

## 2011 Insurance Shopping Study<sup>SM</sup>



*When Did Personal Auto Insurance Become a Laughing Matter?  
A case study examining the impact of the Allstate "Mayhem" marketing campaign  
May 2011*



## Overview

Allstate is the second-largest underwriter of personal automobile insurance coverage in the United States, reporting total premiums of nearly \$17 billion<sup>1</sup> in 2010. The Allstate brand is also one of the most widely recognized in the marketplace, with 97% of all prospect shoppers recognizing the name. So why did the company increase total marketing and advertising expenditures by 54% from 2009 to 2010, raising the overall budget to \$642 million<sup>2</sup> last year? And perhaps more significantly, why introduce the “Mayhem” character in an ad campaign that has been running in parallel with the “Good Hands” messages for slightly more than a year. Mayhem, played by actor Dean Winters, characterizes some of the common risks that lead to auto and homeowners claims, such as snow load on a roof, or teenage distracted driving accidents. Each commercial closes with the invitation to “save money and be better protected from Mayhem like me.”

Based on findings from the *J.D. Power and Associates 2011 Insurance Shopping Study*,<sup>SM</sup> as well as analysis of the company’s social media metrics<sup>3</sup> gathered during the past 12 months, this management discussion will examine the impact of Allstate’s current advertising campaign on the level of consumer brand awareness in the marketplace, and the degree to which customer perceptions about the brand have changed as a result of the new creative. Also discussed is the extent to which the new marketing message is impacting consideration among shoppers for Allstate insurance, and in turn leading to incremental quote requests.

In 2010 alone, the personal auto insurance industry spent more than \$5 billion in marketing and advertising. Four national brands combined—State Farm, Allstate, GEICO, and Progressive—spent over \$2.6 billion of that amount, which represents more than half of the total industry spend. These four brands will be compared in detail in this management discussion.

For many consumers, personal auto insurance is something of a commodity, and the typical shopper will only invest an average of 2-3 days to gather quotes and select a new insurance company. Differentiating a brand or policy offering through advertising is challenging for insurers that have traditionally relied on a short list of messages about savings, security, peace of mind, or more recently, humor. This last tactic has become popular in the past 3 years. GEICO first sought to differentiate its brand in the marketplace with the introduction of its Cavemen, Gecko, and celebrity spokesperson campaigns, and continues to leverage humor in the majority of their advertising today, with more than 30 creative executions in recent rotation. However, while GEICO was largely alone in its use of humor in the category in the mid-2000s, a number of other major carriers have more recently joined the fray, including State Farm (“Magic Jingle”); Nationwide (“Spokesman”); Farmers (“We are Farmers”); Progressive (“Flo”); and Esurance (“The Saver”). Much of this new creative appears to be aimed at drivers under age 35, many of whom have tended to focus more on price when shopping than older consumers. Against this backdrop, how then has Allstate’s Mayhem campaign fared in influencing shoppers?

<sup>1</sup>Source: Direct Premiums Written, NAIC, based on filings received by March 28, 2011.

<sup>2</sup>Source: Dowling & Partners Securities.

<sup>3</sup>J.D. Power Consumer Insights and Strategies Group (CIS)



2006 - 2010 P&C Industry Advertising Expenditures

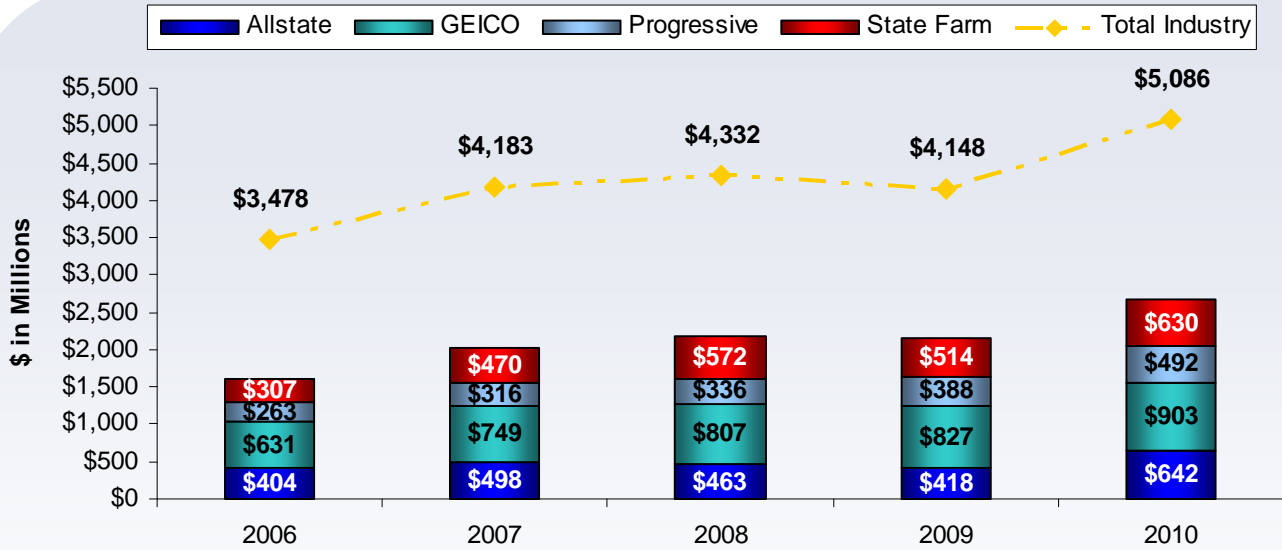


Figure MD1

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Change in Brand Unaided Awareness

