“Adapting to a Changing Customer”
Speech to Society of American Business Editors and Writers
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Good morning! My goal today is to share a perspective on how consumers are changing, how Allstate is adapting to those changes, and how those changes are applicable to a broad range of industries, including your world.

Let me start by telling you about Allstate. Allstate got its start over 80 years ago as an innovation created by Sears. We were founded in 1931 in the depths of the Great Depression. The president of Sears, General Robert E. Wood, was on an early-morning train when a friend suggested that Sears might want to get into the auto insurance business. In those days, Sears was Walmart, Home Depot and Target all rolled into one. They dominated the American retail landscape and were one of the most innovative and well-run companies in America. If you had an idea or wanted to launch a new product, you went to Sears in the 1930s – just as today, innovators trek to Bentonville or Atlanta or Minneapolis.

Sears decided to innovate in insurance by selling directly to customers through its catalogue and not go the typical route of selling through an insurance agent. At the 1933 World's Fair in Chicago, however, Ed Roskam set up a booth and sold so many policies that Sears decided to change and follow the consumer. As a result, Allstate built one of the largest exclusive agency networks in the country, selling insurance through people, not just the catalogue.

Originally, agents were employees and sat in stores. For many years, that’s where you found us, in Sears stores under the escalator near the auto department. We were usually next to the tires or batteries.

We’ve come a long way from there, and today, our agencies and financial specialists are independent businesses located in virtually every town in the country. Along the way, we built our brand from what was the name of a Sears tire, Allstate, into an icon. Both our brand and our tagline, the Good Hands®, have extremely high brand recognition and are known and respected by most Americans.

In 1995, we were spun off from Sears. Today, we are one of the largest and most admired corporations in America. We serve about 16 million American households, providing not only auto, homeowners and life insurance, but retirement products as well as voluntary accident and health insurance products. We are the largest publicly held personal lines insurer and second in the auto insurance segment. Last year, our revenues were $33 billion, putting us in the top 100 largest corporations in America. We are a major employer with over 38,000 employees nationwide and another 30,000 professionals that work in over 10,000 local Allstate agencies in virtually every community in America, as well as in Canada. We have a $97 billion investment portfolio, which provides capital to hundreds of businesses around the country. We are proud of the contributions we make to the communities where we work and live, and invested $29 million in charitable giving last year, helping make them stronger.

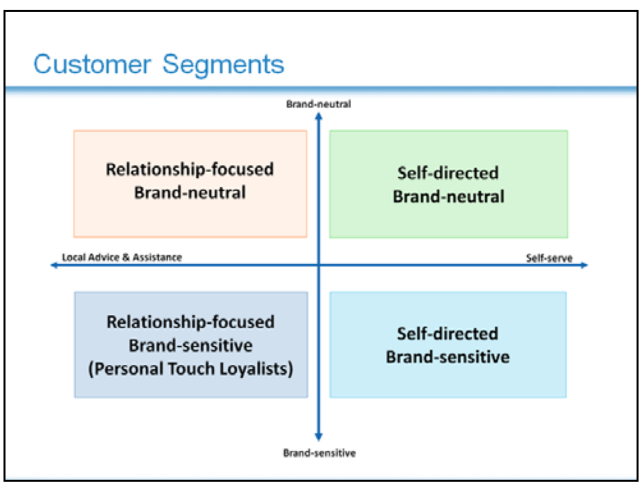
We have continued to pursue innovation and drive how consumers think about insurance. We launched Your Choice Auto® in 2006 with features such as new car replacement and a declining deductible, both of which are now being copied by our competitors. We have sold over 5 million Your Choice Auto policies. We are the only company that offers a Claim Satisfaction

Guarantee.™ In less than two years, our pay-as-you-go roadside assistance product, Good Hands® Roadside, has 850,000 members. We are also one of the leaders in the telematics space.

We also continue to adapt to changes in consumers behaviors and needs as well. The direct model that Sears moved away from in 1933 began to grow as computer and telephony technology and the Internet made the self-serve experience better. This move was fueled in part by massive advertising by direct companies like Geico and Progressive. Today, insurance is the tenth largest product advertising category in the United States. In response, in 1999 we began offering Allstate branded insurance directly to consumers through call centers and the Internet.

