



## WHAT WORKS

BY PETER VAN AARTRIJK JR., CIC

### CHALLENGE:

Owning Hispanic market share.

### SOLUTION:

Start a franchise.

# Latin

# Fiesta

The Hispanic population in the U.S. now exceeds 45 million, and the country's largest minority group is expected to become a majority by the middle of the century.

John Rost wants to sell them insurance.

What makes Rost and his firm different from other independent agencies is its almost exclusive focus on Hispanic customers, as well as the agency's unique structure. Fiesta Auto Insurance is a franchise, the public face of Fiesta Insurance Franchise Corp. The firm was founded in California and has its strongest foothold there, but Rost is moving aggressively in other states. He expects to be up and running in North Carolina, New York, Florida and Texas within first quarter 2009, and another seven states by the end of the year. Fiesta already is a licensed franchisor in 42 states, and Rost intends to set up franchises in all of them.

Rost's journey began back in 1999, when he sold another business in Arizona and moved his family to California. The then-35-year-old decided to open an independent agency and quickly saw the opportunity in the Hispanic market.

In particular, Rost focuses on the blue-collar Hispanic worker who may not appeal to the standard market, though Fiesta doesn't shy away from higher-end clients or non-Hispanics.

"In California, Latinos make up about 50% of the population," says Rost, who is not Hispanic. "And there isn't any other segment growing as fast."

His agency set out to sell all lines of insurance, using personal auto has the initial hook. To accelerate the firm's growth, Rost soon opened a couple branch offices, but found branch management to be a drain.

"One of my biggest challenges was how to be an employee motivator," he says. "I would get frustrated. How do I motivate people to offer the highest level of effort, integrity and service? People were coming in, taking a job but not living up to the customer service I wanted."

## Fast-Food Inspiration

Rost eventually realized that actual ownership might be the best way to generate emotional ownership, and began exploring the franchise concept. But the insurance industry did not offer a model that appealed to him. The options were too expensive, didn't put forth much consumer branding and seemed to lean more toward buyouts than the franchise models he saw in other industries, he says. So, in 2006 he formed the Fiesta Insurance Franchise Corp., using fast-food franchises as inspiration.

"We're more like Subway," Rost says.

Fiesta's model is fairly simple: Franchisees pay a modest \$5,000 upfront licensing fee, which can be financed, to own a protected territory (generally an area of about 40,000 households), plus an ongoing commission split and about \$365 a month in various licensing fees. In return, Fiesta provides a proprietary Web-based agency management system, carrier access, E&O insurance, audited financial reports and branding resources. And, says Rost, franchisees earn higher commissions through Fiesta than they would on their own.

Fiesta also offers an area developer option for franchisees looking to "own" an entire region.

While Rost is anxious to expand his operation, he's committed to selecting experienced insurance professionals for his franchises. "We're not taking someone brand new to insurance," he says. "We assume the franchisee already knows how to underwrite a policy. For those who do not or want to add other lines, we will do the training. Our job is to help them be successful."

Entry into the franchises is relatively easy from a financial standpoint, but Rost insists that Fiesta is quite selective about its franchisees. "We say 'no' to a lot of candidates," he explains. "We're pretty good at weeding out. That's where you have to have controls. We're not getting somebody who's just looking for a fast buck... We don't make a dime if they don't succeed."

Fiesta also isn't looking to keep franchisees who don't like the arrangement, so franchisees can sell at any time. And for existing agencies that convert to Fiesta,

## What We Learned

Independent agent John Rost says his biggest mistake was "not franchising sooner."

The aggressive entrepreneur owned Fiesta Auto Insurance for seven years before converting his branch locations into franchises. Now he is focused more on selling the franchises than selling insurance.

In fact, Fiesta is actively divesting corporate ownership of its remaining locations.

"I don't want franchisees to see us as competing. We want 100% of our focus to be on their success," says Ross.

—P.V.

there is the ability to opt-out after 11 months and retain their book of business.

The on-site training Fiesta provides is focused on the Web system and Fiesta's policies and procedures. "We're teaching them how Fiesta works," says Rost. "We're communicating what we've seen work and not work in owning your own agency."

