

STRUCTURAL MARKETING

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1. I wish to thank CAPA for asking me to prepare this lecture for the V International Week of the Marketing of Insurance. I dare to say, however, that CAPA's management are making too many errors. Some years ago, when they organized a meeting together with ICEA in Perpignan, they also asked me to elaborate on the subject of planning when there never was, and there still is no Planning Department under any shape in my Group. That, naturally, apart from the pleasure to be there, caused me a certain embarrassment. To my astonishment, I am asked now to contribute to this Marketing Conference when, equally, MAPFRE has never had nor has, and will probably never have a Marketing Department. This, I believe, is the reason why our growth is always above the market average for the last years. With this, of course, I am not suggesting that CAPA should set aside its International Marketing meetings to which so much enthusiasm is applied by its graceful promoter, Marie-Anne Philippe who, together with Jacques Destombe, offer always an excellent organization.

The basic idea of marketing, is simply to me the "steps taken to place a business, social or political concern in a privileged position as opposed to competitors, whoever these may be". Once this position has been reached, which may prove very difficult, to exploit to the full and implacably the advantage thus obtained with the aim of increasing penetration in the market.

In any event, marketing or not, that is a business principle I have always put into practice and which I am now offering to you should my experience or advice be of any use; but, as ever - the clairvoyance of French people always surprises their neighbours on the other side of the Pyrenees - my friends at CAPA have found a Marketing area on which I am very keen, that of "structural marketing".



Structural marketing has always been present in my business policy of an already long business life, and even had a precedence in the name of one of my papers, "Structural Trading" which I had the honour to deliver in other CAPA meeting held in Alicante in 1977.

I personally consider myself a structuralist, both in the political society and in business, as this word has today different connotations whether one is talking about the cultural or the intelectual life areas.

My business performance has in great part been geared to making possible the permanent transformation of business structures into others more suited to our circumstances or to our professional, social or economic situation.

At this particular moment, I am intensely devoted, in what may be the more active moment in my professional life, to carrying out a new structural change that should push MAPFRE a step forward, both in the insurance market as a whole and in its principal sectors.

This is the reason why I accepted the invitation to be in Paris with you, a sacrifice which, as you will presume, is not one of the hardest in my life though one which we, insurers, impose on ourselves making some of our wives say how unhappy we men are with our profession, always going to wonderful cities, splendid beaches or beautiful winter resorts!.

A constant principle in my professional life has been that a company cannot succeed in the first place if it lacks a philosophy and clear performance principles which differentiate it, at least in part, from its competitors, and if it is doesn't have a permanent strategy for growth.

Growth is sought by all, although we may claim that profit is our goal. Growth, however, is not simply an objective for "managers", but an unavoidable necessity in business life.

A business enterprise that fails in its growth vocation is not an enterprise, notwithstanding its legal, technical or administrative shape. A company needs vocation and growth possibilities. Should these characteristics be non-existent, the seed for self-destruction is inside.

In everything related to MAPFRE I have been ambitious and had to worry about this problem at all times. I have consequently become a modest strategist, militant of objectives socially detracted in the last years as being guilty of the ills of humanity, but which are absolutely essential to achieve the goal sought by those who deride them.

2. In order to elaborate on this subject of "Structural Marketing" I must refer to MAPFRE's evolution in these years because my participation here can only be justified if my line of action reached real achievements. The pure theory of "what-can-be-done" is losing ground as opposed to the experience of "what-has-been-done".

I am now showing you a chart with MAPFRE's position in 1969, before the structural conversion took place, which will be explained later on, and its evolution from 1977 to 1983 in its three principal areas, including collected premiums volume, its increase and its market-share development.

Another chart shows the trend of our investment income, own funds and admitted assets. All these aspects are vital for the analysis of a dynamic insurance company, because financial performance and concern for the "effective patrimonial aggregate" will be essential items to attain a firm and solid stand in the future, both in one's market and, furthermore when, as in the case of MAPFRE, a modest but solid international projection is intended.

I cannot see the reasons why our evolution in 1984 should differ from that of 1983 and I think that it will be possible to reach an aggregate average growth of 28%, that is, above the one projected at the beginning of the exercise.

MAPFRE is now 15 years away from its first "structural organic transformation", which began in 1970. Then, a Mutual, holding the 27th position in the Spanish ranking, was divided into three different legal units: MAPFRE VIDA S.A., specialized in Life insurance, MAPFRE INDUSTRIAL S.A. exclusively devoted to Property and Casualty, and MUTUALIDAD MAPFRE owner of the above-mentioned Companies' shares, and devoted almost entirely to Motor business.

Their coordination was entrusted to a Central unit of Departments shared by all, that administered certain services for the three companies. These were called at a time ORCCEN (Central Common Services), supervised by a single Executive Committee that actually ruled MAPFRE (Boards were different for each Company but with many common members).

