

# IC 88

## Marketing and Public Relations

(WITH KEYNOTE)

### ACKNOWLEDGEMENT

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# Marketing and Public Relations

## IC 88

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## PREFACE

This course is designed for the use of candidates appearing for the Fellowship examination of the Insurance Institute of India. The course can also be useful for students appearing for other examinations of the Institute. The course should also prove useful to the general reader who desires to have knowledge of the subject.

The course covers marketing principles and concepts in general and as applicable to the business of insurance, both life and non-life.

This book is written in May 2016. The environment generally is changing. It is changing with respect to financial services as well. The insurance business is naturally affected by these changes. The ways of doing business are changing beyond recognition. It is very likely that students studying this book after a couple of years might find that the ways of doing business and the relevant regulations have changed very significantly from what is suggested here. Students have to remain in touch with the current developments in these areas through observations in the market and through other readings.

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# CHAPTER 1

## INTRODUCTION TO INSURANCE

### CHAPTER INTRODUCTION

This chapter introduces the student to the business of insurance. It explains the concepts relating to insurance and also deals with the development and growth of the insurance industry in the world and in India

### LEARNING OBJECTIVES

- A. The Concept of Insurance
- B. How Insurance Works
- C. Classification
- D. Principle of Indemnity
- E. Importance of Insurance Industry
- F. History of Insurance
- G. Regulation

### A. THE CONCEPT OF INSURANCE

#### (a) Protection of Values of Assets

1. The business of insurance is related to the protection of the economic values of assets. Every asset is an economic resource and has value. The asset would have been created through the efforts of the owner, in the expectation that, either through the income generated therefrom or some other output, some of his needs would be met.

#### EXAMPLE

In the case of a factory or a cow, the production is sold and income generated. In the case of a motor car, it provides comfort and convenience in transportation. There is no direct income.

2. Every asset is expected to last a certain period of time, during which it is expected to perform. The owner, aware of this, can so manage his affairs that by the end of that life time of the asset, a substitute is made available to ensure that the benefits (of value or income) are not lost. However, if

the asset gets lost earlier, being destroyed or made non-functional, through an accident or other unfortunate event, the owner and those deriving benefits therefrom, suffer. **Insurance is a mechanism that helps to reduce such adverse consequences.**

**(b) Assets are exposed to Perils and Risks**

1. Assets are insured, because they are likely to be destroyed or made non-functional, through an accidental occurrence. **Such possible occurrences are called Perils. The damage that the peril may cause is called a Risk**

**EXAMPLE**

Fire, floods, breakdowns, lightning, earthquakes, etc, are perils. The damage that these perils may cause the asset, is the risk that the asset is exposed to.

**(c) Insurance covers only Uncertainties**

1. The risk only means that there is a possibility of loss or damage. It may or may not happen. There has to be an uncertainty about both the peril and the risk. Insurance is done against the contingency that it may happen. Insurance is relevant only if there are uncertainties. **If there is no uncertainty about the occurrence of an event, it cannot be insured against.**
2. **What is insured is not the occurrence of the event, but the loss that may be caused by that occurrence.**

**EXAMPLE**

Very heavy rains or very poor rains are both perils for farmers. There is uncertainty about how the rains will be. Therefore, it will be covered by insurance. But insurance will pay only if, because of the occurrence of either peril, there has been loss to the crops. If there were no standing crops at that time and there has been no loss, there will be nothing for the insurance company to pay.

If there has been a fire in a godown and the goods stored therein are destroyed, insurance will be paid. But if it is shown that the fire was deliberately started - a case of arson - it will not be a case of 'uncertainty' and therefore the insurance company will not pay for the loss.

**(d) Uncertainty in the case of life insurance**

1. In the case of life insurance, the asset in question is a person. This asset is functional as long as the person lives. It produces goods or services and

earns money through application of knowledge and skills. The family, dependants and employer and indirectly, users of products created by this asset, enjoy value and benefits.

2. A human life is an income generating asset. This asset also can be lost through **unexpected early death or made non-functional through sickness and disabilities** caused by accidents. Accidents may or may not happen. **Death will certainly happen, but the timing is uncertain. That uncertainty is insurable.**

#### **EXAMPLE**

If death happens around the time of one's retirement, when it could be expected that the income will normally cease, the person concerned could have made some other arrangements to meet the continuing needs. But if it happens much earlier when the alternate arrangements are not in place, that is a peril and is insurable. It contributes to help those dependent on the income.

#### **(e) Living too long is a Peril**

1. In the case of a human being, his earnings stop on his retirement. He may have made arrangements for his needs after his retirement. These would have been made on the basis of some expectations like he may live for another 15 years, or that his children will look after him. If any of these expectations do not become true, the original arrangement would become inadequate and there could be difficulties. **Living too long can be as much a peril as dying too young.** There are consequent risks which need to be safeguarded against. Insurance helps take care of these needs.

#### **(f) What Insurance does not do**

1. **Insurance does not protect the asset. It does not prevent its loss due to the peril.** The peril cannot be avoided through insurance. The peril can sometimes be avoided, through better safety and damage control management.
2. Insurance only tries to reduce the impact of the risk on the owner of the asset and those who depend on that asset. It compensates the losses, may not be fully.

3. Only economic or financial losses can be compensated. The love and nurturing lost to the family of a deceased person, cannot be compensated, as its value cannot be measured.

### **(g) Extended Application of Insurance**

1. The concept of insurance has been extended beyond the coverage of tangible assets. Exporters run the risk of importers in the other country defaulting on payments or refusing to accept goods. They also run the risk of losses due to sudden changes in currency exchange rates, economic policies or political disturbances in the country importing. These risks are now insured. These problems are created by deliberate actions of persons. But they are in another country and the exporters who suffer consequent losses have no control on them or their activities. There is an element of uncertainty in these matters as they cannot be known before hand.
2. Doctors run the risk of being charged with negligence and subsequent liability for damages. The amounts in question can be fairly large, beyond the capacity of individuals to bear. These risks are insurable. Thus, insurance is extended to intangibles.

#### **EXAMPLE**

The concepts of peril and risks have been extended to cover possible losses other than through accident, like the deliberate behaviours of employees committing fraud, robbery, burglary etc., which are also perils with related risks and are not within the control of the owner of the lost asset. In some countries, the voice of a singer or the legs of a dancer may also be insured.

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### **TEST YOURSELF 1**

Which of the following is NOT a peril?

- (a) Burglary in a godown
  - (b) Fire caused by a shortcircuit
  - (c) Death In an accident
  - (d) Drought caused by failure of monsoon
-



## B. HOW INSURANCE WORKS

1. Conceptually, the mechanism of insurance is very simple. People who are exposed to the same risks are brought together. Different kinds of risks can be identified and separate groups made, including those who are exposed to such risks.

### EXAMPLE

All people who send goods by ship are exposed to the same risk related to water damage, ship sinking, piracy, etc. Those owning factories are not exposed to these risks, but they are exposed to different kinds of risks like, fire, hailstorms, earthquakes, lightning, burglary, etc

2. The members in the group agree that, **if any one of them suffers a loss, the others will share the loss and make good to the person who lost.** By this method, the risk is spread among the community and the likely big impact on one is reduced to smaller manageable impacts on all. The larger the number in the group, the easier the sharing.
3. The manner in which the loss is to be shared can be determined before hand. The loss may be equally divided by all the members in the group. It may be made proportional to the likely loss that each person is likely to suffer, which is indicative of the benefit he would receive if the peril befell him.

### EXAMPLE

If one person is shipping goods worth Rs.10000 and another is shipping goods worth Rs.20000 in the same ship, the share of these two in any loss (of a third person) would be in the ratio of 1:2.

4. The share could be collected from the members after the loss has occurred or the likely shares may be collected in advance, at the time of admission to the group. Insurance companies collect in advance and create a fund from which the losses are paid. Losses which are paid are called Claims
5. The share which is collected in advance, is called the **Premium**. The premium would depend on the maximum that the person would expect to receive in the event of the loss. That maximum amount of loss expected is called the **Sum Assured**.

### EXAMPLE

Assume that the value of the goods in warehouse is worth ₹. 2 lakhs. The warehouse owner may like to take an insurance cover for this value as that can be the maximum loss. He might also say that he wants the cover for only ₹ 1 lakh as he does not expect that the entire goods will be lost in any one event.. Then ₹ 1 lakh will be the Sum Assured. The premium will be a percentage of the Sum Assured depending on the nature of the goods. Highly inflammable goods will attract a higher percentage in the case of fire insurance compared to the stock of vegetables. If a fire occurs and there is a loss of ₹ 50000, the claim will be for ₹ 50000

## C. CLASSIFICATION

1. Insurance business is broadly classified into two groups. Life Insurance deals with all insurances covering human lives. Non-life or General Insurance deals with insurance covering non-human objects like animals, agricultural crops, goods, factories, cars, etc. What is called non-life in India is called Property and Casualty insurances in some countries.
2. Sickness and accidents to human beings are classified as non-life insurance in India but as life insurance in many other countries, although, in India, life insurance policies may cover the accident and sickness risks, as additional covers along with the main life insurance policies. Non-life insurance also covers losses through individual behaviours like fraud, burglary, non-fulfillment of promises (in the case of repayment of mortgage loans), professional negligence by doctors, etc.
3. Non-life insurance policies are mostly for short periods of one year. The claim has to arise in that one year. But there are some policies with 'long tails' which means that the liability of the insurer may be known long after the policy term is over.

### EXAMPLE

Workers in certain industries like asbestos and quarries, inhale matter that can, after some years, manifest as serious lung diseases. In the case of the Manville Corporation of the USA, making asbestos, the diseases manifested after thirty years or so. The claims could not be denied by the insurance companies, as the disease was contracted long back when they were working and had been insured.

## D. PRINCIPLE OF INDEMNITY

1. Every asset has a value. The value may be the price (cost price) at which it is bought or the price at which it is likely to be sold (market value). The amount of insurance is generally limited to this value. It cannot be higher. This is because of the principle that the business of insurance is designed to make good losses and not to provide benefits or profits. In other words, **insurance indemnifies a person against loss.**

### EXAMPLE

After an accident, a car may have to be repainted. The insurance company may refuse to pay the full cost of repainting, but may insist on a certain deduction, if the paint at the time of accident was not as good as new.

2. Insurance does not prevent the loss. It only compensates. The compensation cannot exceed what the value of the asset was in the first place. There is an argument that the compensation would be proper only if the original can be substituted with a fresh asset and that the insurance arrangement should be such that it pays for replacement, whatever be the cost. In some cases, such arrangements for replacements are made.
  3. **The principle of indemnity does not apply in the case of life insurance.** The assumption is that there is no limit to the value of the life of a human being. One might argue that the value of a person's life can be measured by the income he earns, just as the value of a property, land or house, can be measured by the rent or yield therefrom. This comparison is not considered valid because, unlike property, a human being is dynamic, capable of learning, able to improve skills and competence and thereby enhance his worth. Unlike property, the value of a human being does not depreciate over time. It may actually appreciate.
  4. Further, the worth of a person to his wife and children, in the areas of guidance, love, support or mental and intellectual development, cannot be equated to his income or even valued in terms of money. Therefore, a person can insure his life for any amount. The insurance company will of course, look at other considerations, like his ability to pay and the purpose of the insurance, to ensure that there is no attempt to play foul with the basic principles of insurance.
-

## TEST YOURSELF 2

By taking an insurance cover, one can expect that

- (a) the assets insured are never lost
  - (b) damages to insured assets through accidents can be recovered in full
  - (c) damages to insured assets through accidents can be recovered to some extent
  - (d) If insured assets are damaged through accidents, original costs can be recovered
- 

## E IMPORTANCE OF INSURANCE INDUSTRY

1. World over, the insurance industry is an important part of a country's economy. This is so, partly because of the large funds that insurance companies are in control of. They are usually cash-rich and looking for opportunities for investment. The capital market, as well as the Government, looks to insurance companies for financial support.

### EXAMPLE

All the insurance companies put together, must be having at the end of March 2016, assets worth around ₹ 26 lakh crores, more than half of which would be in Government bonds and substantial amounts in support of housing and infrastructure

2. Generally, substantial portion of investment in shares and debentures would be contributed by insurance companies. Being big players, insurance companies often influence the sentiment of the capital market. They contribute to the mobilization of savings and thus provide long-term capital for the capital market. Insurers specifically support investments in infrastructure like housing, drinking water, drainage, road transport, electricity, etc.
3. Without life insurance, the families of persons who die early, could suffer through lowering of living standards and prospects of discontinuing further education for children. They may, in one form or other, become costs on the Government or on the society at large. Several countries with socialistic policies that take responsibility for education and health of its citizens, have found the burdens too heavy and have tried to pass them on to the insurance companies.
4. The linkages to the economy are more direct in the case of non-life insurance business. Trade and industry get some steadiness and stability,

despite the vagaries of natural and other calamities, because of insurance arrangements. Otherwise, there would have been major failures in business.

**EXAMPLE**

1. If a cargo ship sinks, the effect of the loss spreads far beyond the owners of the cargo and the ship. Those dependent on the cargo for the uninterrupted run of their businesses,, are also in trouble.
  2. If a factory burns down and its operations stop, insurance company helps it to recover from the losses and rebuild it. Without insurance, workers will lose their jobs, investors will lose their money and the customers will not get what they depend upon.
- 
5. The business of insurance, particularly non-life business, is truly international. Insurance is closely linked to trade and industry. Insurance, along with banking, provides the infrastructure for trade and industry to perform. Like banks, non-life insurance companies have associates in most of the countries, who provide services relating to inspection, salvages, documentation, etc.
  6. International traders run the risk of political turmoil. New Governments will have new commercial policies. Transfer of money across the country's borders may be regulated differently. Compliance with contracts may be subject to the new policies. Exporters and importers from other countries may find their funds or goods blocked. Exchange rates may fluctuate creating unexpected losses. Such risks are also insured enabling business to overcome fears about the political instability in trading partners. Insurers also provide data about credit rating of countries, help business in managing receivables and transferring bad debts.
  7. Further, risks are becoming very big. These are insured. The insurance company, which accepts the insurance, reinsures the risk with other companies around the world. This is made possible through what is known as Reinsurance, whereby the insurance company reduces its risk by sharing the risk with other insurers. Reinsurance makes the business of insurance international.

**EXAMPLE**

The petrochemical complex of Reliance in Jamnagar has assets of the order of ₹ 30000 crores at one location. An aircraft with a full load of 400 or more passengers would be worth a few hundred crores. Ships are VLCC (Very Large Cargo Carriers). No insurance company would be able to pay claims of this

size. Thus, when a major claim occurs, like an air crash, or the Bhopal gas leak tragedy of 1984, many companies around the world would have to contribute to the claim, because of reinsurance.

## 8. Thus insurance

- introduces security into business undertakings
  - increases business efficiency (lesser the risk, lesser the price)
  - creates equitable distributions of risks and losses
  - enhances credit worthiness, through enhanced security
  - capitalizes earning power
  - makes savings possible
  - enables investment
  - promotes thrift
  - encourages and develops long terms views
  - reduces destitute
  - facilitates better health care (employee compensations etc)
  - facilitates trade
- 

## TEST YOURSELF 3

Insurance business is international because

- (a) It helps international trade
  - (b) Covers are reinsured internationally
  - (c) Big claims are shared by insurance companies across the world
  - (d) All of the above
- 

## (E) HISTORY OF INSURANCE

### (a) Origins

1. Insurance is said to have commenced with Marine insurance, covering goods sent on ships, against the risks of piracy and storms. The Lloyds coffee house in London, where the traders used to gather and from where the first insurance risks were underwritten, still exists and continues to be the centre of insurance activity. Life and other insurances developed later. The first life insurance policy is said to have been issued in 1583 in England.

## **(b) In India**

1. In India, two British companies, the European and the Albert, attempted writing business on Indian lives in 1870. The first Indian life insurance company, called the Bombay Mutual Assurance Society Ltd., was formed in 1870.

## **(c) Nationalisation and Opening up - Life Insurance**

1. In 1956, the business of life insurance was nationalised. At that time there were 245 companies in India, both Indian and foreign, with total assets of approximately Rs.400 crores. As on 31.3.2000 the total assets in the Life Insurance Corporation of India, the only insurer transacting life insurance business in the market, exceeded Rs.160,000 crores. It had covered nearly 6.3 crores of the population through individual policies and another 5 crores (approximately) through group insurance covers.
2. The insurance market was thrown open to private insurers in 2000. As on 31<sup>st</sup> March 2015, there were 23 private insurance companies transacting life insurance business in India. Between them and LIC, they had 11,033 offices across the country (7461 in the rural areas), compared to LIC's approximately 2500 in the year 2000. The total premium collected during the year 2014-15 was ₹ 3,28,101 crores. The number of policies in force was over 360 million. The Sum Assured under all these policies together would have exceeded ₹ 75 lakh crores.
3. The total assets of the life insurers at the end of March 2015 were as below (figures are in crores of rupees)

LIC	1,78,63,12
Others	46,12,10
Total	2,24,75,22

Of these assets, more than 50% were invested in Government and approved securities, over 28% in approved investments (including equities) and over 9% in housing infrastructure

## **(d) Nationalisation and Opening up - Non-life Insurance**

1. Non-life insurance business was nationalized in 1973. 107 Indian and foreign companies were integrated into four insurance companies, all of whom were subsidiaries of the General Insurance Corporation of India (GIC). The

total premium income rose from about Rs.200 crores in 1973 to over Rs.9982 crores in the year 1999-2000. The total assets of the GIC and the four subsidiaries, aggregate to about Rs. 25000 crores. Insurance coverage has extended to the farmers and the rural economy, giving it some stability in the wake of vagaries of weather and disease.

2. As on 31<sup>st</sup> March 2015, there were 28 insurance companies transacting non-life insurance business in India. The 4 public sector companies were taken over by the Government directly and the GIC, which used to be the holding company of the four, began functioning as the national reinsurer. There were two other public sector insurance companies, doing specialised businesses, in the areas of Agricultural insurance and Export Import related insurances. Of the remaining 22 non-life insurers, 5 were doing only health insurance business.
3. As on 31 March 2015, the non-life insurance companies had 10,407 offices across India, compared to more than 4000 offices in the year 2000. The total gross direct premium written by all the non-life insurers together in the year 2014-15 was ₹ 84,684 crores. Of these, Motor insurance accounted for ₹ 37,379 crores, Health for ₹ 22,636 crores, Fire for ₹ 8,057 crores and Marine for ₹ 3,020 crores. Other businesses accounted for ₹ 10,592 crores. The GIC, as the national reinsurer, had underwritten a premium of ₹ 13,857 crores.
4. The total assets of non-life insurers at the end of March 2015 were (figures in crores of rupees)

Public sector companies	10,35,61
Private sector companies	5,71,53
Total	16,07,14

Of these assets, about 37% were invested in Government and approved securities, over 26% in housing and infrastructure and over 33% in approved investments.

#### **(e) Growth**

1. The total life insurance premium was about 1.4% of GDP in 2000. It had gone up to nearly 4% in 2012 and come down to 2.6% in 2014. In the case of non-life insurance, the premium was about 0.55% of GDP in 2000 and it had gone up to 0.78% by 2012 and remained almost the same in 2014. These were low figures compared to some of the developed countries. The ratios (2014) for life insurance were 11.4% (South Africa), 8.4% (Japan), 8% (UK),



5.9% (France) and 5.1% (Switzerland) and for non-life, the figures were 4.3% (USA), 4.1% (Switzerland) 3.4% (Germany) and 2.4% (Japan). For the world the figures were 3.4% for life and 2.7% for non-life

## **(F) REGULATION**

1. Prior to 2000, the insurance industry was subject to regulation by the Controller of Insurance, an official appointed by the Government of India, under the provisions of the Insurance Act 1938. Since then, the Insurance Regulatory and Development Authority of India (IRDA) is entrusted with the responsibility of regulating the industry
2. Foreign reinsurers underwrite reinsurance business in India without having a physical presence in India. In the year 2015, 244 reinsurers and 90 Lloyds' syndicates were allotted Unique Identification Numbers by the IRDA.
3. The Indian Market Terrorism Risk Insurance Pool was formed in April 2002. The limit of indemnity per location was fixed at ₹ 750 crores to start with and raised to ₹ 1500 crores in April 2014. The total premium collected by this Pool was ₹ 472.33 crores in 2014-15. The Pool, which is managed by the GIC has a fund of ₹ 4500 crores.
4. The IRDA has also set up the India Motor Third Party Declined Risk Insurance Pool (DR Pool) with effect from 1.4.2012. All proposals for 'liability only' cover for commercial vehicles, which are declined by an insurer as per the parameters in its underwriting manual, will be ceded to the Pool. The risk is shared by the ceding company, the GIC and the Pool in the ratio of 20:5:75. This arrangement seeks to ensure equitable and fair sharing by all insurers, that there are no supply side constraints and also bring about claim management efficiency. The total premium received by the Pool in 2014-15 was ₹317 crores
5. The regulatory environment in insurance consists of
  - The Insurance Act, 1938 and the Rules and Regulations framed there under
  - The Insurance Regulatory and Development Authority (IRDA) Act, 1999
  - The regulations issued by the IRDA
  - The tax laws affecting the treatment of premium and the claim proceeds at the hands of the customers
  - The inheritance laws, which vary between communities and between States

- The Consumer Protection Act
  - The Foreign Exchange regulations
  - Ombudsmen appointed by the IRDA to look into complaints upto the value of Rs. 20 lakh
  - Mercantile laws and practices
- 

## **SUMMARY**

- Assets are exposed to perils and risks
- Insurance seeks to mitigate losses of economic values of assets due to unforeseen events
- Insurance operates only if there is uncertainty in both peril and risk
- Human life is an income generating asset
- Perils in the case of life insurance are death, sickness, disabilities and living too long
- Insurance is extended to some intangibles.
- Through insurance, those exposed to the same risks to share the losses suffered by any of them
- Insurance company collects the share in advance, which is called the premium.
- Premiums are collected in a fund from which the losses are paid out. Such payments are called Claims
- Premiums are proportionate to the maximum loss the insured person expects. This maximum is called the Sum Assured.
- Life insurance deals with human lives. Non-life insurance or General Insurance deals with all other insurances. There are some exceptions
- Insurance indemnifies. It makes good losses. It does not allow anyone to benefit from it. There cannot be a limit to the value of a human life
- Insurance business is an important part of the economy.
- Insurance provides security for business undertakings
- Insurance ensures equitable distribution of risks and losses
- Insurance promotes savings and investments
- Insurance business was opened up for private companies in 2000

## **KEY TERMS**

- Assets
- Claims
- Indemnity
- IRDA
- Lloyds

- Perils
  - Premium
  - Property and Casualty
  - Reinsurance
  - Risks
  - Sharing
  - Sum Assured.
  - Terrorism Risk
  - Uncertainty
- 

### Answers to Test Yourself Questions

The correct answer to Question 1 is (c)

The correct answer to Question 2 is (c) Accident is the peril. Death is a consequence

The correct answer to Question 3 is (d)

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### SELF-EXAMINATION QUESTIONS

#### Question 1

Which of the following statements is correct?

- (a) No person can be insured for more than 10 times his annual income
- (b) No person can be insured for more than 20 times his annual income
- (c) No person can be insured for more than 30 times his annual income
- (d) Moral hazard is a consideration for the amount of insurance on a person's life

#### Question 2

Insurance business began with

- (a) Marine covers
- (b) Covering road accidents
- (c) Covering goods in warehouses
- (d) Covering human lives against death

### Question 3

Which of the following statements is correct?

- (a) Reinsurance is done only for life insurance
  - (b) Reinsurance is done only for Marine insurance
  - (c) Reinsurance is done only for Aviation insurance
  - (d) Reinsurance is done only for big risks
- 

### Answers to Self Examination Questions

The correct answer to Question 1 is (d)

The correct answer to Question 2 is (a)

The correct answer to Question 3 is (d)

---

# CHAPTER 2

## INTRODUCTION TO MARKETING

### CHAPTER INTRODUCTION

This chapter introduces the student to the basic concepts of the subject of marketing and explains the meaning of customer and markets.

### LEARNING OBJECTIVES

- A. Consumer Focus
- B. The Customer
- C. Marketing
- D. Market Segmentation
- E. Marketing Mix
- F. Market Research
- G. Marketing Strategies
- H. Product Life Cycle
- I. Analytical Tools

### A. CONSUMER FOCUS

#### (a) Finding and Retaining consumers

1. One definition of Marketing is that it is “the way in which an organisation matches its human, financial and other physical resources with the wants of its customers.” Another definition calls it “the performance of business activities that direct the flow of goods and services from the producer to the consumer.”
2. Marketing deals with the creation and delivery of goods and services to customers who want them and involves
  - finding out what the customers want,
  - creating that which they want at prices which they find reasonable,
  - informing them of the availability of the same,
  - distributing them in ways that are convenient to them,

in order that they may be satisfied. (Strictly, the words 'customer' and 'consumer' do not mean the same thing, but they will be used interchangeably throughout this text).

3. It would be noticed from the above that Marketing places emphasis on the consumer, his needs, his wants and his satisfactions. The consumer is the focus of this subject. This is so because the purpose of business is said to be the creation and retention of customers. Therefore, all decisions pertaining to production and application of resources, must be examined in the light of maximizing customer satisfactions. Thus, marketing becomes central to the decision making processes of every organisation.
4. The producer makes decisions with regard to the procurement and use of resources, to be transformed into goods and / or services, to be sold. The resources are procured and processed through practices relating to finance, personnel, production, materials, ancillaries, vendors, etc. The customer makes decisions with regard to the purchase of goods and services. Marketing looks at the decision process of the customer and the decision process of the producer and tries to make these two processes complimentary to each other, to enable an exchange transaction that is fair and beneficial to both. Mismatches, if any, in the two decision processes, will lead to waste.

#### **(b) Depends on choices**

1. Marketing concepts are based on the assumption that the producer has choices on what to produce and the customer has choices on what to buy. In other words, that there are no compulsions on either. In a situation where either the producer or the customer has no choice, there is hardly any scope for marketing. In a highly controlled economy, there may be no choice for the producer. In a monopoly, the only choice for the customer may be 'not to buy', making the producer lose his revenues.
2. A marketer asks questions like what do people buy, why do they buy, when, how, at what price, how often, how much, wherefrom and decides, from the answers, what to produce, how much and when. Production is not enough. The products have to reach the buyers at places from which they can conveniently buy. The prices have to be right. Customers need information about availability, usages, precautions to be taken, etc. Thus there are many things that the producer has to decide so that his efforts lead to the customers buying. Marketing helps him to make those decisions.

**EXAMPLE**

Having seen an advertisement for a product, a person went to many shops in his neighbourhood. None of them had the product. Finally he was told that the product would be available only on one outlet, which was about 20 kms away. He decided to do without it.

3. It is not only a business enterprise that has to be concerned about customers. Even monopolies and Government or social organisations have customers, not in the sense of someone who 'buys', but in the sense of the beneficiary, for whose benefit the organisation exists.

**EXAMPLE**

1. Electricity companies will benefit, if the arrangements for collections of bills are more convenient and if complaints are looked upon as information about what is happening in the field
2. Government campaigns like the Swachh Bharat Abhiyan or 'Beti Bachao, Beti Padavo', have to reach the people, who must then respond to the campaign. People have the choice of not bothering to respond. They are like customers for the Government's appeal
3. Litigants and lawyers are customers of the courts of justice. The relevant satisfaction in this example, is the judgments of the court, but also the procedures, the delays, the access to information about hearings, the waits, the conveniences in and around the court rooms and so on.

**B. THE CUSTOMER****(a) The Internal Customer**

1. The concept of marketing is nowadays applied even to departments within organisations. Every department does some work, which results in an output that is necessary for another department to do its work well.

**EXAMPLE**

1. The customers of the personnel department in an office are the employees of that organization
2. The police department works in order to maintain law and order. Without good law and order, the rest of the society will find it difficult to carry out its functions properly. The society as a whole and the citizens are the customers of the police. If they are not satisfied, the work of the police is considered ineffective.

2. The output of every person in the course of a work flow becomes the input for the next person in the process chain. That next person's output depends on the input he receives from the earlier person. If it does not come on time, he has to wait. If it does not come as expected, he has to refer back for correction or clarification. The consequence again is delay and unnecessary activity, which is wasteful. This leads to the concept of the 'internal customer'.
3. Thus, the meaning of the word 'customer' is not necessarily one who pays money and buys goods or services. It is the person for whose sake there is an output.

### (b) Value

1. Philip Kotler has defined Marketing as "a social and managerial process by which individuals and groups obtain what they need and want, through creating and exchanging products and value with others". The word 'value' in this definition is important. Customers buy because of the value that they see in the product.
2. Value is intangible and not measurable. Value is not rational. What one values highly, like having the latest car, may have no value for another person. When value is the consideration, price becomes irrelevant. Transactions based on value are not strictly business transactions. Paintings of masters sell for exorbitant prices, because of the 'value' that the buyer attaches to them.

#### **EXAMPLE**

Many Indians from overseas make it a point to get shirts from Chirag Din, which has only one outlet in the world and that is in Colaba in Mumbai. This happens because customers value the shirts for their exclusive designs. When value is high, neither price nor difficulty in procuring, matter.

3. The concept of value makes the principles of marketing applicable to situations other than the sale of goods in the marketplace. Management institutes and engineering colleges, 'produce' qualified persons, who are 'bought' at campus recruitments by various organizations, who want them. If the graduates are not in demand, the 'product' of the institute may seem to be not of the right quality. Students will not then seek admission and the institute will be the loser. Election campaigns are based on marketing concepts,



## C. MARKETING

### (a) Markets

1. In common parlance, the word 'market' has many meanings. One goes to a market to buy. In this usage, the market is a physical space with shops, where buying and selling takes place. One also hears questions like "How is the market?" and also statements like "The market is tight" or "down". In this usage, the word market refers to the demand-supply situation for a particular product or commodity. The word market is also used to refer to the demand, like is "India is a big market" or "Is there a market for toys?". The word is also used as a verb as in the case of someone trying to 'market' his goods.
2. In the subject of Marketing management, however, the word 'market' refers to the aggregate of consumers, both existing and potential. The market may be the same or different, for different products. One of the areas for study in this subject would be ways to identify the market.

#### EXAMPLE

For example, the consumers for cooking oils and rice and dals would be the same, consisting of housewives. This would not be the market for business magazines.

3. Traditionally, marketing concepts were developed in the context of tangible goods, industrial or household, durables or non-durables. Later on, the concepts were made applicable to services like hospitality, tourism, transportation, retailing, consulting, etc. A further extension of these concepts led to wherever people had to be persuaded to accept ideas, like in adopting health care and family planning, or even in elections to accept the programmes of political parties and individual candidates. This is called social marketing, the 'market' being the population that needs to be persuaded. It is the electorate in the case of elections.

#### EXAMPLE

When a candidate stands for an election, the electorate is being effectively 'sold' the personality of the candidate, through data that suggests that he could be an effective incumbent. The rival tries to 'sell' the contrary idea.

## (b) Early Markets

1. Marketing activity is age old.. In the very early days, buyers and sellers used to meet at a place called a 'market' on fixed days and exchange goods of fairly equal value or worth. This was the barter system. Agriculturists and craftsmen would bring their produces to this market and exchange rice for vegetables and meat or for utensils and furniture.
2. The fixed market place and day continues in several parts of our country even now. Known as the *mandis* or *haats*, they are not only in the rural areas, but also in the towns. The barter system however, has given way to money becoming the standard to evaluate and compare worth. The barter system did not enable fair exchanges, because it depended on two people with complementary offerings and needs, coming together. If there were no mutuality or complementariness of needs, there would be no transaction. Needs would remain unsatisfied.
3. The introduction of money as an intermediary to determine worth eliminated the major deficiency of the barter system. 'Money', being something of fixed value to all, could be given and accepted in exchange (instead of another commodity). to buy and sell.
4. The value of money had to be prevented from eroding over a period of time. From money minted in metal, it evolved to gold (to guarantee non-erosion) and then, as confidence increased, to coins and paper (currency notes) and plastic (cards) in modern times. The future 'money' is going to be electronic and virtual.