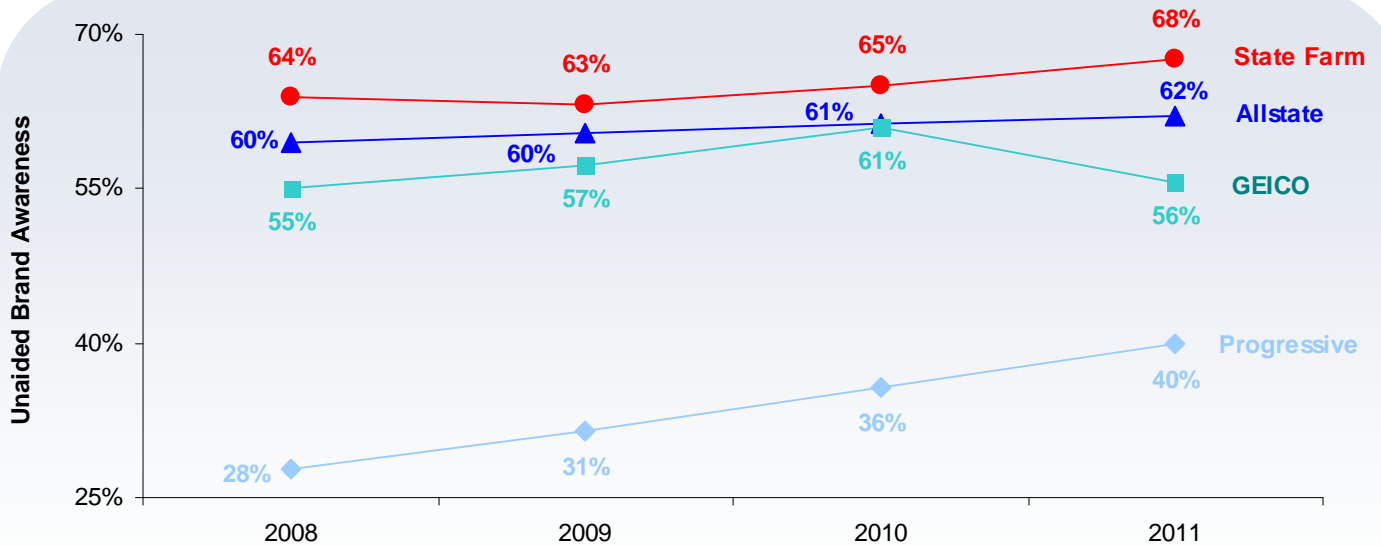


Figure MD2

Source: J.D. Power and Associates 2011 Insurance Shopping Study.<sup>SM</sup>

Note: Unaided brand awareness reflects brand mentions 1-5 (out of 8), for trending to prior years.



### **Brand Awareness—Reaching a New Audience**

As discussed in detail in the *2011 Insurance Shopping Study*, the typical insurance company stands a significantly better chance of selling policies to shoppers who have top-of-mind or “unaided” awareness of the insurer’s brand. This study measures unaided awareness by asking shoppers who participated in the survey to name the auto insurers that come to mind without any aided or visual prompts, such as brand logos. When a shopper has unaided awareness of an insurer, they are nearly four times as likely to obtain a quote from that insurer and more than six times as likely to purchase from that company, compared with shoppers who may recognize the brand but for whom the company is not top of mind. During the past 4 years, Progressive has achieved a net increase in unaided awareness of more than 12 percentage points—the largest such gain among the 28 insurers profiled in the *2011 Insurance Shopping Study*. This tremendous gain has been fueled by an aggregate advertising spend of more than \$1.5 billion during the same 4-year period. A closer examination of Progressive’s brand awareness across generational cohorts in Figure MD3 indicates this growth in awareness is nearly proportional across all generational groups. That said, Progressive is top of mind for fewer than one in three Pre-Boomers, compared to almost half of all Millennials, or those in Generation Y.<sup>4</sup>

GEICO has spent more on advertising their brand than any other insurer in the personal auto market for the past 5 years. Total marketing spend exceeded \$900 million in 2010 alone, and yet the brand awareness level increased less than 1 percentage point during the past 4 years. Perhaps more concerning is the fact that in the past 12 months the GEICO brand has been displaced from the top five brands in brand awareness for an average loss of at least 5 percentage points in all but the oldest age segment. (Figure MD3) Study results indicate that the average shopper will gather between three and four quotes before making a selection, thus it is critical that an insurance company be among the top five top-of-mind brands when consumers start to shop for insurance. This recent turnaround must be troubling for GEICO, as the company’s direct-to-the-consumer business model depends heavily on media placement of its advertising messages to stimulate prospects to request quotes. For Millennials, the GEICO brand has become well known with an unaided awareness rate of 65%. However, among older consumers, GEICO awareness drops significantly behind multi-line agency companies State Farm and Allstate. However, GEICO is still successful at stripping a mono-line auto policy from shoppers seeking to bundle auto and homeowners insurance. Competing for households accustomed to being serviced by a local agent is proving to be a real challenge for direct companies such as GEICO, as well as Progressive.

Given their overall market size in personal auto, it is not unexpected that the two largest insurers, State Farm and Allstate, are top of mind with more than half of all consumers in each generational cohort. Despite being so widely known, both brands have experienced increases in their unaided awareness levels of 3 to 4 percentage points each during the past 4 years. In the past 12 months alone, while State Farm’s unaided recall rate has increased across all generational cohorts by an average of 3 percentage points, the Allstate brand has gained in awareness of only 1 percentage point among the Gen X and Millennial audiences. Given that both companies invested more than \$600 million in marketing and advertising in 2010, this result suggests that State Farm was more effective in building relevance among the younger generational cohorts.

