



AffinitySolutions

Creating Value from Partnerships

Can Today's Customer List, Become Tomorrow's Affinity Group?

**Bob Hand
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Some definitions

Affinity:



‘A common bond, interest or feeling of kinship’

‘A close connection marked by community of interests or similarity in nature or character’

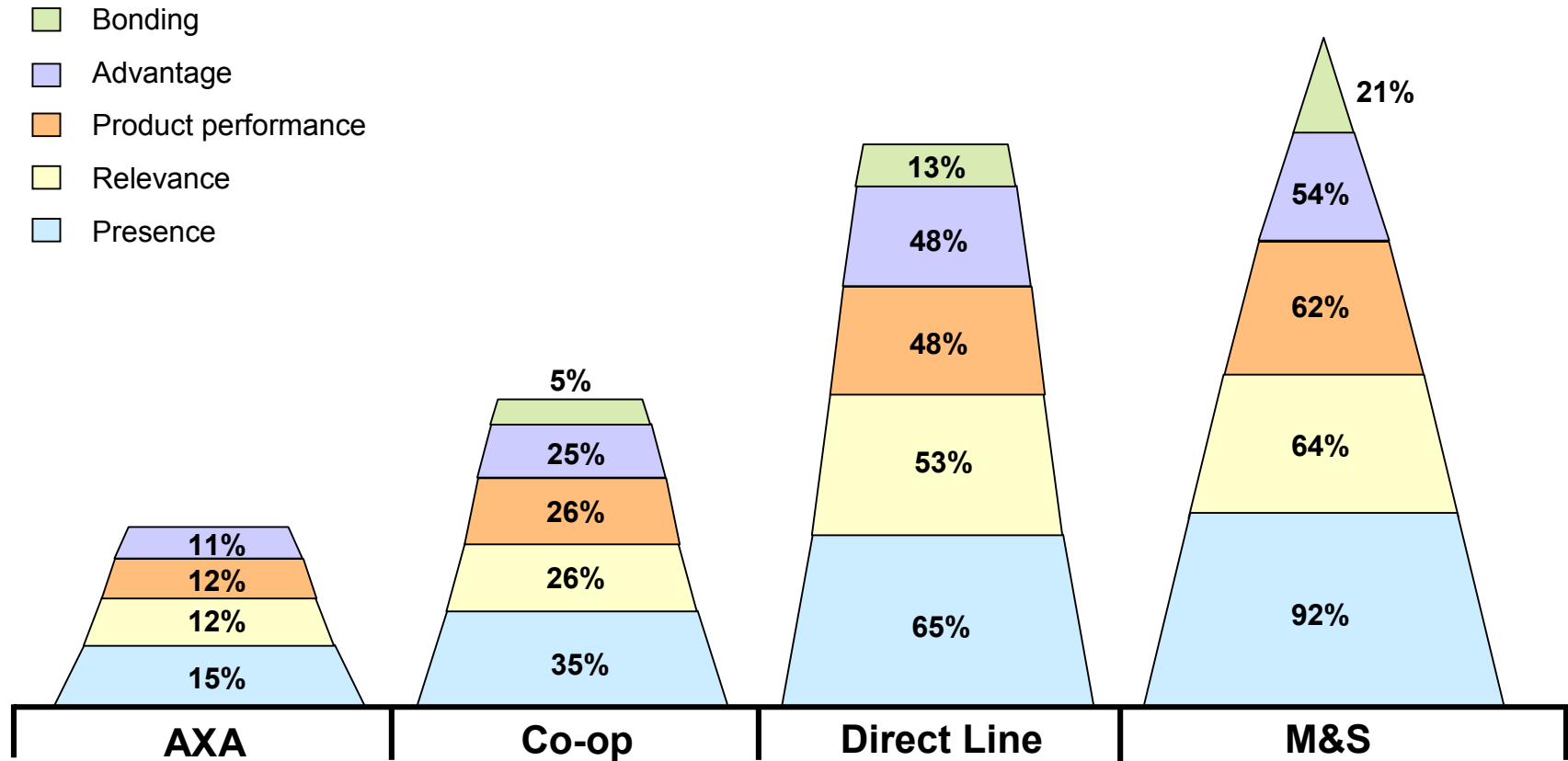
Some definitions

Brand Extension:

‘The use of a brand name to launch new or modified products in a new category. For such diversification to be successful, the new market should be underperforming, contain weak brands and the extended brand must personify brand values that are not industry specific’



The brand pyramid

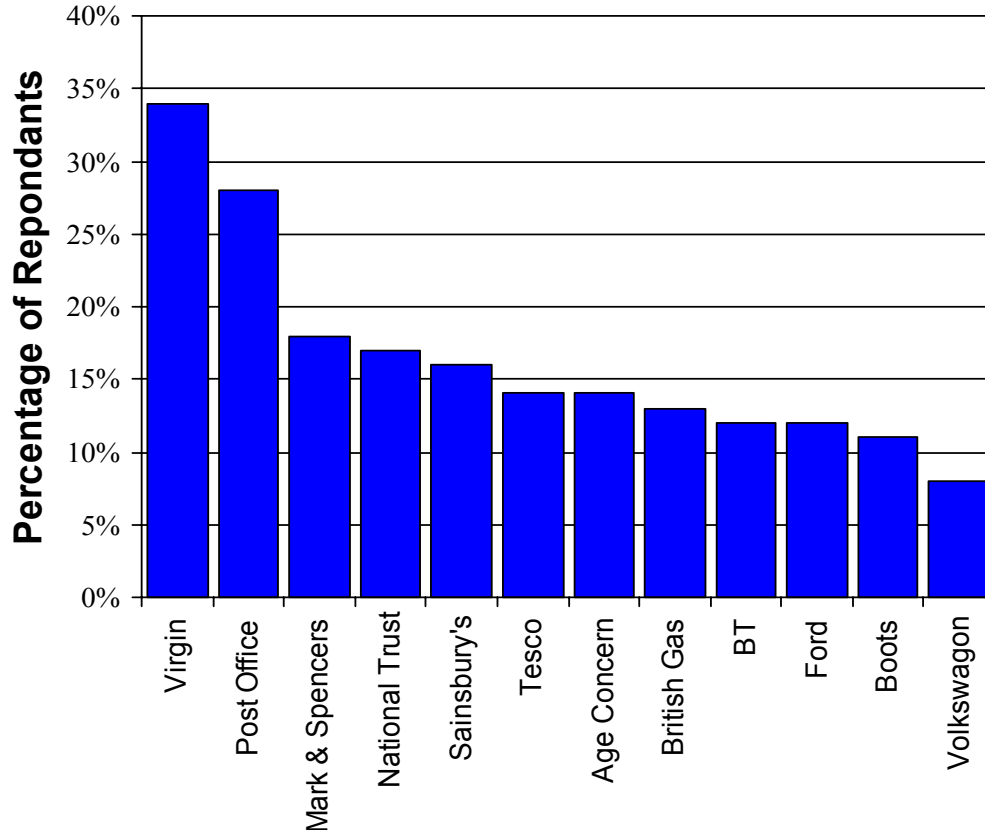


Source: Developed from Millward Brown International Data

The target market

Consumers are prepared to consider buying financial services products from new suppliers