As I explained in Alicante in 1977, that reform was a specific decision of "structural marketing". We believed then that in order to increase our market share we were bound to de-centralize our operation by establishing different legal structures for each main insurance sector. This would give an almost total autonomy to Managers, within the necessary limitations of a Group,

and a nearly free managerial operation, high and above that of the head of Department of a single unit.

A deep analysis of our past history shows that MAPFRE's development would have been less successful if that decision had not been taken.

I wish to point out that our "structural marketing" policy does not only apply to the Central Services, but also, and nearly from the beginning of my time with MAPFRE, to the territorial organization.

The changes and the goings backwards and forwards are not worth mentioning, only that we have permanently moved towards an operational structure of the characteristics we thought adequate to attain a balanced development.

The main decision was the establishment of top management units or "Subcentrals" in the main capitals of province. There, the "Managers" exercise a direct action, both technical and administrative, on their own province, and also supervise the company policy and marketing line of the neighbouring provinces, which fall under the responsibility of the "Subcentral". These provinces, nevertheless, report directly to the Madrid Central Services in the administration area, in order to avoid duplicity.

This change, however, was not the specific result of a decision as was the establishment of the three companies I mentioned above, but a continuous process towards a constant increase of territorial decentralization that started in 1958.

My friends, many of which are as interested as I am in these subjects, have repeatedly told me that a structure where a person would receive instructions which could be contradictory or superimposed from different Central managers at different geographical offices, as it is our case, could be dangerous. They may probably be right, but during the fifteen years this system has been in force, I have not found any serious problem apart from the normal ones than may arise in any type of business organization based on very dynamic managers.

This can be taken as an introduction - and I suppose it is what justifies CAPA's invitation - to the new structural changes we are contemplating for a period which we trust may last another 15 years (from 1985 to the year 2000) and which we call among ourselves the "85 MAPFRE SYSTEM". (SM/85). It will commence in 1985 and it is obvious that it will undergo a slow implementation process which will reach its climax when my successors start preparing a new structural change.

That change I hope will occur in due time and I will do everything possible to encourage it even from outside MAPFRE if I am lucky enough to live until the beginning of the next century.

3. Before going into our future structure, I would like to make some general remarks on the responsibility of a top business manager, not very different from that of a top political leader. Fortunately enough, our stability is greater and we don't have to make ourselves popular every other period of time.

Within a de-centralized system in search of an effective growth policy which is the permanent justification of marketing, the most delicate aspect is the coordination of different people, areas and interests in a company which is, in short, an association of people. A company comes to a halt when the top manager is too worried about the coordination of the system and starts centralizing "de facto".

The greater the centralization, the easier the coordination. It is easier to lead slaves than to lead free men, but absorbing decision-making is time-consuming and growth would resent it. Success can only be achieved then through the steps taken by an exceptional man who, when lost, unbounds tensions which may destroy the gains obtained during his "dictatorship" period.

Centralism is fully opposed to business procedures and before and after being a business-man myself I have always thought that it was also anti-political. It limits the capacity to operate to that of one man or, at the most, to that of the few men around him and, although they may be brilliant, they cannot compete with a system where many autonomous units co-exist and, therefore, may be capable of decision-making and can offer their company and/or the political community their extraordinary contribution of physical, intellectual and moral energy. That can only be done by free people who share a common objective of service.

De-centralization is also risky. MAPFRE and all the companies that share the same operative mechanics have to accept the initiatives of autonomous people who sometimes may become "power-intoxicated" and may forget norms or criteria of common performance, somehow harming the rest.

I assure that, nevertheless, this risk does not offset the "plurality of individual capacities". To those of us who firmly believe in freedom, and do not use it as a pretext for other objectives, it is gratifying to check that there is nothing more creative and positive than the

exercise of that freedom and that the strength of a company in its surroundings, its country and the world is greater as higher is the number of people in conditions to act freely in a political line of action and within general goals.

On the other hand, as the very nature of a company asks for growth, and this seems to be the objective of marketing, I am bound to assert that freedom through de-centralization is an essential tool for a real marketing.

Having said this, there are two attitudes that a top manager may take: either to worry in excess about the coordination of the different units in existence or to provide them with autonomy, risking that the clash of sometimes contradicting actions may cause some harm.

The middle point is always the best way, but to coordinate cautiously is a heavy load and a permanent high responsibility. This can only be adequately assumed when one is capable of accepting opinions different from one's own and of watching unruffled errors being made. Besides, one should not expect the managers to be identical or friendly among themselves, nor that the various units are very coordinated. One should only aspire to correct serious deviations, thus neutralizing their effects.