<sup>4</sup>J.D. Power and Associates defines generational cohorts as Pre-Boomers (born before 1946); Boomers (born 1946-1964); Generation X (born 1965-1976); and Generation Y (born 1977-1994).



There are, no doubt, a number of underlying reasons for this outcome, but among them it is worth noting that while Allstate typically outspends State Farm in advertising, this reversed in 2008 and 2009, with State Farm outspending Allstate by nearly \$200 million during the past 3 years. Furthermore, many of the State Farm TV commercials have featured young singles and focused on auto or renters policies and scenarios to which Millennials would be able to directly relate. In contrast, Allstate's more recent Mayhem campaign focuses on young families, suburbia, homeownership, and teen drivers.

**2011 Brand Unaided Awareness by Generational Cohort**

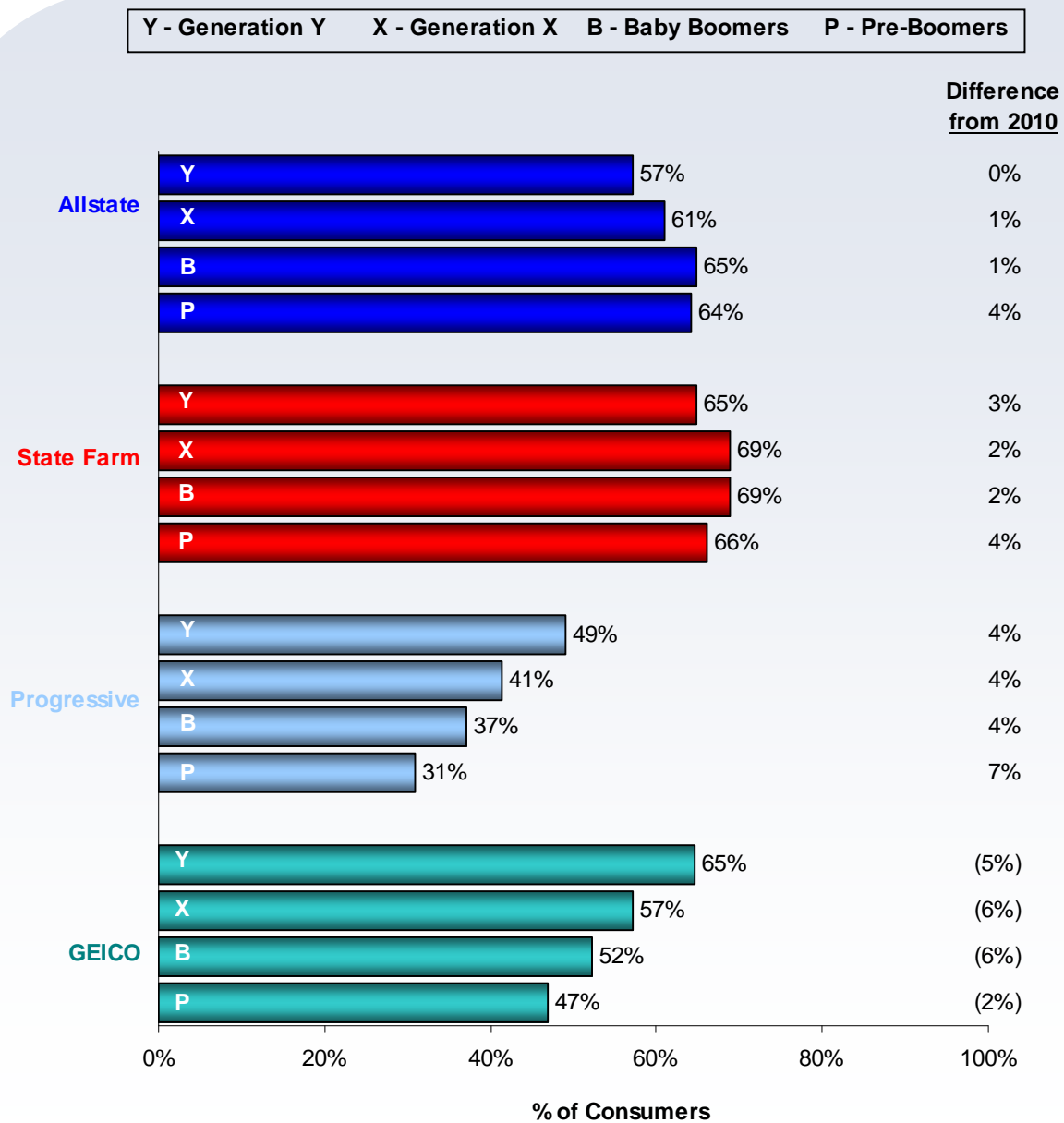


Figure MD3

Source: J.D. Power and Associates 2011 Insurance Shopping Study. <sup>SM</sup>



### ***Brand Relevance—Encouraging Shopping***

To the degree that humorous ad campaigns can break through the advertising clutter and catch the viewer's attention, they help build brand awareness—especially when multiple impressions<sup>5</sup> help to reinforce the message. But building brand awareness means little if consumers cannot relate to the brand or the products and services offered. Unless a consumer perceives the brand to be relevant to them, they are less likely to seriously consider that brand when shopping.