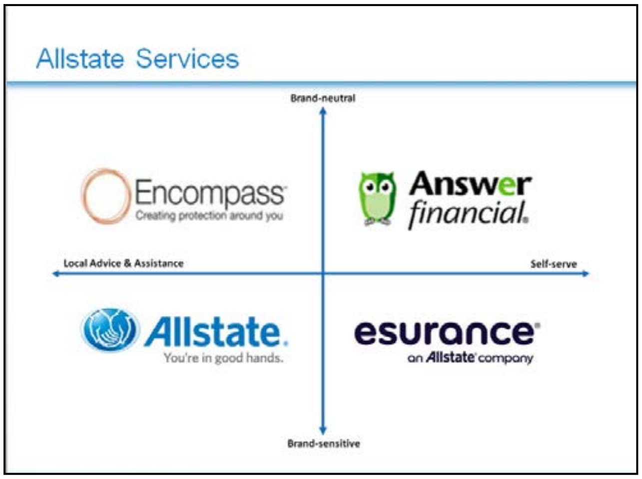
When markets change that fast, it's often very hard to tell what's happening. In this case, the conventional view was that insurance was splitting into two segments based on the type of distribution – agency or direct. It was assumed that the agency segment would be in a slow but steady decline and that it served mostly older consumers who used agents because they didn't understand technology. The direct model was assumed to attract the younger, tech-savvy segment that viewed insurance as a commodity and was primarily focused on low price. This was reinforced by Geico's price-focused advertising and successful growth.

In this environment, our Allstate branded direct business also grew rapidly but was not taking sufficient share from Geico and Progressive. So, we did what we have always done: We asked the consumer. Our market research concluded that the two-segment argument was partially correct but overly simplistic. First of all, consumers did not really segment well just by age or use of technology. Everyone uses technology these days. A large number of people use the Web to check out insurance options, but some prefer to get local advice and assistance before buying a complicated product, such as insurance. Even though these customers buy through an agent, they still want to use email, pay bills online and be able to see a picture of their car being fixed on their phone. There are customers that are highly focused on price, as there are in any market. In the insurance market, some of these people prefer to handle their needs directly through a call center or on the Web. There are also customers who are highly price-sensitive, however, who want the help and advice of a local agent.



Our research shows the market isn't composed of two segments, but four. Up on the screen is what we call the four-square slide, which breaks down the consumer insurance market based on preferences for type of interaction and beliefs about insurance companies. On the left side of the chart are consumers who prefer to get local advice and assistance as it relates to their insurance needs. On the right-hand side are customers who feel comfortable handling insurance on their own. On the bottom half are people who value insurance and see a difference between the various brands in the market. On the top half are consumers who see little difference between insurance offerings other than price. They are brand-neutral.

This segmentation is confirmed by competitive market shares. Allstate and State Farm have market shares in the lower left quadrant much higher than our overall market share position. Similarly, Geico and Progressive Direct both over-index market share in the lower right-hand quadrant.



Last year, we bought Esurance to compete more directly in the self-serve branded segment. This also gave us the flexibility to reposition the Allstate brand squarely at the customers in the lower left-hand segment. When combined with our Encompass and Answer Financial offerings, we are the only company with the ability to serve each segment with a focused value proposition tailored just for that segment.

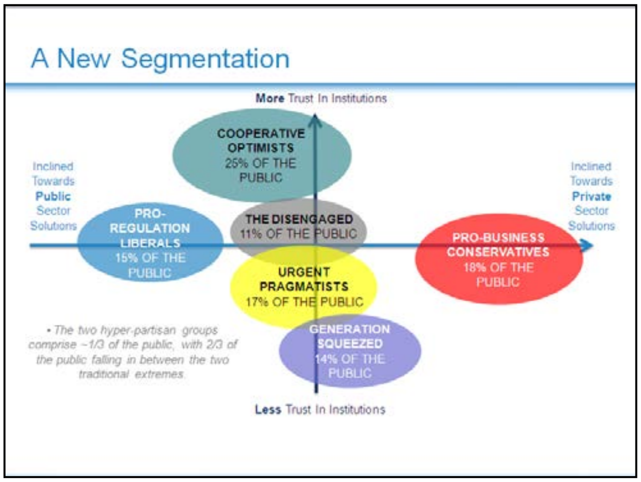
Our key learning from this is simple: it's important not to fall into the tyranny of bi-modal thinking. It's very easy to divide the world into two groups. We all do it. Black and white. Good and bad. Old and new.

But the world is more complicated than that – particularly consumer markets, which tend to be very nuanced. It is a mistake to try to serve broad and diverse markets with a one-size-fits-all solution. Consumer trends and needs must be analyzed in a more granular fashion in today's world.