This, of course, is only possible when a real "company culture" has been attained and the staff knows and accepts clear principles of performance that are accompanied by ethical norms where transactions or compromises have no place under any circumstance.

In our project, therefore, we plan to eliminate all the coordinating bodies, but we will leave a strong control on budgets as well as on the basic objectives and we will carry out periodical audits to discover deviations in those areas.

Another fundamental aspect of managerial top action is "the administration of change". Changes are extremely cumbersome. I can assure you that now that I am immersed in an operation of international change, I have to duplicate my normal effort, make other people duplicate theirs and suffer tensions that, otherwise, I would not have had at this stage of my professional life.

This results from my not accepting a normal evolution but, instead, devising the implementation of structural changes that everybody, without exception, try to avoid. These changes are in many instances considered a personal insult and, beware! I am talking about a group of executives whom I am extremely proud of and whom, with or without error, I consider to be of an exceptional level.

Mankind, each individual, has a tendency for continuity. He likes to repeat what he did last time, more so if the result was acceptable. This is why, occasionally, structural measures are called for.

Should these measures not be taken in time, institutions would pave the way to revolutions and blind attempts of "structural changes", ill-intentioned at times, and with unpredictable consequences for the people and even for civilizations.

4. I told you earlier that MAPFRE is preparing in these months a new structural change, the results of which we would like to be similar to those of the 1970 reform for the next 15 years.

The structural strategy of our growth policy is not a passing instrument for MAPFRE to use at a particular moment, but a basic part of its policy. Personally, I think that this is essential for an institutionalized company after the initial period of intuitive steps, "à tâtons", where an alert instinct and quick intuition were particularly important.

The "85 MAPFRE SYSTEM" does not represent a rupture with the past but a step forward in our basic policy, that is essential to a company, with the best possible use of the high potential of our human element, thus providing it with a remarkable capacity for positive actions.

Up to now, MAPFRE was an ORGANIC INSURANCE GROUP that made some sporadic incursion out of the insurance sector. It is our intention that MAPFRE should establish in the future a "SYSTEM" of autonomous centers where the "Central Common Services" (the ORCOEN mentioned above) lose their importance until extinction and where the respective Board of Directors are really differentiated.

The "SM/85", besides the three basic pure insurance units, an extension of the former ones, and the subsidiaries they may establish, contemplates to include also non-insurance companies, though only in the areas of financial services or safety assistance.

All the units, present and future, will be coordinated only by their share dependence to MAPFRE MUTUALIDAD, whether this is direct or indirect. We consider essential that in any and all the companies carrying the MAPFRE name we have more than 51% of their shares at all times and we will never permit that any "MAPFRE Company" strangles itself from our basic principles of what a company should be and of its role in society.

The "SM/85" follows the same our de-centralization policy where the apparent functional problems derived from a territorial structure of multiple dependences will continue. Years ago, this was a daring step, but now it will represent a danger no bigger than any other form of business structure with a centralized or de-centralized policy, while success will depend on the people in our system and those who will replace them when the time comes.

We could say that the "SM/85" will constitute somehow a "Zaitbatsu" or perhaps a "galaxy" test for highly autonomous companies, where the main coordination will be the company's culture and her high performance principles. Also, the integration and support of its management and personnel who basically share a name they respect and to which they want to add an image and prestige greater than the ones received.

It is very exciting for me to be able to talk about all this at such a preliminary stage, risking that sometime in the future people will remind me or my colleagues at MAPFRE of it.

I wish to emphasize the importance of the name MAPFRE as being the key to a business operation philosophy. This is very important because, in our case, the FUNDACION MAPFRE is the unique and undisputed owner of the MAPFRE name. The Foundation could in fact reject any company from our "community" by preventing its use of the MAPFRE name, should, by any circumstance, of our companies walk away from its basic direction.

5. I will not go into details, but the "SM/85"'s objective is to maintain the three units, followers of the present ones, and to provide them with a greater autonomy by almost eliminating the Central Common Services, but to keep the "skeleton" of a common territorial organization reporting directly to the "System".

The present "Subcentral Managers" will not only be the top coordinators of the bordering province managers, but also of the various representatives of each autonomous central unit. They should also supervise the "capillar logistic network" of the small territorial offices we are now starting to develop in an intensive way, and which will be furnished with a high autonomous operative capacity of different graduation. In 1982 we had 420 professional offices, 520 at the end of 1983 and I expect that nearly 1.000 will be in operation in the next four years.

For your better information, I am giving you a chart where the Central and Territorial structure of MAPFRE is shown and the one we want to have in the future, when the new "MAPFRE SYSTEM" is ripe, in five or six years' time. This is our objective in the insurance area for a start as we are not sure yet of what we will do in the possible autonomous financial or prevention areas (all under MAPFRE's name).

