# HW6: Aggregation

Michael Plasmeier

1. Insurance companies should buy leads in markets where they want to grow in or markets where they know they have a competitive offer in.
2. There are several options for how insurance companies can purchase leads. The insurance company could pay the entire cost of the lead. The benefit of this is that the company is the one that is directly selling the policy. It could act as its own agent – reaching out to clients directly. However, then it would be bypassing its entire existing agent network. This could annoy its existing base of agents. Instead, it might want each agent to purchase their own leads. This way, the insurance company stays out of selling insurance. Each agent is out for themselves. This could lead to more creativity as agents get better at buying leads. One side effect is that agents would get larger and less personal. This means agents would add less value than before. The cost of leads could also be split among the company and the agent. For example, the cost could be split evenly, or the company could buy the leads, but then pay a lower commission on lead-generated conversions. Splitting the cost could allow the risk of the leads to be spread, but lessons the alignment between risk and reward for the leads.
3. One concern about leads is that the conversion rate on leads has been dropping from 7% in 2010 to 2% in 2012. This could be because so many other agents are buying leads that customers are receiving other offers. Another possibility is that newer lower-cost providers are undercutting the traditional market.
4. Aggregators such as Travelocity have made the markets they operate in much more efficient. The effect is most noticeable where the products are not differentiated. Airlines now compete almost entirely on price. Unfortunately, auto insurance companies also compete almost entirely on price as well. Individually they want more business, but making it easy to compare prices will cause a rush to the bottom for the entire industry. In addition, it will wipe out most of the money that they have spent on advertising and brand development (i.e. Flo and the Gecko).
5. I believe that the market will become more efficient eventually. US insurance companies may try to forestall aggregators, but I think they will eventually break out of the market. It’s typical game theory. An individual company can benefit if it acts on its own, but then the entire industry will be harmed if everyone acts.
6. Purchasing or building your own comparison site is a risky proposition. Once consumers find out that a particular insurance company is behind it, they are less likely to trust the site. In order for the site to be trusted in the medium- and long-run, it must show a fair comparison. Your competitors will likely be hesitant to list on your comparison site.   
     
   You don’t want to sit out, because as more and more people use lead gen sites and aggregators you will get less and less exposure.

As I said earlier, I think the market will become competitive eventually. It is best to cut costs and now to be able to win as the market grows increasingly price competitive. Then you can lead the market by undercutting your competitors on price.

* 1. Insurance companies might not want to work with Leaky – for the reasons presented in this assignment. In addition, they will have to make people aware of Leaky. Insurance companies already spend big bucks on advertising.
  2. This is one of the few Sloan startups I actually like. There is a lot of money in the space and its ripe for disruption.