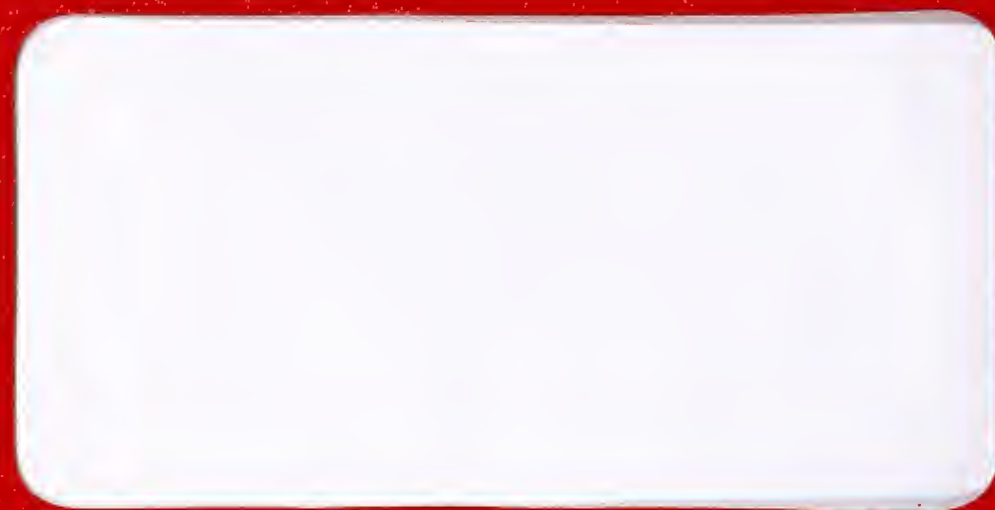


**XYCOR
Investment and Market
Analysis**

**for
Streller and Kennedy**

INPUT



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2-4YC
1986
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AUTHOR

MICHAEL DISHWAN

TITLE XCOR INVESTMENT AND
MARKET ANALYSIS FOR STELLERY

DATE
LOANED

BORROWER'S NAME

KENNEDY



INPUT®

**XYCOR
INVESTMENT AND MARKET
ANALYSIS**

**for
Streller and Kennedy**

**September 16, 1986
presented by**

**C. Michael Dishman
Vice President
INPUT**



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OUTLINE

- Objectives
- Methodology
- Interview Profile
- Credit Insurance Industry:
Structure and Dynamics
- Market
- Interview Comments
- Summary of Key Findings
- Recommendations
- Other Considerations

OBJECTIVES

- **Near-Term Potential Market**
- **Propensity to Buy**
- **XYCOR's Likely Market Penetration**

METHODOLOGY

- **Meet with XYCOR Senior Management**

- **Develop Questionnaires to Address**
 - **Current Systems Status**
 - **Needs of Prospects**
 - **Interests**
 - **Competitive Awareness**
 - **Market Attitudes**
 - **Propensity to Buy**

- **Interview**
 - **Potential Users**
 - **Third Parties**
 - **Existing Users**

INTERVIEW PROFILE

- **23 Insurance Companies**
 - 5 XYCOR Users
 - 7 Logic Users
 - 11 Prospects
- **XYCOR Users**
 - 2 Insurance Subsidiaries of Bank Holding Companies
 - 1 Life Insurance Subsidiary of a Retail Chain Store
 - Life Insurance Subsidiaries of 3 Consumer/Commercial Finance Companies
- **6 Prospective Banks**
- **1 Competitor (Logic)**
- **5 Third Parties**
 - 2 Automobile Warranty Firms
 - 1 Financial Printing Company
 - 1 Insurance Agency
 - 1 DP Service Bureau
- **Total = 41 Organizations**

MARKET SEGMENTS

- **Credit Insurance**

- **Insurance Companies**
- **Insurance Brokers**
- **Commercial Banks**
- **Other Financial Institutions**
- **Retail Firms**

- **Warranty Business**

- **Auto Dealers**
- **Other Dealers**

CREDIT INSURANCE INDUSTRY STRUCTURE AND DYNAMICS

- **Shrinking Number of Prospects**
- **Credit Insurance Written by Subsidiaries of:**
 - **Bank Holding Companies**
 - **Insurance Companies**
 - **Finance Companies**
 - **General Insurance Agencies**
 - **Retail Chains**
 - **Credit Card Issuers**
- **Data Processing Done by All of Above Plus:**
 - **Service Bureaus**
 - **Insurance Administrators**
- **Mainframe Usage Varies Considerably**
- **Rates in Each State Are Regulated**
- **Factors for Success**
 - **Low Overhead**
 - **Investment Income to Build Reserves and Pay Claims**
 - **Sufficient Reserves**
 - **Strong Agent System or Other Marketing Approach**
 - **Use Reinsurance Market to Spread Risk**