Figure MD4 illustrates the change in shopper consideration rates during the past 12 months for a subset of four brands profiled in the study. Among consumers who shopped for insurance between March of 2010 and March of 2011, Allstate prospect consideration grew the most (3.3 percentage points) among the four brands, suggesting that while their advertising may not have driven brand awareness as well as the other three brands, the message struck a chord for many who either already recognized the brand or became aware of Allstate during the past 12 months. More significantly, the proportion of prospects who requested an Allstate quote grew by more than 2 percentage points in the past year—double the rate of growth for State Farm. (Figure MD5)

Unlike the various Mayhem spots that characterize common claim scenarios and invite the audience to envision their own risk associated with each peril, recent GEICO advertising tends to more narrowly focus on their longstanding message of fast quotes and 15% savings, using humor to entertain the audience rather than to focus on product benefits. Consequently, not only has GEICO's unaided awareness declined during the past 12 months, but also the average quote rate has declined 0.6% during the same time frame, despite slight gains in consideration among prospects.

Progressive has leaned heavily on “Flo” in its advertising since she debuted in 2008. Introducing this character has not only helped propel brand awareness, but also has increased consideration<sup>6</sup> among shoppers—up 2.6% from a year ago. With a consideration rate of 51.3%, Progressive is second in the industry in driving consideration among shoppers, and is closing the gap with GEICO. However, Progressive's quote rate<sup>7</sup> has only improved by half a percentage point, despite the broadest portfolio of sales channel choices to shoppers of the four compared brands and the brand's novel approach of inviting shoppers to “name their price” and tailoring the policy to meet their price. Whether a customer wants to work with a local agent, a call center representative, or online, Progressive has developed a formidable selection of options to maximize their quote rates.

However, the new advertising approach can become polarizing. While consumers' awareness and consideration have increased among three of the four brands, some consumers are turned off by the messaging: 13% of all GEICO prospects are most likely to indicate they would never wish to do business with the insurer, compared with 10% for Progressive and 9% for both State Farm and Allstate.

<sup>5</sup> Each time a consumer is exposed to an advertising message it is referred to as a single impression. Typical media plans are designed to drive high awareness and recall through repeated exposure or impressions, whether via the same media or across media types.

<sup>6</sup> Consideration rate equals the number of shoppers who consider an insurer divided by the number of shoppers who are aware of the insurer on an aided basis.

<sup>7</sup> Quote rate equals the number of shoppers who obtained a quote from an insurer divided by the number of shoppers who are aware of the insurer on an aided basis.