Franchisees are held to contract requirements for performance, as well as Fiesta's procedural and customer service standards, but otherwise the franchisor is fairly hands-off. Franchisees hire their own people, and Rost does not count the franchise owners or their staff as Fiesta employees. (Fiesta's current staff of 12 handles all the back-office work involved in managing the franchise business.) Location owners are encouraged to interact directly with company representatives, while enjoying the aggregate leverage of the combined Fiesta field force.

"We want them to operate as independently as possible," says Rost. "This is true business ownership."

## In the Neighborhood

The franchisee is responsible for scouting a location, though Fiesta has final approval on every site. And Rost won't approve a suburban office park, preferring to set up in neighborhood retail locations, alongside other major franchise brands, such as Baskin Robbins and National Check Cashing.

"We want retail traffic," says Rost.

"Most are one to three-person shops," says Rost of Fiesta's 32 current locations. "And we have a neighborhood philosophy. Instead of one large location, we'd rather have multiple neighborhood locations."

That approach to site selection is pivotal to Fiesta's success with its target market, says Rost. Fiesta's customers, he says, "need brick and mortar to do business. They're not comfortable with e-mail or automatic debit. They want to come in person."

As such, Fiesta's Web site, offered in English and Spanish, serves mainly as brand reinforcement, driving customers to the phone or nearest office for assistance. Ironically, Fiesta's back-office is completely web-driven, providing a fully paperless experience for franchisees.

Fiesta's nonstandard customer also may have trouble maintaining coverage when money gets tight, says Rost, so Fiesta doesn't track retention, just revenues.

"We may write a policy, then the customer hits a financial roadblock and has to cancel," explains Rost. "But then he feels comfortable coming back in and we rewrite him. So now, over 24 months we've written him for 18 months—what's the retention rate on that?"

Rost insists the carriers that write for Fiesta are not fazed by that instability. "Our carriers understand the business we're going after," he says. "Infinity knows the customer they are getting is different from The Hartford. Viking, Alliance...that's the business they are in. It's a different segment of the population."

That said, adds Rost, Fiesta offers markets for standard and preferred customers as well and doesn't shy away from that business.

## A Brand Apart

When Rost determined the brand identity for his firm, he wanted it to reflect the company's commitment to serving the

Hispanic population, but didn't want to exclude other ethnicities.

"When I was looking at the name, I knew that I wanted to focus on Spanish clientele, so I wanted a Spanish word, but one that had been Americanized, that wasn't foreign to Americans," he says. "A name that Hispanics know but that Caucasians, African Americans, Asians don't think of as only Spanish. Fiesta turns out to be a good name."

For a logo icon, Rost chose a cartoon-style bird, which appears in animated TV commercials (customizable for different locations) and "live" at community events.

"I was uncomfortable with a spokesperson," says Rost. "You never know what

## Fiesta Insurance Franchise Corp.

Huntington Beach, Calif.; 32 locations in California and Texas; other states pending

**FOUNDED:** 1999; began franchising in 2006

**GROSS REVENUES** (commission splits, franchise fees): 2007, \$1.37 million; 2008, \$2 million; 2009 (est.), \$2.6 million

**INSURANCE EMPLOYEES:** 12

**REVENUE PER EMPLOYEE:** \$167,000

**BUSINESS MIX:** 95% personal property-casualty; 5% commercial p-c

**CARRIERS:** Access, Alliance United, Hartford, Infinity, Mercury and Viking

**CLIENT COUNT:** 30,000 (est.)

**RETENTION RATE:** Not measured.

**TECHNOLOGY:** Proprietary system.


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they'll do down the road. Look at Hertz and O.J."

Despite his national plans, Rost is not envisioning national advertising. Rather, he sees his franchisees forming localized advertising co-ops to promote the brand within a regional marketing area, much like national franchises do.

"We don't want a franchisee in St. Louis to pay for an ad in New York," he says.

Of course, with most of his business still in California, that's not a pressing concern just yet. But Rost's ambitions are big: "I look forward to having thousands doing this." 

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