MARKET: INSURANCE INDUSTRY

- **US Insurance Companies
(1985) = 6,830**

- Life = 2,130
- P&C = 3,500

} 5,630

- Health = 1,200

- **US Insurance Brokers
(1984) = 500**

- Top 20 Wrote \$3.6 Billion

- Top 250 Wrote \$5.6 Billion

COMMERCIAL BANKS

- **US Total (1985) = 14,000**
- **Bank Holding Companies = 6,500**
- **Money Center/Regional Banks = 105**

**MARKET:
OTHER FINANCIAL INSTITUTIONS**

- **Savings and Loan Associations = 3,250**
 - **10% Have In-House Mainframe (325)**
- **Credit Unions = 13,000**
 - **Top 2,700 Account for 70% of Deposits**
 - **30% of Top 2,700 Credit Unions Have Mainframe (800)**
- **Finance Companies = 3,000**
 - **Top 3% Account for 90% of Assets**
 - **40% Use Batch Processing**
 - **5% Use Mainframes**
- **Mortgage Bankers = 900**
 - **Top 11% Account for 70% of Loans**

CREDIT INSURANCE MARKET: RETAIL FIRMS

- **Department Stores (1985) = 6,000**
- **Jewelry Stores (1985) = 10,500**
- **Furniture and Appliance Stores
(1985) = 8,100**

CREDIT INSURANCE: XYCOR TARGETS

- **Commercial Banks**

- **Money Center/Regional Banks (105)**
- **Bank Holding Companies with IBM Mainframes (1,525)**

- **Other Financial Institutions**

- **Largest Savings and Loan (325)**
- **Credit Unions (800)**
- **Finance Companies (100)**

- **Retail Firms**

- **Department Store Chains (25)**
- **Jewelry Store Chains (15)**
- **Furniture Store Chains (125)**

CREDIT INSURANCE MARKET: ISSUES AND DRIVING FORCES

- **Interest Rates/Economy (6)**
- **Consumerism/Usage of Credit (5)**
- **Rate Deregulation (4)**
- **Increased Competition (3)**
- **Movement by Bank Holding Cos. to Lines of Credit/Revolving Credit From Individual Purchase Financing (2)**
- **Expansion of Interstate Banking (1)**
- **Slowing of Mortality Rates (1)**

WARRANTY BUSINESS: U.S. DEALERS

- **Automobile Dealers**
 - **Total (1985) = 24,810**
- **Recreational Vehicle Dealers**
 - **Total = 4,700**
- **Mobile Home Dealers**
 - **Total = 1,800**
- **Motorcycle Dealers**
 - **Total = 2,600**
- **Marine Products Dealers**
 - **Total = 3,100**

WARRANTY BUSINESS: XYCOR TARGETS

- **Auto Dealers**
 - **Multi-Location Operations with In-House Mainframe (120)**
- **Banks or Other Financial Institutions Selling To Dealers of:**
 - **RVs**
 - **Mobile Homes**
 - **Motorcycles**
 - **Marine Products**
 - **Appliances**

WARRANTY MARKET: ISSUES AND DRIVING FORCES

- **Extension/Upgrade of Factory Warranty By Auto Manufacturers (3)**
- **Auto Sales (1)**
- **Economy (1)**
- **New Tax Law (1)**

PRODUCT-RELATED COMMENTS

- **Strengths**
- **Weaknesses**
- **Pricing of Software**
- **Pricing of Software Customization**
- **XYCOR's Service Bureau**
- **General Comments**

XYCOR'S PRODUCTS STRENGTHS

- **Two Mentions:**
 - **Flexibility**
 - **Ease of Use (XY-Claim)**
 - **"User Friendly"**

- **One Mention Each:**
 - **Availability of Customization**
 - **Good Service**
 - **Good Documentation**
 - **Excellent Understanding of the Business**
 - **SW Provides Good Audit Trail**
 - **High Quality of Reports**
 - **Integrated Software**