### Change in Brand Consideration Rates

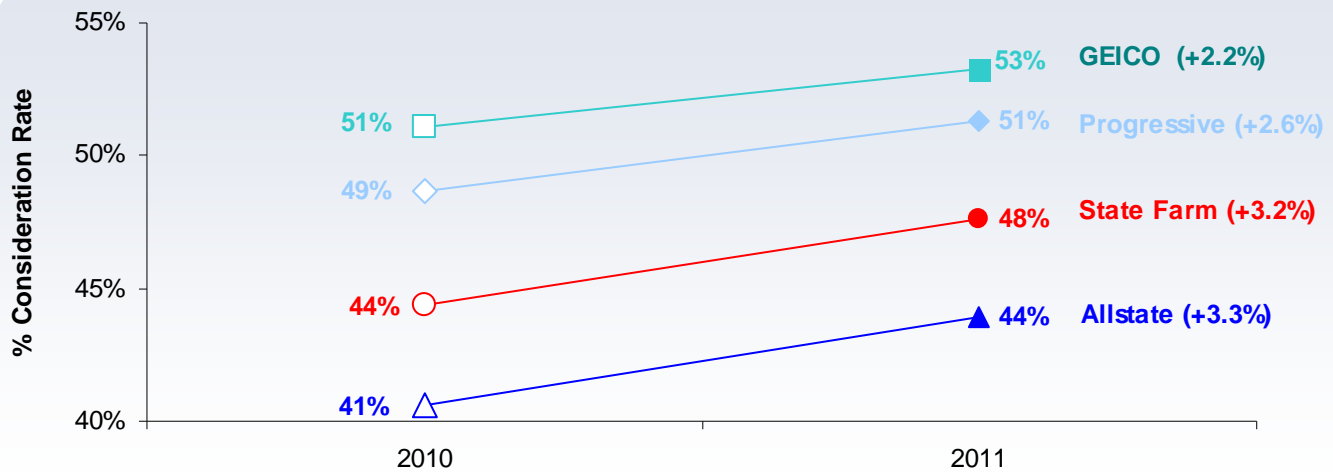


Figure MD4

Source: J.D. Power and Associates 2011 Insurance Shopping Study.<sup>SM</sup>

### Change in Brand Quote Rates

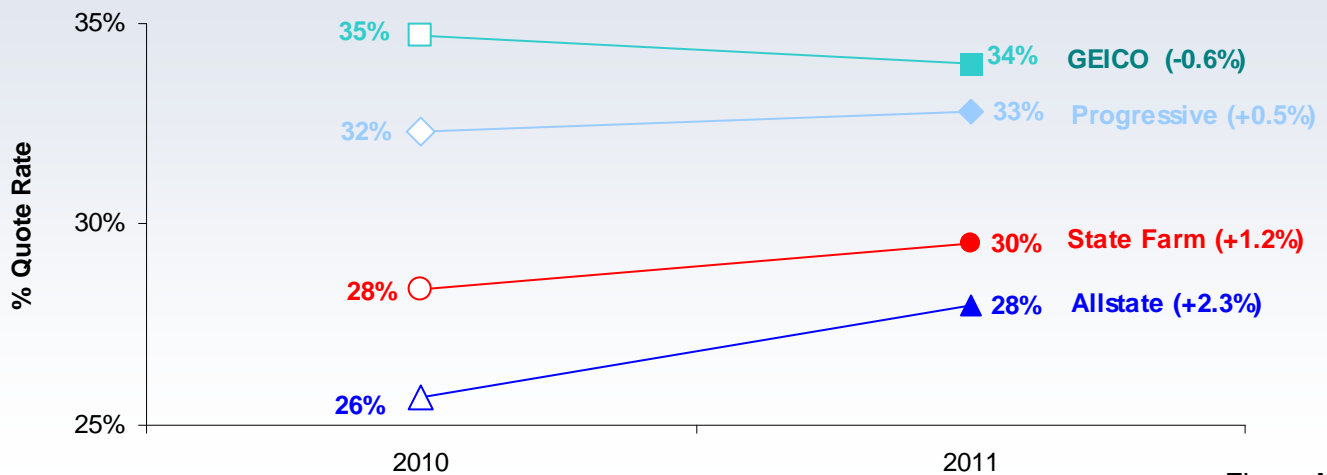


Figure MD5

Source: J.D. Power and Associates 2011 Insurance Shopping Study.<sup>SM</sup>



A closer look at the shift in brand quote rates by generational cohort indicates that Allstate is the only brand that has achieved an increase in quote rate among the two younger cohorts. In contrast, Progressive and GEICO are quoting an average of 3 percentage points fewer Millennials and Gen X shoppers, compared with a year ago. Despite this promising trend for Allstate, the brand still quotes the smallest proportion of auto insurance shoppers under age 45.

State Farm is generating fewer quotes among Millennials, despite growing awareness and consideration in this segment of the market. This may be more a byproduct of State Farm's reliance on agents rather than on the messaging, highlighting the primary objective of general advertising—to build the brand and drive consideration in the marketplace. In personal insurance, as in many other markets, it falls to the sales organization to close the deal. By insisting that so many of their prospects engage with an agent to obtain a price quote, State Farm—like many other agency sales insurance companies—experiences a decline in its quote rate as a result.

