



BUSINESSMAN

SO EASY A
COULD DO IT

Insurance has a face. Who knew? And it's not the mug of a local insurance agent. No, in the new millennium the face of insurance more broadly recognized than any other is green with bulbous eyes and an orange forehead. It's a three-inch tall lizard with a British accent.

Or maybe it's that stack of money with the big eyes. Or those hairy Neanderthals I keep seeing on TV. The truth is insurance has many faces these days, most of them emanating from one source – Government Employees Insurance Corporation – a company better known to us as GEICO.

Credit GEICO (a firm with as bland a title as any we can think of) with animating what has historically been a largely faceless, humorless industry. That's a major achievement. But just as impressive is how effectively this Chevy Chase-based company has been able to reach the one entity all businesses need – customers.

The customer, it is often said, "is king," a ruling consideration no matter what business you're in or what market you serve. How do you attract them? Once you have them, how do you keep them? And though it's not as commonly discussed, when and why should you turn a customer away?

There is no single answer to these questions but effective leaders continually reevaluate customers and their business to come up with solutions. It's not always easy, however. If it was, any businessman could do it.

But it's worth thinking about – for at least 15 minutes.

BY JAN TEGLER

TAKE 15 MINUTES TO DISCOVER HOW
GEICO LANDS NEW CUSTOMERS



CONSISTENCY CATCHES CUSTOMERS

“Fifteen minutes could save you 15 percent or more on car insurance.’ That tagline has cut across all of our ad campaigns whether you’re talking about the Caveman or the Gecko,” says Ted Ward, GEICO’s vice president of marketing. “It’s the one thing we’ve kept and the one thing that best sums up our deal. It doesn’t take a lot of time to figure out.”

When Ward speaks about “all of the company’s ad campaigns,” he speaks volumes. Since the mid-1990s it’s arguable that no business has more aggressively or successfully marketed itself than GEICO. But constant amid the insurance giant’s amazing array of creative advertising is that simple message – GEICO can save customers money. The slogan that has been as effective in drawing consumers to its door as any other initiative.

What’s fascinating is that the company’s constant presence and consistent message on TV, radio and in print over the last two decades has connected so well with the public – this from an auto insurance giant that interacts with customers primarily via remote means. GEICO is after all, a direct marketer, offering their products almost exclusively online or over the telephone. There are no pools of independent agents representing the company in towns across the country.

Ward joined GEICO in 1984, a new hire at a time when the company had finally emerged from serious setbacks in the 1970s. Ready to grow again, Ward was brought on to help the company stand up new advertising schemes. At that point, GEICO relied on direct mail to offer its primary product, automobile insurance. But Ward and his contemporaries thought it was time to expand the company’s advertising. As the 1990s got underway, they began to investigate ways of differentiating GEICO from the competition.

“We thought there was an opportunity to carve out a place within our industry that no other competitor occupied,” Ward remembers. “All the competitors emphasized security. You had ‘good neighbors’ and ‘good hands.’ There were ‘blankets’ and ‘rocks.’ All of them to our way of thinking were not differentiated. So some of the stuff we did early on was extremely quirky on purpose. At one time we had a guy juggling bowling balls. We had herds of elephants. We even cut out a ‘middleman,’ representative of an agent, using a chainsaw. He was sawed through the floor of his office.

“In the early days we attached the word ‘direct’ to our (“GEICO-Direct”) name,” Ward continues. “That was a big step for us because being direct was not quite as common as it is today. Back in the early 1990s, there is no internet to speak of. People are not buying things directly online. Our challenge is to get them to call us. It’s an inbound telephone operation. So we looked to TV.”

Among the first forays for GEICO were commercials placed on cable television in 1991. They succeeded at a level GEICO was totally unprepared for, Ward recalls.

“Early on, we blew up our phone centers. We were unable to handle the volume of calls we received on any network that had viewers. Lo and behold, we were testing on a little bitty cable network called CNN and something happens – it’s called the Gulf War! Suddenly viewership spikes to four or five times what CNN normally delivered. That’s when we realize the power of running spots on cable as long as you know what volumes to expect so you can actually make it work. Not having it work can drive customers away.”

A FRESH INVESTMENT

Despite the early hiccup, experimentation began to show results. GEICO was on a path to greater visibility, achieving measured but steady growth as the last decade of the 20th century began. Two events were to hasten company’s growth dramatically in the mid-1990s. The first was appointment of longtime employee Olza “Tony” Nicely as chairman, president and CEO in 1993.