### EXAMPLE

Money can be transferred from one account to another through messages sent by telephones. The transfer is effected through entries in books. Nothing physical moves.

## (c) Markets became bigger

1. The industrial age increased the size of the market transactions. No more was the *mandi* and *haat* adequate for the outputs of mass production by factories. Larger numbers of consumers had to be reached and probably over longer distances. Along with the new systems of manufacture, new modes of transportation (trains and air) and new methods of communication (radio and other media), the dynamics in the market place changed. Goods were being produced not against firm orders, but against anticipated

demand, in order that the consumer did not have to wait to get what he wanted. If he were forced to wait, there was the possibility that someone else would take the customer away. Retail shops stocking goods of value to customers came into being.

2. After the Second World War, factories set up to manufacture requirements related to the war, found themselves jobless. They had to produce other goods in order to make the investments productive. They had to find markets and customers for what they were going to produce. They had to decide what to produce. They had to find what the market wanted. The search for answers to questions that they asked themselves, led to the development of marketing concepts.
3. The decisions of the producer on what to produce and the decisions of the customer on what to buy had to match. Only then would the outcome of the producer's decisions attract the customer and satisfy his requirements. Otherwise, there would be no exchange between the producer and the customer. Marketing activities attempt to make exchanges between producers and customers possible and worthwhile to both. The exchange has to be through the exercise of choice and not through compulsion, as already explained earlier.

#### **(d) The Marketing Orientation**

1. The Marketing approach is different from the approaches that earlier guided the producers. The earlier orientations were
  - (i) The **product orientation** which assumed that the quality of the product would automatically create a demand and sales. It is like stating that if you build a good mousetrap, people will queue up to buy them. The fallacy in this assumption is that the queues will not come if
    - (i) there were no mice around and therefore no need for a mouse trap,
    - (ii) people did not know about the availability of the mousetrap or
    - (iii) better arrangements were available to eliminate the mice. Also, there could be people willing to buy slightly inferior quality in order to save on expenses.
  - (ii) The **cost orientation** aimed to improve profits by reducing the production and other operating costs, through economies, efficiencies and technology. The fallacy here is that reduced costs do not bring in revenue. Profits come from revenues, which need sales and customers.

Also people do not always, prefer cheaper products. Value may not be in the money saved, but in the quality.

#### **EXAMPLE**

There are people who buy suit lengths costing ₹ 1 lakh. They may probably not wear it more than once in their lifetime. The satisfactions in such purchases are not merely comfort or appearance, what common people experience. They probably experience 'superiority' or 'recognition of status'. The same is true of those who buy expensive yachts, to be used perhaps, once in a year or so for a celebration.

- (iii) The **production orientation** which focussed on maximizing production, the emphasis being on large capacities and large turnover and therefore, low unit costs. The fallacy here is that increased production does not lead necessarily to bigger markets. There must be customers to buy the production and generate revenue. Large numbers of customers do not turn up automatically. They have to be informed and attracted, sometimes even persuaded. The product has to be taken to where the cutomers are. It must be known where they are available.
- (iv) The **sales orientation** which aimed to maximize sales, through the offer of discounts, heavy promotional campaigns and publicity. This orientation still prevails among many producers. It works to some extent. For it to succeed, the relevant people must know about it. It will not sustain for long, if the product is not good by itself. The marketing orientation believes that sales will not occur on a sustained long term basis, unless certain other factors are also taken into account.

## 2. The **Marketing Orientation** helped to

- add value by finding a better match between product and needs
- reduce wastages, which would otherwise occur, if product is not needed or production does not match demand (needs and wants)
- improve effectiveness of communication through better targeting of messages
- cut costs through more effective distribution arrangements
- improve better understanding between the producer and the customer.

## (e) On Line Markets

1. The development of the Internet as a means of communication since the late twentieth century, has made it possible for the producer and the buyer to meet in cyberspace, nullifying the dimensions of time and physical space, and to negotiate a deal. Online trading has brought in a total revolution in the ways of retail business. Any buyer can find out the available options, sitting at home, at any time of the day or night, regardless of the country where it is available and place an order. The delivery will be made within specified time frames. The retailer as an intermediary, bringing goods to the neighborhood of the customer, is being eliminated and the options to choose from, vastly expanded.

### EXAMPLE

A person on tour in a remote town, suddenly remembered at about 11 pm. that his father's birthday was just two days away. He searched the net and ordered an album of ghazals to be sent to his father so as to reach him in another country, on his birthday. The cost was paid by debit card.

2. Studies indicate that the digital commerce market in India had grown from US\$. 4.4 billion in 2010 to US\$ 13.6 billion in 2014 and was likely to grow to US \$ 100 billion by 2020. The global e-commerce market is estimated to be US\$ 1.5 trillion in 2014. A report by ASSOCHAM estimates that 300 million persons access the Internet. 235 million access the Internet through mobile devices. 125 million persons are active on the Facebook, 59 million of them are active daily and 53 million access the Facebook through mobile devices. It is expected that by 2019, 459 million people would be using the Internet. There were 986 million mobile devices in use in 2014, 13.4% of them being smart phones. It is expected that by 2019, 25% will be smart phones. The penetration is also in the rural areas.
3. Another study showed that a household with 2 teenage children will have at least 10 connected devices. The number of smart phones is likely to go up by 15% per year for the next five years. 16% of internet users bought on-line, using their mobile devices in 2009. It is likely that in 2014, this figure might have gone up to 40%. 76% bought using their desktops.
4. The growth of the online market at 37% CAGR (Compound Annual Growth Rate) between 2009 and 2014 is exciting. On line travel accounted for 70% of the sales. The online retail trade had grown threefold between 2011 and 2014. Still, it was only 1% of the total retail trade in the country. The online business is still developing. The taxation and other legal issues are just

unfolding. Recently, in a case involving Snapdeal, the consumer court decided that the place where the buyer resided (a village) would be the place of the transaction for purposes of jurisdiction. There is also lack of clarity as to whether the on line trader is an intermediary or whether he is a producer of goods sold and what his liability would be, if there is product failure or deficiency in service.

**EXAMPLE**

Traditional retailers, called brick and mortar outlets, having a physical presence, have represented to the Governments pointing out how they are at a disadvantage in comparison with the on-line companies, in having to comply with additional legal regulations.

5. There have been quite some 'Unicorns', which have touched \$ 1 billion in sales within short periods. The rise in the valuations of some of the leading online traders has been phenomenal, attracting big investments from venture capitalists. There have also been some anxious cases of losses. The deals are also different from the traditional. The arrangement between Amazon and Big Bazaar is said to be a partnership between technology and logistics. However, the scope for insurance selling online is unlikely to be significant, at least as far as life insurance is concerned. There are very few plans where underwriting can be dispensed with.

**(f) Marketing and Selling**

1. Marketing concepts recognise the validity of the attempts to increase sales through advertising and publicity, including price reduction and gift offers. But, it adds that awareness of the distinct characteristics of the market could be used to advantage in more effectively (i) designing the product, (ii) determining the price, (iii) deciding on how to distribute and (iv) planning the media and the messages for advertisement and publicity. These advantages become available because marketing focussed on the customer and his behavioural characteristics, in a manner in which selling did not.

**EXAMPLE**

When Overseas Travel Insurance was to be popularised in the 1980s, the target was identified not as the traveler overseas but travel agencies who booked tickets. But now with heavy bookings on line, travel agencies may not know who is travelling abroad.

Political parties which used to cultivate vote banks based on caste and religion, are now engaging data analysts to find out what the new entrants to the electorate want.

2. Some of the differences between selling and marketing are listed below.

Attribute	Selling	Marketing
Focus	Needs and interests of seller	Needs and interests of buyer
Attribute	Push products to buyer	Create pull from buyer
Target	Vaguely defined customer	Well defined customer
Profits through	Sales volume	Value satisfaction
Product development	Precedes sales	Follows marketing activity
Packaging	To contain / protect product	Also to add value/appeal
Price	Determined by cost	Determines cost
Position	Selling subordinate to production	Marketing central
Customer	Not important after sales	Important throughout
Horizon	Short term	Long term

### TEST YOURSELF 1

Which of the following statements is true with regard to marketing?

- (a) It helps to choose the right journal to advertise in.
- (b) It makes sure that all the products are sold
- (c) It helps to make maximum profits
- (d) Marketing replaces the need for personal selling

### D.MARKET SEGMENTATION

(a) What is a segment

1. The word 'market' refers to the collective of existing and potential customers for a product or products of an organisation. The market, which is the total collective, comprises of various groups, when differentiated on the basis of factors relevant to the purchase or use of the product. The customer is the person who makes the buying decision, which can be different from the person who actually pays for the purchase or who is benefitted from the purchase.

#### EXAMPLES

Every living person is part of the market for life insurance. But not all of them would need annuity or pension policies. A 50 year old person is unlikely to

want to buy a whole life policy. A business organisation is not a potential customer for a householder's comprehensive policy offered by the general insurance companies.

A patient is admitted to the hospital recommended by the attending physician. The tour operator decides the hotel into which a tourist would check in. Those involved in the process of purchase in a company may or may not include the person who will actually use the product.

2. The ways to approach individuals would be different from the ways to approach corporate customers. There is a similar difference between rural and urban persons. The way to approach and the nature of the sales talk would be different between a proprietor of a retail hardware shop and an executive of multinational company. The level of formality/informality would not be the same. Each one of these is a different segment of the market. A segment is a discrete, identifiable, viable and appropriate part of the market, having characteristics of purpose, needs, motivations, benefits, expectations and/or behaviour distinctly different from other segments
3. **Market segmentation is the process of disaggregating the total market into a number of sub-markets, in such a way that each of these sub-markets share one or more common characteristics relevant to the purchase.** They are thus homogeneous units. After such segmentation, it is possible for the producer to identify the segment or segments with which it would like to transact and then direct all its resources, keeping the characteristics of the target segment or segments in mind.
4. A hotel is used by people who need to stay outside their usual residence. A junior executive in a company may have no such need now, but if he is likely to rise to senior positions requiring extensive travelling in the future, he is a prospective customer. Part of the marketing effort would be aimed at such prospective customers in the hope that whenever the need arises in the future, they will choose to buy the marketer's hotel.
5. All people who have to stay outside their usual residence, are not prospective customers for all hotels. Those who travel on tight budgets do not constitute the market for 5 star hotels like the Taj and the Oberoi. The segments for the Taj and the Oberoi, in a metropolis like Mumbai, would be different from the segments for the Taj and the Oberoi in the beach resorts.
6. Organisations may offer more than one product. Each of those products would cater to more than one segment of the market. Each of these 'users'



are being offered different 'products' by the hotel. The needs and expectations of each one of these groups are different.

#### **EXAMPLE**

The customers for luxury hotels like the Taj and the Oberoi, include, not only those who come to stay in their rooms, but also

- users of the halls to conduct official business like seminars, workshops, training programmes, conferences, etc.,
- users of the halls for personal celebrations like marriages, receptions, birthday parties
- users of the space in the shopping arcades to conduct their own businesses
- users of the restaurants, who are not residents
- users of the rooms as offices on a long term or on short term basis
- users of the business centres for secretarial or commercial assistance
- users of other facilities like health clubs, swimming pool.

All these constitute different segments.

7. Further, segmentations are possible on the basis of lunch time users and late night users of the restaurants. Although both are consumers of food, their needs in terms of speed of service, spread of menu, etc., could be different. Those using the swimming pool for training learners are different from regular guests of the hotel in terms of age, behaviour, attention expected, cleanliness demanded, hours spent in the pool or associated facilities etc.
8. A management institute's customers would include different segments as under.
  - students who enroll for the various courses
  - parents or guardians of those students
  - organisations who do campus recruitment (trained personnel is a product of the institute)
  - practicing managers who could be visiting faculty at the institute
  - organisations who would like to use the expertise in the faculty for advise (consultancy)
  - those who can support the institute financially.

#### **(b) Advantages of Segmentation**

1. The advantage of identifying segments, is that one can choose the segment which is relevant for one's transactions or business. It is not likely that one

would transact with all segments of the market. One can be clear as to which segment one wants to do business with. The segment so chosen is called the target segment. One may have more than one target segment

2. Public utilities like electricity boards or town planning departments do not select groups to cater to. Yet, their customers belong to different segments with different needs.

#### **EXAMPLE**

The requirements and expectations of a continuous process industry from the electricity supplier, are different from those of individual homes. The requirements and expectations of a company developing a township are different from those of a builder on a single plot of land. A bank cannot treat a company having a turnover of Rs.1000 crores on the same basis as an individual having a savings bank account.

An online educational portal offering classes may attract 120,000 students from across the country or even the world. Its target segment is very different from a local college or school.

3. Segmentation helps to identify the appropriate ways in which different customers have to be served. The internal organization (arrangement of departments) can take care of these distinctions, in which case the persons belonging to each segment are likely to experience better satisfaction.
4. Market research will help identify the characteristics and needs of the various segments. Research will have to depend on the analysis of the data which would be very large in volume.. Business analytics is the tool or technology developed to do such analysis

#### **(c) How to segment**

1. Segmentation is usually done on the basis of one or more of the following factors.
  - Geographic like region, district, density of population, climate, rural, urban. One can choose the area in which one wants to do business, within the city, country or globally. An Indian insurance company may decide to open its branches only in such foreign territories, where there are Indians on an expatriate basis, with intentions of returning to India after some time. It may also decide to operate in foreign countries and make its presence known as an international player.

- demographic like family size, religion, sex, income, occupation, language, education, incomes, etc. The USA used to be considered a ‘melting pot’ of various ethnic migrants. Today, it is considered a ‘salad bowl’ of various ethnic groups preserving their own values and cultural heritages.
  - psychographic like value systems, life styles, personality types, motivations
  - buying behaviours like volumes, frequency, delivery requirements, negotiated contracts, long-term short-term arrangements, shop or brand loyalties. To some persons, shopping is a social occasion to meet friends and spend time together, while shopping as well. Such persons prefer malls with food courts. There are others who are too busy and prefer home deliveries.
2. In insurance, one basis of segmentation could be individuals versus corporates, whose processes of buying and parameters of satisfaction, are different. In life insurance, professions and occupations could be the basis of segmentation. An insurer may choose to do all its business only among the army personnel, whose mortality rates would be better than the general public, because of better living standards and health care. One may identify that the segment of working ladies has not been tapped adequately and choose that as a target segment. This does not mean that other segments of the market are ignored. They are also targets. **But each segment would receive differentiated or focused attention.**
  3. **The segmentation could also be done on the basis of the product being offered.** The segment for fire insurance could be different from that for aviation insurance, although there could be an overlap. Only big organisations would be interested in loss of profits. Motor car dealers and motor finance companies could be the target for motor insurances. Employers would be the target group for fidelity insurance and superannuation policies. Professionals would be the target for liability insurances.
  4. Segmentation would provide data on
    - Customer profile, who is he, where is he, what does he buy, how does he buy, etc
    - End users versus intermediaries
    - Loyalty to product, outlet or manufacturer
    - Preferences in product configuration
-

## TEST YOURSELF 2

Which of the following factors is NOT relevant for segmentation?

- (a) Age
  - (b) Income
  - (c) Buying Behaviour
  - (d) Marks obtained in school
- 

## E. THE MARKETING MIX

### (a) The Seven Ps

1. The basic task of a marketer is to deliver to the customer, satisfaction. He does so, by offering a **Product**, at a reasonable **Price**, at a suitable **Place** and after appropriate **Promotion**. It was believed that these four, called the four 'P's, could deliver satisfaction and they were called the elements of the **Marketing Mix**. One could make changes in these and use them in different ways, like the chef in the kitchen would mix his spices and other ingredients, to provide attractiveness and satisfaction to the consumer.
2. Some modern writers have used SIVA (Solutions, Information, Value and Access) to present the marketing mix. SIVA represents outcomes, while the 4 Ps represent the inputs which can be managed to get results or outcomes. Outcomes do not happen without inputs. Taste, an output, does not happen without the use of inputs like spices, sugar or salt.
3. Three further 'P's have been added to the original four. These additions had been found necessary in the context of the marketing of services, which have different characteristics from the marketing of goods. These three 'P's are **People**, **Process** and **Physical factors**. Insurance is a service business. Therefore, all the 7 'P's would apply to Insurance.
4. Product' includes name, design, features, quality, range, size, models, appearance, packaging, warranties, etc., as well as pre-sale and post sale services like training, repairs, maintenance and replacements. Between two products comparable on performance and technology, the support services would be significant factors that add to the attractiveness of the product. What exactly constitutes the product in the case of insurance would be discussed in a subsequent chapter.

**EXAMPLE**

While purchasing aircrafts, the arrangements for training of pilots and for repairs would be significant factors, influencing the purchase decision

5. 'Price' includes concessions on basic price, discounts, credits, instalments, facilities and delivery terms. The producer will, normally, fix the price on the basis of his costs of production and the margin of profit that he may like to earn. What is price to the producer is cost to the buyer. To him the cost is related to the value or worth that he sees in the product.

**EXAMPLE**

A painting produced at little cost fetches millions in an auction. A designer dress may be bought at a high price for its value of exclusiveness. An ancestral home of great sentimental value, may be bought 'at any price'.

6. The ways in which the product reaches the ultimate consumer, enabling him to buy the same, constitute 'Place'. 'Place' refers to the arrangements for distribution and include retail outlets, wholesalers, transportation, warehousing, etc., many of which would seem to be irrelevant for insurance. The advent of Internet and e-commerce has changed the traditional methods of distribution in respect of all products. The product does not have to move from the manufacturer's premises till it is sold. 'Place' in these cases, is the cyberspace. In the case of insurance, where the sale is mostly through personal selling, the 'place' will be the buyer's home or office.
7. 'Promotion' refers to all attempts to communicate about the product offer and includes advertising and publicity, public relations, the choice of media and the manner of presentation of messages, campaigns and sales promotions, point of purchase (or sale) displays, merchandising and personal selling. In insurance, personal selling is of paramount importance. Promotion increases awareness and prompts the buying decision.
8. 'People' are important because services are rendered and used by people. In the service business, about 90% of the employees are in direct contact with customers in contrast to manufacturing industries, in which only about 10% are in touch.

**EXAMPLE**

In the case of insurance, the policyholder experiences satisfaction through the behaviour of (i) the agent at the time of purchase (ii) the responses of the agent or the office staff to his queries on the telephone or across the counter

and (iii) lastly the behaviours of the persons handling his claim.

9. 'Process' refers to the ways in which the service is made available and rendered, the procedures and the forms to be filled and so on.

#### **EXAMPLE**

Taxi aggregators like Ola and Uber have made it very easy to get a taxi at short notice, by just pressing a few buttons on your mobile device. Police and fire departments have used technology to expedite the process of reporting emergencies and thus speeding up responses. Insurance companies have used technology to make payments of premiums easy. The processes have become more satisfying.

10. 'Physical factors' refers to the layout of the office, ambience, the décor, the furnishings, the arrangements for reception and for waiting and even the fragrances, which can provide for satisfaction. One's experience in shopping is enhanced or spoilt by the people who deal with him, the procedures for payment and delivery (process) as well as the brightness, lighting, sounds and artifacts in the place.
11. **Each of the elements in the marketing mix is important. Each has an influence on the customer. None of them can be ignored.** The marketer has the choice of concentrating on one or more of them, to create the necessary impact. The specific mix chosen for a winning combination will have to be altered from time to time to suit the changing circumstances. The changes in circumstances happen due to changing profiles of customers, actions of the competitors or generally in the environment as social, political, economic and technological developments.

#### **(b) Marketing Implies Exchange**

1. Marketing is a continuous activity, taking place in a dynamic situation. It looks at the decision processes of the producer and the decision processes of the consumer and tries to bring these two decision processes together in an exchange transaction. If there is no exchange, there is no marketing activity.
2. **Marketing is relevant only when there is freedom of decision on the part of both producers and consumers.** An organisation has to create, produce and deliver goods and services **that consumers value and want**, at prices which are attractive, particularly when compared with the offers of the competitors. If the exchange is by compulsion, as in a monopoly or otherwise, there is no marketing activity.

3. Consider the case of the Income tax office. Payment of Income tax is compulsory by law. Nobody has an option to decide whether to pay or not to pay. However, it would help the Government, if increasing numbers pay their dues and pay on time, without trying to evade. People have a choice of not paying and facing the penalties that may follow. The choice can be influenced more in favour of paying if (a) the procedures and forms to fill in are simplified, (b) collection arrangements are made more people - friendly and (c) the penalties are understood to be unavoidable and severe. Much has been done with regarding to simplifying procedures relating to filing returns, but very little on other aspects. These are marketing orientations.
4. Making collection arrangements easier is equivalent to the 'Place' in marketing. Communicating penalties is part of the 'Promotion'. Procedures are part of 'Process". The 'People' concerned, in the relevant offices can, with some consideration, help to make the process less dissatisfying and less threatening. Taking care of all these matters would be marketing activity by the Income Tax department. The actions taken in 2015 with regard to those having undisclosed funds overseas is of a similar nature, persuading compliance as well as threatening action.

## **F. MARKET RESEARCH**

1. Market Research relates to the study of the market, in order to understand its dynamics and changes in its behaviour. One part of research is the study of customers and the consequent segmentation. It is equally important to be in touch with the changes in the size and structure of the market, the offerings from the competitors, new technology and products and one's own image. **The research involves systematic collection of data, to be analyzed, evaluated and used for marketing decisions.**
2. Market research may be undertaken to answer specific questions or to generate general information about the market, which may be considered relevant for decisions. Geographical and demographic characteristics may appear to be easy to know. But it is not always so. The size and the spread of the market make it necessary to use sampling and other statistical techniques to find out information about the whole.
3. Secondly, information would not be easily forthcoming. Structured questionnaires and personal interviews provide information, which need to be validated and interpreted before being used. **The responses to questionnaires will depend on the way the questions are drafted as well**

as the way they are administered. Surveys done by post may provide different results from surveys done by telephone and those done personally.

4. **Simpler methods are possible.** For example, the security guard at the door of a departmental store, counting the number of people coming in and the number of people going out with the store's distinctive shopping bags, is providing data about the 'footfalls' (people coming in) at different time periods and the purchase ratios in these groups. The data may also throw light on the profile of the customers at different time periods and incidence of purchase within these groups. When correlated with the purchases in each department, lot of information will be generated about consumer behaviour with specific reference to the customers in that locality, in relation to the products of that store. Over a period of time, significant changes can be observed and related to changes which may have been made by the store in its product ranges, promotional offers or displays.
5. **In the case of quantitative data, the numbers tend to provide an impression of objectivity and reliability.** The numbers emerging from a study depend on the questions asked, the way they are asked, the seriousness of the respondent, etc. none of which are objective. To do a proper interpretation and evaluation, it is necessary to know how the numbers have been generated as well as have insights into the context, nature of operations and so forth

#### **EXAMPLE**

A down time of 25% in a typewriter, may be due to delays in attending to the repair job, callousness of the repairer, incompetence of the repairer, bad handling by the typist, deliberate sabotage, repair charges being shared with the typist, friendship between the repairer and the typist, and so on. Further examination of causes may be undertaken if 25% downtime is considered abnormal.

A comparative study of the number of life insurance agents in different countries, who continued in the profession at the end of 4 years, showed that Singapore and the Philippines were doing better than many other Asian markets. Singapore did better because the regulatory authority was strict in allowing appointment of agents and Philippines did better because their standards were low.

6. The numbers at the end of a research study, only point out **apparently significant** factors. These have to be understood in better depth before conclusions can be reached and decisions taken.



## G. MARKETING STRATEGIES

### (a) Planning

1. Strategic planning for marketing would cover all marketing activities including
  - Setting objectives, based on scanning the external environment for opportunities and threats and the internal environment for strengths and weaknesses
  - Identifying the target segment of the market
  - Formulating targets and programmes, including product mix
  - Formulating detailed activities to execute the programmes, including marketing mix
  - Determining costs and margins
  - Ensuring coordination between various departments.
  - Identifying the critical parameters of the programme for monitoring and control purposes
2. Like all planning, Marketing planning also begins with the information gathered about the environment through market research and other sources. **The environment consists of the market, the stakeholders and their interests/attitudes/loyalties, and the society at large, including the political, legal, economic, social conditions and trends.** The purpose is to identify opportunities that could be exploited and the threats that have to be guarded against. Objectives and tasks (to achieve the objectives) will then be determined.

#### EXAMPLE

A booming economy is an opportunity for insurance, both life and non-life. At the same time, a dynamic financial market is likely to attract much of the surplus funds of individuals and become a threat to insurance.

3. The planning process must also look at the company's strengths and weaknesses in relation to the opportunities and threats emerging in the environment. One must know what one can do and what one cannot do, both as individuals and as an organization. One may have the financial muscle but not the technical strength (or vice-versa) to capture the big business potential in any field. One may plan to overcome the weaknesses noticed before taking further steps to identify the target market or the business objectives. This critical analysis of Strengths, Weaknesses, Opportunities and Threats is known as the SWOT analysis.

**EXAMPLE**

The strengths or weaknesses may relate to political (ability to lobby with powers that be), financial, technological or organizational, which will include people (employees, suppliers), and marketing (distribution network, customer loyalty, brand equity, etc).

4. **Objectives are end results and provide direction for decisions on control and coordination. They should therefore, be specific, measurable and time-bound.**

**EXAMPLE**

To want to 'improve one's business' is too vague and general as an objective. This would become increasingly specific as one states the extent of improvement to be aimed at (say 20%), the market in which the increase is to be got (say, in Punjab), the kind of improvement (in numbers, volume, revenue, penetration) and the period (time frame) during which the improvement must occur.

5. **Big organisations, for the purposes of developing strategy, may conceptualize that each product is a separate business and give it a distinct operational identity with specific objectives.** It depends on the direction in which one wants to apply resources. The objective may be to dominate in an area where one is already strong or to build strength, where one is, for the time being, weak or to develop a segment of the market

**EXAMPLE**

A travel agency can have separate targets for revenue from (a) inland travel bookings (b) international air bookings (c) commissions from hotels (d) tours to Europe (e) tours to Asia (f) tours to Africa (g) tours into India (h) incidental services like insurance sales or passport facilitation and so on.

An insurance company can have separate objectives for each class of business, for specific territories or for specific segments of the market.

**(b) Strategies**

1. **Strategies are ways to attain the objective, usually in the long term.** They have to be
  - clear and identifiable
  - fully exploiting environmental opportunities
  - consistent with corporate skills and resources
  - within acceptable risk limits

- stimulating organisational effort and commitment
2. Each organisation has to choose its own strategy. Some may want to remain market leaders setting high standards of business practices and going ahead, before others catch up. They would be positioning themselves as unequalled and beyond compare. They strive to maintain their leadership position. Leadership may mean share of market or perception of superior quality service

#### EXAMPLE

Among e-commerce companies, Amazon and Flipkart would be examples of wanting to maintain leadership positions. Among hotels in India, Taj and Oberoi are being challenged by several international brands. Some hotels prefer to build their business by managing property owned by someone else. Some like McDonald may lend their brand to a franchisee.

3. Some others would want to confront the market leaders and occupy an equally competitive position. This is a **strategy of confrontation and attack**, saying one has better features than the others, highlighting one's merits and other's demerits, sometimes directly and sometimes indirectly.

#### EXAMPLE

Confrontation and attack happens in the business of motor cars, household electronics, soft drinks, computers, mobile phones and between leading newspapers in a city. The rivalry between Pepsi and Coca-Cola is proverbial

4. Some may prefer to avoid the more popular segments of the market and make offers of a kind not usually available in the market, a specialty offer. These may be small niches and not of general interest. This is called the **niche marketing strategy**. Those who choose niche markets do not face competition because they understand the special needs and nature of business of their customers. Niche markets may not be big in volumes but may be satisfactory in terms of returns.

#### EXAMPLE

An Indian courier, which was among the earliest in the Indian market, had cornered the business of handling share certificates. Oversize tyres for earth moving equipments, food for pets and stringing tennis rackets are some successful niche markets. India Post has identified that deliveries to the rural market is profitable business.

4. Some may be quite happy with the existing position in the market and would be trying to protect its territory, preventing others from making inroads. This is a **defensive strategy**, reminding customers of their satisfactions in the past and strengthening their loyalties.

#### **EXAMPLE**

Harley Davidson has a club for its owners which publishes a magazine called Hog Tales, provides a touring hard disk, arranges specially designed insurance programmes, makes available discounted hotel rates and so on, with a view to maintain a long lasting relationship.

### **(c) Programmes and Activities**

1. **Marketing programmes and activities are sequences of actions**, which have to be undertaken to realize the strategies and to achieve the objectives. These will include
  - *Sales* including setting up the sales force, training them on the product features and sales techniques, laying down territorial or other targets, monitoring their work and so on
  - *Distribution* meaning laying down the ways in which customers can reach and buy the products, which includes the systems (persons and processes) that deliver the promises
  - *Advertising* and promotion, executing campaigns to inform, to attract attention, to generate interest and to keep in touch
  - *Research* leading to segmentation, targeting and product development
2. Three important factors to be taken care of in planning programmes and activities are
  - *Consistency*. There has to be a logical and useful fit between all the elements of the mix. Example is: Not to sell high quality products through low quality outlets
  - *Integration*. Focussing on active harmonious linkage among elements of the mix. Example: Heavy advertisement harmonizes with high price through brand differentiation.
  - *Leverage*. Each element should be used to best advantage in support of the total mix. Example: Price promotion is to be used only if product is price sensitive.
5. Growth can be achieved through penetration of existing markets with the same products, development of new markets with new products or

development of new products for both existing and new markets. Each of these strategies has a different name, as shown in the grid below.

	Existing Products	New Products
Existing markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

- 4 If an insurance company goes into banking, it is diversification. When the general insurance companies, announced in the 1980s, Overseas Medical Insurance covers, that was also a case of diversification, because the product was new (significantly different from the medical insurance available in India which operated on reimbursement bases) and the market (travelers abroad) was new. When the L.I.C of India planned for Bimagrams (at least one person in every household in a village must be insured), the strategy was one of Market Penetration. When the market of working ladies was identified as a neglected segment, it was a case of Market Development. Variations of Money Back life insurance policies as well as ULIPs are examples of Product Development.

## H. PRODUCT LIFE CYCLE

### (a) Stages

1. Every product has a life cycle, just like every living being has a life cycle. Each stage in the life cycle represents the degree of attractiveness of the product in the market.
2. The product life cycle consists of four stages namely
  - birth or introduction
  - growth or development
  - maturity
  - decline and death
3. At the first stage, **birth or introduction**, the product is new, unknown, untested. Not many people buy. Gradually, through intense promotional efforts as well as through customers who may have tried it, the product may gain popularity. Sales volume will increase steadily. This is the stage of **growth**. The third stage of **maturity** is when the product has become well known and is accepted in the market, the demand is steady and high and earnings are quite satisfactory. Promotional efforts are minimal and mainly in the nature of reminders. After some time, the demand may begin to fall,

either because better substitutes are available or because consumer tastes and styles have changed. This is the stage of **decline and death**.

#### **EXAMPLE**

The compounder in a chemist shop, who, in the 1940s, used to mix medicines as prescribed by the doctor, has become redundant because of ready-made formulations. Microwave ovens and washing machines are most probably in the maturity stage. Irani restaurants, available at every corner in Mumbai's commercial district in the 1950s and 1960s, have declined. Fast food restaurants are in the growth stage. Internet is in the maturity stage. Video cassettes have declined. The capital market and related businesses are in the maturity stage. The post office has declined as letters are rarely written these days, but is trying to leverage its vast network of offices in remote areas by becoming a payments bank and also by delivering goods ordered on the internet to buyers in the rural areas. This business is in the first stage.