2011 Brand Quote Rates by Generational Cohort

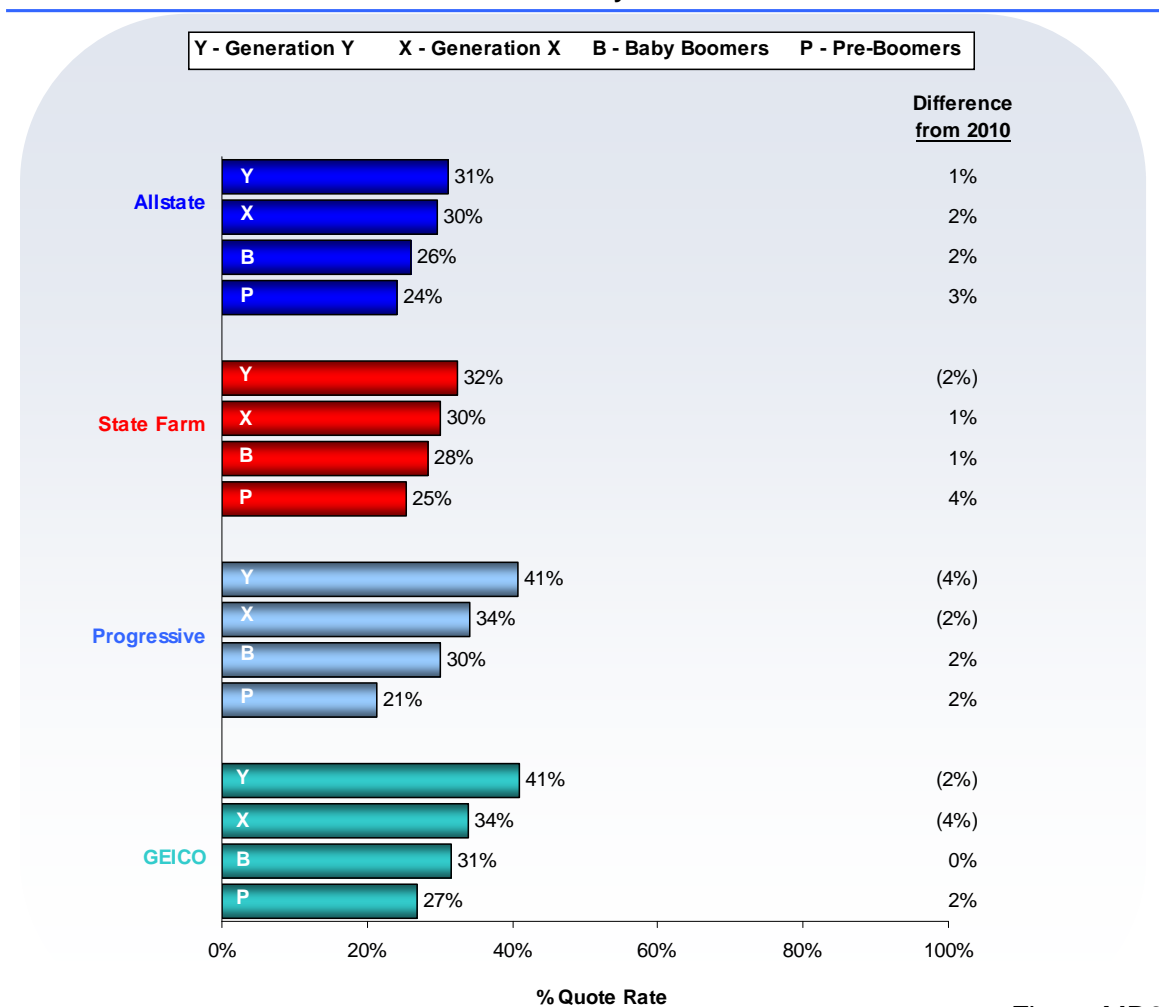


Figure MD6

Source: J.D. Power and Associates 2011 Insurance Shopping Study. <sup>SM</sup>





### Brand Image—Changing Perceptions among Consumers

In 2010, all four brands dedicated a significant share of their media spends to promote new, humorous creative. For Allstate and State Farm, this represented a significant departure from their prior marketing strategies, and the early results in terms of awareness, consideration, and quotes appear to reflect some benefit as a result. But how are the new messages changing consumer perceptions about the brands? Figure MD7 below portrays average Brand Image ratings for each of the four brands, and traces their shift during the past 4 years. Since 2008, consumers have tended to perceive the brand images of Allstate and State Farm more as *Expensive* and *Serious*, no doubt heavily influenced by declining consumer confidence as a result of the recession, and the many “savings” advertisements of their competitors that often targeted these two industry leaders as being more costly alternatives. However, in the past 12 months, both brands have started to reverse this trend—most notably State Farm, which in the past 12 months has improved consumer perceptions about being *Expensive*.

If this data indicates anything, it is that brand image in the minds of consumers is often stubbornly hard to change. For each of these four brands, customers’ perceptions about the “personality” of the carrier and its service providers have been built over decades, and even the levels of advertising spend in the past 12 months have had little impact on addressing negative image attributes.

### Brand Image Trend

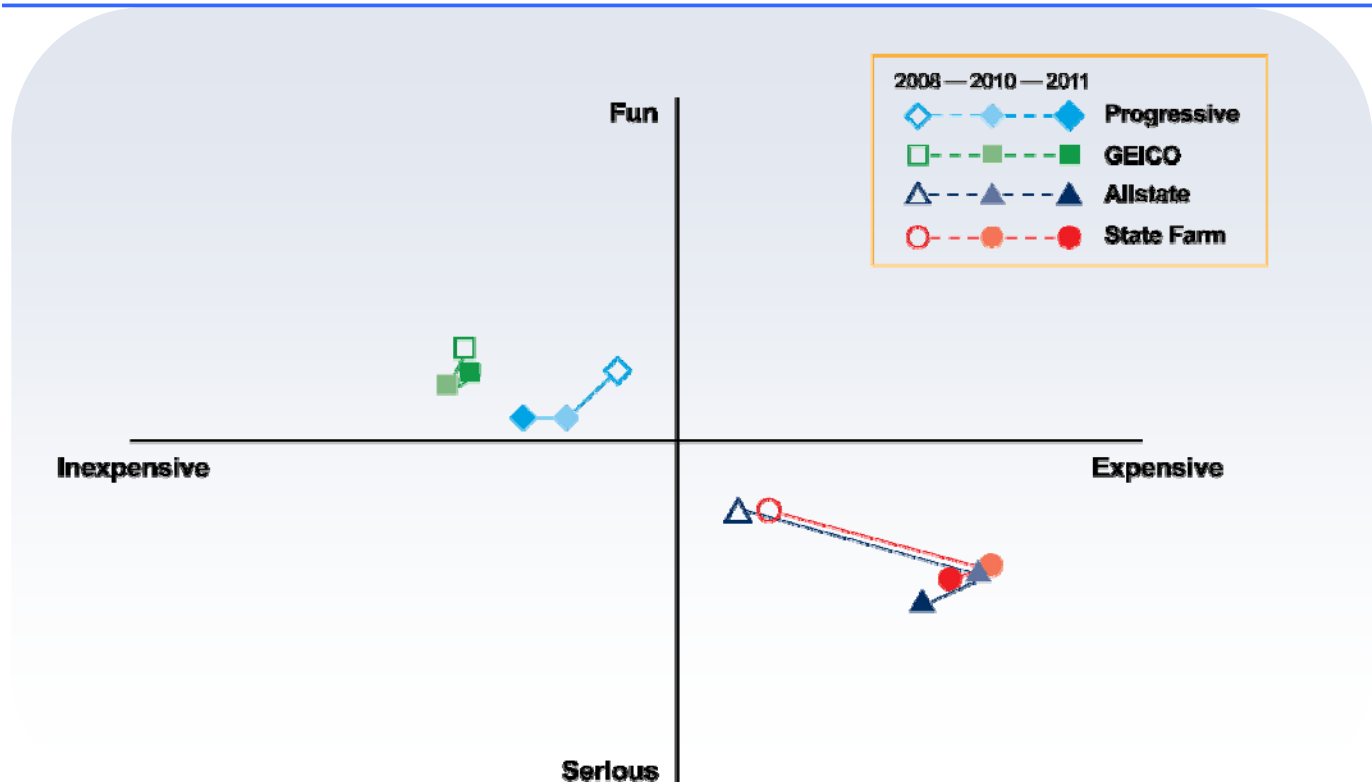


Figure MD7



### Brand Buzz—What Consumers Are Saying

While the 2011 Insurance Shopping Study gathers customer feedback from among approximately 15,500 recent insurance shoppers, J.D. Power’s Consumer Insight and Strategies (CIS) Group offers an informative counterpoint that helps shed light on customer attitudes and motives that help to explain the changes in brand awareness, consideration, brand image and quote rates discussed herein. The CIS Group utilizes state-of-the-art Natural Language Processing to gather deeper, more accurate insights from billions of unsolicited consumer verbatims online, and classifies them for sentiment, likes and dislikes, behaviors, and emotions.