Nicely pursued a multi-layered strategy to expand the firm’s customer base. One initiative targeted technology as a means to better understand GEICO’s core business. Hence, the firm became an early adopter of the internet. Access to wider data online enabled GEICO to more thoroughly understand the underwriting characteristics of its clients. That led to expanded product offerings and better pricing, which attracted many new customers, says Ward.

“We felt much more comfortable that we could offer a policy for almost all drivers,” he says. “We had figured out how to price people and underwrite them appropriately regardless of their driving record. It was huge because of the efficiency of it. You’re spending the same number of marketing dollars with the same infrastructure in place, but you’re satisfying a lot more people. You’re allowing the customer to say, ‘Thanks for giving me a price. I don’t want it.’ Or, ‘I do want it.’ The universe of customers whose needs we could meet expanded dramatically.”

Tony Nicely also kept an open mind when it came to promoting the company. That was to pay dividends when he took over and just a couple years later when a pivotal figure in GEICO’s history reemerged.

Warren Buffett first became acquainted with GEICO in 1951 through a professor at his alma-mater, Columbia University, who was an investor in the company. He visited the firm’s Washington, DC, offices and wound up investing in GEICO himself. By 1976, the firm was ailing. A rapid expansion initiated in the mid-1960s steered GEICO from its roots as an insurer of government and military employees to a position as a major market insurer for automobiles, outpacing the company’s loss reserves within a decade. Buffett stepped in with a major cash infusion, buying a reported 1 million shares to stabilize the company.

As the company recovered over the next two decades, Buffett watched it with interest and in 1995 moved to purchase GEICO outright. The buy was completed in 1996 and GEICO became a part of the Berkshire Hathaway family. With the massive resources of the parent company at its disposal and encouragement from Buffett himself, Nicely, Ward and the leadership at GEICO began pushing the insurer’s visibility to new heights.

“The thing that changed when Berkshire bought us was our aggressiveness,” Ward explains. “Mr. Buffett liked what we had been



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HOW TO FIRE THEM THE CUSTOMER ISN'T ALWAYS RIGHT



Mary Ann Scully, Howard Bank

A customer who doesn't live up to its end of the bargain is most often a customer you don't need. Just ask Howard Bank's chairman, president and CEO, Mary Ann Scully. In banking, executives continually evaluate risk and make efforts to minimize it whenever possible. That means considering customers carefully, whether new or old.

Based in Ellicott City, Howard Bank has four branches in Howard County and fifth set to open soon in Anne Arundel County (Annapolis). The bank's core business is in developing a full commercial relationship with small and medium-sized businesses, primarily in the Howard County area. "Lending is often a big component, but so is cash management," says Scully.

The past eighteen months have been turbulent for the banking industry. Howard Bank, launched in 2004, is no exception. Although well capitalized initially, the community lender has continued to raise capital defensively (even participating in the government's Capital Purchase Program) to protect the bank and to be able to continue to lend.

"Small and medium-sized banks are in the eye of the hurricane right now," Scully contends. "For bread and butter community banks, it's time to batten down the hatches. We've got very strong operating performance in terms of loans being up, deposits being up and evidence of good progress on the relationship management front. Still, like many commercial banks we've also been putting more and more away on the loan-loss provision side, doing what needs to be done to prepare for the worst."

The majority of Howard Bank's loan portfolio resides with small and medium-sized local businesses, customers who Scully and the bank's experienced "relationship managers" (loan officers) take the trouble to know intimately. Consequently, the bank's exposure is limited. But as its CEO acknowledges, it only takes a couple of hiccups to cause real problems.

So the bank is going forward carefully. That's its right and its responsibility, Scully argues. "Banks are like anyone else – they have a right to modify their business plans," she says. "Some banks are deciding that they don't want to focus on a particular area of business. That means that certain customers fall out during that process. We try to be responsible lenders to prospective customers and existing customers, and when they come to us and say, 'I want more money,' the answer sometimes is 'no.'"

Accordingly, borrowers are advised to have more than a simple business plan when they seek a loan. Scully and her staff want to see a contingency plan, a strategy that goes beyond than an entrepreneur's best guess.

"The second thing is for the bank to evaluate whether those plans are realistic," she explains. "If they're not, we have to advise the client that we don't think they should go forward. If they're insistent, the answer is, 'It's a free country; you can do what you want to do but we can't support you.' It's not usually a message that is well received initially, but that doesn't mean it's not the right message to give. That's what being an expert adviser means. We're not order takers. We try to look out for the best interests of our customers and to our responsibility as lenders."