#### **(c) Implications**

1. In the birth/introduction stage, both investment and promotion costs are high without adequate returns. The business may even be making losses. The returns improve during growth and maturity stages. The marketer will have to spend heavily in demonstrations, samplings, displays, concessions, etc., at the first two stages hoping to recover costs fully during maturity. The Patanjali Ayurved products have, in just 10 years, reached the maturity stage. It is growing still through new products as well and is threatening the market leaders.
2. When a product is in the decline stage, there are two options. One is to cut losses and kill the product. If it has not already paid for itself, the product was just bad. The second option is to revitalise the product growth by
  - adding new features that may enhance its attractiveness and value
  - emphasizing new uses for it
  - finding new markets/users

#### **EXAMPLE**

Burnol was being sold for a long time as a specific for burns. Later it was sold as a general antiseptic. The market picked up. Milkmaid, which used to be sold as a milk substitute, is now seen as a useful dessert ingredient. When video cassettes and satellite TV became popular in the late 1980s, the cinema theatre was moving into the declining stage. Several theatres closed down and commercial complexes came up where theatres once stood. Of late, however,

the decline of the cinema theatre seems to have been arrested because of more sophisticated sound tracks and more spectacular visuals, which the TV screen is not able to exhibit fully. In some places, the cinema is becoming part of a bigger entertainment venue, the multiplexes, offering total value for a family for an evening or day. Encyclopedia Britannica, which used to sell for US\$ 1250 for its 32 volumes, had to close down in 1996, after 230 years, when offers were available in the Internet for \$ 5 subscription

3. **The four stages of the Product Life Cycle are not of uniform length.** Some products, even of reputed firms have died soon after birth, not growing at all. This is true of several start ups in recent times. Some products never seem to decline, remaining forever, as it were, in the consumer's favour. Colgate toothpaste is one such example. The Taj group of hotels is another. Some insurance plans never got sold despite heavy promotions. Some plans are in demand even after 100 years.
4. The poor performance of a product in the market place may be due to
  - product features not meeting the needs of the consumers
  - customers not accepting the product despite some commendable features
  - ineffective marketing causing poor awareness and/or poor availability
5. The concept of the product life cycle is useful in developing strategy. If the product has a significant share in a market that is growing, it would be wise to invest further in that product. If the product is not growing, but the market is growing, steps are to be taken to push or to add to its features and take advantage of the growth of the market. The implications of the different stages in the life cycle are listed in the table below.

	Introduction	Growth	Maturity	Decline
Product	Design and customer feedback key to success.	Technical and performance differentiation	Superior quality established - less rapid changes	Little differentiation from competition.
Marketing	High marketing costs. Advt/Sales ratio high	Advt/Sales ratio decreasing	Broadening segment Efforts to extend life cycle	Low advt. and other costs.

Manufacture	Excess capacity. High production costs. Short runs	Under capacity. Shift. to mass production	Some over capacity. Stable manufacturing process. Long production runs	Substantial over capacity.
Distribution	Specialised channel	Mass channels	High physical distribution due to brand lines	Limited channels
Competition	Little	Many new entrants	Price competition	Fierce.
Margins	High	High	Falling but stable	. Low.
Profits	Low	High	Lower	Low
Buyer behaviour	Inertia. Need convincing	Widening group	Mass market - repeat buying. Choosing amongst brands	Sophisticated buyers.

#### (d) Positioning

1. Another concept relevant to marketing strategy is positioning. **A product cannot be everything to everybody.** Every person distinguishes between one product and another on the basis of some distinct characteristics and thus holds an image of the product in his mind.

#### EXAMPLE

A Taj hotel denotes luxury, beyond the reach of ordinary people. To be staying at the Taj, is indicative of high status. The Udipi restaurant is different. One goes there when one is in a hurry and wants a quick simple meal. One does not go there to celebrate or to entertain a distinguished guest. A Subhash Ghai film has to be a spectacular. Lifebuoy soap kills germs. Lux is a beauty soap. Godrej locks are safe. Tata products are quality products. BBC news is authentic. A ration shop is a poor man's shop. One would not like to be seen in a ration shop queue, for fear of being understood as belonging to the poorer class.



2. These images are formed in the minds of people partly by their own direct experience. But it is not always that direct experience is responsible for the images.

#### **EXAMPLE**

People who have never travelled by air would talk about the relative quality of service of Singapore Airlines, and Air-India. People who have had nothing to do with the police would 'know' that the entire police is corrupt.

3. The images are partly the results of the marketing efforts of the producer. In the case of the police, there is no marketing effort. The images are formed from statements made by persons who 'know', who claim to have had experience, in the press or elsewhere. The images may not be factually justified. Direct experience may show that the images one has are not always true. Nevertheless they exist and influence behaviour.
4. **The images in the minds of the consumer, is the 'position' of the product. The position influences the customer's inclinations to buy.** Certain theatres are 'known' to show only clean new movies or plays of high quality. The choice of a theatre without knowing which film or play is on, is made on the basis of such images. The Prithvi theatre in Mumbai is a safe bet for good plays.
5. A product may be positioned against a competing product or exclusively by itself. It can be positioned for men or for youngsters or for the aged. Positioning has to be related to the target segment.

#### **EXAMPLE**

Cadbury chocolate, which was for long positioned as a food for children (two glasses of milk), attempted to expand the market to the elders, by repositioning it as part of 'fun.'

6. **Positioning is the objective and the outcome of the communication efforts in the marketing mix. Promotion is the main, but not the only communication process. Price also communicates value and position. The outlet where the product is available also communicates.** A premium product will not be sold in a bidi shop.
7. Competitive pressures can blur, even distort, the images in the mind of the consumer. For example, life insurance is essentially to cover the risks contingent on human life like, death too early or survival too long. In the minds of many, it is 'positioned' as an investment, the unique advantage being the savings on taxes. This detracts from the real value of life insurance. Such a positioning redefines the customers for life insurance as

those with tax liabilities and/or with surpluses to invest, and excludes a vast majority who do not have either tax liabilities or investible funds.

### (e) Branding

1. When the images about the features, characteristics, benefits etc., of a product are very strong in the mind of the consumer, a brand is created. The brand is defined by the positioning. **Brands are created by sustained promotion and adherence to standards that are claimed for the brand.** A brand exists only when it is associated with features and attributes that are distinctly different from other products in the same category. A brand
  - is associated with and easily identified by recognizable symbols like name, logos, designs, symbols, colours, jingles
  - creates awareness, familiarity, recognition
  - influences favourable action
  - gives confidence of quality, value and satisfaction
2. Services also can be branded.

#### EXAMPLE

Ola and Uber among taxis, Shoppers Stop among retail stores, MTR (Tiffin room in Bangalore) and China Garden in Mumbai among restaurants, Blue Dart and DHL among couriers, Cunard lines in shipping, Palace on Wheels in rail transportation, BBC and CNN in TV news, Mastercard and Visa, Flipkart and Snapdeal, are examples of brands in services.

3. In services the name of the company (service provider) is the brand name. In the case of goods also the brand is the name of the manufacturer (Tata or Patanjali), but sometimes the name of the product becomes the brand like Vimal or Red Label tea. The brand name holds distinct images in the minds of the public with regard to what is on offer, what to expect, the quality of the product, whether it is reliable, whether it is expensive, and so on.
4. When a brand is created, there is less need to communicate product quality. The customer is already inclined towards that brand and all that it represents. There is better customer loyalty, which means more steady business, less marketing costs, strong cash flows. **A brand is also a defence against competitive inroads.** There is no need for price wars, because the value addition in the brand cannot be matched by a similar product of a competitor. On the contrary, a strong brand commands a premium in price.

Smirnoff raised prices when other vodkas cut them and still volumes increased.

5. While the manufacturer makes a product, the brand is what the customer buys. In the 1890s, William Hesketh Lever, founder of Lever Brothers, which later grew into Unilever and Hindustan Lever, said that the Sunlight soap would “make cleanliness commonplace, lessen work for women, foster health and contribute to personal attractiveness, making life more enjoyable and rewarding for the people who use our produce”. Sunlight soap is still a popular brand in many parts of India.
6. A brand is based upon differentiated features. It has legal title, can be patented, is subject to copyright and trademark protections. The brand is built over a period of sustained marketing efforts and, when established, has a value of its own. Brands are purchased and sold as if they are assets.

#### **EXAMPLE**

Kraft was sold to Philip Morris for \$13 billion, Kitkat and Polo to Nestles for \$4.5 billion, Nabisco (biscuits) to BSN for \$ 2.5 billion, Parle Products to Coca Cola for Rs. 180 crores, Transelectra to Godrej for Rs. 80 crores, Ciba Geigy (toothpaste and brushes) to Colgate for Rs. 130 crores

7. The communication about brand is not only through advertising, but also through the distribution outlets and the price. This is described as the brandscape in the minds of the consumer, which, similar to the landscape in which the land rests, constitutes the set of ideas or notions in the minds of the consumer, in which the brand rests. It is this brandscape that the brand manager has to take care of. The place where consumers meet the product, the environment of that place, the other elements at that place (people, crowd, space, noise, the ‘clutter’), all add up to build the brandscape. It is an amalgam of images and impressions, all of which have to convey positive and consistent meanings.
8. Big brands become generic to their category, like Godrej for steel cupboards and locks, Dalda for vegetable hydrogenated cooking oils, Kirloskar for pumps (in Africa). Their messages do not change, even if they need to be repositioned for growth.
9. In the case of an insurance company, the name of the company is the brand. After a period of time, there would be impressions among the public about the attitudes, behaviours, etc., of the people working for the insurer. These impressions create expectations as to what might happen when dealing with the insurer. The public would be inclined, favourably or

otherwise, to the offers from the insurer depending on such impressions. The agents may also become brand names.

#### (f) Relationship Marketing

1. One of the objectives of marketing activities is to build relationships. This is based on the belief that it costs several times more to find a new customer than to retain an existing customer. A customer who leaves, is taking away the profit making potential of the company. Therefore, it is argued, **it is worthwhile to try to retain existing customers, to build strong long-term relationships with them, so that they remain loyal.**

#### EXAMPLE

If there is a normal attrition of say, 25% in customers, reducing that by 5% can mean substantial savings by way of increased purchases, reduced operating costs, and more references. A study by the All India Management Association some years ago, showed that among service firms, reducing customer defections by just 5% boosted profits by 25% to 35%. In these days of intense competition, the benefits should be larger.

2. The concept can also be extended to suppliers. **Loyal committed suppliers can save a company extensively through lower inspection, inventory and documentation costs.** This objective is significantly more important in the current and future days because the Internet has expanded the market place beyond all known boundaries of space and limitations of time, and the consumer is not only becoming aware of, as well as close to, alternatives, but finds it easy to access the competitor's services sitting at home.
3. Relationships of a long-standing nature are built on trust and confidence that one's interests are safe in the hands of the other. Attempts to exploit the other's compulsions mitigate against this principle. When a supplier refuses to take advantage of the customer's difficulties, the customer's trust is created. Banks are traditionally referred to as saviours who offer umbrellas until such time as it really begins to rain. When a company is in some trouble, the badly needed understanding and accommodation from the bank would not be available. Fair weather friends do not build lasting relationships. **Insurance agents who build relationships find it easy to get fresh business through referrals.**
4. In Relationship marketing, also called Customer Relationship Management (CRM), **every customer is seen as a segment of one; not as one out of many of a kind, to be dealt with as an average.** This is the traditional Indian way of the neighbourhood grocer, the dhobi, the village doctor. The

relationship is built on messages that convey to each of the customers, recognition, willingness to help, concern for the other and implicit trust.

5. Experienced insurance agents, like all good salesmen, treat every customer as a unique person, whose interests and concerns are in focus. But when the organisation deals with the customers, they tend to ignore the uniqueness of the individual customer. They become impersonal. This can be overcome if agents handle all the policyholders' requirements themselves and do not let their policyholders meet the employees or if dedicated employees are earmarked to deal with customers, with authority to cut across the normal hierarchy to handle customer problems.
6. Modern technology makes it possible for even big organisations to operate on the basis of the segment of one. Mailers can be addressed to individuals as if they have been prepared specifically for each of them separately, with particulars relating to his preferred items and outlets. It is possible to retain the preferences and peculiarities of each customer and retrieve the information at any time, by anyone who is in contact with the customer, thus providing personalised service.
7. Relationship marketing requires that the provider keeps in touch with the customer even after the sale is over. There is a phenomenon called Cognitive Dissonance, which occurs because of doubts that arise, after the purchase, about the correctness of the purchase decision. If the experience after purchase is not exactly as anticipated, the dissonance will be enhanced. **In the case of insurance, where most of the purchases are usually with some hesitation, it is very necessary that the agent who made the sale, be in touch, after the sale is over, to convey reassurance that the purchase was not a mistake.**

<p>Some studies show that agents do not take enough care to remain in touch. Agents are more in touch with big buyers, not the smaller ones. Even there, the contact after the sales is less than before the sale. Some agents have said that they are agents for both life and non-life businesses, because the latter gives them more opportunities to meet the customers. This build relationships and further businesses become easier.</p>
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8. Relationships are based on closeness and trust. Local retailers have this advantage. Their customer loyalties are strong. The successful insurance agents invariably have strong relationships with their clients. They find some reason to keep in touch and as a result generate a treasure of referrals.

9. **Relationships have to be built, not only with ultimate users, but with everyone in the value chain.** Retailers and wholesalers used to be looked upon as ‘costs’ that eroded profits. They are now seen as partners, whose loyalties and commitments are important. However, the expectations from retailers and wholesalers may run contrary to those of the ultimate consumer. Will they invest to satisfy the end user? Primary producers may have to invest in retailer facilities for the sake of consumer satisfaction. This is possible only if the relationships are sound on a long term basis.
10. Relationships also have to be built with suppliers and vendors, investing for them and helping them with technology if necessary, which alone will ensure consistent quality in supplies. Otherwise, the practice of looking for the cheapest tender every six months or one year, can turn out to be expensive in inspections costs and non-adherence to specified schedules. Marketing principles apply to all these situations.
11. A regular programme of contacts between the insurer and its customers helps to
- explain each others’ stands
  - clarify expectations from each other
  - eliminate possible doubts and misunderstanding
  - strengthen favourable relationships
- 12 Regular contacts can be arranged at the corporate level. Consumer focus groups help. They can be brought into the processes of product development or strategy development. Such meets at the corporate level however, cannot have as much impact as individual contacts by the salesmen. Such contacts work to mutual advantage. This is more important because of the Consumer Protection Act. It will counter the accusation of misrepresentation. The most important purpose, however, is building up customer goodwill, having a better customer profile and an appreciation of the insurer’s attitude to customer needs.
13. Some simple methods which can be adopted for educating the customer are
- Enclose, with every communication, a simple brochure with details of the policy issued, listing out the essential obligations and procedures and details about what the policy covers, what the insured should and should not do, whom to contact when necessary
  - Create in the office a person or counter to answer queries patiently and correctly
  - Keep leaflets and brochures ready for anyone to take away

- Present small items with telephone number of the insurer's or agent's office, which can be kept in convenient and easily accessible places. These could be coasters, keychains, paperweights, pen stands, etc.

14. Current practices would not require policyholders to come to office. Therefore, what can be tried is what the pharma companies do with the doctors. Such materials are sent to their clinics. They are constant reminders.

#### **(f) Systems Approach to Marketing**

1. The systems approach is a methodical approach to problem solving that considers all aspects of a problem. This approach is developed from the concept of systems. A system consists of several parts interacting with each other and functioning as one united whole.
2. The typical system is the human body, which has in it several smaller systems like the nervous system, the respiratory system, the digestive system and so on, each of which has got further parts and components. All of them do their separate jobs, because of which the human body is able to function as one. When a surgeon conducts an operation on a person, the most important person in the medical team is the anesthetist, whose job it is to continuously monitor the effect on the whole body because of the work being done by the surgeon on a part. The surgery can go on only when the anesthetist shows the green light.
3. An organisation, like a human body consists of many parts, but functions, not as a sum total of the parts, but uniquely differently. While dealing with any problem that may be affecting any one part, it is necessary to take care of the effects on the other parts of the total system.
4. The organisation is also a sub-system of the social and economic environment in which it exists. An individual insurance company's activities impinge on the entire insurance industry as well as on the economy as a whole. The relevant factors are inflation, trends in interest rates, funds utilization, consumer preferences, market developments, competitive offerings in the financial market, savings and expenditure trends, health facilities, law and order situation, technological developments in packaging and transportation and so on.

5. Each sub-system of an organisation will have its own goals. Some of these goals can be in conflict with each other.. The following are typical examples of conflict
- Immediate profits versus growth in the long term
  - Profit margin versus competitive position
  - Development of existing markets versus development in new markets
  - Growth versus consolidation
  - Sum Assured versus premium income in life insurance
  - Cost control versus geographical expansion in general insurance
6. While making marketing decisions, there has to be awareness of the conflict between different goals and the inter-se priority amongst them.

### **(g) Holistic Marketing**

1. Marketing has acquired several dimensions. The expression ‘Holistic Marketing’ is used to focus on the integration of these dimensions and to ensure that nothing is ignored. For example, it focuses on building relationships with not only customers, but also with suppliers, distributors, channel partners and other publics. It focuses on internal marketing so that employees in all departments are involved in the programmes of the marketing department.

#### **EXAMPLE**

In order that an airline may provide services that are experiences satisfying to its customers (passengers), the cabin crew, the engineers (who maintain and prepare the flight), the ground services, the flight caterers, the checking-in staff, the baggage loaders, and many such persons at the boarding and landing areas, have to do their bit with enthusiasm and properly.

2. Internal marketing also ensures emphasis on internal customers. The concept of holistic marketing also focuses on aspects of the environment and social responsibility, which is dealt with in a later chapter.

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### **TEST YOURSELF 3**

Which of the following statements is true?

- (a) All sub-systems of an organisation have identical goals
- (b) Every subsystem is independent of the bigger system
- (c) Every subsystem influences the bigger system



(d) Subsystems need not be concerned about the other subsystems in an organisation.

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## I. ANALYTICS TOOLS

1. Marketing decisions have to be based on data for optimum effectiveness. Data is generated from market research as well as from operations. The data available within any organisation about the behaviours of customers is beyond the ability of the human mind to comprehend. **Systems have been developed using Artificial Intelligence, which can analyse and correlate all activity pertaining to every customer and detect patterns which may predict future behaviours as well as real-time exposure to risks.** Several platforms are available offering such analytic tools. The developments in this area are as fast as in any other in the internet domain.

### EXAMPLE

In education, technology has been developed that can ‘customize itself for learning needs, interests and pace of every child’ of students from the KG to eighth grade.

2. Professionals in analytics are called data scientists, whose expertise is a hybrid of many skills, like mathematics, statistics, data warehouse engineering, data mining and IT. They command more remuneration than Chartered Accountants and Engineers..The estimate is that India may need up to 200,000 data scientists.

3. Another important development is in the use of artificial intelligence in robots. **‘Chatbot’ is the word for robots with whom you can chat.** Chatbots are already in use in some organisations with which employees can chat to schedule time off, check their schedules and do a variety of other tasks that used to require making a phone call, sending an e-mail or talking to a fellow human. Chatbots have so far not lived up to their potential, but it is a technology that will get better. According to Vishal Sikka, CEO of Infosys, automation, enabled by artificial intelligence, will be a far bigger ‘disruptive’ force than the IT industry 20 years ago. He said “The point about automation is not about replacing people. It is about amplifying people and enabling them to focus on the work only people can do. We automate to free people to innovate.”

## SUMMARY

- Customer or Consumer is the focus of all Marketing activity
- Purpose of business is to create and retain customers
- Organisations have internal customers
- Customers buy because they see value in the product
- When value is high, price or difficulty in procuring, do not matter
- A market is an aggregate of existing and potential customers
- Barter system gave way to money transactions
- Money has evolved from metal to paper to plastic and will become electronic in future
- Marketing concepts developed after the second world war
- Marketing helps improve effectiveness in every activity and reduces waste
- Segmentation is the process of disaggregating the total market on the basis of characteristics
- Marketing activity focuses on Seven Ps, Product, Price, Place, Promotion, People, Process and Physical Factors.
- Market Research is necessary to understand the dynamics and changes in the market.
- Planning begins with the SWOT Analysis
- Objectives are end results and provide direction for decisions on control and coordination
- Objectives must be specific, measurable and time bound
- Strategies are ways to attain the objectives
- Every product has a life cycle, with four stages
- The images that a product has in the mind of a consumer influences his inclination to buy
- Positioning is the objective and outcome of the communication efforts of the marketer
- Brands are created by sustained promotion and adherence to standards claimed for the brand
- Brands have legal title and are subject to copyright and trademark protection
- Customer Relations is built by seeing every customer as a segment of one
- An organisation is a system with subsystems
- An organisation is also a subsystem of the environment
- Every subsystem has its own goals, which can be in conflict with goals of other subsystems
- An important development is the use of Artificial Intelligence in robots.

## **KEY TERMS**

- Analytics
  - Artificial Intelligence
  - Barter
  - Branding
  - Brandscape
  - CRM or Customer Relationship Management
  - Consumer
  - Customer
  - Cyberspace
  - Diversification
  - Internal Customer
  - On-Line Marketing
  - Market
  - Marketing Mix
  - Money
  - Niche market
  - Objectives
  - Positioning
  - Product Life Cycle
  - Research
  - Segmentation
  - Segment of One
  - Seven Ps
  - Social Marketing
  - Systems and Subsystems
  - SWOT Analysis
  - Target Segment
  - Value
- 

## **Answers to Test Yourself Questions**

### Question 1

The correct answer is (a)

### Question 2

The correct answer is (d)

### Question 3

The correct answer is (c)

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## **SELF EXAMINATION QUESTIONS**

### Question 1

Which of the following was NOT an activity in selling?

- (a) Giving discounts
- (b) Research
- (c) Advertising
- (d) Talking

### Question 2

Which of the following factors will be relevant for segmentation?

- (a) Occupation
- (b) Family size
- (c) Hobbies
- (d) All of them

### Question 3

Which of the following can benefit through marketing?

- (a) Hospitals
- (b) On-line traders
- (c) Political parties
- (d) All of the above

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## **Answers to Self-Examination Questions**

### Question 1

The correct answer is (b).

### Question 2

The correct answer is (d)

### Question 3

The correct answer is (d)

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# CHAPTER 3

## CONSUMER BEHAVIOUR

### CHAPTER INTRODUCTION

Consumer is the focus of Marketing. Therefore it is necessary to understand consumers, their characteristics and buying behaviours. This chapter deals with such issues.

### LEARNING OUTCOMES

- A. Buying Behaviour
- B. The Buying Process
- C. Perception
- D. Strokes
- E. Dissonance
- F. Socio - Economic Groups
- G. The Insurance Customer
- H. Customer Centricity

### A. BUYING BEHAVIOUR

#### (a) Behaviour is Complex

1. Marketing begins by asking the question, “What does the customer want?” If this is known, an appropriate product or offer can be prepared to meet the needs. People buy because there is a need to be satisfied.
2. It is also necessary to know why and how he buys, his motivations. To do this, diverse sciences like Economics, Psychology, Sociology and Social Anthropology have come together to understand the factors that influence the behaviour of customers in the process of buying.
3. In the early days, the economic model of consumer behaviour was taken for granted. It made the following assumptions
  - (i) A buyer had numerous wants and needs, but limited purchasing power.
  - (ii) Being a rational human being, the buyer would be interested in getting the most favourable deal.
  - (iii) He would therefore, collect full details about all available options, balance the relative utility of one purchase against that of another and

do that which will maximize his utility or satisfaction within his purchasing power.

4. The buying decision was seen as a logical rational process. Price was regarded as a strong determinant. In current times however, the economic model is considered to be inadequate to explain buyer behaviour, which, like all human behaviours, is complex and driven by too many factors, known and unknown.
5. Needs of people are physical as well as psychological. There are physical needs like hunger and thirst, which are met as a matter of routine. Psychologists identified needs in the realms of esteem, status and recognition. The sociologists that the social environment had a distinct impact on behaviour. People wanted to belong to preferred groups. As a result, several new concepts like social stratification, reference groups, role orientation, culture, opinion leadership, etc., are used to understand and explain buyer behaviour.

#### **EXAMPLE**

Students insist on getting expensive clothes and shoes and watches, even beyond what the parents can afford, so that they may seem to be of the same social class as the others in the academic class. Youngsters start smoking and drinking, also as attempts to establish social positions. They want to 'belong' to the the same class as their friends

#### **(b) Needs and Wants**

1. **Every person has needs and wants. It is the 'want' that leads to acquiring or buying. What one needs is intangible like beauty, happiness, comfort, health, convenience, prestige, etc. What one wants is tangible like dress, bicycle, camera, food, money, etc. One tries to acquire through buying or some other way, what one wants, in order that a need may be met.**
2. People have 'needs' which develop into 'wants'. Hunger is a common need. But the 'wants' accompanying hunger can be many and varied. One may want only frugal food, simple fruits or dal and rice (being also concerned for health), while another may go searching for rich or exotic food (being concerned for taste).
3. The concerns for health and for taste are two different needs that affect the want to satisfy hunger. One's need may be for a quick meal to get back to work early as against the need of another to combine mealtime with a business discussion or building contacts. The choice of place to go to, to

eat, would be the result of another need, which may be to be seen as belonging to a class and therefore, avoiding what may be known as 'cheap' joints.

4. One's needs may be to obtain social acceptance and therefore, conform to social norms, while another's need may be to be seen as individualistic, with a mind of his own and tending to be different in all respects. The latter kind of persons may be seen as snobs, or as difficult and annoying. But some truly great people, with outstanding achievements in their fields of activity, are like this, bohemian or non-conformist.
5. **Most of the time, one is not consciously aware of what one's needs are, particularly if such needs are not of immediate concern.** Pleasures of the present take precedence over needs of the future. The extra hour's sleep in the morning may be a more important want than a walk or some physical exercise. People who have not insured their lives or cars or other household goods, are not conscious of those needs. They deliberately, blind themselves to the realistic possibilities of loss.
6. Sometimes, needs are not in one's awareness, because the possibility of meeting such a need, did not exist. One wonders how Indian executives and businessmen survived - may be twenty years ago - without cellular phones. In the 1970s, many did not have even landline connections, and those who had to wait for hours before the operator connected them to another person in a different city. It has become an absolutely unavoidable adjunct in one's life in the year 2016, even for servants and labourers.
7. **Needs may be met in different ways and each way generates a different want.** An attempt to buy is made when a want arises, which, in turn, is an outcome from a need. A need generates a want only when it is felt. If the need is not felt, there will be no want.

#### **EXAMPLE**

One may want to buy a car, because of the need for (a) transport (b) social standing or to (c) collect allowances from the office. The need for transport can be met by (a) sharing with others in the locality or (b) making a long-term arrangement with a taxi. Either of these, is a want.

8. Wants create demands, subject to the factor of affordability. If there is no capacity to buy, the want will remain unfulfilled. Otherwise, the want will translate into a demand and a purchase will result. Producers, who make offers in the market, try to create wants.

9. One of the objectives of marketing activities is to create wants and also improve affordability. Different marketing programmes, will try to influence the wants and demands in the direction of their respective offers, even providing more affordable circumstances, like loans, deferred payments, hire purchase schemes, exchange offers or trade-in for used articles.

### (c) Reference Groups

1. Man is a social creature. He is a member of several groups at the same time. Membership brings about a sharing of values, interests and thought processes, because of which there could be a tendency to conform to the common standards of behaviour of the group. Needs and wants would be influenced by reference groups.

#### **EXAMPLE**

The expression 'Keeping up with the Joneses' refers to this tendency of being influenced by the reference group. The fashion industry thrives on this tendency.

2. There are indeed exceptions, when an individual may have a dominant need to assert his independence, to think for himself and not be pressurized by others and therefore does not conform. Such people may be considered deviants or bohemians.
3. The tendency of non-deviants would be to conform. They would be influenced by what they perceive to be the preferences of the members of the group, with whom his sense of closeness is strong. This is the reference group.
4. A reference group is not a fixed group. There could be more than one reference group. Such groups may consist of colleagues, neighbours, friends, fellow professionals and members of the family or be religious or cultural groups. The children of the family would have as their reference groups, class mates and those with common interests like music, theatre, sports, adventure.
5. The influence of reference groups would be subtle. It is not as if there would be explicit attempts to influence actions and decisions. Conformity would not also be a necessary condition in the group. But the sense of belonging would be such that members would naturally share the values and accept each other's approaches.



## TEST YOURSELF 1

Which of the following statements is NOT correct?

- (a) A purchase will happen only when there is a want
  - (b) A purchase will happen definitely if there is a want
  - (c) A purchase may not happen even if there is a want
  - (d) Needs and wants are related
- 

## B. THE BUYING PROCESS

### (a) The Rational Process

1. A customer buys because he wants to satisfy a need. Therefore, before buying,
  - he has to become aware of a need to be satisfied
  - he must want to satisfy that need (He has the option of not satisfying the need)
  - he will search for alternatives that will satisfy the want
  - he will gather data on the alternatives available and compare the data
  - he will evaluate the alternatives on the basis of such comparisons
2. This would be the rational process of making a buying decision. Rational processes are easy to understand and respond to. But, in reality, the factors involved are not amenable to rational analysis.

### (b) Search For Alternatives

1. Once a want has arisen, say, for a LED TV, because there is a need to keep up with the Joneses, a person has many options. If there are no options, no decisions have to be made.
2. To know these options, is the next step in the buying process. Ideally, one can shop around, ask questions, study literature, etc. With the help of 'shopping agents', one can scour in the Internet to find on-line merchants that sell what you want and report the available options and the prices.
3. However, there are limitations. Not all items can be easily specified. We can specify a book by its title, author, year of publication and binding (hard bound or paper-back) and order according to availability and price. But if one is not sure of a specific book, but is searching for a book on a specific

subject, there is a problem. Not many book sellers can help, not even some who claim to have 100,000 titles on stock and promise delivery within 4 days. Librarians are familiar with this problem.

4. All shops do not deal in all products. They may deal only in some brands. Even in respect of the brands they handle, they may not have all the models in stock. One cannot walk into all shops to find out price differentials, credit possibilities, service arrangements etc., which may be relevant in making the decision to buy. The buying decision is not only about what to buy, but also about from whom to buy. What happens often in practice, is that the buying decision is based on some information collected through friends and a few known dealers, but mostly incomplete. Studies reveal that consumers do not engage in extensive search for alternatives. **The search for alternatives is neither thorough nor complete. It is limited to a point where one says, "I think I have got enough information"**.

Those buying houses, for example, depend on advertisements or friends or agents. Those choosing hotels or couriers or films or motor garages, do not go round making elaborate enquiries. Air tickets are available at prices 30% to 40% less than the costlier ones on direct flights by airlines, who claim to offer premium service. The Railways are also offering tickets at varying prices for the same class. Tatkal is an example. The cost depends on when you buy and how full the train or aircraft is. Not many are aware of all these options.

5. Some reasons have been suggested for the low level of search. One could be, ignorance about the availability of information.. Second, could be the lack of awareness about what information may be relevant. To search, one must know what to search for. Third, could be the incapacity to handle the information, particularly if the information is technical. The fourth of course, is inertia or indifference. The fifth could be a sense of urgency to decide. 'There is not enough time to search'.

#### **EXAMPLE**

If one does not know that stop-over options are available in flights, one may not look for such information

How does one get information about a consultant? What information is to be asked for? Wherefrom can it be found?