'DEFINITELY' OR 'FAIRLY LIKELY' TO BUY A PENSION FROM NEW PLAYERS/PARTNERS



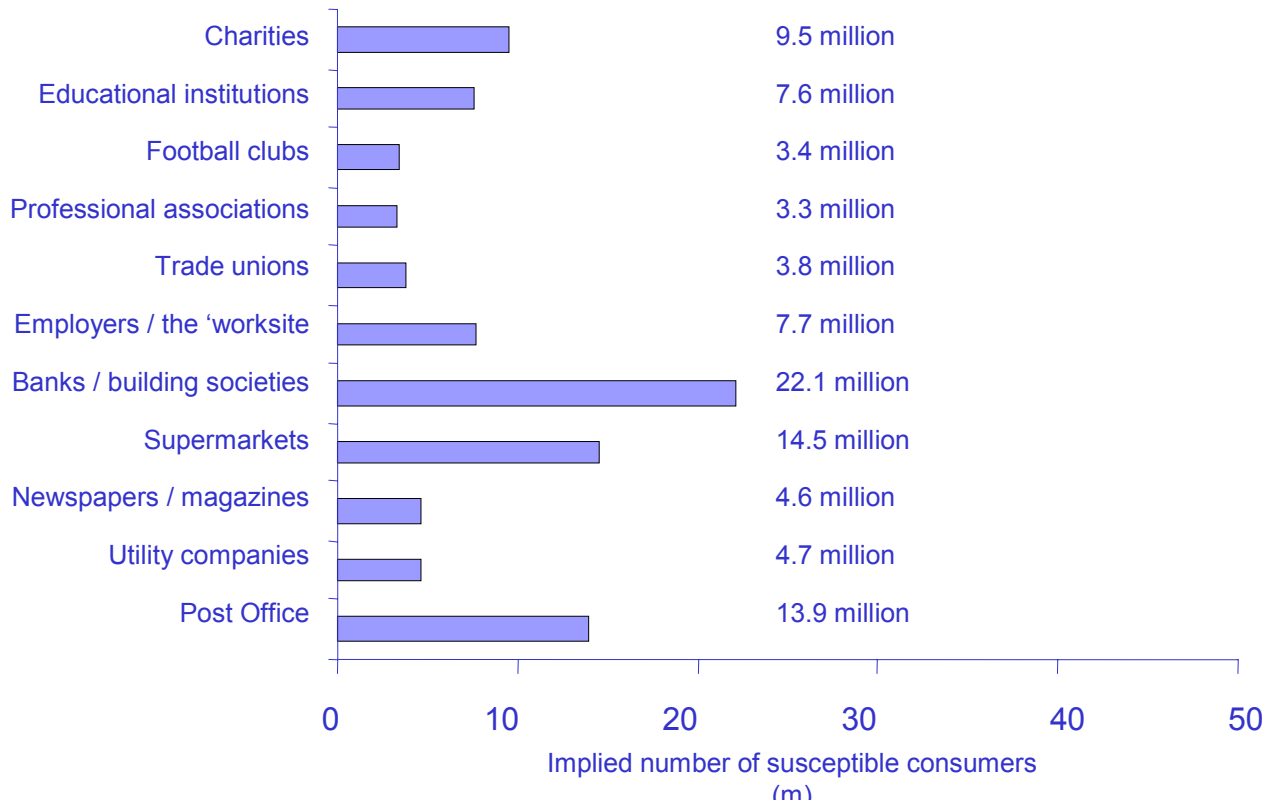
Source: Swiss Re research findings

In a 1998 study, 70% of the sample would 'definitely' or 'be fairly likely to' buy a pension from:

- Well known high street department store
- Well known telephone company
- Major mail order company
- Well known supermarket
- Trade union
- Club or organisation
- Charity
- Employer
- Well known utility company