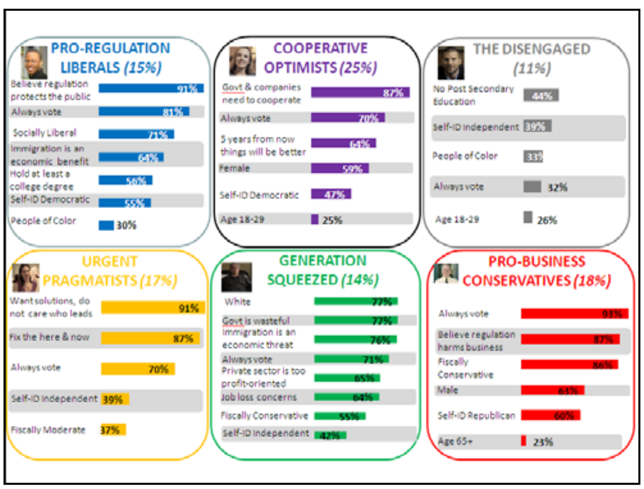
To make the point, I thought it would be more interesting for you if I were a little provocative and took the risk of moving out of my direct experience. Will you give me the space to use the media as my example? The space I need is a willingness to listen before you judge or reject. My goal is not to tell you what to do, but to find a way to link my experience with yours. Make sense?

Good. Let's talk about the media that follow politics and then the media that follow business. Some of you may know that, in partnership with *National Journal*, we sponsor a quarterly poll called the Heartland Monitor. In 2011, we used that poll to segment the American public in terms of politics. Of course, the tendency is to segment the market into three roughly equal sized segments – conservative, independent and liberal, or Republican, independent and Democrat.

However, in 2011, we carried out a deeper segmentation of the market. What we found was that the market was far more complex and could be segmented along two dimensions – how much consumers trusted institutions, and whether they believed in private sector solutions or public sector solutions.



Here are the results up on the screen. As you can see, there are six segments. Also, the size of each segment was very different from simply a third, a third, a third. The two segments at each extreme are the really hard-core Democrats and Republicans. What is very interesting is that these two segments are much smaller, about half, of what are typically referred to as Democrats and Republicans.



If you look at our political media, you see companies that appear to be using the two-segment solution. Fox and MSNBC have staked out extreme positions at either ends of the spectrum, and focus their story selection and reporting to serve what is seen as the core of each segment. The problem is that, like most two-segment solutions, it ignores the vast majority of consumers, who lie somewhere between the two extremes. This market segmentation, in fact, would show that these two outlets do serve more than the extremes. This segmentation meets the needs of two-thirds of the market.

We haven't researched the business media market, but I'd guess the market for business news is also multi-dimensional. There probably are some people who fall into what we traditionally think of as pro-business, and some who might well fit the description of anti-business. However, it's very possible – even likely – that there are numerous other segments as well. Obviously, simply serving the pro-business or anti-business segment shortchanges the other segments in the middle. So, who do you write your stories for? What is the headline you use to attract the reader? This is an age where we are all asked to do more with less. It is an increasingly complicated world.

Thinking about consumers in a multi-segment model and changing our approach to our work is hard. That said, serving the customer is why we are all productively employed.

In closing, let me change gears a bit. There is a natural tension between those of us in the business world and journalists. That's okay. We have different priorities. But – just as I hope you realize all the good we do for consumers, in job creation and for communities – know that we also recognize the incredible job you do.

According to the Committee of Concerned Journalists, a group sponsored by the Pew Center's Project for Excellence in Journalism, the central purpose of journalism is to "provide citizens with accurate and reliable information they need to function in a free society." That is a high calling and vital to the success of a participative democracy.

In conjunction with the National Journal, we sponsor the Heartland Monitor, a quarterly poll that tracks what Americans think about critical issues. One issue that has come through loud and clear is that there is a trust deficit in America every bit as large as the budget deficit. Both public and private institutions are perceived as failing to lead or to listen. The fact is, the overwhelming majority trust their families, friends and colleagues most for their information. The media they trust most are newspapers and public radio and TV, not online information.

I am certain what this reflects is that – in this Wild-West era of exploding information sources – people are often unsure of the soundness of the source and still go to the brand they trust most. That trusted source is you.

At the same time, your industry is adapting to a changing economic model and new technology. According to Pew, since 2000, the number of employees in newsrooms around America has gone down by 30 percent. That's 16,000 jobs lost. There are now the same number of journalists as in 1978. However, over the last eight years, the amount of coverage devoted to business and economics has almost tripled – so you're being asked to do much more with much less. News is reported in seconds, not days. The ability to do research and fact-checking becomes a luxury. Good, nuanced journalism seems to be undervalued. As a result, being a journalist is harder than ever, despite the importance of the role.

So let me close by thanking you. First, for playing a vital role in helping society cope with change and shape the future, for being diligent and adapting to the economic and consumer trends impacting all of our worlds. Lastly, for allowing me the space to share our journey to innovate and follow the customer with you.