One wonders how a cellular phone is bought with the large number of brands and models in the market, each claiming one or more special feature.

### (c) Comparison of Data

1. Having collected data about different alternatives one has to compare the data, to determine which alternative is a better one. The parameters for comparison may be many. While wanting to buy a car or DTH (TV) service, there could be a lot of technical information in the brochures. The significance of the technical data may not be known to most people. One may have data through observation, appearance and trial performances. One may have data given by knowledgeable persons on reliability, frequency and nature of complaints. Not all these data are recorded, measurable or even factually correct. Much of them are in the form of impressions. An earlier client's satisfaction is not enough evidence to establish adequacy for a new client. The needs or circumstances of two clients are not identical.
2. The data, normally, would cover a variety of aspects. Not all products would score similarly on all aspects. Each product may score high on some, not all, of these aspects. The relative weightages of each of these aspects would vary. It is not easy to determine how all these weightages would combine into one final decision. In the case of a consultant, how does one choose from varying qualifications, experiences, costs, recommendations and impressions?

#### **EXAMPLE**

While purchasing a house, the considerations may be (i) proximity to places of work, schools, market place, public transport (ii) affordability, (iii) nature of locality and the likely neighbours, (iv) distances to friends and theatres and so on. It is unlikely that any house will score equally well on all these considerations.

### (d) Evaluation

1. **At the stage of evaluation, the personal preferences and predilections play a major role.** A TV set is rarely bought on the strength of technical data. Probably, most owners may know nothing about the technical specifications of the set. Even if they read the operating manual, they may not understand the significance of the data therein. To many, the external appearances matter. To many others, the performance noticed in the showroom (sharpness of image, brightness of colours, quality of sound, etc.) matter more than anything else. Some will be influenced by the brand name. Some may be impressed by the promise of 'service' by the salesman. All of them will ask a lot of questions about the competing brands. Yet, in

the final decision, the dominating factor may be one or two, as referred to above.

2. Even while making major decisions for armaments for defence, or aircraft for airlines, or equipments for projects, or computer systems for offices, the choice may be narrowed down to 2 or 3 options, on the basis of rational comparisons of specific economic and technical data; but, after that, the final choice is made on the basis of the personal preferences of the dominant individual or dominant group in the system.

While the Indian Airlines was considering purchase of aircraft to replace the aging fleet of Boeing 737s, the Prime Minister, Mr. Rajiv Gandhi influenced the decision in favour of the Airbus 320, after he visited the Paris Air Show. He was impressed with the latest fly-by-wire technology. A person less 'modern' in outlook may not have done so. Perhaps, such a person, fearful of the latest 'untested' technology may have decided against it.

3. Evaluations have to be made on the basis of criteria. The criteria for evaluation are chosen by the buyer himself. Such choices are not always rational. They vary between individuals. Choices are made sometimes, just to impress others or to conform to pressures from the reference group.

#### **EXAMPLE**

The price may be an important criterion for some, but not for all. Lower costs of operation may find favour with some. Intrinsic worth may be criterion for some, while external appearances may also be an important criterion for some others.

4. The choice of criteria is a personal matter. The logic behind such choices have no universal acceptance. Thus the process of choice is not a rational one. It is not irrational either. It is non-rational. This only means that the rationality is unique to each person's personality, situation and needs.

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#### **TEST YOURSELF 2**

Which of the following words fits the blank in the sentence "The process of buying is \_\_\_\_\_"?

- (a) Rational
  - (b) Irrational
  - (c) Non-rational
  - (d) Random
-

## C. PERCEPTIONS

### (a) The concept

1. The concept of perceptions is very significant in understanding customer behaviour. The concept says that one does not see what there is to be seen. **What one sees is one's own personal response to what there is to be seen.**

#### EXAMPLE

When one looks at the sunset and says 'Beautiful' or admires the screen dialogue of his favourite hero, he is expressing his personal reaction to an external event. The beauty is not in the sunset, but in his mind. Another person may look at the same sunset and not get excited. Another may see the same sunset and remain quite depressed at the impending darkness. The powerful dialogues in a film may seem to someone else as 'ranting', a lot of meaningless noise.

2. Also, **one does not see what there is outside to be seen.** We do not react to all the stimuli that we receive from the outside. The stimuli, which are responded to, are selected. Thus, the same object or scene is seen differently by different persons.

#### EXAMPLE

As one goes along the road, one does not see all that there is to be seen. We see some things and miss some. One, not all, may see the latest designer dress on display. One, not everybody, may notice the celebrity passing by.

3. One responds to the selected stimuli differently. We form opinions of people from their appearances. If we find a young man walking behind a young girl, we attribute meanings thereto in our unique ways. We do so, on the basis of what we 'know' from past experience of similar situations. When one does not believe in the validity of traditional Indian teachings, then introduction of the study of 'Vedic' lessons, Vedic mathematics, Yoga, etc., is described as 'indoctrination'.
4. In other words, the stimuli from outside, as visuals or as sound, interact with our beliefs, values, needs, etc. The meaning or significance of the stimuli emerges from that interaction. It is organised within our minds, in terms of our own logic, created by ourselves from our past. **What we really see or perceive is what our mind interprets of the reality outside.** What is real to us is not exactly the reality outside, but our interpretation or perception of the same.

### EXAMPLE

We shout at a subordinate who questions our decision, while we calmly explain the decision when another subordinate asks the same question. This is because the 'question' is attributed meanings of 'challenge' or 'insubordination' in one case and 'clarification' in the other, based on memories about the respective subordinate's past behaviours. We may not feel happy with the tone of the waiter and we will say that the waiter was rude, as if that rudeness was a fact. It was not a fact. It was how we saw it, our perception.

5. **Perception is a visual phenomenon.** The background or adjacent data tend to prevent us from seeing the reality.

### EXAMPLE

We see a stick in water as bent from the level of the water. Looking out from our train at another train in the adjacent platform, we may feel that our train is moving, a perception which is often corrected only by looking at a static object outside.

6. **Perception is also a cognitive phenomenon,** influencing our observations and judgments. The perception may be an accurate understanding of the reality. It may also not be. The extent to which the reality differs from the perception, may be referred to as perceptual error

### EXAMPLE

We look at the face and behaviours of a stranger and form opinions about his personality and character. We perceive all politicians as corrupt and untrustworthy, the honest one being an exception.

## (b) Perceptual Errors

1. A number of factors cause perceptual errors. Some of them are
  - Role or status of other person. We look down, or look up, to some kinds of people
  - Occupation. Our jobs give unique points of view differently from others. Government servants, for example, may see propriety in terms of procedures and rules, while business people see procedures and rules as red tape, improper and to be avoided.
  - Physical features including dress. 'Obscenity', which gives rise to several debates and even agitations, is a perception

- Body language viz., postures, gestures, facial expressions, tone of voice, loudness, pitch, that convey messages.
- Incomplete reception of, and/or attention to, all the available symbols and data
- Stereo-typing, whereby we attribute positive or negative characteristics on the basis of generalised categorisations, like sex (lady drivers are careless), community (some are aggressive and some are mild), position (managers vs union leaders), etc.,
- Halo Effect, by which one single positive or negative factor forcefully eclipses all other characteristics. The polished behaviour of a person may generate favourable impressions that blind us to his attempts to cheat.
- Projection which is the tendency to project one's feelings, motivations or characteristics on to the other person. This may result in noticing undesirable traits in others that one fails to recognise in oneself.

## 2. It is because of differences in perception that people

- see 'facts' or 'data' differently
- are not objective about observations and judgments
- argue
- become prejudiced or biased
- have preconceived notions

### (c) Effects of Perception

1. **Perceptions influence the nature of relationships** between persons and towards organisations that such persons are deemed to be part of. We like, dislike, suspect, trust, rely, avoid, admire, respect, etc., because of our perceptions of the others.
2. Perception is a function not merely of the persons concerned, but also of situations or circumstances in which the events occurred. While making decisions, our understanding of the situation, the costs and rewards, etc., are all influenced by perceptions. When one interprets a situation, the input into that process is one's belief system and critical assumptions along with past information and data and the output includes, cause-effect understandings (not the same as real causal maps) and predictive judgments. Even the environment, is not a given reality but created through our processes of interpretation and attention. **The human actor does not react to an environment. He enacts it.**

3. Perception is not an explicit process. The reception, selection and evaluation of the many sensory stimuli may occur below the threshold of consciousness or awareness. The perceptual process, being internal to oneself, cannot be directly observed, but may be inferred from observable behaviour.
4. Conflicts at interpersonal or inter-group levels, are created, and resolved, because of, and through, perceptual influences. One person's truth may be a lie to another. What is rational and reasonable to one, may be 'madness' to another. What one sees as "facts" may be seen by others as either "conjecture" or even "figment of a fertile imagination"
5. Even the factor of affordability, which should appear as an economic calculation, is a matter of perception. The size of one's future commitments may turn out to be different when one thinks about it in a more calculated, objective manner. The perception of how much one can afford, may seem to be more difficult than it really is or as more manageable than it really is, depending on how strong one's desire to buy and possess, is.
6. **One of the tasks of effective salesmen is to tackle the perceptions of the prospects.** While handling objections from prospects, insurance agents are effectively trying to influence perceptions.

#### **EXAMPLE**

A premium of Rs 350 per year would look to be less onerous when quoted as Rs. 1 per day.

#### **D. STROKES**

1. Another useful concept to understand consumer behaviour is that of Strokes, taken from the constructs of Transactional Analysis. Physical stroking is done by passing one's hand gently over the back of the other. Children calm down when stroked by the mother. Pets like to be stroked. Even adults in discomfort, distress or agony, feel comforted, when someone establishes physical contact, through touch of hands, pat on the back, or embrace.
2. Physical stroking provides comfort. It is a message of caring, of recognition, of concern. Everyone hungers for recognition and caring. A word of comfort or of praise, an enquiry of welfare, a nod of recognition, an assignment of importance, a smile, a wink, being called by name (instead of by a token



number), all constitute strokes. **Though not physical, these strokes provide great satisfaction.**

3. **People want strokes.** They want positive strokes which may be in the form of compliment, appreciation, praise - references to one's worth. Negative strokes like scolding, rebuke, criticism, denial also have messages of recognition, but refer to one's lack of worth.
4. **Negative strokes are preferred to absence of strokes.** Those who are ignored, not receiving any stroke, may sense being neglected and resort to behaviours that invite strokes, positive, if possible, negative otherwise.

#### **EXAMPLE**

'Cantankerous' persons are those who got no strokes and are inviting negative strokes.

The way the courier asks you to acknowledge receipt could be a negative or positive stroke, depending on the extent of politeness or curtness in the manner of asking. If one gets annoyed while waiting for the courier to finish searching for the relevant papers and telling you where and how to sign, it is because of a perception that he does not care for your time and that is a negative stroke.

A cashier throwing the money across the counter, the salesman frowning while pulling out clothes from the shelf, the storekeeper cutting down your indent for supplies, the accounts clerk who bluntly refuses to understand your urgency for the payment, all provide negative strokes.

5. Insurance personnel are in positions where they can provide positive or negative strokes to people visiting their offices or making enquiries on the telephone. The extent of concern shown by the contents, manner and tone of the conversation, is as much contributory to the nature of the stroke as the manner of handling the problem.

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### **TEST YOURSELF 3**

Which of the following does NOT explain correctly what a 'Stroke' is?

- (a) It is an act of recognition
  - (b) It shows concern
  - (c) It shows that one's work is noticed.
  - (d) It is a disease
-

## **E. DISSONANCE**

1. Dissonance occurs when the purchaser, after the purchase, starts getting doubts about the wisdom of the decision to buy. This may happen because of
  - subsequent information that the alternatives (not chosen) had better values
  - observation of certain disquieting features that were not known to him earlier
2. Dissonance is more likely to happen when
  - the item bought is expensive
  - the decision to buy did not consider all the possible information completely
  - the decision to buy was taken in a hurry
  - the purchase commits one for a long term and may not be easy to reverse
  - the benefits of the purchase are not easily visible
3. Insurance purchases are likely to create considerable dissonance, because (i) the benefits therefrom are not tangible, (ii) the benefits may not be seen for a long time, (iii) the commitment (in life insurance particularly) is for a long term, (iv) there are alternatives which may appear to be more attractive in terms of immediate pleasures and (v) there are detractors who would be only too willing to discredit the advantages of insurance in general or of the plan purchased, in particular.

## **F SOCIO-ECONOMIC GROUPS**

1. Studies have shown that the market can be divided into 6 groups based on the socio-economic status of the head of the family. The grouping is considered helpful because of the similarity in needs and behaviours within each group. The groups are
  - A: Upper Middle Class, consisting of the higher level managers and professionals
  - B: Middle Class, consisting of intermediate range managers and professionals
  - C1: Lower Middle Class, consisting of supervisors, clerical staff and junior managers

- C2: Skilled Working Class, consisting of skilled workers
- D: Working Class, consisting of semi or unskilled workers
- E: Lower level consisting of pensioners and casual labourers

This grouping is adopted by many research bodies. The demand for products like leisure time, labour saving appliances would come from only some of these groups. The shopping hours and venues for shopping would also vary between classes.

2. Another grouping is in terms of the Family Life Cycle. Wells and Gubar in their article in the Journal of Marketing Research (Nov. 1966) suggested the following grouping.
  - Bachelor
  - Newly Married
  - Full Nest I - with children less than 6 years
  - Full Nest II - with children over 6 years old
  - Full Nest III - older couple with dependent children
  - Empty Nest I - older married couple, but no dependent children - head working
  - Empty Nest II - same as above but head retired
  - Solitary Survivor I - Old, single and working
  - Solitary Survivor II - Old, single and not working
3. Yet another grouping followed by Indian researchers is

Low income group	- Annual income not more than Rs.20000
Low middle income group	- Annual income between Rs.20001 and Rs.40000
Middle income group	- Annual income between Rs.40001 and Rs.62000
Upper middle income group	- Annual income between Rs.62001 and Rs.86000
Higher income group	- Annual income higher than Rs.86000

## **G. THE INSURANCE CUSTOMER**

### **(a) Claimants**

1. The customer in insurance is not only the person who makes the decision to buy, but also the person who makes the claim for the insurance money, after the insured event has happened. The former is called the policyholder and the latter is called the claimant. The claimant often, may not be the policyholder.

**EXAMPLE**

In life insurance, the claimant, in the case of death claims, will be the nominee or heirs. Even in the case of maturity claims, the claimant can be an assignee, who is not the policyholder

In the case of non-life insurance also, policies involving mortgages, international trade, guarantees, etc, the claimant can be different from the policyholder.

2. The policyholder is not particularly happy to buy, because the context is one of loss, hardship, tragedy, etc, which no one likes to visualize. He needs a lot of persuasion to recognize that possibility and not to delay the insurance arrangement. Resistance to the purchase is natural. He is being made a promise by a representative of the insurer. He is not sure that the promise would be redeemed when the time comes for it.
3. It is possible that the person representing the insurer at the time of the claim may not be the same as the one who made the promises at the time of the purchase and may have different ideas as to what the cover really meant. This possibility can lead to serious consequences, particularly if the person who persuaded the purchase is not available to clarify. The insurer would then be seen as cheating or avoiding responsibility.
4. The claimant would be seeking redemption of the promise made. The claimant may be the policyholder in the case of general insurance and may be aware of the nature of the promises made to him. But the claimant may not accept that the promises were valid.

**EXAMPLE**

Many claimants may not understand the principle of indemnity on which the business of insurance operates. They may not appreciate the reasons for the costs of repairs or replacement not being paid in full. When deductions are made for depreciation, or because of lower sum assured, or for breach of warranties, the claimant may see these as ploys to avoid the claim. These are outcomes of the promises being understood differently by the insured.

5. In the case of life insurance, the claimant may not be aware at all of the nature of the promise, if the policyholder had died. The claimant (widow or children) in this case, is not only anxious, but is in a disturbed frame of mind, trying to come to terms with the new situation and an uncertain future.
6. The insurer will ask for information and documents to confirm that the event has actually occurred and that the claim is genuine. This process of

verification may create delays, leading to further doubts and anxiety about the intention of the insurer. The delays would be partly because these have to be obtained from third parties, like police, garages, hospitals, doctors, municipal offices, etc., who have other priorities, and partly because the documents may not meet the exact needs of the insurer.

7. Thus, the circumstances relating to the business of insurance are such as to cause disturbances, more than satisfactions, to their customers, except perhaps, when the claim is paid. Even at that time, there could be a problem, if the claim is less than what the claimant thinks was his loss.
8. In the case of general insurance and in maturity claims in the case of life insurance, the dissatisfactions could also arise if the amount of claim is found to be less than the total premium paid under the policy. That would be construed as a loss, as few appreciate the concept of risk having been covered and there being a cost to it. The erosion due to inflation could provide another perception of loss.

#### **(b) Individuals and Collectives**

1. In terms of volumes, most of the business in general insurance comes from corporate bodies, rather than individuals. In the case of life insurance, there is substantial business from corporate bodies in the nature of group insurance business.
2. Corporate bodies as customers, are very different from individuals. The person making the buying decision may not be involved in the buying process. That would have been delegated to someone else, who has to report back. Neither of them would be the owner of the corporate body or the likely beneficiaries from the insurance arrangements. Therefore, emotions and sentiments would have little to do with the buying decision. The considerations would be largely rational and economic.
3. More than one person may be involved in the decision process. All of them would have to be of one mind. Otherwise, there would be as much negotiation between these persons as between the insurance company and the customer, before final decisions are made.

#### **EXAMPLE**

Decisions will be not only on what to buy (the specifications of the product), but also on whether there is a need to buy and when to buy. The perception of the decision makers about the risks could also differ widely, due to differences in technical knowledge, market information on alternatives or past

experiences. Also, precedents would have a strong influence on how the present decisions are made. Policy decisions made at other points of the organisation would also have an influence on the final decisions.

A textile company, located near a river that flooded occasionally, discontinued its insurance against flooding, on the advice of the auditor, who noticed that there had been no floods during the last ten years. That year there were floods and heavy damages to stocks and machinery.

## **H. CUSTOMER CENTRICITY**

### **(a) Pipes to Platforms**

1. This is the new buzzword in marketing. As enterprises become more aware of the need to satisfy customers, they tend to talk about data foundation, the analytics road map and digital platforms that help to scale up efforts to satisfy customers. The model of doing business is changing from the traditional pipes to platforms. In the traditional model, a producer makes goods and sends it through a 'pipe' to the consumer, who buys it for value. In the platform model, an outsider creates a technology platform, on which producers place their goods and the consumer picks whatever gives him value, whenever he chooses to make the choice.

The distinction between the pipe and platform models will be clear when we compare the TV channels with the YouTube. TV channels prepare programmes of their choice and broadcast them at times chosen by them leaving the customer only the choice of seeing it or not to seeing it at that time. The YouTube has several programmes ready and available for the customer to choose from, to be viewed at times chosen by the customer.

2. It is no longer about marketing to consumers, but to third party creators. Customers should have enough incentives to stay on the platforms and therefore, consumers and third party partners should reinforce themselves. The platform should improve the quality and quantity of such interaction. Business is also moving out of an asset-focused mindset.

### **EXAMPLE**

Uber is offering taxi services in 150 cities around the world without owning a single car, and with only 20 odd employees in its headquarters in San Francisco. There are websites which offer hotel rooms in more than 30000 cities around the world in more than 800000 hotels, without owning or managing a single hotel anywhere

3. Service organisations realise that customers are looking for experiences. Umpqua Bank, operating from Oregon in USA, has set up branches that are called 'stores' with a greater emphasis on retail operations and atmosphere different from traditional bank branches. They are designed like anyone's living rooms, with no tellers sitting behind desks. There is only one store manager, the other employees being called Universal Associates, every one of whom would attend to any customer, whatever be the needs of the customer. No one will say, 'That is not my department'. It has turned out to be the fastest growing bank in the history of the banking industry.
4. Saregama, a company with a history going back to 1901, is transforming and expanding the music company into a digital business. This became necessary as the customer was changing fast. Saregama has created a library of 120,000 songs globally. Through various apps created in September 2015, January 2016 and March 2016, it offers customers wide choices of classical music, devotional music and so on,. Raymond's 'Ready to measure' offering provides a virtual trial option where the customer can actually put his body type, fit, colour scheme and see exactly how the final product would look on him.
5. **Customer centricity will require marketeers of the future to make use of the tremendous amount of data that is being generated about individual customers.** As per estimates, by the year 2020, 1.7 MB of new information data would be created every second for every human being on the planet. Marketers will need tools that help them to continually learn from all interactions to deliver a personalised experience
7. Internet merchants are swamped with mind boggling flow of data. For example, Paytm has about 30 lakh visitors ever day with about 3 million page views daily. **Algorithms help to crunch data on customer preferences and increase sales.** If one had visited Goa recently and had posted a photo in Facebook, you might be offered 'beach themed' i-Phone covers. Algorithms can greet visitors with recommendations for shopping, based on the preferences shown by them in earlier purchases. At any given time there are 3 to 4 million visitors on line. They spend an average of seven minutes viewing 8 to 10 pages. By the end of the day, about 15 million records are generated. **The minutes spent on e-shopping leave a trail that companies want to dive into, to find out what he was looking for. Algorithms help to do that**

## (b) Generation X OR Y

1. Marketeers in the USA have distinguished between those born in the decade 1966 to 1976 (calling them Generation X) and those born between 1977 and 1999 (calling them Generation Y). Those born after 1999 are not grown up enough to show distinct characteristics in buying behaviour. The years are not important by themselves for the classification, but the classification by age groups, is useful for the purposes discussed hereunder.
  2. According to the studies, Generation X, born in disturbed social and political conditions are characterised by scepticism. They want to know 'What is in it for me' before reacting. They show a higher level of caution and pragmatism than their parents. Generation Y are incredibly sophisticated, technically savvy, immune to traditional marketing and sales pitches, 'having been exposed to them and seen it all'. They are racially and ethnically diverse, much more segmented as an audience and flexible in fashions and styles. They are often raised in dual income families and more involved in family purchases. They are mobile, socially and digitally connected and have a heightened sense of self control.
  3. Though the classification into X and Y generations may not be applicable in every detail in Indian conditions, it is obvious that the **younger generation (Y) in India is technically very savvy having been used to computers and smart phones and tablets even in school. They like informality and learn quickly. They embrace diversity easily. It is likely that they will not adjust to and accept traditional practices. They may be more responsive to rational, data-centric approaches and may demand more professionalism and knowledge from insurers and agents. Many of this generation are responsible for the large numbers of start-ups that are being considered for funding by Government as well as by private venture capitalists.**
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## SUMMARY

- Behaviour is complex and driven by too many factors, known and unknown
- Needs are for tangibles. Wants are for intangibles.
- One buys what one wants in order that what one needs may be satisfied
- One is not always aware of what one needs.
- Needs can be met in different ways and each way generates a different want
- Search for alternative options to meet a want, is neither thorough nor complete
- One does not see what there is to be seen.



- What one really sees is one's interpretation of what there is to be seen
- Perception is a visual phenomenon as well as a cognitive phenomenon
- One of the tasks of effective salesmen is to tackle the perceptions of the prospects
- People want positive strokes. They prefer negative strokes to absence of strokes
- Dissonance happens when the purchaser gets doubts about the wisdom of the purchase
- Insurance purchases are likely to create considerable dissonance
- The market can be divided on the basis of socio-economic groups or family life cycles. Models of doing business are changing from the traditional pipe to platforms. Algorithms help companies to find out what e-commerce customers are looking for

### KEY TERMS

- Algorithm
- Courtesy
- Credibility
- Customer Centricity
- Dissonance
- Ease of Access
- Generation X or Y
- Needs and Wants
- Family Life Cycle
- Perception
- Perceptual Errors
- Recognition
- Reference Groups
- Reliability
- Responsiveness
- Sensitivity
- Socio-Economic Groups
- Strokes

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### Answers to Test Yourself Questions

Question No.1

The correct answer is (b)

Question No. 2

The correct answer is (c)

Question No. 3

The correct answer is (d)

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### **SELF EXAMINATION QUESTIONS**

Question 1

Which of the following statements is correct?

- (a) The need for insurance exists almost always
- (b) People are aware of the need for insurance
- (c) It is easy to sell insurance as everybody wants it
- (d) Most people are happy to buy insurance.

Question 2

Dissonance is more likely to happen in the case of insurance purchases because

- (a) It is usually not wanted
- (b) There is no visible immediate benefit
- (c) There is anxiety about the promises made
- (d) Of all the above three reasons

Question 3

Who among the following is NOT the customer of an insurance company?

- (a) The policyholder.
  - (b) The agent.
  - (c) The claimant.
  - (d) The person who has come to pay the premium.
- 

### **Answers to Self-Examinations Questions**

Question 1

The answer is (a)

Question 2

The correct answer is (d)

Question 3

The correct answer is (b)

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# CHAPTER 4

## INTRODUCTION TO SERVICES

### CHAPTER INTRODUCTION

This chapter deals with the special characteristics of the service business, because of which marketing principles, as developed in the context of goods, need modification, when applied to services.

### LEARNING OUTCOMES

- A. Overview of Services
- B. Intangibility
- C. Inseparability
- D. Heterogeneity
- E. Perishability
- F. Other Features

### A. OVERVIEW OF SERVICES

#### (a) The Service Sector

1. Economic activities are generally divided into five sectors as under.
  - (i) The **Primary** sector, which includes creation of outputs directly from natural assets like land and water. Agriculture, forestry, mining and fishing are included in this sector.
  - (ii) The **Secondary** sector, which includes conversion of outputs from the primary sector into something else. Construction, manufacturing, engineering, power generation and factories are included in this sector.
  - (iii) The **Tertiary** sector, which includes ancillary and support services like restaurants, laundry, hospitals, hotels, entertainment, maintenance and so on.
  - (iv) The **Quaternary** sector, which includes activities that facilitate the exchange of products in the other three sectors. Transportation, commerce, advertisement, packaging and administration belong to this group.

- (v) The **Quinary** sector, which includes activities that change and improve the people. Hospital, education and beauty are examples of this sector.
- 2. Economic activities in the primary and secondary sectors lead to the production of '**Goods**' that are sold in the market. The outputs in the other three sectors are different. They are referred to as '**Services**'.
- 3. Services are very different from Goods. They are not tangible like goods. A doctor does not provide any tangible product. He provides advice on the basis of his knowledge. The doctor may or may not give medicines. He does not sell his knowledge. The patient cannot know the extent of the doctor's knowledge. The patient can only get the benefit of the doctor's knowledge.
- 4. Intangibility is one of the main characteristics of all services. There are other differences also. For these reasons, principles of marketing cannot be applied to services in the same manner as applicable to goods.

#### **(b) Growth**

- 1. In India, as in all other countries, the service sector is growing faster than the other economic sectors. The service sector contributes more than 55% of the GDP, while the secondary sector contributes about 27% and the primary sector 18%. It is expected to grow at about 10% or more annually.
- 2. Service businesses offer more jobs per unit investment, than industry or agriculture. A key element in the delivery of services is the mobile telephone. India is selling 25 million smart phones every month and the expectation is that more than 700 smart phones would be in operation by the year 2020.
- 3. Every year new service businesses come into being. Many of the big businesses in the service sector in 2016, did not exist 20 years earlier. The telecom industry and on-line commerce are examples. New technology is driving many of them.
- 4. The service business is global in its scope and dimensions. National barriers have become irrelevant when it comes to social media, communication and information. They facilitate understanding among people and create troubles as well. They affect expectations and also transmit messages of hatred. Societies are finding it difficult to manage the younger generations which get exposed to the messages from everywhere.

### (c) Range and Variety

1. The business of services range from

- Multi-crore hotel chains to the wayside *dhabbas* in the hospitality segment.
- Airlines and shipping companies with huge infrastructures and global operations to the owners of fleets of cars and buses to the owner-driven auto-rickshaw in the transport segment.
- Departmental store spread over several floors to the on-line store occupying no space to the *kirana* store next door to the vegetable vendor in the footpath in the retail segment.
- Multi-facility business centre to the single machine Xerox facility in the secretarial segment.
- Multi-speciality hospitals to the family physician to the pathology laboratory and the chemist in the health care segment

All these vary considerably in the number and skills of persons employed, extent of capital investment, levels of technology used and geographical spread of operations. Despite such differences, all of them have certain common characteristics that distinguish services from the business of producing and marketing goods.

2. Even those who produce and sell goods find that, very often, the competitive advantage is increased (or reduced) by the level of service offered along with the product. This is so because technical features of competitive products tend to become similar. In one case, a generator was purchased from a foreign manufacturer because of an undertaking to monitor and maintain the generator online from the factory in Europe.

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### TEST YOURSELF 1

Which of the following will be in the Secondary sector?

- (a) Textile Mill
  - (b) Money Lender
  - (c) Car dealer
  - (d) Architect
-

## **B. INTANGIBILITY**

1. Services are distinguished from goods mainly on five factors

- Intangibility
- Inseparability
- Heterogeneity
- Perishability and
- Ownership

### **(a) Understanding Intangibility**

1. Goods are tangible. They have physical dimensions and attributes and can be seen, felt, smelt, touched or tasted. Services have none of these dimensions and attributes and are therefore, intangible.

#### **EXAMPLE**

The education, which an institution provides will be seen in the development of the knowledge, intellect and character of the alumni. This development may be perceived in the behaviour of the student, but cannot be measured. The marks obtained in a test do not provide a proper measure of the development.

2. Tangibles may be used while delivering services. The tangibles do not determine the nature and the quality of the service provided. They are only adjuncts for the activity's main purpose, which is the service.

#### **EXAMPLE**

The building in which an educational institution is located, the facilities within, the library, its academic affiliations and the qualifications of the faculty do not provide education. A teacher with lesser qualification may provide better education. Municipal schools in villages sometimes have very dedicated teachers providing better education than some of the expensive public schools which, because of excessive pocket moneys, may have students indulging in activities other than learning.

The quality of the tools used by the plumber does not determine the quality of the job done by him. His skill will determine the quality. The skill cannot be seen or measured while he is at the job. It can be seen and measured only by the outcome after he finishes. The skill is intangible, unlike the tools which are tangible.

The doctors providing medical treatment in Government hospitals, are often the same as - may be even teachers of - the doctors in private hospitals. The shabbiness in Government hospitals is not indicative of the sincerity or adequacy of the medical attention provided there. The latter is intangible.

3. A service is rendered by a person. The service is received by another person. The location in which the service is performed or the tools which are used for that purpose are only as good as they are used by the person rendering the service. The service is only as good as the experience of the person receiving the service.

**EXAMPLE**

Most of the hotels are constructed and furnished with a lot of care. These designs and interior fittings do not make a guest feel good about his stay there. These do not necessarily ensure that the lights work when put on, or that hot water is available when needed, or that lizards do not jump out of the cupboard. When one wakes up thirsty at midnight and finds the water jug empty, the experience is not mitigated by the fact that the jug is made of pure crystal.

4. The service that a cinema theatre offers is in terms of providing pleasure, through the screening of films. The pleasure is an experience or sensation. It is intangible. It is created by the quality of the film shown for which the theatre owner is not responsible. It is also created by the arrangements for waiting while the doors are yet to open, the ease of finding one's seat after the doors open, the comfort of air-conditioning inside, the stink in the toilet and so on for which the theatre owner is responsible. These are the services that the theatre owner provides. All of them are intangible.

**EXAMPLE**

A retail shop sells goods made by someone else. The service the retailer does is to collect those goods from different manufacturers at one place so that the customer can make choices. The difference between one retailer and another stocking the same goods, will be in the nature of display, the willingness of the salesmen to answer queries about the goods on display, the ambience of the store and so on. All these are intangibles and distinguish one retail store from another.