As Scully points out, bad business practices quickly lead to no business. Business owners often should evaluate customers much in the same way they consider other business opportunities. Is the risk associated with their customer worthy of investment?

"That's something I think people forgot in 2005 and 2006," Scully argues. "If you loan someone money they cannot pay back, you've not only hurt yourself. You haven't helped that borrower. There are times when the customer isn't right."

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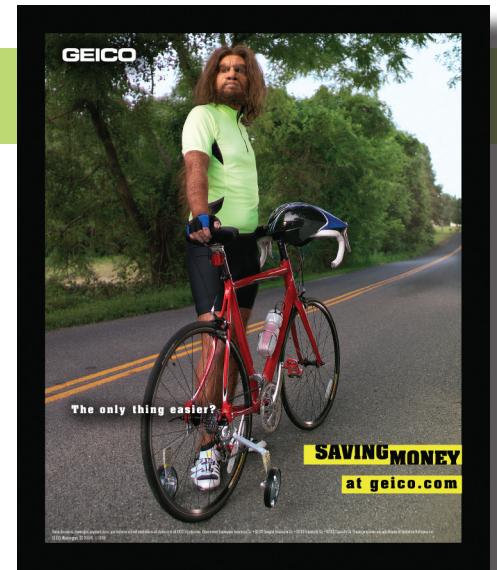
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In 2007, the GEICO Cavemen starred in their own short-lived sitcom.



doing, but he said, "Why don't we try to do it even more aggressively and grow even faster? Let's maintain the consistency of service and the message but do everything better and more quickly."

According to Ward, Buffett not only recognized the value of promotion, he recognized immediately that GEICO's mode of business was perfect for the emerging phenomenon known as e-commerce. He encouraged them to do as much business as possible online, using the internet as a platform to expand its customer base efficiently by offering services to a mass audience without the infrastructure a traditional insurance company would need.

"For a direct marketer like us, that encouragement was perfect," Ward affirms. "It harnessed the data, computing power and online revolution that occurred late in the 1990s and into the first 10 years of this century. That may be the thing that has allowed us to grow as quickly as we have without bursting at the seams."

And so, in concert with other efforts, GEICO set about building Geico.com. The well-designed, interactive website allowed the insurer to deliver a huge amount of business online without lots of human infrastructure. Ward adds that computing costs have decreased over time and are still dwindling.

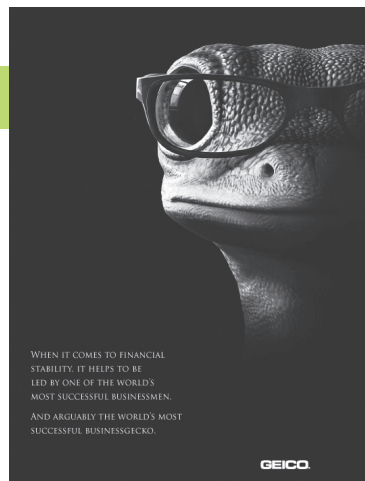
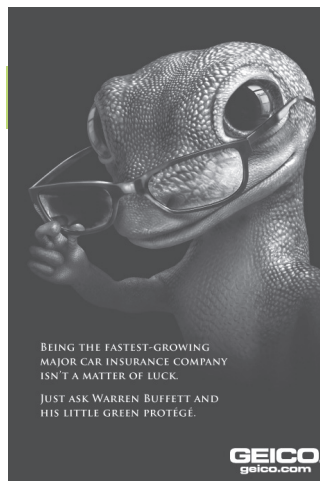
"Taking advantage of that is significant for us," he says. "The online arena offers better chances to move forward faster. That may be the reason that we're a 24,000-person company and not a 70,000-plus firm. If we had to build out people to accommodate our growth that would have slowed our progress."

A LIFE OF ITS OWN

While efforts to build the infrastructure needed to attract and accommodate a larger customer base were ongoing, Ward and GEICO's partners geared up for an advertising blitz the like of which has not often been seen. The effort took off in 1995 when GEICO teamed with the well regarded Martin Agency, the third largest ad agency in the U.S.