The target market

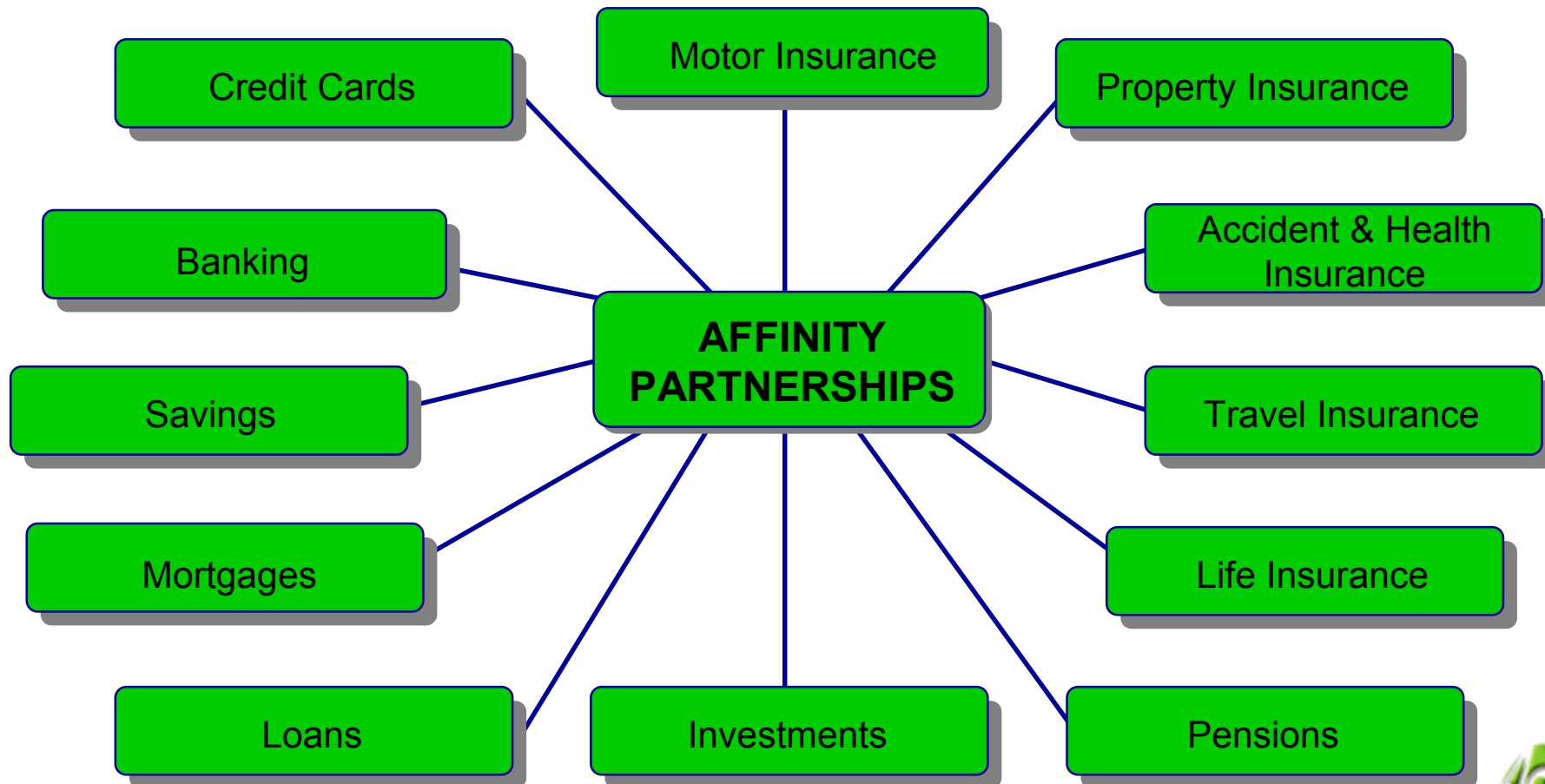
Implied number of consumers willing to use major affinity categories to purchase personal non-life insurance



Source: Finaccord / IMRS survey of 3,580 consumers published in Affinity Metrics report

Market context

Affinities & partnerships cover a range of financial services



Market context

No single product has been more successful than the credit card in affinity terms

Why were affinity credit cards so successful?

- Widely used/accepted product
- Short-term contractual commitment for customers
- Easy to provide apparent differentiation in the market place with usage related awards and benefits
- High levels of profitability
- Low entry/exit barriers
- Supplier provides a turn-key product
- Original players offered high cost, low value products against which it was easy to win market share

- 1,200 different affinity card programs are currently active in the UK (*European Card Review*)
- Affinity partners now exist in a wide range of industry sectors including organisations of all sizes
- Major affinity cards in the UK include RSPCA, RSPB and Comic Relief



Market context

General insurance has also been seen as an attractive affinity proposition

Why have general insurance services led the way?

- Accepted product - often a 'compulsory' purchase
- Fewer regulatory issues (until recently)
- Product offering is simple and transparent
- Remuneration packages for affinity groups are straightforward and easily calculated
- Yearly renewal offers ongoing commission payments
- Direct marketing is often a suitable distribution channel

General insurance deals include:

- Boots and AIG for healthcare products
- M&S and Budget for motor insurance
- Tesco and Direct Line for motor insurance
- Age Concern and Norwich Union, now Fortis, for household insurance

Affinity partnerships

The Holy Grail?

Affinity partnerships as everyone likes them..



Affinity partnerships more often than not...