5. One might ask whether the service provided by a car rental service is not tangible. The answer will become clear if one compares the purchase of a car and the hiring of a car. In the first case, the purchase is made after comparisons of models on factors like roominess, safety features, performance, running costs, maintenance costs, shape, colour, etc. In the second case, the rental firm is selected on the basis of an assumption that the car supplied will be comfortable and not break down, that the chauffeur will be competent and polite, and so on. The tangible part is not what the buyer is buying in the second case.

## EXAMPLE

After deciding to dine out, the restaurant is chosen not only on the basis of food, but on the basis of whether the experience is likely to be satisfying or not, consistent with the main purpose, viz., celebration, entertaining guests or just having a good time. The relevant factors are intangible.

### (b) Intangibility Continuum

- 1 The characteristic of intangibility lies on a continuum, with pure goods (dress material, groceries, steel, cement, etc) at one end and pure service (doctor, architect, consultant, etc) at the other end, with most products lying between the two extremes. When an almirah is being bought, the considerations are essentially its strength, space, size, security, etc., all tangible, measurable factors. When a refrigerator is being bought, the considerations are essentially functional, its ability to cool and to preserve. The considerations will also be the arrangements for repair, in case anything goes wrong, an intangible factor of service. When a smart phone is being bought, subject to the price being affordable, the considerations are the nature of services (variety and speed) it can offer.
- 2 Services can also be distinguished between ‘**pure intangibles**’ (education, consultancy, information, museum, security services, placement agencies), services which **add value to tangible products** (repair, laundry, decor, advertising), and services that **facilitate availability of tangible products** (retailing, credit cards, financing, warehousing, mail order, transport). Life insurance is a ‘pure intangible’, while general insurance is a facilitating service.

### (c) Implications of Intangibility

#### (i) Sampling Not Possible

1. It is difficult to provide a sample of a service that is on offer. One’s experience of a service is a totality, the effect of all the elements present at the time. It is not possible to duplicate the totality, as a sample. The totality would require the entire infrastructure to be in place. The experience of watching a film in a theatre cannot be known without sitting inside the theatre, after it is fully ready. The benefits of insurance can only be understood in the context of the happening of the event insured against. It is not possible to create a sample of that context. One might refer to similar events elsewhere to highlight what the context could be like, but two situations are never identical.



### **EXAMPLE**

A courier cannot demonstrate his service, until all his systems and linkages for collection and delivery at all connected places are operational. A retail shop cannot open with only 10 shelves as a sample of what it might be, when it has all its scheduled 200 shelves full. The quality of a film cannot be known from watching the trailer. The pleasure of being in a holiday resort cannot be experienced by looking at its photograph.

### **(ii) No Copyright**

1. Intangibles cannot be specified or described accurately. Without such specifications, there cannot be a patent or copyright. Therefore, it is difficult to prevent others from copying and matching one's service. Competitors could easily imitate and adapt one's innovative concepts. This is an important implication of the characteristic of Intangibility. Services can be replicated or copied by competitors.
  2. In the case of insurance, the benefits offered cannot remain the exclusive privilege of any one insurer. All other insurers can offer the same benefits. In any case, the benefits promised are not the service of insurance. The service is manifest only at the time a demand is made on the insurer to make good on the promise. That is the claim.
  3. The 'service', that will distinguish one insurer from another, lies in the nature of advice given to prospects, the speed with which enquiries and claims are handled, the courtesy of the personnel concerned, and so on. These are intangibles and make the customer 'feel good'. While there will be no copyright on these intangibles, they are not easy to replicate.
- 

### **TEST YOURSELF 2**

Which of the following is a 'facilitating' service?

- (a) Motor insurance
  - (b) Fire insurance
  - (c) Transit insurance
  - (d) Loss of Profit insurance
- 

### **C. INSEPARABILITY**

1. A physical item like soap or oil, is produced in a factory, bought in a retail shop and consumed in a customer's premises, at his convenience. There is a

gap in time and space between production, purchase and consumption. In the case of services, there is no such gap between the production and consumption.

2. A service is rendered by a person to another person. Both of them have to be present at the same time and place for a service to happen. One produces the service and the other receives the service at the same time. The production and consumption happen together. They cannot be separated. **There is no gap either in time or space between the production and the consumption of the service.**

#### **EXAMPLE**

In a restaurant, one of the items that provides satisfaction to a customer, is the courtesy of the waiter. Courtesy is in the behaviour of the waiter with the customer, not behaviour elsewhere. Courtesy is as the customer perceives it at the time of behaviour, not before or after. It is produced by the waiter and consumed by the customer simultaneously. The service product, called 'Courtesy' exists only during the interaction between the waiter and the customer

3. The satisfactions while attending a musical show or a beauty contest, depend on the closeness with which one is able to witness the various details of the happenings and the clarity with which one is able to hear what is going on, plus the comfort (atmospheric and physical). All these are the outcomes, not only of the arrangements made by the organisers, but also of the behaviour of the rest of the audience, the position of one's seat, the movements of the persons on stage and off stage, and so on. None of these would be the same if the show were to be repeated on another day or even after another hour. The experience was as it occurred (produced) and as it was experienced (consumed). Both happened together and could not have been separated.
4. Education takes place in the interaction of the teacher and the student. Both teaching (production) and learning (consumption) happen together. If the student was not attentive, there would have been no teaching. The service product called 'Education' exists only when the consumption (learning) of what is produced (teaching) takes place.

## (a) Implications of Inseparability

### (i) Cannot be stored

1. The first implications of the concept of Inseparability is that a **service cannot be manufactured somewhere and transported to be delivered to the consumer at another place and hour**. A service organisation's manufacturing facility is effectively operated in the presence of the consumer and together with him. When a fast food service like the McDonalds opens an outlet in Mumbai, the service elements consisting of speed of delivery, courtesy, freshness, cleanliness etc., cannot be created or controlled at any place other than in the Mumbai premises. These cannot be 'manufactured' elsewhere to be 'delivered' in Mumbai. These exist only when the consumer notices or experiences them. None of these factors have any significance, if there are no customers in the premises.
2. Consider a student learning from a text book. It is education. The text book is prepared somewhere and reaches the student after some time. The knowledge that the student is acquiring is stored in the text book. Does this contradict the statement that services cannot be stored and transported? What is in the book is information, similar to what is in a newspaper. What the student learns by reading the book may not be exactly what the writer of the text book intended to convey - to teach. The teacher - in this case the writer - is not even aware of who the student is and what he had understood. What is happening here is not service. One learns a lot on one's own, by observation or reading or otherwise. Such leaning may be cognitive (knowledge) or behavioural moulding attitudes. All of them constitute education. But they are not because of a service rendered by a teacher.

### (ii) Produced after purchase

1. An important outcome of the characteristic of Inseparability is that the service product cannot be experienced before purchase. **The customer has to purchase the service, before it is even produced**. When one engages a consultant, the purchase is made. The product is made only thereafter. The client organisation cannot later on claim that the consultant's work was not satisfactory and refuse to pay. The doctor's fee has to be paid, whatever be the final outcome of the treatment. The school fee has to be paid, even if the student fails. One cannot walk out of a restaurant without paying, on the ground that the food or the floorshow was not satisfactory. The architect has to be appointed before

he begins to sketch. The ticket has to/ be paid for, before one can board an aircraft or a train.

### (iii) Difficult to check quality

1. Goods, after manufacture, are inspected for quality before being sent out into the market for sale to consumers. This is not possible in the case of services, because consumption takes place as and when it is being produced.

## D. HETEROGENEITY

1. Because of the factor of Inseparability, it is not possible to produce a service in advance, according to specified standards. Both production and consumption being by human beings, the product of service as experienced, may not be of consistent quality. What is rendered by the service provider may be the same. But the service is as received by the consumer and that can be different.

### EXAMPLE

What is 'excellent' to one person may not be so to another. What is 'excellent' to one person at one time, may not be so to the same person at another time. Moods affect the perceptions. In a cinema, while one is sitting on the edge of his chair thoroughly engrossed, another may be snoring away, thoroughly bored.

In a class of many students, a teaching session of one hour may cause different levels of learning among the students. What the teacher did in that one hour would be the same to all students, but each student would have received it differently. The product (of teaching) was different to each student, depending on the nature of his consumption (learning)..

2. The implication of this characteristic of Homogeneity is that **standardisation of services is difficult**. The quality of teaching is as varied as the students who attend the class. The same teacher, on another day, will not be explaining the same way. Even if the words and the examples are the same, the enthusiasm in the voice and the emphasis may differ.
3. Each customer entering a outlet for providing service requires a different kind of service. An optician who is technically good at determining the proper refractive index of corrective glasses, has to enhance his 'service' with a big range of frames and tints of glasses, which the consumer can try out on his face. A choice cannot be made from a catalogue. The choice depends on the 'fit' of the frame to the face of the customer, as seen by

the customer himself. The consumer may need help in making choices of frame and glass. The service must also include speed of delivery, depending on the urgency of the consumer.

**EXAMPLE**

An optician sells glasses to correct vision. But what is bought by the customer is not merely better vision, but also fashion and appearance (intangibles). That is why he chooses between different kinds and colours of glasses as well as between different kinds and types of spectacle frames.

4. A good service organisation may provide elaborate training to its staff on the ways in which they should try to serve. But all the variations in the requirements of the consumers cannot be anticipated and taken care of. What the tourist wants to know and what the guide is explaining, may be different. Different guides of the agency are effectively rendering different kinds of service. The guide's services would be effectively different to different members of the tourist group, depending on each tourist's interests and requirements.

**EXAMPLE**

The hotel receptionist, the telephone operator, the hospital nurse, the tourist guide, the room service attendant, the shop salesman, the theatre usher, the cabin steward, the bank clerk, can be given practical instruction on strict routines of work related behaviour, so that what they do at work, would reflect the service standards of the organisation they represent. Yet, the warmth of the smile cannot be guaranteed.

5. Experienced service organisations may have clear standards of operating procedures. Yet they may not guarantee the same standards while services are rendered. A garage may have a clear routine of repair and maintenance. Yet it is the mechanic who has to listen to the sounds of the machine and decide how many turns the screw needs for fine tuning. Whether the decision is perfect or not cannot be guaranteed, however experienced and competent the mechanic may be. Even if there be an electronic machine to help him in say, wheel balancing or engine tuning, it is he who has to adjust the machine. If he is not in a proper frame of mind, his concentration and performance will be affected. The service of the garage varies according to the mechanic at the job and his frame of mind at that time. Even if the job is technically perfect, the satisfaction to the customer depends on his sensitivity to certain details and sounds.
6. **The experience of a service is influenced by others present at the same time.** This is so in conducted tours, restaurants, theatres and aircraft, The

behaviour of the others may give one either pleasure or irritation. It also brushes off on the evaluation of the service received. The irritating experience may be attributed to the failure of the service providers. Whatever may be done by the tour agency or the restaurant manager, the effect created by the others, and the consequent differences in experience, cannot be avoided.

7. One of the major issues every management of 'service' faces, is the effectiveness of the prescribed routines in ensuring consistent quality of service. Elimination of the human element in the process, even partially, may improve the consistency. Electronic instrumentations, automatic teller systems, stores that display prices and allow self-service, are attempts to standardise procedures and achieve consistency in the quality of service delivered. However much one might try to remove the human being from the chain of service, there will be a human being somewhere in the chain which does not get eliminated. That person will be unique and may not deliver the standardised service.

#### **EXAMPLE**

One can buy a ticket for a cinema sitting at home. One can get a boarding pass for a flight sitting at home. But one cannot avoid a noisy couple sitting next to you in the theatre or the flight being delayed because the pilot is held up in traffic. One cannot also avoid a incompetent employee taking extra time while checking in your baggage.

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### **TEST YOURSELF 3**

In a restaurant, which of the following is a service element?

- (a) Number of items on the menu card.
- (b) Number of tables for customers.
- (c) Behaviour of the employees
- (d) Quality of the food

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### **E. PERISHABILITY**

1. **A service perishes if it is not used.** Goods which are manufactured also perish if they are not used. The difference is that goods can remain stored for some time till they are consumed. In the case of services, they cannot be stored.

### EXAMPLE

A manufacturer of fire crackers makes them well in advance of the Diwali season, stocks it at various places, and sells the whole stock during the season when they are in demand. The fire crackers do not perish during storage. They retain their full value. Vegetables, though perishable over time, can also be stocked for later consumption, through processes like refrigeration and canning.

2. The meaning of the word 'perish' has to be properly understood, when it is used in the context of services. If vegetables or medicines perish (become unusable) after some time, they have to be thrown away. In the case of services there is nothing to be thrown away as services are intangible. **What perishes is the expense incurred in arranging to deliver that service.** . If the supply is not used, it perishes.

### EXAMPLE

If the available seats in a cinema are not used during a show, the vacant seats cannot be added on to the next show. The loss of revenue cannot be made up. So also, the seats in an aircraft, the rooms in a hotel, the space in a ship, the facilities in a diagnostic centre, the time of the beauty parlour, all perish, if not used when available. What is unsold cannot be carried forward as stocks, to be sold on a later day.

3. An advertisement does not exist till it is seen and read. The advertisement is as good or as bad as the impact it has on the reader. That impact depends also on who the reader is and what his frame of mind is at that time. If the advertisement is not seen, because its size is small, or it is dwarfed by a bigger splash, or it is in a corner of a page not normally read by many, for all practical purposes, there is no advertisement. The money and effort spent in preparing that service (of communication) has gone waste. It has perished.

### (a) Implications

1. The ability to carry stocks, gives the manufacturer of goods, some level of stability in operations, despite fluctuations in demand. If the supply is short at any time, he can arrange deferred deliveries. The consumer can buy and store, till he is ready to consume. The stability in operation helps to improve recovery of costs. Such stability is not possible in the case of services, because of the characteristic of perishability. Services are affected by fluctuations in demand much more severely than goods

### EXAMPLE

If an airline has only 20% occupancy, the costs of operation do not come down to 20%. If the courier does not get the business which he is equipped to handle, his costs of establishment will remain the same. If the funds in a Bank are not used on a day, that much interest is a permanent loss to the Bank. If the telephone is not used, that much income is lost to the telephone company. None of these can become additional business the next day. The loss is irrecoverable. It perishes.

2. A museum's capacity to handle visitors is limited by the strength of the staff and the space available for visitors to move and view the exhibits. If the number of visitors is less than this capacity on any day, it cannot handle that much more the next day. If there is 'too much crowd', the visitors will be dissatisfied. Those who are not admitted on any day because of limited capacity, may not come back the next day. What may be done conveniently on a Sunday, perhaps cannot be done on a Monday.
3. **Perishability is less if the service facility is mobile.** A mechanic, who works for more than one contractor, is less perishable than one who stays only in the same workshop. A restaurant which caters at home is less perishable than one which serves only within its own premises. The supplies in a circulating library are less perishable than in a reading room. An advertisement by way of a loose insertion in a newspaper, is less perishable than one which is printed within its columns. **Advertisements and newspapers on the Internet being less mobile, are more perishable. But in relation to those who browse, they are not perishable at all.** This is a different segment and the dynamics are different.

### (b) Supply and Demand

1. Supply of service has to be understood as capacity to produce, not as a quantity of output. In a service business, capacity is sold, while a manufacturer sells inventory. Capacity can be utilised only when customers are present (The concept of Inseparability). The implication from the concept of Perishability is that there is a need to ensure that the service offered is used on a continuous basis. **The demand for the service has to be consistent with supply, not merely on an average over a period of time, but all the time.** Anything short of maximum at anytime, is an irrecoverable loss.



2. Also, if demand is more than supply, the business is lost. Hotels and airlines have firm arrangements with other hotels (nearby) and airlines (on same routes) to take up the excess bookings, so that customer loyalties are not lost. Very often the demand comes without prior notice, as when 260 passengers arrive (in a hotel) because of delayed or diverted flights, or the casualties (in a hospital) after a major disaster or the demand on the telephone system when Ganesha drank milk or when bombs exploded in Mumbai. At any level of capacity, the service will become woefully inadequate, when demand exceeds the capacity.

## **F. OTHER FEATURES**

### **(a) Ownership**

1. Many services are tied up with tangible goods. Examples are train berths, hospital beds, car rentals, etc. In such cases, the consumer does not own the tangible goods. He has only a right to use the goods during the period of the service. **Ownership of the goods does not pass from service provider to the buyer.** Libraries and leasing companies only lend. The ownership of what is lent does not transfer.
2. A doctor offers a service. There is no tangible goods that he produces to offer. He uses his knowledge which is intangible. He prescribes treatment which may cure. The treatment may involve medicines, but he does not deal in medicines, like a chemist. The knowledge that he uses in the service remains with him. The patient does not get that knowledge, which the doctor has. He only gets the benefit of that knowledge. This is also true in the case of the teacher.

### **(b) Level of technology**

1. Services are performed by people. **But service businesses are not low tech.** One of the fast growing areas of service segment relates to computers. Computers are high tech. Maintenance and repair services are high tech in the aircraft industry or nuclear power plants. There are a lot of high tech applications in the business of cinema, theatre, music concerts, advertisements, medicine, surgery. Some of the action scenes of films like the Titanic (14 Oscar nominations), Jurassic Park or Bahubali (Hindi), are not shot in the studios but are created in the computer room. Some of the new film makers are planning to use Virtual Reality (V) and Augmented Reality (AR), which would require the audiences to wear special lenses and would enable audiences to experience what they, in normal life cannot even see.

2. Service businesses have high labour impact, but not necessarily high labour content in total output. The quality, determined in terms of customer satisfaction, is influenced by the people. But the labour cost as a proportion of total cost of producing the service could be low in several cases.

### (c) Barriers to Entry

1. Barriers to entry are those obstacles that make it difficult for potential new entrants from disturbing the existing market structure. The more the barriers, the safer the existing players are from competition. Five kinds of barriers are postulated.
  - *Cost*: Newcomers may have higher average costs compared to existing firms.
  - *Initial Capital Requirements*: This will vary according to the type of business. In many services, initial capital costs are low. In insurance, these are high.
  - *Scale*: New entrants may have to produce large outputs relative to the total size of the market, to remain competitive. Multinationals have the capability to do so. Insurance business requires large volumes to become feasible. It may take a few years to build such volumes.
  - *Product Differentiation*: Specialised products may be needed by various segments of the market. The impact of this factor varies according to the nature of the business. Air Deccan, started in 2003, with low fares, made such a difference to the product of airlines, that almost all of the existing airlines had to follow suit to stay competitive.
  - *Legal*: Due to patents, franchises, licences, etc.
2. **By and large, the barriers to entry in services are low.** In other words, the chances of new competition are high. The capital investments are high in some services like hospitality, transport, etc. Even in the services requiring capital, the investment does not have to be big, unlike manufacturing industries, where a minimum size of turnover would be necessary for feasibility of operations. In service, a small scale operation can also be viable. Because services are people oriented, the regulatory

procedures are also not very rigid or cumbersome. Product differentiation is difficult because of the non-availability of patents. There are not too many hassles in starting a consultancy or a clinic or a beauty salon or an agency.

3. In insurance, in India, till 2000, there was a legal barrier to start an insurance company, but there was no barrier to become an insurance consultant, advising on what insurance to buy and helping to recover claims. The consultant used his knowledge to help the client. Knowledge is an important input in most of the advisory services, like export procedures, tax management, education, medicine, law, finance, organisation development, quality management, etc., which have practically no barriers for entry. The capital required is low. One can choose the scale of his operations, limited clientele directly looked after, or large segments with infrastructure of office and assistants to support. One can even go international through the Internet.
4. The competition for insurance comes also from other financial institutions, which offer attractive packages for the customer's savings. Small savings schemes of the Government of India, Provident fund and mutual funds are considered alternatives to a life insurance policy, when the risk factor is ignored. In the case of non-life insurance, where there is no compulsion as in motor insurance (for third party risks) or from banks (when loans are given), not many volunteer to buy. Such persons are carrying the risks themselves.

#### **(d) New Technologies**

1. The Internet poses new challenges to traditional service providers. E-commerce companies have 'disrupted' the retail trade, by making displays and offers without constraints of time or place. Offers can be seen and orders placed at anytime from anywhere in the world. e-books have made traditional book printing and publishing obsolete. The internet has opened up the scope for competition. The legal framework is yet to catch up with these developments.
2. A development of interest to insurance business is called 'Financial Technologies' or 'Fintech', Many start ups are into this business which is likely to disrupt radically the business models of banking, insurance, investments and asset management. The business which was US\$ 930 million in 2008 had grown to US\$ 12 billion in 2014. They focus on low cost - high tech models to deliver services to low value - high volume customers.

3. Fintech services include payments and advisories to private and corporate retail banking customers as well as for insurance, mainly non-life insurance. Their interactions are from business to business, business to customer or customer to customer. The business has become significant in India and is attracting talented young professionals.
4. In India, PayTm, MobiKwik and Freecharge are already household names. Started as i-utility bill payments model, they have become full-fledged marketplace of financial transaction with applications spanning across banking and other financial services to ticket bookings, shopping, money transfers, insurance premium and many others. The mobile wallet market in India is projected to reach US\$ 6.6 billion by 2020. Policy Bazaar which started as an insurance advisory portal, diversified into a complete financial advisory portal with the creation of Paisa Bazaar
5. A study made by Google and the Boston Consulting Group in 2016 has estimated that the Indian digital payments market is likely to grow 10 times in the next four years. By the year 2020, the internet user base may reach 500 million and half of them will be making digital transactions. This digital 'revolution', as they call it, will be led by mobile wallets enabling micro-payments, 60% of which would be contributed by offline points of sale such as unorganised retail, eateries and transport.

## **SUMMARY**

- Service sector consists of the Tertiary, Quaternary and Quinary sectors.
- The service sector is growing faster than the other sectors.
- Services provide competitive advantage to goods.
- A service is rendered by a person and is received by another person.
- The tools and equipments used while rendering a service do not determine quality of service.
- Production and consumption of service happen together.
- Services cannot be manufactured and stored to be transported later for delivery.
- A service has to be purchased before it can even be produced.
- There can be no inspection of a service before it is delivered to consumer
- Standardisation of service is difficult.
- Experience of a service is affected by the presence of other customers at the same time.

- If a service is not used, it perishes.
- Fluctuation in demand affects services much more than it affects goods.
- If a service facility is mobile, it perishes less.
- If a service is tied to goods, the ownership of such goods do not transfer from seller to buyer.
- By and large, barriers to entry are low in the case of services.
- Services are not low - tech always.
- New technologies are disrupting traditional businesses.

## **KEY TERMS**

- Barriers to Entry
  - Heterogeneity
  - Inseparability
  - Intangibility
  - New Technologies
  - Ownership
  - Perishability
  - Sectors
  - Standardisation
- 

## **Answers to Test Yourself Questions**

Question 1

The correct answer is (a)

Question 2

The correct answer is (c)

Question 3

The correct answer is (c)

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## **SELF EXAMINATION QUESTIONS**

Question 1

Which of the following businesses will require high capital?

- (a) Vegetable vendor
- (b) Insurance agency
- (c) A super specialty hospital
- (d) An audit firm

## Question 2

Which of the following DOES NOT add value?

- (a) Airconditioner repair
- (b) Painting of house
- (c) Refrigerated warehouse
- (d) Advertisement

## Question 3

Which of the following statements is correct?

- (a) Use of equipments to provide service ensures consistent quality.
  - (b) Extensive training for personnel ensures consistent quality.
  - (c) Quality of service is affected by behaviour of the customer
  - (d) Highly skilled employees ensure consistent quality
- 

## Answers to Self Examination Questions

### Question 1

The correct answer is (c)

### Question 2

Rhe correct answer is (d)

### Question 3

The correct answer is (c)

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# CHAPTER 5

## QUALITY IN SERVICES

### CHAPTER INTRODUCTION

Given that services are intangible, the maintenance of quality in service would seem to be a difficult task. This chapter deals with issues relating to the maintenance of quality in services.

### LEARNING OUTCOMES

- A. Understanding Quality
- B. Elements of Service
- C. Levels of Quality
- D. Costs of Quality
- E. Responsibility for Quality
- F. Moments of Truth
- G. Monitoring Customer Needs

### A. UNDERSTANDING QUALITY

#### (a) Why Quality

1. As mentioned in the previous chapter, entry barriers are minimal in the service business. The basic features of service products can easily be replicated by competitors. **The way to get advantage over the competition is to acquire differentiation in the quality of service. The better the quality, the more the customer is 'delighted'.** Business after business is learning that 'delighting the customer' means
  - fewer customers lost
  - less time and money spent putting things right for dissatisfied customers
  - less time and money spent on advertising and marketing to find new customers
  - less use of costly discounts and offers to attract new customers
  - more time to devote to anticipating and meeting needs of your best customers
  - free (word of mouth) publicity from your best customers.

### EXAMPLE

Product features (service elements) are similar among competitors. All couriers collect letters and deliver within 24 hours. All foreign educational institutions have local franchisees, offer study materials, conduct examinations locally and award diplomas or degrees. All tour operators go to the same places and provide almost the same facilities, often even the same guides. All insurance companies provide almost the same benefits. All banks give loans with very little difference in interest rates or other terms.

## 2. Quality requires attention on three areas.

- **Customer:** Becoming aware of his expectations and experience, using insight, feedback, complaints and formal market research
- **People management:** Appropriate leadership that makes people (employees) skilled and empowered, sensitive to problems and responsive to customers' needs, with ability to build work teams
- **Processes:** To constantly review them for improving effectiveness, in terms of speed, accuracy and costs as well as in terms of results achieved.

## 3. The tangibles do not distinguish between one product and another in the same business. They are similar. Every innovation can be duplicated. Technologies are not exclusive. That which really distinguishes one from another in the same business is the quality of the service, the manner in which it is delivered. The factors that provide customer satisfaction are the ways in which they are dealt with.

### EXAMPLE

One bank becomes different from another because of the speed and lack of hassles in processing. What provides competitive distinctiveness are the behaviour and the attitudes of the people, the considerations shown by them, their responsiveness, etc.,

## (b) Quality needs Strategy

### 1. Quality is the value added offering, that provides a more satisfying experience, which makes the customer come back for more of the same pleasurable experience. Quality is essential to build long term loyalty. It helps to gain a larger market share in the face of competition. It alone helps in the word-of-mouth publicity. It takes time and effort to achieve. It needs strategy.



2. The basic assumptions of a service provider have to be
  - Quality service brings in customers and generates profits
  - Quality is to be maintained, whatever it takes
  - Quality means “willing to walk that extra mile” for the customer’s sake
  - Quality can always be improved upon
  - Quality is provided by people
  - Quality is provided not only in the front line, but also in the back office.
3. Poor quality becomes the norm when the following assumptions prevail
  - One can never be perfect.
  - To err is human.
  - Employees are not interested.
  - Quality is expensive.
  - We cannot afford.
  - Customers want price cuts, not quality.
  - May work elsewhere, but not in our country/company/industry.
  - Nothing much can be done with politicians and trade unions around.
  - Our complaints department is good enough to take care of customer satisfaction.

### (c). **Satisfactions versus Expectations**

1. **Quality is not what the provider says it is. It is what the customer says it is.** It does not matter what the inputs from the providers are. Technical details relating to inputs while creating the service do not determine quality.

#### **EXAMPLE**

If a class does not find the teacher interesting, the teacher is ‘bad’. If the audience does not patronise the film, it is ‘bad’. The teacher may have indeed dealt with the latest developments on the subject, not easily available to the students. The film may have been a big-budget one with extravagant sets, top star cast, relevant story theme, etc.

The quality of the spinach dish, does not depend on whether it has been cooked according to the specifications laid down by the masters in cookery. Even if it passes the test of the most accomplished epicure, to the child who spits it out, the quality is poor.

2. Quality is measured by the extent of satisfaction of the customer. There is no other measure. The more satisfied the customer is, the better the quality. Quality in service is not tangible. It is not measurable. It is an

experience. It is perception of experience. What is perceived is not the reality. It is how the customer reacts or responds to what the service provider has done to him. **Quality of service is the difference between Expectation and the Perceived Experience.**

#### **EXAMPLE**

When the nurse responds to the patient's call within a minute, this is 'fast' or 'slow' depending on how urgently the patient needed her. One minute may be too long sometimes, leading to the patient repeating the call and even shouting for the nurse.

3. When one buys a service, there is an expectation of the nature, level and quality of the service. This could be the effect of the brand name. Even if a brand is not established, as in the case of new companies, such expectations may exist, based on
  - what one experienced the previous time
  - what one needs now
  - what one has heard from others
  - what one has read in an advertisement
  - what the salesman had been saying
  - what one sees - physical, external appurtenances
4. When going to the hospital, one's expectations will vary according to whether one is going there
  - to visit a friend who is a patient
  - to assist a friend who is there as a patient
  - to have a check-up
  - for a childbirth
  - for a major operation
5. In each case, the frame of reference is different. In one case it is anxiety and fear, while in another case it is joyous expectation. A third may be concerned with the medical outcomes only at a marginal level. Each of these will experience the same behaviour differently. The hurried movement of the hospital staff might enhance the levels of anxiety and fear. The slow movements of the staff may be perceived as either indifference (callousness) or 'under control', creating emotions of either happiness or of anger.
6. **There is unlikely to be a perception of quality, unless there is quality in fact.** If there is no courtesy in fact, there cannot be a perception of courtesy. Quality in fact and in perception, interact as multipliers, not as

additions. If one is zero, the resultant is zero. Providers have to focus on the 'facts' that are likely to produce favourable perceptions. These are the elements of service. Providers have also to be aware that the 'facts' are not adequate guarantees of satisfactions.

7. If the perception of experience is better than the expectation, the service is evaluated as satisfactory. If the perception is worse, the service is evaluated as unsatisfactory. The level of satisfaction is quality and that is the difference between the experience as perceived and the expectation.

#### **(d). Source of Satisfactions**

1. Regardless of what the product is, customers feel happy when they experience
  - recognition (positive strokes)
  - courtesy
  - responsiveness
  - sensitivity
  - competence
  - reliability or credibility
  - ease of access
2. **Recognition is one factor more vital than any other.** If this is provided, then several other defects in service will either remain unnoticed or excused. **There can never be a perception of good service from a person who senses that he has been ignored.** In fact, such a person will find a defect, even if there is none. The opportunity to recognize or to ignore, exists at every contact point.
3. Recognition is explicit when the other person shows courtesy. Discourteous behaviour shows lack of concern and thereby lack of recognition. Recognition does not mean that there has to be prior contact with that person. There is lack of recognition if someone asks you to repeat your name or is busy doing something else, while you are waiting to speak to him.
4. Recognition means that the contact point accepts the customer as a valued person. The matter contained in most service documents promise no service but threaten with penalties for misdemeanour. Examples are notices in parks or museums, terms and conditions in tickets and laundry receipts, informative advertisements from Government departments, guarantee cards

accompanying consumer durables, etc. They are all worded as if the user (customer), if not properly warned, would seek unfair advantage.

#### **EXAMPLE**

When a complaint is taken seriously, there is recognition. When the complainant is told that his grievance is frivolous or of his own making (neglect or misuse), there is lack of recognition.

- 5. Recognition is strong when there is responsiveness (willingness to help) and sensitivity (understanding) to the requirements of the customer.** Responsiveness and sensitivity are two different things. Both are necessary for effective service. The contact person may understand the problem, but regret his inability to help, quoting the rules of the organisation. This would be interpreted as lack of responsiveness

#### **EXAMPLE**

Responding to an advertisement from the Reserve Bank of India in November 2000 about the issue of newly designed notes of the denomination of Rs.500, a person went to the cashier of a bank asking for exchange of the old notes. He was told that it could not be done. The person then deposited that Rs.500 note in his account and having done so, presented a withdrawal slip for Rs.500. The cashier gave him back the same Rs.500 note, but the person asked for notes of Rs.100 denomination. He got his work done. The behaviour of the cashier was discourteous, lacking sensitivity and lacking responsiveness. The account with the bank was closed.