In May 2010, immediately prior to the launch of the Mayhem campaign, online conversation, or buzz, regarding the Allstate brand averaged 10,000 comments per month. Of these, only about 3% were related to Allstate’s advertising, despite the company having spent more than \$400 million per year in the prior 4 years. Starting in May 2010, the level of discussion regarding Allstate steadily increased over the next 8 months, peaking in February 2011. Perhaps more significantly, the proportion of discussions that focused on advertising increased dramatically as well—growing from 3% of online conversations in May 2010 to nearly 20% of conversations in February 2011.

Both the brand and the Mayhem campaign are generally discussed in a positive light, but while the campaign drove interest, emotions, and buzz, it hasn’t shifted net brand sentiment, with approximately three times as many positive comments being made than negative remarks.

### Absolute Buzz for Allstate

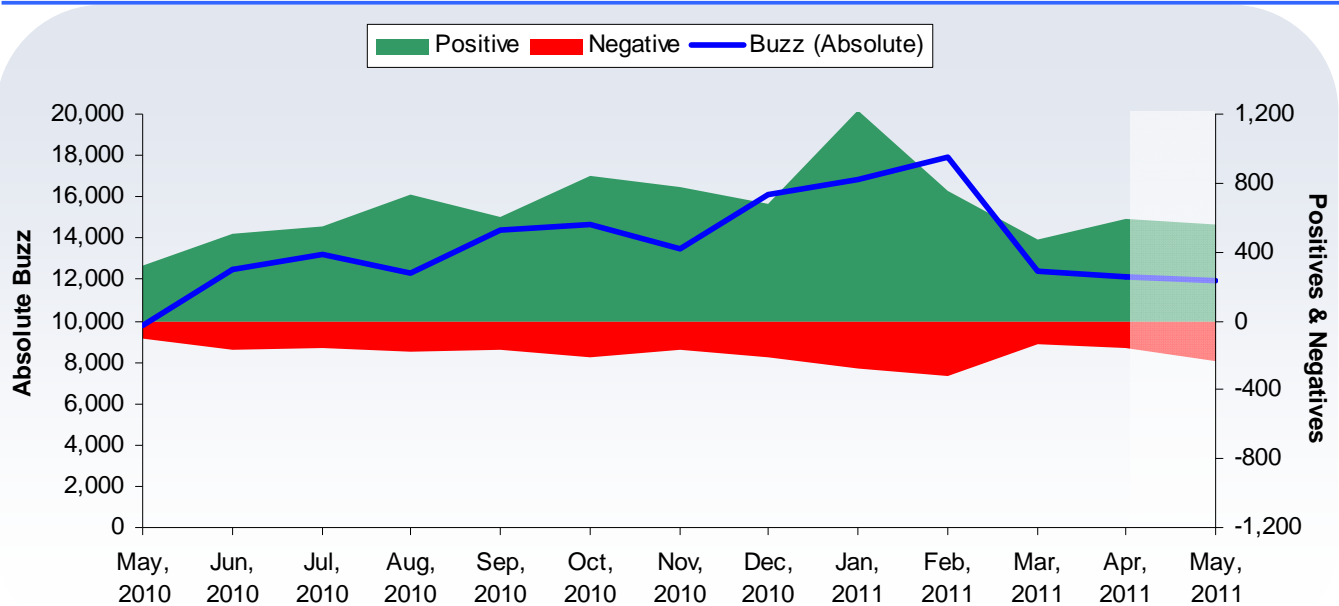


Figure MD8

Source: J.D. Power and Associates Social Media Intelligence Tool, May 2011.



**Allstate vs. Mayhem Discussion  
Absolute Volume, May 2010 - May 2011**

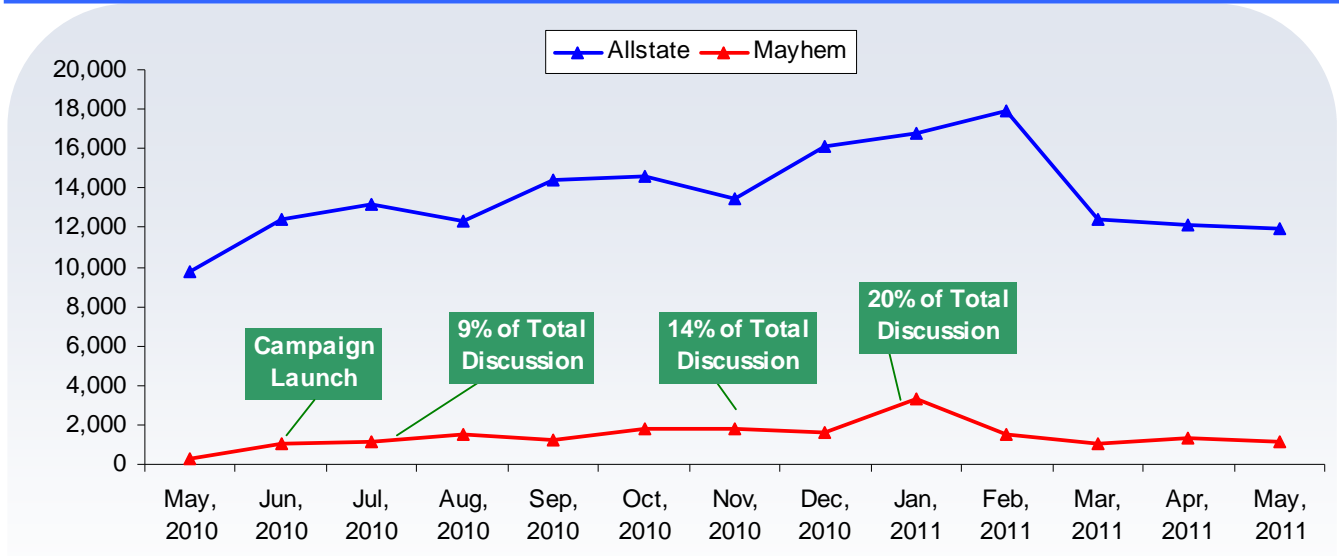


Figure MD9

Source: J.D. Power and Associates Social Media Intelligence Tool, May 2011.