“Around 70% of strategic relationships fail or are not judged as being wholly successful” KPMG

“Good marriages are made in heaven, but many partnerships end up in hell” Bob Hand

Advantages of affinities and partnerships as a distribution channel

- Market access – to previously untapped market segments
- Market share growth – to reach customers for whom brand strength and credibility is a major buying factor
- Increased operational efficiency – for those value chain activities where the insurance provider already has infrastructure and intellectual knowledge
- Datamining tool – for product development and underwriting purposes
- Reduced costs of distribution – where the affinity group has existing lower cost communication channels with its customers

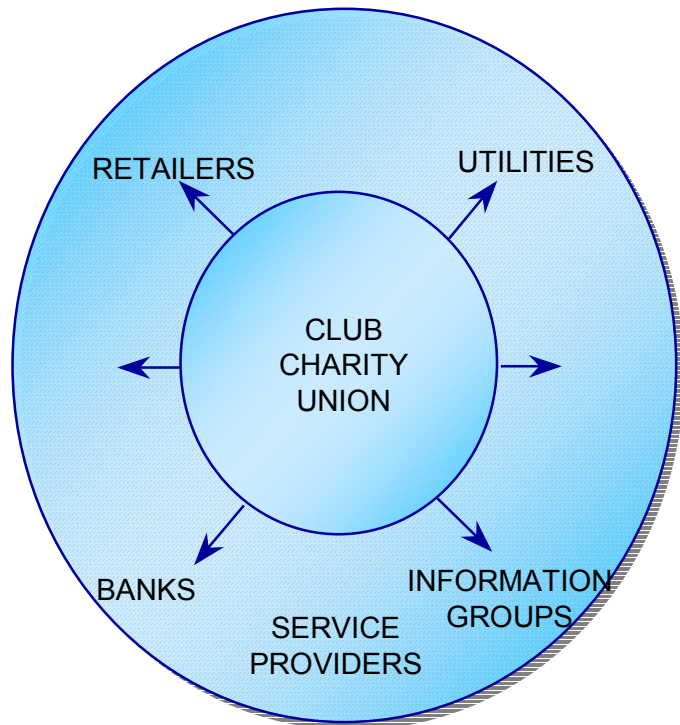
Disadvantages of affinities and partnerships as a distribution channel

- Threats of cannabilisation – the partnership may take market share from the provider's existing customer base
- Pressure on margins – many partners demand a high bounty for the deal and some lead heavily on price to build market share
- Domination of partnership – access to the customer depends on the partner and there is usually no customer ownership (unless there is a JV)
- Affinity group ambitions – partners can turn into manufacturers or change the nature of the relationship to reduce profitability for the provider
- Higher costs – partnerships can be costly in terms of higher management commitment and organisational costs. Affinity partner databases can also be fragmented and poorly developed



Finding the ideal partner

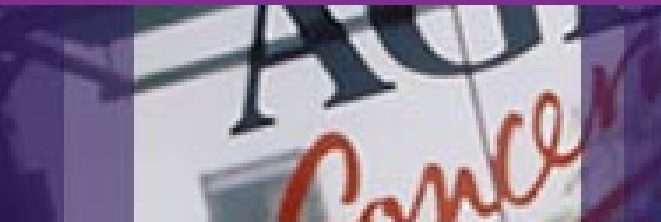
The best partners offer affinity, access and data



- Early partnership models relied on true 'affinity' between partners and their members
 - Based on support for causes (eg charities) or a sense of identity/belonging (eg unions)
- Brand-based partnerships have become more common
- If the only source of added value is a 'unique' product proposition then the 'partnership' is little more than another route to market
- Member databases are of growing importance, especially in respect of lifestyle information
- High quality data, combined with a partner's genuine affinity with, and ready access to a group, represents a major win for suppliers

Case study

Age Concern Enterprises Ltd



- They are in the right market
 - Growing
 - Getting richer
 - Loyal
 - Great advocates
- They have the right brand
- They have excellent low cost distribution
- They have a competitive market position

Case study

Age Concern Enterprises Ltd



They have all the key criteria:

Proven track record

Prepared to share risk and reward

Buy-in at senior & operational levels

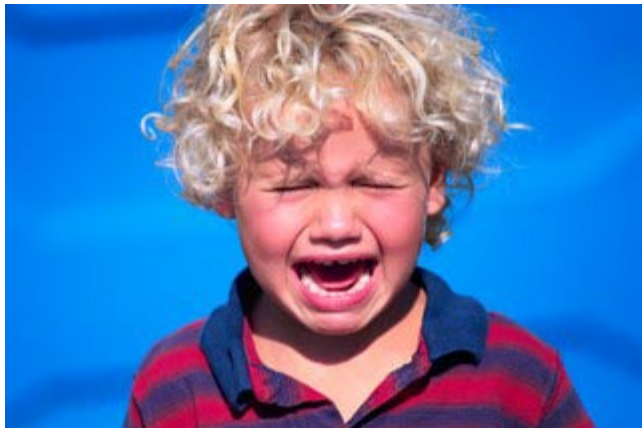
Long-term, strategic approach

Success

Case study

Age Concern Enterprises Ltd

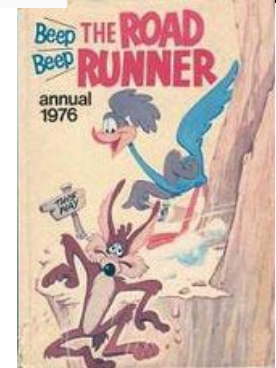
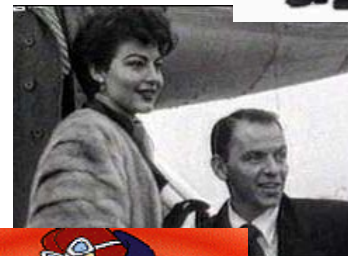
BUT.....



- Age Concern and NatWest Insurance Services formed a joint venture to promote an IFA service to older people
- Significant resource was invested in planning and launching the operation
- A 'synthetic' brand was created, Asset Financial Planning, endorsed by Age Concern
- Enquiries fell short of expectations and conversion was very slow
- Lack of mutually compatible objectives and high acquisition costs were key reasons for failure
- Age Concern is still looking for a niche financial services partnership

And why do affinity groups get frustrated?

- Many contact and approach strategies are still based on product alone
- Overall proposition development is still lacking
- Customer needs are not fully understood or explored
- There is too little emphasis on building long term relationships



Sharks, dolphins or sardines?



So why get excited about partnership marketing?

- Well on the way to 1 million motor policies in partnership with Direct Line



- Over 1.6 million mobile customers from its partnership with T-Mobile

- Corporate Partnerships Division has an annual turnover in excess of £1.5 billion



- Commercial enterprises now account for more than 1 million customers or c10% of the target market