- 6. The competence of the person at the contact point has to be satisfying.** When the person answers a query, the customer must perceive it as accurate and reliable, not as an off-the-cuff remark without knowledge. Some do this to hide their ignorance, insensitive to the fact that the customer may take the answer as correct and do something on that basis. Even if the answer is correct, the behaviour might give an impression that the person perhaps, does not know. If one does not know, it is better to admit the same and also promise to get back soon with the correct information. When this promise is kept, there is evidence of competence as well as of responsiveness, highly satisfying factors. One does not like to deal with someone who does not know, who is slow and sloppy. **When an incompetent person is deputed to deal with customers, the organisation, as a whole, is showing lack of recognition.**
- 7. Reliability or credibility is the same as trustworthiness.** The person in contact must reinforce the trust that the service being bought will indeed

be available, as promised, after purchase. Reducing the promise into writing, even as a legal document, does not improve reliability. **When reliability exists, there is no need for documentation.** The insurance agent who is available at the time of the claim is adding to the perception of reliability. When one exaggerates the terms of the offer, or hides some unpleasant facets, leaving it to the customer to discover them later, there is lack of reliability. **Candour is the best way of attaining credibility.**

8. Ease of access is another important factor. Locations, telephone connections, hours of operation, etc., make for ease of access. If the services are made available where the customer is, either through persons calling on him or through the internet, access becomes easier. If there is a long wait or a queue, access is difficult. Access becomes easier, as distances to travel become shorter, times taken become less, forms to be completed are reduced, steps in the procedure become less and the people to meet become less. **Ease of Access is the 'Place' in the Marketing Mix.**
  9. Internet, smart phones and various 'APP's have made access extremely easy, almost instantaneous. Every service provider is making APPs available for variety of services. The police is using it to become aware of an area of trouble. But, every APP developed for a useful application finds someone who sees in it, an opportunity for mischief. ATMs and online banking facilities have been used by many to withdraw money fraudulently. Such fears will take time to be overcome. Development of preventive safeguards may not be as fast as the ways of the fraudsters. But the trend is clear. The service industry is sparing nothing in satisfying its customers.
  10. The latest electronic fund transfer protocol called United Payments Interface (UPI), was launched by the National Payments Corporation of India on 11<sup>th</sup> April 2016. Online wallet companies like Paytm, Mobikwik and FreeCharge aim to integrate their services with this protocol, which allows customers to instantaneously transfer funds across different banks with the use of a single identification and password, without sharing any other bank details. Multiple bank accounts can be linked to a single mobile application and money can be both received and requested through the same interface. It would eliminate the need for money being stored in different electronic wallets for different services.
-

## TEST YOURSELF 1

Which of the following makes Quality important?

- (a) It helps to retain customers.
  - (b) It provides competitive advantage.
  - (c) It helps to save costs.
  - (d) All the above.
- 

## B. ELEMENTS OF SERVICE

1. The elements of service, in the context of insurance, are not the benefits included in an insurance plan. The elements are in the interaction which the customer has with the office or its representatives. These interactions take place (i) at the time of sale, (ii) at the time of servicing while the policy is in force and (iii) at the time of claim. If the experience at the time of sale was not satisfactory, there would have been no purchase. **The quality of service would be perceived by the customer from his experience of the interactions during servicing and claim..**
2. **Both the people and the processes matter in creating the perceptions.** The elements of service at that time are the speed of attention (people), the concern shown for the claimant's state of mind (people), the number of forms required to be completed (process), the documents being asked for to prove the legitimacy of the claim (process), and so on. Important also are peripheral physical factors like the facilities for customers, appearance, layout, colours and odours (in the office) and behaviours and appearances of the people working there, other than those interacting with the customer.
3. Internal efficiencies, in terms of better resource utilisation and/or productivity, may improve the quality of the process or of the system, but not necessarily the perception of quality of the service. Automated systems are often less satisfying than personal attention.

### EXAMPLE

A service rendered in lesser time may be appreciated in a Udipi hotel, but not so in a five-star restaurant, where the purpose is to spend time together, without being hurried. A very quick answer to a query may be perceived as too casual and therefore, needing further confirmation.

4. A product is the outcome of a process. This is so in services also. The process is functional and interactive. The process has systems, technology and people. Outcomes, systems, technology and people, all contribute to quality. That is why ISO certifications, Zero defects and TQMs (Total Quality Management) focus on systems and processes.

#### **EXAMPLE**

In the case of a garage, the outcome is the repair job. If this is done well and the vehicle is rid of defects, the service is good. If the owner of the vehicle is present while the repair is being done, what he sees of the mechanic's behaviour affects the 'experience' of service. If he sees the vehicle remaining unattended for a long time, he may think that the people are indifferent and that there is unnecessary delay. If he sees them hammering a part crudely, he could feel pretty bad.

5. The billing and payment procedures in a garage form a part of the service. Even if the repair job is done perfectly, the procedures for preparing the bill, and paying the same can create a perception that will affect the patronage of the garage itself. Anyone of these can have an influence on the total experience, whatever be the quality of the repair. Good garages allow owners to see their vehicles only after the repair job is complete and the vehicle is washed and rubbed clean. For the same reason, restaurants do not let their customers go into the kitchens.
6. The Malcolm Balridge National Quality awards, instituted in 1988 to promote excellence in American companies (both manufacturing and services), take note of seven areas viz., leadership, strategic plan, customer and market focus, information and analysis, human resource management, process management and business results. All these intervening causal variables lead to the final outcomes of business results.

### **C.LEVELS OF QUALITY**

1. Robert Galvin, Chairman of the Executive Committee of Motorola Inc., said that there were four levels of acceptable service - 'Good', 'Very Good', 'Near Perfect' and '**WOW**'. John Humble, Management consultant from the U.K., uses the word '**DELIGHT**' for WOW. Both Delight and WOW occur when the experience is far beyond all expectations.
2. Experiences that cause dissatisfactions are usually talked about. Experiences that cause satisfactions are usually not talked about. They are taken for granted. But when there is a WOW experience, it is not forgotten. It is talked about. If one goes to a Government office expecting to have to

spend the better part of the day being pushed around from one table to another, and finds that the whole job was done within say, two hours, there is a lot of satisfaction. One may not praise the system, but would certainly remember the persons who did the job. Only WOW experiences are remembered positively.

3. One expects courtesy and attention in a hotel. If these are missing, there is dissatisfaction. But there is no significant satisfaction, when courtesy is noticed. If the manager of the hotel calls you up as soon as you enter the room and welcomes you - that could be beyond expectation. That may be remembered, but still not a WOW. But if that evening, the band plays a birthday song, because that is your birthday, that would be a WOW.

#### **EXAMPLE**

To be told that there is no reservation for you at the check-in counter of the hotel is bad. To be welcomed, as if they were waiting for you instead of a 'NEXT', is good. To be received as soon as you enter the main gate and to be conducted through the formalities, would be a WOW. To be handed over a new book in the library, because the librarian knows your taste, is WOW.

4. The insurance business has plenty of opportunities for providing WOW experiences, particularly at the time of claim. An insurance manager, noticing from the obituary column that one of his prominent policyholders had died in an accident, visited the family the same day with the claim cheque and the papers to be signed by the nominee. That was a WOW experience.
5. WOW comes essentially out of recognition, which is special, not routine. Further, an experience is WOW only the first time. It is expected the second time and if not received then, causes dissatisfaction.

### **D.COSTS OF QUALITY**

#### **(a) Cutting costs create problems**

1. Concerns with productivity seek ways to reduce costs. These may result in the processes being modified and perhaps, some reduction in personnel. Such efforts at reduction in costs are invisible to the ultimate consumer in the manufacturing business. The buyer of goods will not know how the goods were manufactured. But in the service business, reduction in staff will immediately reflect on the services being rendered, because the service is 'manufactured' by the staff in the presence of and together with the consumer. The people element in delivery of service is significant. The



reductions in personnel will become visible to the consumers and may convey messages that service quality is going down. Better productivity (same result through less people) is not necessarily better quality in the service business.

2. Readjustment of work schedules and systems may cause stresses on employees for many reasons, like unfamiliarity with new systems, additional work loads, adjustment to new colleagues and so on. These stresses could impact directly on customer service. This in turn will lead to complaints and grievances, adding to stresses. It is a vicious spiral.
3. In the case of manufacturing, when volume of sales increases, there is reduction in indirect costs per unit of production. In services, the major costs are indirect, not direct, in the sense that the infrastructure put in place (capacity to perform) determines the actual turnover. The factor of Perishability arises out of this fact. If higher volumes are attempted for a given capacity, the performance will turn out to be less than the promise. Cost reduction therefore, in services, may be similar to cutting raw material costs and expecting production to remain high in quantity and in quality.

#### **EXAMPLE**

A courier who got a contract for a large volume of business from a bank, but did not have the system to keep the promises. The delays got it a bad name. A public hospital which is required to take in patients in an emergency like a rail accident or riot will have to accommodate them on the floor.

4. Government establishments suffer enormously in quality, because the standard formulae for economy would seem to be to
  - regulate induction of new personnel, regardless of growth in business or number of exits
  - centralise purchases or withdraw powers, ostensibly to regulate waste

It is assumed that when powers are withdrawn to higher levels, sanctions will be slow in coming and lower levels will learn to manage with less. That is the prescribed route to economy. In fact however, this leads to increased costs. Behaviourally, lower levels try to beat the system through exaggerated demands and surplus inventory. There are other costs in terms of lost opportunity and service quality. The services in a hospital will deteriorate without adequate essential instruments, medicines and staff, because sanctions are being processed. While this is true of Government, private organisations are not free from this problem. **Sharper focus on costs should not blur focus on customers.**

## EXAMPLE

A restaurant cannot function on the sincerity and energy of the captain alone, if he does not have support to lay the table, serve the dishes, remove used plates and so on. Even if he takes the strain for sometime, he will quit if the prospects for early relief are not visible. Even before he quits, the customers would have quit. The problems of the restaurant will accentuate. The morale of the staff will fall. Poor morale and good service do not go together.

5. The costs of achieving, sustaining and improving quality are classified into 4 main groups.
  - *Prevention*: costs of investigating and planning for prevention of failure, systems reviews, testing and controls, training of personnel.
  - *Appraisal or Inspection*: costs of assessing quality achieved, monitoring, testing, feedback.
  - *Internal Failure*: costs of correction, redoing, scrap etc., when failure occurs before customer contact.
  - *External Failure*: costs of failure after customer contact, compensation, warranties, penalties, losses, recalls, claims, including loss of customers.
6. Spending money on appraisals will not help much in services, unlike in manufactured goods, because of the factor of Inseparability. The customer would experience the bad service as soon as it is produced. The main focus should be on prevention, as these costs will have a positive pay-off.
7. **The policy in services has to be “Right First Time”**. It takes more time and effort to detect and correct an error than to avoid it. This is true in accounting, in cooking, in manufacturing and in service operations. The adage “Prevention is better than cure” is applicable in business as much as in the rest of life.
8. There is effective cost reduction if defects, accidents and breakdowns (errors) come down to zero. All cost initiatives should have direct impact on customer satisfaction, product quality, brand equity and shareholder value. Cost reductions and better effectiveness can happen mostly in purchases, inventory, cycles (for various operations) and lead times (from commencement to result). These are all services.

## (b) Measuring Costs

1. Costs are often made an excuse for neglecting quality. “It costs too much” is normally considered a valid finality, without asking “How much is too much”. and in relation to what is the “too much”. **High quality and low**

**costs are compatible.** The Japanese have proved it. **Achieving quality may be costly, but bad quality could be more costly.** If bad quality causes damage and there are compensation or liability claims, the costs can be very stiff. Insurance covers may not provide full relief. U.S. courts are liberal in awarding penalties, compensations and damages. The Indian courts have also begun to take a serious view of defects in service. Policemen and government officials have been made personally liable for lapses.

#### **EXAMPLE**

It has been estimated that up to 30% of manufacturing costs could be saved by doing it right the first time. Repairs are said to cost 15 to 30 cents of every sales dollar in the U.S.A and 5 cents in Japan.

2. The costs of not satisfying a customer are difficult to measure? Loss of customers due to poor service can rapidly erode the bottom line. In insurance, the front end costs of placing business in the books are high. A policy discontinued early means that the initial costs have not been recovered. Even in other businesses, the cost of finding a new customer is several times higher than retaining an existing one. The difference represents the costs or gains of quality.
3. In insurance, the law prescribes maximum levels of permissible expenditure. Well managed companies operate at much lower costs. The attempts to lower costs should not lead to dissatisfied customers. Every policy that is not renewed, whether it be general insurance or life insurance, is indicative of a dissatisfied policyholder.

#### **(c) The Five Gaps To Be Managed**

1. **There are five critical gaps that may occur affecting the quality of service, which, as stated earlier, is the difference between expectation and experience as perceived. Strategies to enhance quality must focus on ways to reduce these five gaps.**
  - **Gap 1 is between the management's perception of customer's expectation (MCE) and the customer's expectations (CEE). The gap answers the question "How well does the service provider understand the customer's needs?" This gap can be bridged through surveys, feedback, complaints, etc. that help to improve the understanding of customer.**

### EXAMPLE

In a certain country, every car that is insured has a metal plaque stuck to the dash board, with particulars of the steps to be taken in case of an accident and the telephone number of the person who is to be contacted. This system recognizes and meets the need for relevant information, which, by being available at the critical time, avoids a lot of anxiety.

- **Gap 2** is between MCE and the product benefits as designed (DPB). The management tries to incorporate into the service product elements that would meet the needs as understood. In fact the elements included may not answer the needs in full. This inadequacy is Gap 2. In the case of insurance, DPB will include provision of various covers as well as other elements of the service like systems, processes, technology, etc., that make the service available to the consumer. **The gap arises because of constraints, limited resources or inaccurate evaluation of the system's capability. This gap arises also because the processes are designed keeping in view the need for internal controls, which are not necessarily consistent with the customer's interests.**

### EXAMPLE

Interactive automatic telephone exchanges in offices are expected to improve the speed of attention to the caller. However, they are often sources of irritation, particularly if the caller does not know the relevant extension number or the called person is not where he should normally be.

- **Gap 3** is between DPB and the actual product benefits as delivered (APB). This happens because of incompatibility between different parts of the systems, modifications and errors during actual rendering of service. **This can also happen because those responsible for implementation do not understand fully the rationale for the prescribed processes or find it convenient to make changes.** This gap can be bridged through middle managers, supervision, communication, control systems, training, etc.

### EXAMPLE

Literature prepared by the insurers with information relating to plans and benefits may not be given to the customers as intended. The policy conditions and warranties may not be explained in detail.

- **Gap 4** is between APB and the Communication of the service benefits to customers (CPB). **Specific mention of, and drawing attention to, some aspects of the service by the provider or by other users, cause**

**differences in perceptions.** Customers may not be aware of efforts that go to create the experience he gets. The gap also arises because salesmen make promises, which are not realistic. The customer orientation of the person rendering the service may not be the same as the salesmen. The communication affects the perception.

#### **EXAMPLE**

It is said that a cardboard box dealer, who never missed a delivery schedule for years, added in his invoices a 'Performance Index' column in bold letters, listing the date of delivery as required and as performed. His business jumped. Airlines and hotels make it a point to send bulletins to their customers, with information of their latest attempts to improve service.

- **Gap 5** is between the perception of actual experience (PAE) and CEE. When PAE is better than CEE, quality is good. The perception of actual experience is affected by the service actually rendered. Both PAE and CEE are influenced by the APB as well as by the CPB. The cumulative effects of the gaps affect perceptions of quality. **The perceptions of quality have to be managed, by improving on both the (i) hard aspects, which are measurable like delivery time and the (ii) soft aspects, which are intangible, like courtesy as well as communication of the improvements.**
2. It is to be assumed that these five gaps always exist. Only then will one keep looking for them. **If unattended, the gaps will widen. When noticed, the gaps can be bridged.**

#### **EXAMPLE**

The head of a top hotel chain had noticed in his younger days that, those who use the buffet in the restaurant were not very happy with the small placards placed below the dishes. They were not very readable always. They also wanted more information about the contents, level of spiciness and so on. So he had instructed that in his hotels, there would be no placards, but that there should be someone available behind the dishes to answer questions. The placards went, but the substitute people did not appear. The reasons were many. There were not enough staff to spare. Not all the staff knew everything about all the dishes on the buffet table. Because very few asked questions, the captain thought that he could do the job himself. The net result was that there was a big gap between DPB and APB. Those who enquired why there were no placards, were told that the boss had instructed so. That was Gap 4.

## E. RESPONSIBILITY FOR QUALITY

### (a) Senior management responsible

1. Often, there is a tendency to say that quality has to be managed by ‘those out there at the front’. It cannot be. Although the error takes place ‘at the front’, more than 80% of errors are caused by systems and procedures, which only senior management can change. The responsibility to manage quality is at the senior management level.
2. Even for the remaining 20% or less caused by people at contact points, management must take responsibility to train them in requirements of their respective jobs and building an appropriate culture of quality in service. Training has to be viewed as investment in quality.

#### EXAMPLE

When the waiter in a five-star hotel does not see that the table does not have the cutlery, or that glasses are empty, or that the dish on the buffet table does not have a serving spoon, it very often is a deficiency of training and not of the waiter’s attitude. It is not enough to clothe a newcomer in the uniform and be told to look after the diners. The steward who keeps talking to the waiters, while the restaurant is full of customers, is also short of training

3. An agent represents an insurer. The management has to take responsibility for what the agent says and does at the premises of the prospect. **The promises that he makes are in effect the basis of the insurance contract, from the point of view of the prospect, regardless of what the proposal form and policy conditions might state.** The agent will adhere to the expected behaviour only when he finds that that behaviour produces satisfactory results. Giving him such an experience is the responsibility of his supervisor.
4. Training for an agent does not consist of only communication of the technical details of the policy contract. It includes ability to withstand pressures to share the commission. It includes not being tempted to provide inaccurate details in the proposal or the claim forms. It includes avoiding denigrating other agents, and also feeling genuinely proud of the profession and the insurer he represents. **This makes the agent a professional with integrity and such a person will deliver service of high quality.**

## (b) Keeping Customers Out

1. In the case of goods, quality is experienced only while using the product, not in the process that makes the product. If the customer had access to the process and seen the conditions in which the product was being made, much of the gloss and glitter of the final product may have been lost. **In the case of services, the customer is very much part of the process of making the product.** But there are related processes in which the customer is not involved. It is advisable to keep the customers out of that part of the process. Quite a few elements of the process can be disturbing.

### EXAMPLE

If a policyholder witnesses the argument among the staff about the proper response to the query, he would have doubts in the reliability of the response. He need not see how long the cheque or document, waits on any table for a signature. Doctors avoid 'outsiders' when they handle serious emergencies, or even when they consult among themselves. Clients are not generally part of the strategy planning process of lawyers. The direct telecast of legislative proceedings is partly responsible for the increasing disappointment with the political systems.

2. The scope for keeping customers out depends on the extent to which customer's presence is required. Laundry, couriers, repairs, advertising, warehousing, banking, insurance and market research are services in which there is scope for keeping the customers out. Wherever the customer's physical presence can be avoided, avoid. He can be brought in after the final outcome is ready. Wherever his physical presence cannot be avoided, see whether his mental presence can be avoided. Doctors who operate ask the patients to look the other way. Good agents do not let their clients visit the insurer's office.
3. Avoidance of customers from the process has to be balanced with his need to know - the factor of being informed or Communication. When the outcomes are satisfactory, this does not pose a problem. But if the outcomes are not satisfactory, the need for communication will surface strongly. Explanations are sought only in the event of failure. People want to know what is going on, only when the train is not moving for a long time, or the queue is not moving at all, or the patient in the doctor's clinic has been in for too long or when the increment/promotion list is delayed or when the examination results are not released on time.

#### (d) Use Of Equipment

1. The use of equipment in the process helps to maintain consistency in output. Many services can be automated. The railways and airlines have installed machines to respond to standard enquiries about arrivals and departures. Computers are used extensively. Printers judge precision of colour through computers. Ships and other carriers, including courier services, track, sort and stock through use of computers. Beauty salons and movie makers rely heavily on computer graphics. We already see computer applications in daily life, so far unknown. We will soon see further applications not imagined now. The applications in insurance are expanding fast, through the Internet, Area Networking, and Interactive Voice Data processors. Policyholders can obtain information about the status of the policy or the loan available on it, without troubling the office staff. The fast progress towards digitalization will affect the processes in insurance companies drastically.

(e) **The increasing use of technology demands from the users and providers, a standard of precision that many of us are not used to. Spellings and numbers have to be exact in every document relating to the same person.** Otherwise, the system will reject the inputs saying they are not matching. It is normal for the 'system to be down' from time to time.

#### **EXAMPLE**

Already millions of authorizations are being issued every day to smart phones for travel (tickets and boarding cards). Money is being moved about on electronic messages, on the strength of numbers (Aadhar cards). Bullet trains will be running at very high speeds regulated by automatic signals. A person on duty in the back office cannot afford to make any error, however small, while punching a key or have a tea break, when he is not expected to.

2. Equipment are expected to function true to specifications and as programmed. Errors can come into the systems, for technical or human reasons. An error, if not noticed and corrected immediately, may be the cause of major and repeated errors. A mal-functioning equipment is more annoying than a mal-functioning person. Automated services do not correct malfunctions automatically. They need more constant audit.

#### **EXAMPLE**

When the tape gives at 11 AM information recorded at 5 AM about expected arrivals up to 8 AM, one cannot even shout and ask it to find out what you want to know. A client of a bank wrote 22 times and got no reply. Another client wrote once and got 40 replies. A policyholder of an insurance company got over 400 premium notices on a particular day, all for the same policy



## F. MOMENTS OF TRUTH

### (a) These are critical

1. A customer experiences service every time he contacts any element of service. Each of these contacts is a moment when he realizes the truth about the service, which, till then, was only an expectation. That is the moment when a problem may occur. At each of these moments, the customer makes an evaluation about the service being good or bad. **Moments of Truth are incidents or events which constitute service in the mind of the customer. These moments are basic building blocks of service, units of value to the customer. The moments of truth are critical for quality.**
2. These moments of truth are managed by different persons or departments of the organisation. If these moments are handled casually or insensitively, without seriousness, as if it is routine, there is a possible loss of quality in service. Each of these moments is within the control of an individual. **These individuals, whose behaviours define the moments of truth, effectively determine the quality of service.**
3. Managing moments of truth requires attention to minor details. For example, a plumber called in to attend to a choked wash basin may
  - walk in just when the house holder is about to have lunch
  - walk all over the carpet while moving into the bathroom with feet that are not clean
  - ask for a wrench, because he did not bring his tools
  - go out and return after 30 minutes with the tools and more dirt on his feet
  - open the pipe and let a lot of murky sediments splash on the floor and the walls (recently done up)
  - show you some of the sediment for your inspection, as if you had put it in there
  - refix the pipes, which, you notice, are not in proper alignment
  - push and hammer hard to get the alignment right

### (b) Cycle of Service

1. **A series of moments of truth make a cycle of service.** But the customer sees it as a single process. The big total picture as seen by the customer and the big total picture as seen by the provider, have to match. If there is a

mismatch, there are gaps, failures of service, dissatisfaction and loss of quality.

**Several cycles of service together make up the transaction of service.** In the case of the plumber, response to the call for repair and billing would be other cycles in the same transaction. In the case of a policyholder visiting the office, the cycles would include

- finding the location of the department or person to be contacted (for information or help)
- after the person is contacted, his understanding of the need which brings the policyholder to the office, and his responsiveness and attitude
- the manner in which the requirements are met, which includes the time taken, the conveniences for waiting, the procedures (simplicity or complexity), etc.

### (c) Error Free

1. In some services, there is some margin for error without causing permanent damage.. The frown on a dissatisfied customer's face can be converted to a smile through remedial action and compensation. Replacing a defective item, is partly compensation. An apology is also acceptable. A discount (part refund) on the cost of that item is a tangible expression of regret.

#### **EXAMPLE**

A caterer, on being told that the supplies for a birthday party did not reach on time, rushed additional supplies free of cost and added special gifts for the guests. The caterer thus conveyed the message of genuine regret and that he was serious about keeping his word.

2. The promise of money-back, in the event of failure, is a statement of good intent. However, good intent is not good enough for all services. **In some cases, the failure can cause irrevocable damage. Insurance is one such service.** If an error is discovered when the claim arises, the insurance company will just refuse to pay. It is like the fire extinguisher getting jammed, when the fire has started. It is as good or as bad as the preparation having never been made. This happens when the fire extinguisher is not regularly serviced, gases replaced and valves checked. So also in insurance, after-sales service can ensure that such problems do not occur and that the policy is maintained, ready to be activated when the occasion arises.

3. It is assumed that a delay in a financial settlement can be compensated through payment of interest. If marriage arrangements are fouled up because of the insurance money (loan or claim) being delayed, the loss is more than that of interest. Non-payment of retirement dues on time prevented an employee from taking full advantage of tax rebate provisions. The resultant liability of higher tax was a loss which the employer could not reimburse.
4. **Safety systems in industry cannot be less than 100% reliable, as the consequences of an industrial accident are almost incalculable.** The response of the relevant personnel to an alarm has to be immediate and correct. They should know who is to do what, what equipment is where, and how each of them is to be operated. An investigation to a major fire in a petro-chemical plant revealed that the delay in attending to the fire was because certain keys could not be found. These failures were avoidable, but were not avoided only because the systems were not functional. The failures affect the business of insurance.
5. **It is good management practice to strive for 100% fault free service.** There should be no tolerance for errors. Even a 1% error, can mean as many as 100 mistakes per day in a small branch of a bank. To the customer who is part of this 100, the failure is 100%, not 1%. A gynaecologist who mishandles a childbirth, cannot console the disappointed parents saying that it was a one in a million error. The financial news service which some international news agencies distribute worldwide and which is depended upon by several treasury managers, would cause major disasters if the data happened to have 'clerical' errors.

#### **EXAMPLE**

The effects of the gas leak in the Union Carbide plant in Bhopal in 1984 had not abated even in 2016, 31 years later. A hotel calculated that a 1% error would mean that every day a guest will leave without paying, 20 orders of fried eggs will have human hair in it, 15 tables would have soiled linen, 250 plates would be broken, drinks of 40 guests would be mixed up and 20 guests would not get the laundry.

6. One way to move in the direction of fault-free service, is to seek out data on every fault that may have occurred, document it, analyse causes thereof, and look for ways to eliminate it through improvements in systems, equipments or people behaviour. This exercise needs support from the top management, but needs involvement of the lowest possible levels. Technology is available to help in such analytics. **The errors would not be eliminated by rebuking or sacking the staff.**

7. The Boeing builds aircraft which do not fail - so claim the manufacturers. The 777 was one of the largest ever to be built and was an assembly of 150,000 uniquely engineered parts and 3 million total parts (including rivets and bolts), all of which had to combine perfectly with each other, to form electronic and mechanical systems. The effort of planning, designing, building and assembling, brought together engineers, designers, fabricators, machinists, suppliers, engine makers, mechanics, sales personnel and even customers (to contribute with ideas), from the stage of concept development right through to flight testing of the assembled aircraft. Some of the fabrications were made in countries thousands of miles away. Similar is the situation with regard to space flights. These kinds of complex activities need collaborative effort among all related persons, and strict adherence to the minutest specification, if error free services have to be ensured. Insurance companies should find it much easier to manage fault free services.

#### **(d) Checklist and Steps**

1. International consultant and author, John Humble, has, in association with the Management Centre, Europe, developed check lists to enable organisations and individual managers to do fast audits of the true extent of their commitment to quality in service. The checklists are based on the following concepts.
  - (i) Core services and product features, which determine value for money, have two components
    - performance viz., quality and reliability, design, availability
    - sense of caring viz., problem solving, courtesy, listening etc.
  - (ii) Key business issues are
    - external viz., selling & promotion, location, access, delivery methods, timeliness, supplier relationships, customer support systems and images
    - internal viz., culture, human resources capability, team work, effectiveness of production, organisation, information & technology, quality standard & control, innovation.
  - (iii) Delivery of service is a resultant of key business issues and cause customer satisfaction, perceived values, as well as repeat business and profitability.

2. The check lists raise specific questions on

- how explicit are quality and service, part of the company's mission statement
- how sharply defined and measured, are the criteria of customer (target), quality and service
- methods to track needs of customers
- post-sale concern for customer as compared to pre-sale concern
- checking of reliability of services, vis-a-vis promise
- communication of policies to staff and their training
- convenience of location and delivery arrangements
- checking of quality at distribution point
- control on incoming materials and components
- involving staff in information and decision making
- handling of customer grievances
- extent of innovation
- use of technology
- Awareness of competition.

3. **On each item, the present state and the desired state can be determined.** The action to be taken, will be to bridge the gap between the present and the desired states. The action plan will include the persons who should be responsible for each part of the action.

4. The manager who makes quick adjustments to handle unexpected rush of demands from customers, instead of getting irritated at the pressure, is being explicit about the emphasis on managing quality. Reward systems to personnel as well as infrastructure facilities for service, like location and access, define intent. Public servants, who are engaged in cleaning up streets and localities just before the minister is expected to arrive, are also explicit about their concerns for quality.

5. **The quality standards are to be defined in terms of the target market.** Every provider of service does not have to be a Disneyland in entertainment, the Taj in hotels, or Thomas Cooks in the travel business.

**EXAMPLE**

If the hotel is catering to pilgrims visiting a temple, spartan food would be more satisfying than a luxurious four course service in the restaurant. The arrangements at Shirdi, providing a locker to keep one's belongings, clean toilets and bathrooms with 24 hours water supply, and a space to sleep, seem to meet the requirements of large numbers of people who travel light, want

to clean up before 'darshan' and look for a safe place to rest. A supplier of security guards for housing colonies, does not need the sophistication of computerised personnel inventory that a placement service for top executives may need. A mofussil bus service can do with much less chrome and polish in its exteriors and offices than an international airline, and yet be perceived as of high quality.

6. Having identified the target market, the provider has to answer questions on how far he proposes to meet the needs of and expectations of that market. **Those answers will constitute strategic intent.** The intent has then to be translated into measurable quality standards. Benchmarking is done by comparing with other similar organisations. While benchmarking may show what is possible, it need not be chosen to be the level of service offer. At the chosen level, the offering must be flawless and satisfying, the best if possible.

#### **EXAMPLE**

In the Shirdi premises, the security of the lockers has to be perfect, the cleanliness and hygiene properly taken care of, the water supply uninterrupted at least during the specified hours, which should match the pilgrims' convenience and requirements keeping in view the programmes in the temple. In addition, care should be taken to see that the pilgrims' enquiries are easily answered, the booking procedures are not cumbersome, too much crowding is avoided and so on

7. The strategy will answer the questions, "Why should customers choose us?" and "How are we different?" The strategy should aim at communicating a message of uniqueness, of a brand. Subhash Ghai and Priyadarshan are brands in cinema. These names are associated with certain kinds of cinema, spectaculars in one case and simple delight in the other. So also are Jaslok or Apollo, brands in hospitals, IIMs in management education and Infosys in software consultancy.

## **(G) MONITORING CUSTOMER NEEDS**

### **(a) Purpose**

1. Customers' needs and expectations can be monitored through
  - market research and surveys
  - observation of customer behaviours and responses
  - data on offers from competition
  - complaints

- personal contact with customers
  - focus groups
  - comment/feedback forms from users
2. **Monitoring will try to identify critical areas of expectations, and see what elements could be built into either product features or processes to satisfy those expectations. These elements would then become the parameters of quality as well as contents for later communications to customers.**
  3. Monitoring has to be done by people sensitive to both explicit and implicit messages. Most customers do not usually articulate clearly what they want, but they do react adversely when they do not get it. The needs and expectations can be inferred from casual remarks, behaviours and involuntary signals

#### **EXAMPLE**

It is said that Mr. Oberoi, founder of the Oberoi chain of hotels, used to watch the expressions of people in the restaurant, and when he noticed a frown somewhere, would go to the person concerned and find out what was wrong. Mr. Brij Mohan Munjal, founder of Hero Cycles, used to spend time in the cycle repair shops to understand first hand, the experiences of the users of his cycles.

