

Name Taoufik El Adel
Assignment Name Strat Plan p1
MGMT 485W Tuesdays 19:10, 13124
Date 10-22-2019

I recommend that Geico reinforces its presence locally in communities through captive and independent agents rather than just relying on costly advertising and online or phone interactions with customers. Across the Hampton roads, Geico has only 3 local agents, while State Farm has over 86 storefront agencies and more than 77 for All State. Among its competitors, Geico offers lower premium rates, has the most effective advertising, and has as high customer satisfaction as its three top rivals. Yet, Geico still ranks second after the industry-leader State Farm. Geico should follow their lead and target the market segment that still prefers a traditional relationship with their insurer.

Geico (Government Employees Insurance Company) was founded in 1936 in Texas to initially provide auto insurance to federal employees. Today, it serves all market segments and offers a variety of services including property, business, travel, and life insurance. It has assets of more than \$32 billion and generated \$25 billion in revenues in 2017 (Geico.com). It is the second largest auto insurer in the U.S. and has been an owned subsidiary of Berkshire Hathaway since 1996. The auto insurance market is highly competitive where the top 4 companies control more than 50% of the market in a fragmented industry. State Farm is the industry leader with a market share of 17.05% followed respectively by Geico, Progressive, and Allstate by 13.44%, 10.99%, and 9.21% (naic.org). \$285 billion is the amount the auto industry is expected to generate in 2019 (IBISWorld). The quality of customer service - that builds reputation - and the degree of exposure and reach to costumers are what differentiate firms in such industry where the offerings are pretty much homogeneous. In 2018 and according to statista.com, Geico spent \$1.55 billion

on advertising, over double the amount that State Farm spent which sets Geico as the number one spender in the industry.

Some of Geico's strengths include their high ratings from top agencies for financial strength, their popular and effective advertising campaigns, and their top notch 24/7 and 365 days a year customer service. The reason why Geico isn't sitting on the throne of the industry is not because their services are of an inferior quality, nor indeed a lack of advertisement, but more properly because they are missing out on reaching a market segment that State Farm has successfully controlled and that's where my recommendation comes in as a remedy.

Geico has a higher employee turnover rate than its competitors. This has become a weakness to the company since it is spending more on hiring and training as people keep leaving and joining. Captive agents are typically well motivated by the company they represent through the provision of capital, advertising, and commissions which all would help Geico combat this weakness.

Since the last recession, there has been an increase in average household income along with an increase in consumer spending. This is an opportunity for Geico that it must address with adequate strategies such as my recommendation to fulfill the need of costumers that prefer face-to-face interactions and build trust when it comes to financial commitments.

The number one threat to Geico is the fierce competition. For the last three decades, Geico has put a significant emphasis on tv and online ads and has neglected having a presence in the communities. This has opened a vacuum for its competitors to control specific market segments. By implementing my recommendation, Geico would face its rivals on a main battle front and reinforce its presence in the communities throughout local offices and eventually gain more market share.

References:

- "Ad Spend of Selected Insurance Brands in the U.S. 2018." Statista, www.statista.com/statistics/264968/ad-spend-of-selected-insurance-companies-in-the-us/.
- "Car Insurance Statistics In 2019." Policygenius, 24 May 2019, www.policygenius.com/auto-insurance/car-insurance-statistics/.
- "GEICO Honors And Ratings." An Insurance Company For Your Car And More | GEICO, www.geico.com/about/corporate/honors-and-ratings/.
- An Insurance Company For Your Car And More | GEICO, www.geico.com.
- National Association of Insurance Commissioners, www.naic.org/documents/web_market_share_190304_2018_property_lob.pdf.