Campaigns varied from early animated ads to a series of one-shot commercials that continue to this day. The "Caveman" campaign originated when a Martin ad executive, referring to the company's simple-to-use website said, "So easy a Caveman can do it." In 1999, the GEICO Gecko appeared, born from focus groups in which people continually mispronounced the company's name as "gecko." Both campaigns are so successful they spawn characters that take on a life of their own. In 2007, the Cavemen starring in GEICO's ads got their own sitcom on ABC. It was short-lived, but proves the sometimes bizarre power of good advertising.

There are too many more ad campaigns to list, from humorous celebrity endorsements and parodies to the googly-eyed stack of money known as "Kash." All have served to raise awareness of



The GEICO Gecko appeared in 1999 and has been a staple of the company's marketing every since

Tom Loveland, Mind Over Machines

HOW TO KEEP THEM

TO KEEP THE CUSTOMER, KEEP THE CUSTOMER SATISFIED



Securing new clients is only half of the customer equation, of course. Retaining them is the other half. And nothing damages a business more quickly than an inability to meet client obligations – whether your client is an individual, a business or the U.S. government.

Owings Mills-based Mind Over Machines, Inc. (MoM) founder and CEO Tom Loveland has a unique perspective on keeping his customers. In addition to serving its commercial clients, MoM provides IT management solutions, application design and IT support for a host of federal agencies including the Centers for Medicare and Medicaid Services, the Department of Health and Human Services, the National Cancer Institute, the National Institutes of Health and the U.S. Army.

"I would say that it's more challenging to keep a commercial client, actually," Loveland explains. "Often government contracts are multi-year deals. If you keep your nose clean and add a reasonable amount of value and the need is still there, then there's a real good chance you'll be renewed. On the commercial side, contracts don't run to three or five years, usually. They can drop you on three days' notice. You need to be showing value consistently."

Retaining the federal government as a customer, however, is not as easy as performing to certain standards, Loveland reveals. Depth and experience count as well, Loveland notes, pointing to a trend he's noticed in which the government considers not only a firm's competence but its maturity.

"They want to know things like if a key person quits your company, how experienced are you at replacing someone like that? How deep is your bench? They may know that you are technically capable of performing work, but can you handle staying alive and doing well during the life of a contract? Do you have a board of advisers? Do you send your executives to training? Can you cope with legal difficulties? How truly mature are you as an organization?"

"I WOULD SAY THAT IT'S MORE CHALLENGING TO KEEP
A COMMERCIAL CLIENT, ACTUALLY."

That kind of depth indicates staying power to the government, an important consideration because, as Loveland reveals, the government doesn't always act as "maturely" as the contractors it deals with. Sometimes the ability to retain the government as a customer hinges on whether a firm can survive without being paid.

"Once in a while, through no fault of any particular person, the government 'forgets how to pay us,'" Loveland quips. "It can be months. You might have a five-year government contract but the money that's earmarked against it is released in little tranches here and there. Or we can be steaming full bore on a contract, heading toward 16 days of money left, 14 days of money left and less with no sign that anything's going to change. But you keep going ahead even though they haven't confirmed that the money's there. It's back to risk taking entrepreneurialism."

MoM just keeps on truckin' in such situations, says Loveland, because they trust that payment will happen. Most often it does once a clerical error is cleared up. But as he illustrates, if the government doesn't pay, what can you do? "You've got to be willing to roll with the punches of the government game. Sometimes the government wants to know if you have a sufficient line of credit, so that if they don't pay for three months the contractor can survive."

the company that started in 1936 with just two employees, founders Leo and Lillian Goodwin, to an all time high. Spending on a mix of advertising skyrocketed from \$31 million in 1995 to \$751 million as recently as 2007 according to the monthly insurance magazine *Best's Review*.

The bottom line is that GEICO's multi-pronged strategy, focused inwardly and outwardly, has sent customers its way in flocks. In 2002, GEICO reached 5 million policyholders. By 2007, 8 million had signed up. Last year, customers surged past 9 million with

GEICO insurance available in all 50 states for the first time. The \$24.4 billion company is now the third largest private passenger auto insurer in America.

The lesson is that winning customers is a task best attacked from many angles. Develop a thorough understanding of your business. Expand your product offerings when viable (GEICO now offers many more kinds of insurance). Adapt technology to leverage efficiency and price your products competitively. Finally, advertise discriminately, but aggressively, and be consistent. **CEO**

GEICO's spending on a mix of advertising skyrocketed from \$31 million in 1995 to \$751 million as recently as 2007.

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