#### **(b) Measuring**

1. Measuring quality and customer satisfaction are complimentary to monitoring of needs and expectations. While monitoring may suggest what elements need to be added, the measurement will indicate the extent to which the elements are effective. **Therefore, the measurements may focus on the pre-determined parameters of quality, particularly changes or additions decided upon recently.**
2. Services, being intangible, measurement would seem to be impossible. However, bad service and the consequent dissatisfaction will be reflected in behaviours like fights, complaints, early termination of arrangements, etc. These can be observed and measured. In insurance, the services to be measured include (a) service rendered at the customer's premises by agents, mainly during sales and subsequent service calls as well as (b) service rendered in office during visits or telephonic enquiries by customers and (c) visits to internet sites and electronic service arrangements.

3. The ideal situation would be if the policyholder does not have to visit the insurance office at all. This can happen if the agent is taking care of the policyholder's needs himself.

#### **EXAMPLE**

In hotels, lobby managers walk around the areas where customers are. Similarly insurance officials can walk around areas where policyholders are waiting for attention or for some processing. Authentic feedback can be had if one just listens to the conversations between the policyholder as to how they are experiencing the service being provided.

4. It is worthwhile to work out a **Customer Satisfaction Index (CSI)**, based on **factors identified as critical and indicative of satisfaction**. The factors could be experience of transactions or attitudes that build relationships. CSIs can be worked out continuously or periodically. Both provide valuable data.
5. Measurements may be made of the service overall. Measurements may also be made of the specific changes made in the recent past. **It is necessary to draw the attention of the customer to the changes made and confirm that he experiences the changed features, or processes**. The customer should take note of the changes, as evidence of the provider's concern for service quality.
6. Regular measurements would also indicate changes that may have happened without deliberate intent. The way things happen are not always the way management thinks they should happen. **Systems put into place at one time do not remain so throughout** Gradual adjustments will happen, influenced by those who operate the systems as well as the forces and events within and without. Areas for correction will emerge from these measurements.
7. If feedback is being taken on a prescribed form, ratings on a scale are inadequate to highlight the areas for correction. Correction is possible only if one knows exactly what detail in the transaction caused the dissatisfaction. These details may be available, if the responses include free comments, as distinct from answers to questions. In the case of persons who come to office, authentic details can be culled from their expressions and the comments that they make between themselves.
8. An effective way to test quality is to use dummy customers with instructions to report. The dummies may be briefed to create abnormal situations to test how the systems and people stand up to the strains.



## (c) Structure

1. 'Structure' refers to the arrangement of responsibilities and functions. The structure clarifies
  - who will do what
  - who will report to whom
  - what each person is responsible for
  - what authority is vested in whom
2. **Responsibility is for achieving results. Authority is to commit resources of the organisation.** The person with authority can instruct people, can issue orders and will have some discretion to decide how anything should be done and how much resources should be spent.
3. **It is said that structure follows strategy. It is equally true that strategy follows structure.** If there is a mismatch between structure and strategy, either may adapt to suit the other. The functional equilibrium that emerges may not be what the management desired. When the service strategy is defined, it is necessary to ensure that structure is appropriate. Only then will the strategy remain in focus and be acted upon.

### EXAMPLE

If strategy is to provide credit approval within a couple of hours, it will not happen if the clearance has to come from a far-off office to which papers have to be sent physically, because the two offices are not connected by fax or e-mail. A promise to replace defective goods immediately has no meaning if the replacement is subject to approval from someone else, not available at the point of sale, or if stocks are not available to provide replacements. A promise to attend to repairs within two hours must be supported by a structure whereby persons, at a control point, receiving requests from customers, are also aware about the availability of the service personnel in the field, at any point of time and are authorised to deploy such personnel, as per the priorities which they may decide. This requires a communication system in place with necessary equipments and clear routines of reporting and identification

4. If the structure is appropriate for the strategy intended, the staff attitudes would also change accordingly. The LIC is an interesting case study. It had decided, as early as in the 1960s, that the work relating to Policyholders Servicing, must be decentralised to the branches. The efforts to implement this did not succeed till the 1980s, when the structure was also modified.

Afterwards, time lags reduced, accuracy of information improved and the attitude of staff changed from “We will let you know when we hear from our higher office” to “Tell me your problem and I will help you now”.

- 5 The structure should be around specific customer needs and segments. Small units with responsibility for a clear customer group, equipped with essential resources to perform the tasks, and given clear performance objectives, will function with a better sense of cohesiveness, perhaps with a healthy sense of competition. **The structure should enable, not hinder, quick responses to unfamiliar and unexpected situations.** Systems that require considerable paper work shift emphasis from the personal to the impersonal aspects of working. The latter is not suitable for the service business.

#### (d) Key Activities

1. While structuring the organisation, one needs to identify
  - key activities that produce results, where excellence is required and bad performance not acceptable
  - support activities which enable the key activities to be performed.
2. Key activities impact on customers directly. As a matter of principle, the key activities should not be subordinate to non-key activities. Revenue earning activities should not be subordinate to non-revenue earning activities. Conscience activities that clarify and establish values of the organisation should not be subordinate to anything else. They are top management responsibilities.
3. In many organisations, key activities are made subordinate to non-key support or control activities. Negligence in procedures relating to support activities may invite punitive notice, because of which they get more importance than the key activities. The transport department’s preference for cheapness should not override the marketing department’s choice of speed. The credit department’s penchant for complete data should not delay the negotiations for a major industrial deal. A ship should not remain grounded because the purchase department is processing tenders for spares.

#### EXAMPLE

In a hospital, the key activities relate to the medical attention and treatment of the sick. These are also revenue earning activities. But filling up of forms and payments of advances at the time of admissions are sometimes given

greater importance. Costly equipments, purchased for medical purposes, remain idle and unused because the sanctions for repairs and budgets for operators are not forthcoming.

4. Expenditure on non-key activities tend to increase faster than on key activities. Almost all public sector organisations have ever increasing activities on Hindi translations, compliance with reservation rules, response to queries from parliamentarians and so on, infructuous expenditures that override the priorities of the primary business of governance. Operating personnel feel inhibited by, and accountable to, audit and vigilance officials. A senior official, who tells his customer that he is unable to help, because the rules do not permit him to, is the victim of an inappropriate structure that emphasises internal rules (controls) over customer needs (results).
5. **The structure of a good quality service organisation has to be such that enterprise and initiative would not only flourish, but would always remain focussed on the customer, however large the scale of operations.** The flow of information within has to be carefully organised. The less time taken for information to reach relevant decision points, and back to action points, the more satisfying the service is likely to be. Computer networks provide a number of possibilities, if properly programmed, linked and maintained.
6. **It is useful to locate supervisory personnel close to points where moments of truth may occur.** They can observe, receive reports, apply correction, give guidance, make amends, enhance quality, almost instantaneously. In other words, a large operation may be divided into smaller units of operations and made fairly autonomous for day to day functioning.

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## TEST YOURSELF 2

Which of the following is a key activity in an insurance office? (The answer can be more than one)

- (a) Issue of policy document
  - (b) Underwriting of proposal for insurance
  - (c) Premium collection
  - (d) Marking attendance of employees
-

## (e) The Middle Manager

1. The middle manager's role has traditionally been one of integrating operations of the subordinates with top management policy. The focus therefore, had been to supervise activities of subordinates, control results, solve problems and so on.
2. **In a service industry, the control has to be on the process that delivers the outcome, which then produces satisfaction.** Problem solving has to be done on the spot by the employee in contact with the customer, during the process of delivery of the outcome. Also, the quality of service has to be continuously improved upon. Every contact point is a moment of truth, a source of satisfaction as well as of a potential problem. In a service business, it would be the role of a middle manager to
  - identify the contact points (moments of truth)
  - determine how the contact points have to be managed and the level of quality to be maintained
  - visualise the possible errors, (what may go wrong)
  - find ways of avoiding the errors
  - become aware of problems that may be developing
  - intervene appropriately to prevent the problem from developing
  - help the employee at that contact point to learn from what happened
3. The middle manager can do this best when he involves the operating personnel into his thinking and decision making processes. The fact is that they know what is happening, perhaps in more intimate detail than he (the middle manager) knows. **They should know what should happen. They alone can make it happen. They would be willing to make it happen, if allowed to.** They need to know what caused the happenings, and the risks involved in the proposed actions.
4. The middle manager will have to be as good as a nurse or a doctor in building empathy, as a salesman in handling rejection, as a marriage counsellor in resolving conflicts, as a psychotherapist in listening, as a coach in providing leadership and as a teacher or journalist in communicating ideas.
5. **Lead more and manage less, is the principle. Leaders improve communication and trust while managers rely on command and control.** The information and the decision should be shared. Let subordinates be a part of managing. They should understand and accept the quality standards,

as the super-ordinate goals of the organisation. Only when they accept, will quality be delivered. Without them, quality will not be delivered.

6. The middle manager's role in a service organisation will mainly be to find out what is good, very good and WOW, and how to move the whole process repeatedly to WOW experiences,. Make quality part of the agenda in all meetings. **Do not ever say, even by oversight, "Don't bother. Customer will not notice."** **Do not run down suggestions just because the improvement is small. No improvement is too small to be ignored.** Hundreds of 1/2 % here and 1/4 % there, add up to substantial figures. If a customer is fumbling with a form to fill, there is an opportunity to improve. Perhaps, the questions are not clear. Perhaps, they cannot be answered.
7. The middle manager must remain sensitive to customer behaviour and be able to interpret the real meanings in their expressions and comments. They should train their subordinates also to be equally perceptive and empower them to suggest, to improvise, to take initiative and to remain customer focused. They should be encouraged to report their observations of customer behaviour and comments. They would be thus involved in monitoring customer feedback and expectations. **Monitoring should be seen as everybody's business, not because someone higher up says so, but because everybody genuinely and voluntarily owns the responsibility for customer satisfaction.** Involving operating personnel into thinking about improvements in service, is one sure way to
  - make them customer focussed
  - reinforce the message that management is committed to quality service

#### **EXAMPLE**

Let stories of exceptional quality performance by employees, or WOW experiences of customers, be known to others, preferably in short meetings held periodically, specifically for these purposes. It increases internal communication. And shows possibilities for others to emulate. It should lead to competitiveness in one trying to excel, but not the competitiveness where one tries to pull down another.

8. Middle managers will have to lead by example. They will have to intervene as soon as problems seem likely and convert such situations into opportunities for excellence. There is a principle that says that out of 100 activities and 100 results, 20% activities account for 80 % of the results while the remainder 80% of activities account for only 20% of the results. This is called the Pareto's Principle or the 80-20 rule. 80% of taxes are paid

by 20% of the payers. 80% of problems come from 20% of the staff or customers. 80% of traffic is carried by 20% of roads. 80% revenue is collected from 20% of the products. This principle should help identify the critical areas to pay maximum attention.

9. One of the jobs of a middle manager would be to lay down standards of performance, even in routine matters. These benchmarks or standards of performance on routine matters will translate into speed and effectiveness while dealing with customers

**EXAMPLE**

Pick up the telephone within 4 rings. Check in within 2 minutes of arrival at hotel lounge, 6 minutes at peak hours. Queues of not more than 2 persons per counter. Letters to be replied within 6 hours. Telephone enquiries to be passed on to not more than one person.

10. None of these are easy to implement. All of them would require some rearrangement of systems. Every failure to comply should be studied as a systems problem. Even if it is an individual error, the correction should come via management practices. Once these standards become part of routine, the effort must be to improve further.
11. There are companies, which try to insulate themselves from the effects of mistakes. The effects of all the errors on the part of the company are passed on to the consumers, accompanied, sometimes, by no more than a verbal apology.

**EXAMPLE**

Potholes on roads are examples. The road users bear the costs. Buildings are demolished several years after construction when someone detects some improprieties in earlier years.

12. There are organisations which deliberately, understate the cost, trap the customer and then keep revising the cost, saying that there were clerical errors or unanticipated expenditures. The latter part is possible in hospitals, for example. Insurance companies suffer from such an adverse reputation. The reference to the 'small print' in policies, which are read at the time of the claim, arises from such perceptions.
13. The quality of service depends on a person's behaviour. Behaviour depends on a mix of physiological and psychological factors. Stress and fatigue affect behaviour to the extent that normal skills may not become available. Middle managers have to monitor the physical and mental conditions of the persons

assigned to customer contact jobs. Such monitoring has to be done on a continuous basis. If the conditions at a given time, are not appropriate for courteous, helpful behaviour, he must either be restored quickly to his normal best or excused from the front line jobs for that time.

14. Customers are not always deserving of courtesy and respect. Yet the service providers must treat them with due consideration. It is possible that stresses may develop. Middle managers must be able to notice such situations and avoid any eruptions of stress becoming severe. That is why, in the service industry, **the supervision has to be more on enabling the person who is the resource, to excel, and not so much on controlling the work.**
  15. The middle manager is responsible for maintenance of records. Study of problems and areas of improvement need comparisons and analysis, which can be done only through proper documentation. Documentation is the memory for an organisation, by which the experience (learning) continues even when the individuals concerned have changed. Documentation, for the purpose of memory, is less likely to be tampered with, compared to reporting activities for control and appraisal purposes.
  16. The factors to be used in building indices of satisfaction or Quality, have to be carefully chosen and checked for validity. Many studies mislead because the data is not collected from the customer. The adage “The desk is a dangerous place to view the world from. Hit the road” is a very important one.
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### **TEST YOURSELF 3**

Which of the following statements is true?

- (a) Supervisors should be sitting in closed cabins
  - (b) Supervisors should be located close to points where moments of truth occur
  - (c) Supervisors should not be talking to customers
  - (d) Supervisors should only deal with problems referred to them
- 

#### **(f) Grievances**

1. A customer has a grievance when he does not get what he thinks he is entitled to get. A grievance may also be recorded when he witnesses some other customer is getting dissatisfied, as for example, when he hears the cashier and a customer arguing loudly about the correctness of the bill. In

this case, the facts may also not be known, but the assumptions would not be in favour of the service provider.

2. A grievance is a symptom that quality is not perceived as satisfactory. A grievance has to be taken seriously because
  - it gives clues as to what is seen as going wrong
  - it indicates what customers expect
  - otherwise customers may be lost
3. A grievance is an opportunity to examine and rectify errors in the system or process. A grievance has to be handled in a manner that (a) the person aggrieved feels good at the end of it (this is called recovery) and (b) there is improvement in the system/process. A complainant's satisfaction depends on how he perceives
  - **distributive** justice: referring to the equity in the final resolution or outcome
  - **procedural** justice: referring to the manner (speed, flexibility) in which the grievance has been handled and the extent to which the complainant is involved in the process, and
  - **interactional** justice: referring to the explanations given, honesty and politeness, the sincerity of the effort, the attitude of the persons concerned, the empathy shown etc.
4. When a customer voluntarily expresses his grievance, it is a complaint. A complaint is an accusation and a demand for redress. **Those who complain may be about 5% of those with grievances. The rest just decide that the provider of the service is not worthy of further patronage.** They may also tell their acquaintances accordingly.
5. Those who tell their acquaintances about their grievances far outnumber those who talk about their satisfactory experiences. The memory of adverse experiences lasts much longer than of satisfactory experiences, unless the latter are of the WOW level. Adverse experiences also wipe out memories of the earlier satisfactory ones.
6. When a grievance is taken seriously and attended to quickly, there is satisfaction which, in turn, wipes out the memory of the adverse experience. The adverse experience is then treated as an aberration and forgotten.



7. A customer's grievance may not be valid. He could have, by his own actions, created the situation. There is no point in establishing the fault on his part. An explanation about the circumstances may mollify others who are witness to the incident, but not the aggrieved. An admission of error and doing something to avoid repetition is likely to be more satisfactory. A compensation, if possible, to offset the adverse consequences, will go a long way to convey that the error is genuinely, abnormal and regretted.
8. Because grievances matter and because grievances are not voluntarily articulated, many service providers seek to find out and hear grievances. Customers may refrain from sharp comments even when asked for. They do not want to 'blame' or harm somebody, who may be taken to task. The hospital superintendent who goes round all the wards every morning asking how patients feel, generally gets a grin and 'Alright' as responses. This is a routine which serves little purpose, except for what the superintendent may see directly, without being told.
9. **Customers are not inclined to complain. They are however, not averse to helping with information for correction and improvement. Contacts made, after the service had been experienced, have the flavour of asking for help to improve.** Customers would be willing to express themselves, if they perceive that the management is keen to improve the quality of services and genuinely wants to know the deficiencies. They will talk when they are met during periods when they are not engaged otherwise. They can be met during or after they have used the service.

**EXAMPLE**

Airline passengers can be met when they are waiting for the baggage. Rail passengers can be met even while they are travelling. In educational institutions, neither parents nor students are good enough, the former may not know and the latter may not tell. Past students are excellent for feedback.

10. Several organisations have created separate cells for handling grievances. Some have practices that are helpful; not so in other cases. Some of the unhelpful practices are
  - A public notice giving the names of complaints officers, arranged in a hierarchy, and the specific dates and specific times when they will receive complaints. Complaints cannot wait for the convenience of the service provider to be attended to. If it can wait, the complaint is not serious. A notice like this has the message that the customer's problem is less important than the convenience of the organisation. There is a

suggestion that the system is bureaucratic. The rigidity of a bureaucratic system/procedure is not conducive to handle complaints.

- Insistence on the complaint being in writing. Writing is necessary to prove or establish fault. **Neither is a complaint nor its redressal, ever founded in writing. They are in actions.** Proving fault is not the important thing to do. Identifying fault is the important thing. That does not need written documentation.
- The emphasis is on complaints received and complaints disposed of. Disposal may mean anything from mere acknowledgment, reference to someone else for verification and reporting, issuing a warning to someone, sending a letter of apology, explaining the relevant rules or procedures or law, to closing the matter because “the complainant did not personally appear at the enquiry”. **Disposal is real only when there is recovery as well as correction.**

#### 11. Helpful practices are of the following kinds

- Treating a complaint as a gold mine from which the organisation can benefit a lot.
- A grievance is noticed even before it becomes a formal complaint. The body language of the customer will show the adverse experience.
- Complaints are received on dedicated telephone lines, paid for by the organisation
- Complaints are processed keeping in mind (a) the need to ‘recover’ the complainant and (b) the need to improve the system, not punish someone.

12. ‘Recovery’ means getting the complainant’s loyalty back. Recovery can be made via, apology, explaining the causes (conveys serious attention to the problem), empathy, urgent reinstatement, symbolic atonement and/or follow up. The first three can be done in all cases, but not the other three. **Recovery is impossible if the complaint is treated with impatience. Delays make recovery difficult.**

13. Sometimes complainants are unhappy with the response of the service provider and seek intervention from third parties like courts of justice, arbitrators, etc. seeking directions for performance and even punitive damages. This situation represents a break in the relationship with the customer. This should be avoided as far as possible, but is not always avoidable.

14. Voluntary agencies exist to assist consumers in exercising their rights, providing them with moral, legal and financial support. The rights of the consumers are being extended and elaborated regularly through case laws. The test of quality of service will be when no customer feels the need to resort to third party intervention.

## **SUMMARY**

- Quality of service gives competitive edge.
- Quality of service adds value and provides more satisfying experience.
- Quality helps in word-of-mouth publicity.
- Keys to Quality are Customer, People and Processes
- Quality is what the customer says it is.
- Quality is the customer's perception of experience.
- Achieving quality may be costly. But bad quality is more costly
- Responsibility for managing quality is with senior management
- Training has to be seen as an investment in quality.
- Management has to take responsibility for what the agent does and says to the prospect.
- New technology demands high levels of precision in all inputs.
- Moments of Truth are events which constitute service in the mind of the customer.
- Moments of truth are critical for Quality.
- In service business, there should be no tolerance for error.
- Systems put in place at one time do not remain so throughout.
- It is useful to work out a Consumer Satisfaction Index.
- Lead more and manage less.
- Make quality part of the agenda in all meetings.
- Grievances and complaints must be taken seriously

## **KEY TERMS**

- Authority
- Customer Satisfaction Index
- Delight
- Elements of Service
- Error Free
- Expectations
- Gaps to be Managed
- Grievances
- Justice, Distributive, Procedural and Interactional

- Key Activities
  - Keys to Quality
  - Moment of Truth
  - Monitoring
  - Pareto's Principle or 80-20 Rule
  - People
  - Processes
  - Quality
  - Recovery
  - Responsibility
  - Satisfactions
  - Sensitivity
  - Structure
  - Support Activities
  - WOW
- 

## Answers to Test Yourself Questions

### Question 1

The correct answer is (d)

### Question 2

The correct answers are (b) and (c). A policy document is important, but is only evidence of contract. A delay will not matter much.

### Question 3

The correct answer is (b)

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## SELF EXAMINATION QUESTIONS

### Question 1

Which of the following statements is true?

- (a) Quality is what the customer says it is.
- (b) Quality at any time is decided by the Managing Director.
- (c) Quality of service can be bad despite good training to staff
- (d) Good quality is too expensive to maintain

## Question 2

Which of the following situations can be a Moment of Truth?

- (a) Cashier is busy on the telephone when you are waiting to pay the bill.
- (b) Salesmen in a cloth shop stand up as soon as you enter the premises.
- (c) The telephone is picked up as soon as it rings, when you call your bank.
- (d) All the above situations are moments of truth.

## Question 3

Which of the following statements is true?

- (a) Customers like to complain
  - (b) Customers complain for the fun of it
  - (c) Customers do not like their complaints to be ignored
  - (d) All the above statements are true.
- 

## Answers to Self Examination Questions

### Question 1

The correct answer is (a)

### Question 2

The correct answer is (d)

### Question 3

The correct answer is (c)

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# CHAPTER 6

## STRATEGIES FOR INSURANCE MARKETING - I

### CHAPTER INTRODUCTION

Marketing strategies will have to focus on all the elements of the Marketing Mix. This chapter and the next deal with such strategies as may be applicable to the business of insurance. None of the ideas in these two chapters have to be considered as prescriptive. Strategies will have to be necessarily innovative, taking note of competition as well as of changes in the environment including developments in technology.

### LEARNING OUTCOMES

- A. Understanding Strategies
- B. Product Strategy
- C. Product Differentiation
- D. The Boston Matrix
- E. Dissonance
- F. Market Research
- G. Pricing

### A. UNDERSTANDING STRATEGIES

1. A strategy, briefly, is a long-term plan. It is how an organisation proposes to achieve a long-term objective or mission. Strategic plans provide direction and all operational plans are derived therefrom.
2. While textbooks on strategic planning would suggest top management should evolve strategic plans after due consideration of the Environment (SWOT analysis) and the resources available, in practice, according to Henry Mintzberg, (Administrative Science Quarterly June 1985), “Strategies grow initially like weeds in a garden. They are not cultivated like tomatoes in the hot house. These strategies become organizational when they become collective, that is when the patterns proliferate, to pervade the behaviour of the organisation at large. To manage these strategies, is not to preconceive strategies, but to recognize their emergence and intervene when appropriate”.

3. Strategies in organisations are similar to strategies anywhere else. There are strategies in the military as well as in politics. Henry Kissinger, professor in Harvard University and former Secretary of State in the USA (1973-1977), has written “In crisis, the most daring course is often the safest. The riskiest course is gradual escalation. The key decision for a statesman is whether to commit his nation or not. There is no middle course. Once a great nation commits itself, it must prevail. Otherwise, it adds the reputation of incompetence to whatever controversy it is bound to incur on the merits of its decision. If crisis management requires cold and even brutal measures to show determination, it also imposes the need to show opponents a way out. Grandstanding may be good for one’s ego, but not for policy.” This and Henry Mintzberg’s observations need to be kept in mind, while developing strategic plans.
4. Marketing concepts suggest that products are developed in response to specific demands made or needs felt by the consumers. That is not always the case. Technological advancement or fortuitous emergence of some by-product in the course of efforts to develop something else, may lead to creation of needs and demands. The computer and synthetic detergents are two examples. The ‘walkman’ was an idea thought of by the CEO of Sony, long before the market expressed a need. The internet is the outcome of efforts of the USA to protect and preserve data in the event of an attack by the then USSR. Its possibilities and impact on the lives of people around the world are still emerging.

## **B. PRODUCT STRATEGY**

### **(a) Product Personality**

1. By definition, a service is not produced. It is performed. Therefore, to refer to service as a product, is not quite appropriate. Yet, such a reference makes it possible to apply to the service business, concepts relating to the processes of developing, managing and marketing of goods.
2. A product is basically something that a producer offers to a consumer to provide satisfaction of his needs. **To the manufacturer or producer, the product is an aggregate of technical/physical features and characteristics. To the consumer, it is an aggregate of utilities, values, expectations and perceptions, a complex cluster of value satisfactions.** Even in the case of goods, the customer is concerned with the intangibles associated with the tangible product.

### **EXAMPLE**

One buys satisfactions and states of mind rather than simply goods and services; well-being rather than simply a package holiday; status rather than simply a designer suit; security rather than simply insurance; beautiful feet rather than simply shoes; confidence rather than cosmetics.

3. People endow products with attributes, beyond the functional characteristics of the product. Soap is valued not merely for its ability to clean and protect the skin, but also for its shape, its colour, its fragrance, and the 'status' that its use symbolises. The packaging, the labelling, the price, the image created through promotional efforts, all add up to make the product create a specific image in the mind of the consumer. **Utility is only one element of the complex product personality.**

### **(b) The Insurance Product**

1. In the case of insurance, the tangibles are practically non-existent. The product is only a promise. The purchase is made without reference to anything tangible, except, perhaps, some literature that may be shown by the agent. The policy document does not exist at that time. It will be prepared only after the insurance contract is finally agreed upon by the insurance company as well. The policy document is useful only if a breach of promise is alleged and one has to go to court to obtain performance of the promise.
2. **In the case of insurance, the product bought is the promise as understood by the customer. The product sold is what the policy means according to the technical experts in the insurer's office.** There could be differences between these two. Unfortunately these differences will come to light only at the time a claim is made. If there is no claim to be made, there is no promise to be redeemed and then it does not matter what the promise meant. It is only at the stage of the claim that the product of insurance comes to focus. What happens at that stage clarifies what the business of insurance is. The product exists at the time a claim is made.
3. The differences arise mainly because of (i) rather inadequate knowledge among the public about the technicalities of insurance and (ii) inadequate or incorrect explanations by the agent. Such differences in understanding happen in life insurance as well as in general insurance. In case of general insurance, the difference in understandings can be much more.



### EXAMPLE

People believe that the insurance company will compensate them fully for the costs of repair or replacement of the insured goods. This does not happen. There is a deduction for depreciation. The deductions are also made in the claim because of understatement of the insured value, and they come as an unpleasant surprise to many. Most of them will not know that 'Burglasry' and 'Theft' do not mean the same.

4. The claimant in general insurance is a person in tragic circumstances. The person making a death claim in life insurance is also a person in distress. Even in the case of maturity claims in life insurance, the claimant is likely to feel unhappy that he did not put his money into more lucrative options. Thus, the product of insurance, which is realized only at the time of claim, is shrouded in unhappiness.
5. The experience at the time of claim can be made more distressing - or less distressing - by the nature of interaction the claimant has with the insurer. **It is in that interaction that the quality of service exists.** Determining the policy terms and conditions and generating a variety of plans is one part of product development. **Managing the interactions is an equally important part of product development.** This is the Process element of the Marketing Mix. **Process is part of the Product in insurance**
6. Another aspect of the insurance product is that the customer buys the product offered by the agent, only because he believed in the promises made by him at the time of sale. This belief has two aspects. One is that the policy being suggested will meet his needs. Second is that the promise will be redeemed, when the time comes. The promises are made by an agent (which includes any person trying to make the sale on behalf of the insurer). The belief about the promises follows a belief that the agent is trustworthy. The purchase will not happen if the customer does not trust the agent. In other words, the agent is bought first, before the insurance is bought. **The agent is not only part of the product in insurance, but is the primary product.**
7. Because the agent is the primary product of the insurer, his knowledge, his skills, his integrity, his concern for the customer, his manners, his attitude to help, are all matters which should have the attention of the insurer to the same extent as developing insurance products to meet the needs of the market. The IRDA, aware of this reality, has in its regulations specified requirements that an agent must possess. **Insurers, who try to circumvent these regulations, are doing themselves a disservice.**

8. An insurer is interested in increasing its premium earnings. That is the first indicator of its performance as an insurer. Another important indicator of its performance would be the claims that arise on the business that it has underwritten. Any prudent insurer would be interested in ensuring that the claims are as low as possible.
9. Every person who has taken an insurance policy may not be aware of the risks around him, as much as the insurer may, with his rich experience, know. Advising policyholders on the basis of this knowledge, could be a product of an insurer, offered at a cost or even free. The amount spent on this activity would be an investment, the returns of which would be reflected in the reduction of claims. The benefit will flow to the insurer and the community as well. **A loss of an asset through a peril is a loss to the community and not merely to the owner or the insurer.**

### C. PRODUCT DIFFERENTIATION

1. Products are divided into three main categories, consumer goods (durables and non-durables), industrial goods and services. Consumer durables are long lasting and relatively costly, items. Non-durables are items which are bought more frequently and are relatively lower priced. Industrial products are specific to industry. Services have been defined earlier.

#### EXAMPLE

Refrigerators, washing machines, computers or furniture are consumer durables. Tea, cosmetics, soft drinks, toothpastes and cigarettes are non-durables. Raw materials, capital equipment, etc are industrial goods.

2. Consumer goods are also classified as convenience, shopping, specialty and unsought goods, according to the purchasing habits of people. Convenience goods are purchased frequently, immediately and without planning or search for alternatives. They are bought from any easily accessible outlet. Shopping goods are those which are bought infrequently and the buying decisions are made without haste, after comparisons as to suitability, quality, price, etc. Specialty goods are high priced goods which are bought only from specific outlets. They are not bought out of instant decisions. The effort to purchase is specially made. Unsought goods are rarely thought of by customers. They are sold. Insurance falls into this category.

#### EXAMPLE

Cigarettes, soft drinks, newspapers, etc., fall into the category of convenience goods. Furniture, kitchen utensils, TV sets, etc. are shopping goods. Cars, jewellery and fashion dresses are speciality goods. They are not bought in a hurry.

3. The above classification is based on the frequency of purchase and the relevant considerations for purchase. This helps the producers to determine the location of outlets, the necessary level of promotion, etc. Products of the same kind may also be differentiated through the contents and the claims made by the manufacturer. These differentiations create distinctive value. **When differentiation is effective, nothing else is equal.** Competition on price is avoided because competition is only among equals and not among unequals.

#### **EXAMPLE**

Cooking oils refer to effects on cholesterol levels to differentiate themselves. Toothpastes are differentiated on the basis of clove oil, fluoride and so on.

#### **(a) Core and Peripherals**

1. Every product has a core as well as peripherals. The core consists of the technical characteristics to perform the basic functions for which the product is made. The peripherals have no great functional utility, but they add value. Product differentiations are created mostly through variations in peripherals. The peripherals are also referred to as the **associated features that augment the product**

#### **EXAMPLE**

The core constituent of a television set will be its engineering, circuitry, etc. that provide steady and clear images and sound. The peripherals would be the design of the cabinet, positions of the controls, remote control facilities, the guarantees, etc.