Our basic idea is that ultra-specialization is essential to an aggressive marketing policy. To have a management team concentrating exclusively in a specific area brings out nuances which otherwise would have escaped unnoticed while offering more sophisticated services coincident with the needs of the client, at a quality and price which outset those offered by a unitary structure.

- A. "MAPFRE Motor" (the Mutual and mother company of the system) will grow considerably away from the classic Motor insurance offered by many insurers as "accommodation line" and it will acquire a deeper technical content derived from the study in depth of the nature of car-repairing. Internal research will be used in order to reduce costs and a high specialization in the injured's assistance service will be attained as well as very simple formula of immediate settlement, bureaucracy-free, for insureds and third party's losses.

We are confident that this will allow us to improve substantially our service (quick and fair settlements with no bargaining neither delays but protected against fraud), reduce our rates and, obviously, increase our market share.

- B. Life Insurance will surely offer exceptional opportunities in the future, although I was wrong when I made this forecasting ten years ago, but only to those able to concentrate in the permanent study of products which meet the public's needs, those who know how to lower costs in order to reduce prices, and those who achieve a true investment specialization that will grant them and their insureds yields above the market's average.

To achieve this, we think is essential a great operative autonomy, and an emphasis on pure insurance, so much threatened by the competition of non-insurance products, leaving aside other group interests or subordination to other types of insurance.

I do expect, therefore, that a greater autonomy for "MAPFRE VIDA" will permit this Company to carry high the flag of insurance and face the coming intersectorial competition while maintaining its leading position among Life insurers.

- C. In the Property and Casualty branches, a close coordination with reinsurance is possible and we shall strive to make it function.

In this area, we see possibilities for an international development for CORPORACION MAPFRE, our "holding" Company up to now, which we are now turning into a shorly capitalized reinsurance company (about 22 million dollars) by merging it with MAPFRE RE.

Simultaneously we want to increase the de-centralization of our direct property and casualty insurance operations, which will be reinsured by CORPORACION MAPFRE. Central services whose costs should not be over 3% of the premiums. We will eventually create several regional areas with independent legal autonomy whereby, as in the major part of the present big reinsurers, a solid base of captive business will be combined with an offer of reinsurance service and technical assistance.

I believe that these measures will allow us to increase our market share, (presently approximately) 5%, while maintaining our full independence and high solvency margin with no need for take-overs and mergers. It is doubtful that whatever we may obtain in the days to come would have been possible with the present structure.

6. I must admit now that, thanks to CAPA, I realize that I have been "preaching marketing without knowing it", as Mr. Jourdain, although I maintain that MAPFRE will not set up a formal Marketing Department, as long as I can prevent it.

Its creation would eliminate our present advantage of having our large central and territorial force "marketing without knowing it", which, in fact, could be called "integral marketing".

I dare to predict that future success will be with companies that have this "integral marketing". This, in the case of an insurance company is possible if more than 20% of its total human elements is capable of projecting an expanding operation and if its top management participates directly in marketing as leaders of the pyramid of "autonomous marketing men".

I hope that I have given you a general idea of our business policy which although may be considered heterodox, is proving effective.

To conclude, I wish to mention two questions I am often asked: What means do we use to obtain a strong coordination with such a flexible system? and how have we achieved a company culture "sprit maison", which is MAPFRE's principal characteristic?.

To the first question my answer is that, naturally, through a wide range of manuals but, principally, through an extraordinary, nearly excessive, multiplication of periodical and contrasted information which gives everybody working at the central and territorial units an access to the results of each operative area. Today, June 7th, they already know the growth of four operative areas and the Motor business results of 75 "territorial profit centers" at the end of May.

This is possible because we have investigated and found a total informative transparence with no secrets or "shut drawers", where control is exercised by all who also know that their own failures and errors, as well as their hits, are exposed to hundreds of watchfull eyes, and you know that we Spaniards are very proud and do not like to acquit ourselves badly.

To the second question, I can answer that "MAPFRE's culture" comes precisely out of a system of informal and very frequent meetings (I, myself, visit all our offices, four times a year, and other officers nearly as often). It comes also from the many organized collective trips of prize and incentive where deep friendly bonds are established among those belonging to our organization, and to the territorial one in particular.

A complement to the above is the belief of working at the clients' service through a real ethical line of action that means satisfaction and pride for honourable people.

Please forgive me if my final words carry a sound of triumphalism but this I cannot hide when I talk about MAPFRE's human force which is really my greatest professional success. I believe that there is no better marketing than the one made on the basis of the support of all the men and women working in a company, from the more modest to the most important ones. This has been the actual marketing force of MAPFRE and this is what I would like that my colleagues from all over the world identify with my professional life.

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