XYCOR'S PRODUCT WEAKNESSES

- **Three Mentions**
 - **Long Run-Time**

- **One Mention Each**
 - **Long Implementation for Changes to Program**

 - **Turnover of Personnel Supporting "XY - Warranty" Package**

 - **"Communication Between 2 Packages" (Packages Not Specified)**

 - **Reports Are Marketing, Not Finance Oriented**

 - **Complexity (500-600 Modules Plus JCL Plus Updates)**

PRICING OF SOFTWARE

- **"On Par With Logic"**
- **"In the Ballpark"**
- **"Very Competitive"**
- **"Much More Competitive than McAuto"**

PRICING OF SOFTWARE CUSTOMIZATION

- **"Got Money's Worth Due to Difficulty of Conversion"**
- **"On the High Side - - Not Outrageous - - But Got Our Money's Worth (Even at Twice the Price!)"**
- **(Compared to In-House) "Reasonable"**
- **(Compared to In-House) "Even Though More Expensive, It Will Be Cost Effective, Due to Expertise of XYCOR Staff"**
- **(Compared to Other Bids) "Cost Effective"**

XYCOR'S SERVICE BUREAU

- **"Down a Lot"**
- **"Changes Were Made to the System with No Notice to Customers" (Happened 3 Times with Changes to Operating System)**
- **"80% Behind in Reports Promised at Time of Contract Signing"**
- **No Support to Convert From DOS to OS**
- **No Compiling/Linkages/ or JCL for Reports**

GENERAL PRODUCT COMMENTS

- **Needs Easier Integration to Standard Accounting Software (MSA, Etc.)**
- **"Mainframe Does Everything We Need; System/36 Does Nothing"**
- **"Complete Modules"**

INTERVIEW FINDINGS: SALES, MARKETING, SERVICE

- **Purchase Decision**
- **Advertising and Promotion**
- **"Hot Buttons"**
- **Other Comments**

PURCHASE DECISION (1)

- Open Ended Questions
- Asked for Top 3 Factors

KEY FACTORS	TOTAL MENTIONS	FIRST PLACE MENTIONS
Cost/Staffing	5	1
Ease of Integration/ Ease of Installation/ Ease of Modification	3	2
Vendor's Expertise	3	0
Performance/Speed	2	0
Improved Software for Claims Handling	2	1
Ease of Use/User Interface	2	1
Service/Updates/ Enhancements/Support	2	1

PURCHASE DECISION (2)

OTHER FACTORS*

FIRST PLACE MENTIONS

Software for Establishing Reserves	1
System that Does Underwriting	1
System that Handles Reinsurance	1
System that Reconciles Production to Certificates	1
Expandability	
Overall Flexibility	
Functionality	
Rated the Documentation	
Flexibility in Programming Commission Payments	

* Received One Mention Each

ADVERTISING AND PROMOTION

- **Three Mentions**
 - **Ads in "National Underwriter"**
- **Two Mentions Each**
 - **Word-of-Mouth**
 - **Consumer Credit Insurance Association (CCIA) Meetings**
- **One Mention Each**
 - **Direct Mail***
 - **Knew Principal of XYCOR**
 - **Employee Went to Work at XYCOR**
 - **Sales Rep. Contact (Logic)**
 - **Worked at a Company Which Evaluated XYCOR**
 - **DataPro (Directory)**

* Mail sent in 1979-1980; purchase made 3-4 years later!

"HOT BUTTONS"

- **Satisfy Management Reporting Requirements and Statutory Requirements**
- **Sell Consistency and Credibility of Numbers (versus Manual Processing)**
- **Hidden Costs of In-House Solutions (Hire Programmers and Analysts; Get Users to Clearly Define Their Requirements)**
- **Quick Turnaround of Claims/Better Service**
- **Number of Claims Processed per Person**

OTHER SALES/MARKETING COMMENTS:

- **"XYCOR senior managers are not sales people; they are detail people. I was looking for detail people. However, some gladhanding would help a great deal."**
- **"XYCOR's user group is very well received."**
- **"More personalized service."**
- **"XYCOR works with users; meets problems head-on."**
- **"XYCOR has strong loyalty from customers who previously processed claims manually."**
- **"In the past, XYCOR tried to help everyone at once (fast-growth period); now, much better."**

COMMENTS ON COMPETITION

- **Competitors Mentioned**
- **Logic**
- **Others**

COMPETITORS MENTIONED BY RESPONDENTS

- **Processing Services**
 - Credit Life (Springfield, OH)
 - United Life Services
 - Northwest Data Processing
 - Ryan Insurance (Chicago)
 - Logic
 - Prudential

- **Software**
 - McAuto
 - US Life
 - ISI (Grumman Subsidiary)
 - Allied Insurance Services (Norcross, GA)
 - Computronics (Addison, IL)
 - LDL (San Diego, CA)
 - Logic