Among the various topics discussed on Twitter and the many other blog sites monitored by the CIS Group in developing this analysis, four of the most common topics mentioned in a positive light suggest a necessary call to action by insurance companies. Statements describing an intention to switch to Allstate outweigh by 10 to one negative comments about dropping an Allstate policy. Less-direct references to other similar terms, such as “getting,” “choosing,” or “using” Allstate, are also among the top five most frequent discussion topics, as indicated in Figure MD10 below.

**Top Five Behaviors for Allstate**

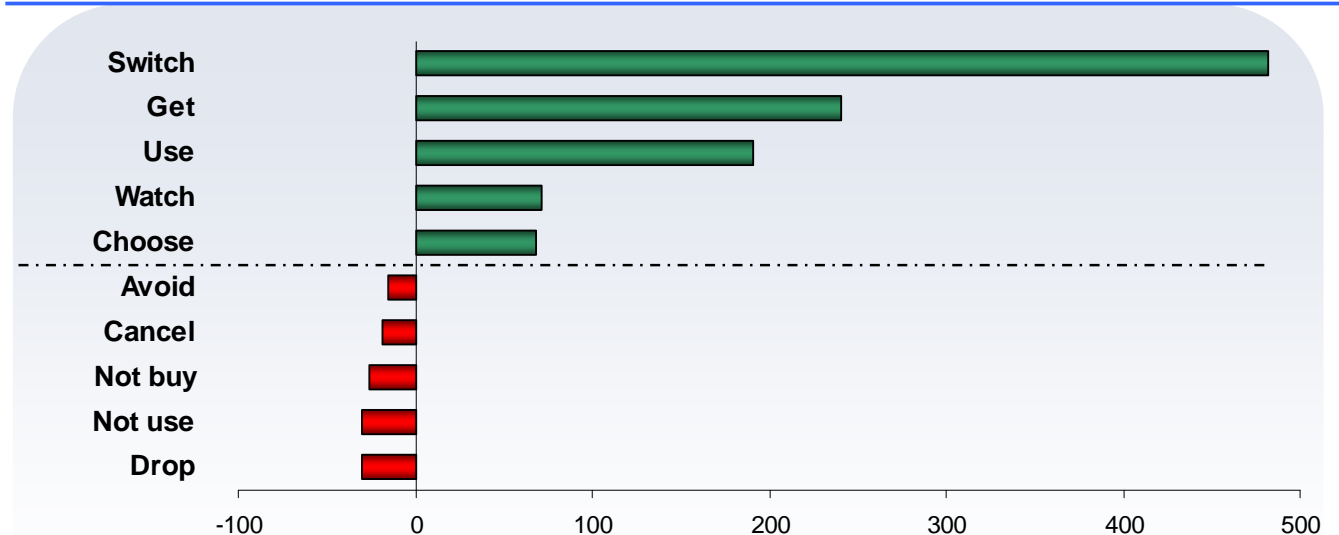


Figure MD10

Source: J.D. Power and Associates Social Media Intelligence Tool, May 2011.



## Conclusion

This management discussion seeks to address the recent shift in Allstate marketing strategy and advertising budget, in particular, the introduction of the Mayhem character in an ad campaign that has been running in parallel with the “Good Hands” messages since May 2010. Since launching the new messaging, social media commentary increased dramatically, and the share of comments regarding the advertising—the majority of which are positive—has dominated Allstate discussion on the blogosphere for most of this time. Findings of the *2011 Insurance Shopping Study* show that the Allstate brand has gained appreciably in terms of unaided awareness—a vital precursor to shopping consideration, which has also increased from last year. Ultimately, though, insurers gauge the success of advertising spend in terms of new policy applications, and in this measure Allstate has garnered the largest increase in quote rate, compared with the three competitor companies profiled in this analysis.

However, despite being the second-largest personal auto insurer in the United States, behind State Farm, Allstate still achieves the lowest quote rate among the four brands, and consumers’ brand image perceptions of the insurer are predominantly as *Expensive* and *Serious*. The magnitude of change required to compete head-to-head with insurers such as GEICO and Progressive will not be accomplished in a single year, but rather over a longer period of time. Perhaps more significantly, Allstate is the only one of these four companies whose total personal auto revenues declined from 2009 to 2010, further heightening the sense of urgency to expand its share of the under-35 market. In the latter part of May 2011, it was announced that Allstate is acquiring the Esurance brand and book of business. With approximately \$750 million in direct premiums written in 2009, the inclusion of this powerful new brand and online capability to the traditional Agency model could be a game-changer for Allstate.

The *2011 Insurance Shopping Study* profiles a total of 28 major US insurers. The full analysis, which examines the personal auto insurance industry in a number of metrics, such as brand image, shopping process, closing the sale, retention and defection and on-boarding satisfaction, is available by subscription.

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