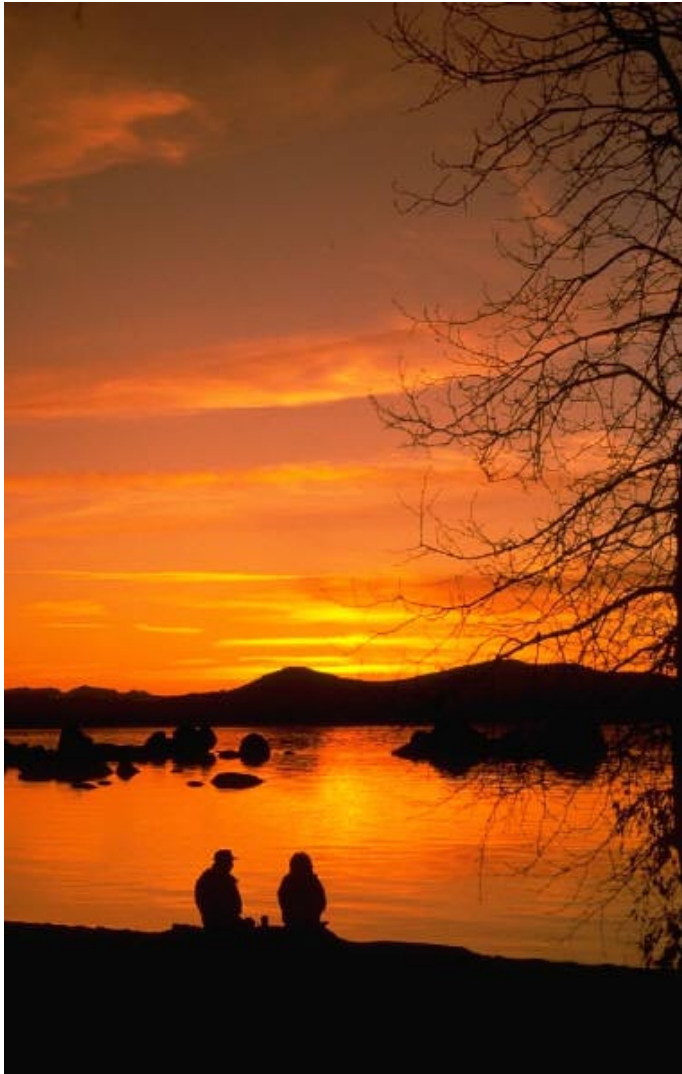


The affinity group market

A growing sector

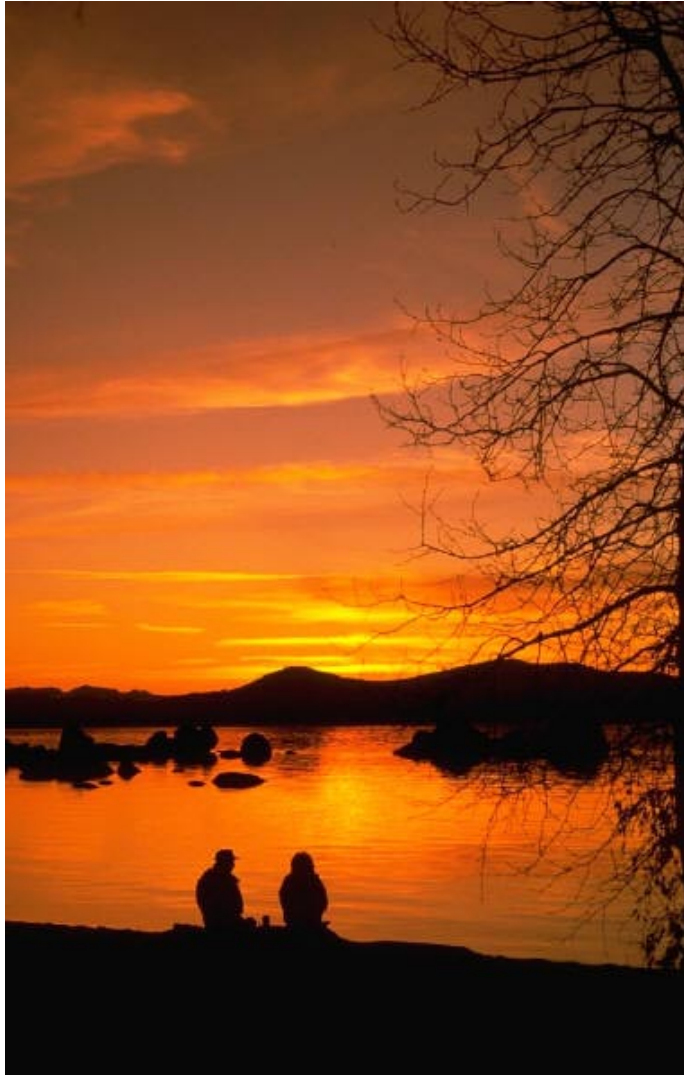
- Affinity groups' share of the personal insurance market is anywhere between 10%-30%, depending on how distribution through banks and building societies is defined
- The ABI also estimates that sales of personal insurance from retailers, utilities and affinity groups has grown by 600% in the last two years
- With a UK personal insurance market worth over £20 billion, in terms of GWP, partnerships of all kinds could already be worth £6 billion, or more than £2 billion if we discount financial institutions

And what lies ahead?



- As multi-channel distribution develops and new technologies become more established we will see a growing dependence on brand strength and value as key differentiators
- Further deregulation and privatisation will increase the number of affinity players who will, in turn, seek to develop brand equity through third party alliances – encouraged by government support

And what lies ahead?



- ‘Next wave’ relationship management will bring affinity brands even closer to their customers
- Traditional institutions will continue to be hampered by loss of public confidence, eg pension mis-selling, accounting scandals, etc
- Affinity partnerships will be seen as a safer alternative to mergers and acquisitions
- The affinity market is set for growth!