LOGIC (1)

- **Sales and Marketing**

- **"Logic Is a More Sales-Oriented Company than XYCOR"**
- **"More Sales than Service"**

- **Strengths**

- **Flexibility**
- **Market Share**
- **User Group**
- **Reasonable Pricing of Software**
- **Has a "Vendor Single Interest" Package**

LOGIC (2)

- **Weaknesses**

- **"Bigness"/Responsiveness (4)**
- **Lack of Flexibility**
- **Timeliness of Reports**
- **Unsatisfactory Conversion**
- **Frequency of Updates**
- **Processing Service Will Only Support 2 Insurance Products**
- **Not Keeping Current with Industry Changes (2)**
- **Understanding of Warranty Business**
- **Customizing is Priced a Bit High**
- **Does not Care About Interfaces with XYCOR**

LOGIC (3)

- **6 of 9 Logic Users/Ex-Users
Interviewed Considered Only
Logic for Credit Insurance
Software, When They Purchased
Software.**

OTHERS

- **United Life**

- **"Batch Processing is too Slow"**
- **"Information Is Not as Detailed as Logic"**

- **McAuto**

- **"Offered to Build a Credit Card System as Part of Its Claims System"**

XYCOR'S ADDRESSABLE MARKET: CREDIT INSURANCE MAINFRAME SOFTWARE CUSTOMERS

CATEGORY	Available	Less: Adjustments*	Addressable
Insurance Companies	5,630	5,500	130
Bank Holding Comp.	1,525	1,350	175
Money Ctr./Reg'l Banks	105	10	95
Savings and Loans	325	250	75
Credit Unions	800	750	50
Finance Companies	100	65	35
Retail Firms	165	120	45
Total	8,650	8,045	605

* Includes: In-house developed systems; captive processing; well-entrenched competitors and lack of mainframe computers

**XYCOR'S ADDRESSABLE MARKET:
CREDIT INSURANCE MAINFRAME
SOFTWARE EXPENDITURES**

CATEGORY	ADDRESSABLE MARKET (\$ Millions)
Insurance Companies	\$ 32.5
Bank Holding Companies	39.9
Money Ctr./Reg'l Banks	28.5
Savings and Loans	18.8
Credit Unions	12.5
Finance Companies	8.8
Retail Firms	12.4
<hr/> Total	<hr/> \$153.4

SUMMARY OF KEY FINDINGS (1)

- **Insurance companies have relatively high penetration of credit insurance software and processing services**
- **Follow-on business at existing XYCOR insurance customers estimated at only 20-25%**
- **XYCOR credit insurance software:**
 - **Completeness results in follow-on business equal to monthly software maintenance fees**
 - **Payment of software mainframes fees limits follow-on business since product is kept up-to-date**
 - **Initial software customization limits follow-on business**
 - **Software may be priced too low**
 - **Customers perceive very high value of software customization; can be priced higher**

SUMMARY OF KEY FINDINGS (2)

- **Many insurance companies selling credit insurance have interrelated organizations; data processing of largest firms is relatively concentrated and medium/small firms use processing services/ third-party administrators to process claims.**

INVESTMENT RECOMMENDATION

- **Based on Current Products and Market, Proceed with Investment**

OPPORTUNITIES

- **Mortgage Insurance (3)**
- **Insurance on Second Mortgages**
- **Brown and White Goods Entended Warranty**
- **Homeowner's Warranty**
- **"Vendor Single Interest" (2)
(Casualty Product for Autos)**
- **Unemployment Insurance**
- **Micro-Based software or System to Calculate
Quotes (Required By "Truth- In-Lending"
LANs) (2)**
- **Oil Companies' Credit Card Operation**

MARKETING RECOMMENDATION

- **Concentrate XYCOR's Efforts on Banks and Large Savings and Loans, Credit Unions, Finance Companies and Retail Chains**

ADDITIONAL CONSIDERATIONS

MARKETING

- **Move Cautiously Toward Newer Markets**
 - **Do Not Do Customer Education for the Industry**
 - **Concentrate on Best Prospects**
- **Change Modules and Reprice XY-Credit/XY-Claims**
- **Redefine Reprice Software Updates to Generate Additional Revenues**
- **Build Strategic Alliances with Service Bureaus, Insurance Administrators Servicing Smallest Banks and Insurance Companies. (ex.: Policy Management Systems)**
- **Price Software for Service Bureaus on a "per Transaction" Basis**
- **Work More with Bank Holding Companies to Determine Needs**



