibit two is similar to a firm’s marketing mix, especially given that the sales channel has already been established as the main marketing channel for these products
 - Suggest that the added contests on acquiring new accounts will also decrease profitability because acquiring new customers is more costly than retaining existing ones.

Exhibit 1: Vitality insurance results and major costs

Vitality insurance key results and costs (Figures in 000s)			
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Accounts converted	500	550	605
Total policyholders enrolled	1,500	1,650	1,815
Total premium from policyholders	\$2,500,000	\$2,750,000	\$3,025,000
Total costs			
General and Administrative	\$50	\$55	\$58
Sales	\$250	\$275	\$400
Advertising	\$25	\$28	\$30
Profit margin	9.50%	9.40%	8.50%

Exhibit 2: Vitality insurance sales process



of agent focused sales contests targeted at these leverage points on the selling process

Year	2008	N/A	2	4	1	2
	2009	N/A	2	4	1	2
	2010	N/A	4	0	1	4

Exhibit 3: Snapshot of “Sweeps Week” contest results