2. Different pharmaceutical companies market the basic generic medicine (core). The associated features, that distinguish one from the other, would be in the strength of the drug, form (liquid, capsule, pill, powder), additives (for taste or as base), packaging (bottle, strips, cartons), and so on. Consumer demand is related to the need for the core product, but all marketing activity and consumer behaviour is related to the augmented product.
3. Products also may be customized to meet the specific requirements of the consumer. This is done particularly for high value industrial products, which may be fabricated or modified to meet specific needs. This is not done for mass produced items. In the service sector, the opportunity, as well as need, for customization is very high. There is practically no mass production in the service business. **Every service transaction is a specific response to a specific need of a specific customer.**

4. In the case of goods, particularly durables and industrial products, services are peripherals that add value. In the case of insurance, every policy is practically customized in the sense, that the final shape of the policy is determined taking into consideration the specific situation and requirements of the customer. A new plan can effectively be created by combining two or more plans. In the case of group insurance or big business with corporate bodies, the premium and benefits are subject to negotiation.
5. The core product offered by all insurers will practically be the same. The differentiation and consequent competitive advantage will be in the peripherals. The core is the event, or the risks, insured against. No insurer has an exclusive privilege to cover any one kind of risk. An insurer may find it feasible to specialize in a kind of risk, which other insurers may refrain from. That would not be because they cannot. It would be because they do not want to. Health insurance is one such example.
6. When the risk covered is the same, the peripherals that make the differentiation will be found in the delivery system. The 'delivery system' refers to the arrangements made by which the customer would be able to (i) access and purchase the service on offer as well as (ii) receive the benefits of the service after purchase. The former would be the distribution system and the latter would be reflected in the after-sales service and the claims procedures. These are difficult to copy and replicate, as they are based on the culture and management practices.
7. The customers in banks operate savings bank accounts. Peripherals are in speed with which deposits and cash withdrawals happen, credit for cheques deposited, ability to operate account without going to the premises of the bank and so on. It might appear that if one bank can do it, so can any other. Theoretically, this is so. But in practice, it depends on the skills and attitudes of the personnel, as well as the systems in place. All banks do not issue credit cards.

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## TEST YOURSELF 1

Which of the following can be called shopping goods?

- (a) Wrist watch
- (b) Cough syrup
- (c) Towels
- (d) School Bag

## (b) Product Range - Breadth and Depth

1. While designing and offering a service product, the following factors have to be taken into account.
  - The market segment being catered to.
  - The needs that will be satisfied by the core product.
  - What should be the mix of the various elements in the product.
  - Extent of augmentation.
  - Extent of differentiation with other products.
  - Extent of customization.
  - Availability of technology.
  - Arrangements for delivery of the proposed service.
2. In life insurance, the core product would vary according to the mix of cover for death and for survival. There are umpteen choices possible here. Augmentation would be in the nature of facilities for collection of premia, variability of the Sum Assured according to indices of inflation, etc.

### EXAMPLE

Premiums may be collected by deduction from salaries. Index linked plans can provide many options in terms of choice of index.

3. In general insurance, there is much wider scope for variations in the core product itself. Every different peril and every different industry provide opportunities for variations. It is possible for companies to confine themselves to specific segments of the market providing them specialty services in insurance. With new technologies changing the risks in industry, insurers may try to keep in touch with the needs of particular industries. The risks in e-commerce are yet to be understood fully.
4. Product ranges are looked at in terms of breadth and depth. **Different kinds of products add breadth. Different varieties of the same product add depth.** An insurer who offers policies covering death or survival with variations in the ways moneys are paid, has depth. But if it also issues policies with Sums Assured linked to stock market movements, or Sums Assured stipulated in terms of houses and gold, it has added breadth. The general insurance companies added breadth when they offered services to search for goods in the docks and thus reduce losses as well as when they set up the Loss Prevention Association of India to advise members on the know-how to reduce losses.

5. In the service business, the delivery system is a (peripheral). part of the product. Every different method of accessing the service is a different peripheral, modifying the product through depth. Every added benefit in the cover is a variation in the core, modifying the product through breadth.

**EXAMPLE**

When the banks made it possible for account holders to access and transact from any branch of that bank anywhere in the country, or offered to send people to their homes to complete transactions, the product had effectively become more attractive, with greater depth.

6. A service product is made up of a large number of elements. Each of the elements contributes to satisfaction and therefore quality of the service. Every different combination of elements makes a different product. No great effort is needed to modify the features of a product at any time. The aircraft used by airlines around the world do not differ very much in terms of safety and speed. But an airline which offers a meal at the airport before boarding a late night flight is making a difference in the product as it allows the passenger a longer period of rest on board.

**EXAMPLE**

In a theatre, the elements include, apart from the shows (language, quality, timings), climate control, acoustics, cleanliness, quality of seating, courtesy of ushers, elevator service, reservation facilities, carpark facilities, facilities in lobby, decor, nature of patronage, information on forthcoming programmes, and a lot more details on reception, waiting, comfort, ambience, etc. Satisfactions increase when one is recognized as a patron by the officials in the theatre; when one can have the seats of one's choice, whenever required;

7. A product in tourism is the place of destination. The experience while proceeding to and staying in that destination is equally important for a tourist. Excellent destinations like Kumarakom and Thekkady in Kerala or Belur, Halebid and Agumbe (hill station) in Karnataka, can become less attractive if the approach roads are not in good condition. Places in Rajasthan, like Jaisalmer, are offered as tourism products, to experience the life styles of Maharajas, living in real palaces, with kingly appurtenances, travelling in the 'Palace on Wheels', the luxuriously fitted up railway train, going hunting (with cameras, of course) on elephant back and so on.
8. The 'Palace on Wheels' has by itself become a tourism product and is being made available in many circuits in India. The accommodation provided is as

much part of the package in the African safari tours, as the bushes and the wild life. Many pay more to live in the tents in open country 'with nature' instead of in five-star comfort. Many tourists would like to live with families experiencing the local life styles and habits. Dinner aboard the huge boats called *valloms* on the backwaters of Kerala, is part of the tourism product.

9. In the case of a retailer, the range of what he has in stock is probably less important than reliability for genuineness and purity, displays, convenience to inspect and choose, behaviour at times of scarcity, delivery, billing and payment procedures. In the case of a dealer in computers, the hardwares and softwares are important, but would not give him the distinctive competitive advantage. The distinctiveness would be in the areas of help to adapt, availability in the event of problems (technical support), reliable information, etc. All these are augmented elements of the core product. In the case of the smart phones, it is difficult to say what is the core and what are the peripherals. Use as a telephone, is certainly not the core.

### (c) Developing a Product

1. The steps in developing a service product are
  - Determine what the customer values as benefit (**Benefit concept**)
  - Determine which of these benefits could be offered (**Service concept**)
  - Decide on the precise **Service offer**, which includes form and levels of the benefits to be offered and
  - Decide on arrangements for delivery of the service (**Delivery system**)
2. The product has to provide benefits to the customer. One needs to be clear on who the customer is and what his needs are. The expectations (needs) of the customer include a number of functional and psychological dimensions. The needs of a traveller on business are different from those of one travelling on holiday with the family. In the latter case, the needs of the family are important. The children and/or wife are also customers.

#### **EXAMPLE**

Thomas.Cooks started in 1841 as a travel agency. It is now a one-stop travel shop, providing itineraries, bookings for travel and for stay, currency in various denominations, help in passport and visas, conferences and sightseeing arrangements, and also receiving and delivering mail to travellers on long holiday tours covering several destinations.

3. The offer (benefits) from a restaurant may vary in kinds of food, (Indian, Continental, Chinese, Thai and Mexican), extent of spread (salads, seafoods, cold meat, etc) price, courtesy, waiting, comfort of seating, privacy, exclusiveness, and so on. One restaurateur may in his service concept include speed of services, paying little attention to seating or ambience or courtesy in service. Another may conceive of service in terms of quick, clean, simple wholesome lunches for business executives, without much of a choice in menu, but offering convenient seatings and atmosphere, to enable serious business discussions as well. **Variations in service may be in terms of (a) availability of sit down facility, (b) waiter service or self service (cafeteria), (c) delivery at customer's work place, (d) pay daily/monthly, (e) pay before / after service. These choices are to be made keeping in mind**
  - the market segment proposed to be served
  - the resources one has and can muster
4. The services provided by the Singapore Airlines included
  - reclining seats (for the first time, gaining competitive advantage)
  - choice of food for Economy class (normally only First Class had the choice)
  - menus changed every week (four times more often than industry practice)
  - more cabin crew than average
  - ultramodern fleet (in 1998, (This airline was among the first to use Boeing 777s)
  - purchases home delivered anywhere in the world
  - in-flight office fax
  - priority passenger gets magazines related to his hobbies/profession
5. What Singapore Airlines offered in 1998, are not considered exclusive in 2016, Some airlines flying 17 hours non-stop across the globe, have come up with ideas that provide a virtual home on the top deck with valet (for personal services) and secretary (for official work) added.
6. Once the choices with regard to offer (benefit and service) are made, the proposed service must be delivered consistently, 100%, all the time. **The delivery system, which makes this possible, is probably the most important part of product development.** The reference here is not to delivering a packet or a letter but to the arrangements made through people, equipments and systems, so that the proposed services are



performed as intended. **It is the delivery system that translates the service concept into a reality and an experience.**

7. Technology and equipment do facilitate the performance of better service (in terms of time and accuracy), but do not ensure it. For example, the interactive services, which provide information through recorded systems, will not be satisfactory if
  - the recorded messages are not updated regularly
  - the messages have been recorded by a person who does not articulate clearly
  - the system is not functioning satisfactorily
  - there is unduly long wait before being connected to the system
8. It would be naïve to copy what the competition or insurers in other countries offer. Professional liability insurance will take time to develop in India, because we do not have enough cases to make it a felt need. Neither are the damages awarded unbearable. Practices in certain western countries allowing buyers to return the dresses to the retailers, if they do not feel satisfied with the purchase, are unlikely to be adopted in India.
9. Unit-linked life insurance plans (ULIPs) are common in India. As long as the capital market was bullish, these plans sold well. When the capital market took a down turn, the plans became less attractive. Buyers of such plans are not familiar enough with the vagaries of the capital market and tend to panic when the reversal is not corrected soon. Despite the warning from the IRDA that insurers should not guarantee any returns on the ULIPs, policyholders are often made to believe that safety elements are built into the plans.
10. Product development has to take into account investment opportunities including the legal restrictions, the levels of technology and computerisation affecting the flow of information, the level of consumerism, and so on. Courts tend to interpret laws favouring the claimants even by extending the provisions of the law. Awards are made even without any regard to fault or neglect. Insurers will have to keep in touch with the legal developments, particularly in products and businesses that are relatively new, and incorporate appropriate exclusions, even at the cost of losing popular appeal.

### EXAMPLE

A crane operator hit by a high voltage electric transmission line was awarded damages, on the ground that there was no warning notice on the crane or the cabin, despite the defence that crane operators were normally trained persons and were expected to know the dangers from power lines. Damages had been awarded for injuries caused by a pole entering the car behind the front door, because, it was held, there was no rigid steel body.

### (d) Flexible Options

1. Wherever possible, the 'core' offer could be the bare minimum service, uniformly valued by customers in a given segment at the lowest price, with 'wrap on' supplements or options, which may be chosen by individuals who need them, at a price. This is customisation, popularly known as 'tailor-made'. Such customisations already exist in many services like, beauty parlours, tailors, restaurants, hospitals, consultants and transportation. In life insurance, the 'wrap on' or riders can be Accident Cover, Critical Illness cover, Hospitalization, life cover for wife, floating covers, etc. In non-life insurance, every policy is customised.

### EXAMPLE

In tourism, options may be to change from the standard itinerary, extending or curtailing stays at specific centres, special visits (to monuments, people, places, acquaintances, religious centres), language guides. In education, there could be several options for additional credits (subjects to be studied) and the duration of the studies. This kind of syllabus is called the 'Cafeteria'. Standard coaching may be through interactive CD.ROMs, with personal interaction (with guides or professors) being the options.

2. The opposite of customisation is commoditisation. **A commodity is a standard product, which is not differentiated by the manufacturer of the product.** When one buys coconut oil, one does not normally ask which company had produced.
3. If that question is asked, it means that there is a preference for the oil produced by X. The preference must be based on a belief that the oil produced by X is purer or cheaper or better scented or whatever. The commodity then becomes a brand.
3. Some plans of insurance can be sold like commodities, without any verification about the buyer or the object being insured. They do not need customisation. Simple third party motor covers and annuity policies may be examples. Advances in electronics and Infotech, make such options

possible. When commoditised, the product can be sold by anybody, across the shelf, to anybody who asks for it.

### (e) The Delivery System

1. In insurance, the delivery system is more complicated than in most other services. At the time of buying the policy of insurance, the coverage has to be clear, complete and specific. Otherwise, when the event insured against happens, it will be noticed that the warranted exclusions, declarations etc., have nullified the intended arrangement. This is what people complain about as “The small print takes away what the big print gives”. Systems have to be developed to ensure that both the insured and the insurer have the same understanding about what is on and what is not. Agents are the ones who can ensure this.
2. The second stage of the delivery system is at the time of making the claim. The procedures for the claim to be even considered have to be clearly known and communicated to the potential claimants. For example, the Overseas Medical Insurance scheme, (which assures free medical care for Indians travelling abroad), becomes non-functional, if
  - the appropriate endorsements or evidences are not carried by the traveller
  - the appropriate endorsements or evidences are not properly authenticated
  - the updated list of authorised doctors and hospitals at the overseas centres are not available
  - the persons to be contacted in case of need, are not known or are not available at the given addresses or telephone numbers
  - the necessary authorisations are not forthcoming.
3. These deficiencies cannot be anticipated or asked for by the insuring person. The system of the insurance company should automatically deliver all the details and instructions, so that the benefits of the coverage become available as promised, when required.
4. Earlier in this book, reference has been made to the need to ensure 100% non-failure. While the target has to be no failure, failures may still occur. An unexpected circumstance can happen. **When failure occurs, it is advisable to**

- apologise for the failure
- explain the reason for the failure to the customer

instead of denying the failure. Whatever be the reason for failure, say so. Nobody likes to be told false things, which is not very different from cheating. People like to know what is happening, however, unpleasant. Patients do not like to be misinformed about the true state of the disease. Stating the reasons, conveys reassurance that the failure was not because of lack of effort or concern.

#### **EXAMPLE**

A flight can get delayed for a number of reasons. But the announcements usually attribute the delays to ‘technical reasons’. These announcements are seen to be false and invite ridicule. When the doctor says, “Everything will be O.K.”, there is no reassurance. There is, on the contrary, heightened anxiety, because the behaviour of the doctor and the nurses may be suggesting seriousness; serious enough to be hidden.

5. In insurance, there should not be a failure to deliver the promise. When an importer making a claim on account of the stocks in a godown having been stolen by the manager of that godown, is told that the claim is not payable as the event was not burglary within the meaning of the policy, his faith in the insurance business is shattered. The failure here was of the insurer’s systems and people and there had been no ‘breaking in’, which is a condition for an event to be called burglary. No apology or explanation is adequate recompense.

#### **(f) Product Image**

1. A product must be positioned in relation to other products in the producer’s own package of offers as well as offers by the competitors. Every product can have several alternatives and options in the eyes of the consumer and every alternative is a competitor.

#### **EXAMPLE**

The competition to toothpaste comes from every other method of cleaning one’s teeth, which will include herbs and burnt husk. A book publisher may be in competition with playing cards at one end of the spectrum to computer games, educational films and the internet at the other end.

2. A life insurance policy, as a means of protection for family, is competing with the concept of undivided families and landed or household property and is also pitched against bank and company deposits or the Provident

Funds and other savings media, as a source of income for the old age. Similarly, an All-risk policy for jewellery is facing direct competition from the safe deposit lockers. Big organizations may find it worthwhile to build up their own funds (self insurance). The armed forces withdrew their deposit linked group insurance scheme from the L.I.C of India. The fund generated by this scheme became a major player in the money market.

3. Organizations, which have a big range of products in depth, may find that their own products are in competition with each other. Such ranges are noticed in soaps or cigarettes or even in cars, when the same organization wants its presence in all segments of the market. It is important to establish the distinct images of these products. Otherwise, they might eat into each other's market.

### (g) Product Obsolescence

1. When obsolescence sets in, the product gets into the declining stage. There are two main reasons.
    - *Loss of Utility*: This happens because new products have become available, which are more convenient in terms of ease of use, cost effectiveness, speedier processing. Technological advancement is the main reason. Changes in tastes and life styles are brought about as a result. Xerox machines had eliminated the cyclostyling machines. Xerox is no more popular because of computer scanners and printers. Word processors had replaced the typewriters. Electric food processors have replaced the grinding stones in the kitchens.
    - *Planned Obsolescence*: This happens in fashion-wear, automobiles, etc., because of the introduction of new designs and models. Planned obsolescence happens in insurance also. Certain plans like the Anticipated Endowment policy and the deferred annuity, were replaced by new plans like the Money Back and Jeevan Dhara policies by the L.I.C of India
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### TEST YOURSELF 2

Which of the following is **NOT** an element of an insurance product?

- (a) The agent
- (b) The policy document
- (c) The benefits provided

### D. THE BOSTON MATRIX

1. **The product portfolio must be reviewed from time to time.** The purpose of such review would be to determine whether any of the products need to be taken out of the offer or need to be strengthened further. One of the considerations would be the position of the product in the life cycle. Products getting obsolescent need not be continued with. Another consideration would be the contribution that the product is making to the total performance of the company. In insurance, the contribution can be determined in terms of claims ratio, volumes of premium, size and nature of segment catered to, costs relative to premium, etc.
2. The Boston Consulting Group had developed a grid known as the Boston Matrix, to do this analysis. It takes into account the appropriate stage in the life cycle reached by various products and the relative market share of the products. The term ‘Relative market share’ used in the matrix indicates the market share enjoyed by the product with reference to the other main operators and market growth rate indicates the rate of growth of the total market for that product.

Relative Market share

	High	Low
High	Star	Problem Child
Low	Cash Cow	Dog

3. The ‘Problem Child’ is in a high growth industry, but is not doing as well as the competitors. Perhaps, it requires commitment of higher resources. The ‘Star’, on the contrary, is a market leader and is a mainstay of the organisation. It needs resources to maintain its dominant position. The ‘Cash Cow’ has past its prime and has no further potential for growth. It is financially beneficial to the organisation. Being in a declining market, it may die out soon. There is not much point in committing large resources to it. The ‘Dog’ is a drag on the company and needs to be killed as early as possible. The Matrix helps to identify the products in terms of the differential attention needed. The appropriate strategies are called Build for Stars, Hold for Problem Childs, Harvest for the Cash Cows and Divest for

the Dogs. Strategies can also seek to convert each product from its existing status to a higher one.

4. While using the Boston Matrix, one has to be cautious. There could be many factors that affect the industry's growth or one's market share. Market growth rate is assumed to be indicative of the industry's attractiveness, while, in fact it is only one factor that causes growth. Similarly the relative share ignores the fact that the company's other products may have an influence on the performance of the product in question. A proper judgement on strategy would require more study of the other relevant factors.

## E. DISSONANCE

1. **The factors affecting perceptions of customers are different before, during and after purchase.** Before purchase, they are affected by the image created by the brand, previous experience, what the friends say, published results and endorsements and the price as advertised. During purchase, the relevant factors are the performance specifications, the salesman, the warranties, service and repair arrangements, support programmes and the price which is quoted. After purchase, the relevant factors shift to ease of installation and operation, handling of claims and repairs, spare parts availability, reliability and service effectiveness.
2. In the case of insurance, after the purchase, the only experience to create a perception, is the continued attention and concern shown to the customer, which would reassure him that the promise he believed in while making the purchase, was not misplaced. If he does not receive such attention and expressions of concern, he could start doubting the bonafides of the salesman. That is the first step to having doubts about the wisdom of the purchase. **This is what is known as 'Dissonance'**. Dissonance is likely to be more frequent in the case of insurance purchases than in other purchases, because of the following.
  - In insurance, the payment of premium is real and immediate, while the benefit is distant and uncertain
  - In most other purchases, there is a predisposition or willingness to buy, while in insurance, it is as if the purchase has been forced. The need is not felt strongly.
  - Policyholders feel a sense of loss or waste if the claim does not occur before the end of the term

- There are conditions and warranties which the policyholders, being unaware of their implication, could ignore affecting the validity of the insurance policy.
3. Apart from help in processing the claim whenever it occurs, post-sales servicing would include regular reminders as to the customer's obligations like payment of renewal, furnishing of data as may be required, compliance with warranties and so forth. There could also be changes in the customer's situation, which the agent should become aware of. It will not only help to decide whether the policy conditions need amendment but also throw up opportunities for further business.
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### TEST YOURSELF 3

In the Boston Matrix, which of the following is appropriate strategy for a Cash Cow?

- (a) Build
  - (b) Divest
  - (c) Harvest
  - (d) Hold
- 

### F. MARKET RESEARCH

#### (a) Limitations

1. Market research is the traditional method of finding out customer needs, on the basis of which product strategies may be developed. A variety of techniques, like surveys, questionnaires, interviews, observations etc., have been developed to do market research in relation to goods. **There are limitations in using these in the case of services, mainly because services are intangible, difficult to measure or sample and even difficult to articulate precisely.**

#### EXAMPLE

One cannot say exactly how strong he wants the coffee to be or how sweet it should be.' One tea spoon' is only an approximation, as all tea spoons are not of the same size and shape and may be filled to different levels.

2. Market research, in relation to services, is like trying to get objective data about preferences while choosing a wife or husband. The 'right' person is



such a vague combination of perceptions that articulation, however detailed, may not convey adequately. Audience viewership ratings, in the case of TV programmes, at best, might indicate popularity of TV channels or programmes. They may help advertisers to choose slots or media. They do not help producers improve popularity.

3. Test marketing is a technique where the sample of the product proposed to be made, is given to a few customers and their responses elicited. In the matter of services, samples cannot normally be made. Some newspapers prepare dummy editions before regular publication to gauge public reaction and obtain support. Film makers release trailers. Travel agents are given free flights by airlines or taken to travel destinations to be promoted. These are really in the nature of promotional efforts, because the product has already been designed and the comments of these users are unlikely to cause substantial changes.
4. Advertisement dummies can be shown to selected experts, before finalising campaigns. A visual T.V. advertisement, which was raved about by experts for its innovation and impact, when released, made no impact on the viewing public. The impact of an advertisement depends on the position it has in the page, the matter in the rest of the space, or the position in the series before a T.V. programme and those preceding and following. These are not constants. They cannot be sampled or predetermined.

### **(b) Contact Points**

1. One market research technique uses the data gathered by those in contact with the customers like, sales personnel, front office staff, billing clerks, room boys, ushers, messengers, telephone operators. At all these contacts, some messages are available as to what the customer (a) expected, (b) got or (c) missed. These messages are not usually in the form of clear statements, but are often implied in enquiries or comments.

#### **EXAMPLE**

When a customer enquires about how to contact another room, or to go to a venue within the same hotel, it means that he had experienced some difficulty in that respect. A customer once asked the lobby manager in a hotel, what they did to keep cockroaches and spiders off the rooms and got a detailed account of the hotel's practices. The lobby manager did not realize that the enquiry was not a consultation, but a complaint. The customer had killed a big black spider in his room that morning.

2. It is customary to test customer satisfaction through surveys, which list down a number of elements of the service and ask the user to rate these elements on a scale ranging from Excellent to Poor, identified by words or by numbers. The responses do not really help the management to know what is happening or what needs to be done. What exactly is the level that the management would like to call 'Excellent'? If the majority of responses are 'Good', what can the management do to improve it to 'Excellent'? Of the multiple elements that constitute a service, it is difficult for any survey to identify that which the customers, as a class, are looking for.
3. Customers express themselves subtly and indirectly, even if asked directly. "How did you like the service?" or "Hope you enjoyed being with us." are meaningless questions that will elicit casual answers like "O.K.". Formal feedbacks and questionnaires thus fail to communicate much. A teacher cannot expect a student to tell him that the class was not interesting. But the teacher can gauge it from the way the students sit in the class, from the earnestness with which he is accosted, from the 'light' in the student's eyes, from the comments made between friends, from the nature of discussions during a break, from the spontaneity of response to a joke. When a student tells a faculty member, in an in-house programme "The lecture was very good, Sir. You are very knowledgeable. Your level is much higher than ours", the real meaning is "We did not understand you".
4. People in contact with customers can pick up a lot of data on customer needs, expectations and experiences, if they are sensitive enough to listen to the comments. They can hear complaints that are not explicitly expressed. A customer who does express a complaint explicitly, is indeed doing a great service to the service provider. It is found that generally very few customers complain. They just switch brands

### (c) Insurance Related

1. To assess customer needs, expectations and experiences, in services needs techniques other than the traditional. The business of insurance is still more difficult. The service of insurance actually exists at the time of the claim. The customer at that time is a person in distress. A person in distress perceives differently than a person in a joyous mood. No claimant will ever say, that he regrets having taken insurance, unless, of course, there has been a terrible mistake and the claim is being denied. **A widow in receipt of a life insurance claim is the best endorsement for the life insurance business. She would never feel that the sum assured was more than adequate or that life insurance is bad because of inflation.** She is the one who experiences the pleasure of the insurance agent bringing in money

while others queue up to collect debts (mortgage, hire purchase, etc) from her.

2. It is difficult for a person in perfect health or in a booming business, to visualize the real situation at the time of a tragedy. The needs can be known only from persons who have gone through such situations and they are the claimants. **Those needs will have to be understood by agents keeping in touch with the claimants and helping them through the difficult situations, knowing how the money has contributed to (i) the avoidance of something unpleasant and (ii) the creation of a pleasant alternative. The experience of the claimants while collecting the claim amounts can also help in streamlining the 'delivery system'.**

#### **EXAMPLE**

The problems and expenses relating to a serious sickness cannot be experienced fully, before they happen. Such persons cannot explain their needs with regard to insurance.

3. While satisfying customer's needs is the primary drive for product development, the job, as stated by the British architect Suir Denys Lasdun is "to give the client on time and on cost, not what he wants, but what he never imagined he wanted and, when he got it, recognised it as something he wanted all the time". Sony's Walkman (in the 1970s) was an example.

#### **(d) Complaints**

1. Every complaint provides an opportunity to add a new element to the service, or to improve the delivery, thus augmenting the product. Customers should therefore, be encouraged, to record their experiences of the services provided. The comments, to be useful, should be precise and detailed. If someone says, "I was waiting for a car. The driver had reported to the Reception, but I got no information. When I checked with Reception, I was told that no driver had come. I lost more than 2 hours", there is enough data to pinpoint failure and make correction.
2. A complaint does not necessarily mean that there is a fault or neglect on the part of an individual. It may only be revealing an omission in designing the product or the system. People concerned with providing the service tend to interpret a complaint as an accusation against themselves and therefore try to
  - explain away the failure
  - decry the customer's demand as unreasonable

- look for the person who could be faulted and punished
  - hush up the complaint at lower levels.
3. It is often assumed that errors and complaints are caused by the negligence of some employee and punishing him will make employees more careful. Scapegoats are looked for. **Errors of individual employee do not account for more than 20% to 30% of customer complaints.** Errors are not always because employees are indifferent but often due to unclear instructions and ambiguous authority. Several unpleasant scenes at the airport are avoidable, if the supporting systems are improved. Most of the complaints of indifference in service emanate from the procedures being unsuitable for speedy response to unanticipated situations.

**EXAMPLE**

A cheque issued towards insurance premium by a customer was dishonoured by a bank because another cheque paid into that account had been kept in suspense without being credited due to some ink-smudge on the paying-in slip. The account holder had not been informed before dishonouring the cheque. The system caused the lapse.

4. A complaint is an indication of inadequacy, which may be due to
- design of the delivery system
  - the customer himself neglecting instructions
  - faulty perceptions

**EXAMPLE**

Instructions on highways are hidden under all kinds of posters. Insurance claims procedures are not known to claimants, sometimes not even to the clerks in the insurance offices. The latest circulars may not be known or available. Rules to be observed in hospitals, for municipal services, for admissions and even in offices, are as told by some persons from time to time. Tourists do not know the laws of the country that they are visiting. You need an expert to tell you the proper procedures that you have to comply with regard to tax, immigration, registration, property deals, foreign travel, etc.

5. There is always scope for improving conformity by customers to instructions through
- removal of ambiguity
  - prominent display of communications
  - adding illustrations for better understanding

6. When complaints are made, most of the time and effort (estimated to be 95%) is spent trying to make amends for that complaint and to apologise. Only 5% is spent in analysing the cause of the complaint and improving the product and its delivery. The opportunity provided by the complaint to identify the elements and to augment the product will be lost, if the individual error remains in focus. Every complaint should cause some movement towards avoidance of such a complaint in future. Those who complain are more loyal to the company than those who do not.

## G. PRICING

### (a) Production costs

1. Normally, in the case of goods, price is determined by adding to the cost of production (including distribution costs), a margin for profits. **In the case of services, the cost of production is often difficult to determine.** In the case of insurance, however, the cost can be determined. That includes the costs of running the office, plus, most importantly, the claims incurred in the business. The premium, being the price of insurance, is based on these costs plus margins.

#### EXAMPLE

The entertainment value of a cinema is not related to the cost of its production. The genius of A. R. Rahman, the music director, cannot be found out by looking at the money he spent in learning music or the number of years he has been in the profession. The value of the expertise of a doctor or a lawyer cannot be measured by the investment in his education, most of which would have happened outside the portals of a college, in the course of his own practice.

2. In many marketing situations, **the price is a matter for strategic decision.** The price carries images of the quality of the product concerned. Low price means the product is 'cheap', not only in money terms but also in status, prestige and durability. High price has the opposite connotations. Those who introduce a new product for the first time may charge a high price so that they can recover as much as possible of the development costs, before competitors come up with similar products and force a fall in prices. **This is called the skimming strategy.**
3. Another strategy is to charge the lowest possible price. There are two consequences. One is to attract some part of the market or may be even to capture substantial part of it. Another is to see that competitors, unable to stand the financial squeeze, exit the market. This is the **penetration**

**strategy.** It is also called ‘**predatory**’ pricing, meant to kill the competition. Having captured the market, the price can be raised again.

4. Sometimes competitors come together to charge agreed prices. This is **collusion pricing** intended to share the market. This may happen for example, when a big buyer like the Government, is asking for tenders for supplies. The contending suppliers may agree to share the total order between themselves, and quote agreed prices. Those who are part of such agreements are said to have formed a **cartel**.
5. **In insurance, there is limited scope to use price as a strategic weapon.** In life insurance, the premium rates are decided by the actuary, on considerations that depend on the experience of the insurer in the past and his assessment of the trends in the future. These rates have to be approved by the IRDA. In the case of Aviation and Hull insurances, and also where the customer is big, with a long line of insurance covers, the price may be negotiated. Reinsurance premia are negotiated. No insurer can afford to price itself in a manner that weakens its financial strength. If that happens, not only the regulatory authorities, but the market itself would react unfavourably.
6. **In insurance, the price has to be determined on the basis of accepted principles.** An insurer would be able to quote a premium lower than another, only if it improves its performance on two main areas. One is the claims ratio and the other is the expenses of administration. The **claims ratio depends on the market segment in which it transacts business and the standards of underwriting.**
7. Considerable scope exists in the matter of expenses. People, paper and space constitute major items of expenditure. Productivity and use of IT can bring these down substantially, through systems integration and reengineering. When the staff is reduced, files are replaced by hard discs. When contacts with policyholders and agents are managed through the internet, costs on space come down drastically. The saving in costs on space can happen because of (i) lesser space used and (ii) avoidance of space in prime locations. The exact location of an office becomes irrelevant, when the processes are on-line.

### **(c) Price Elasticity**

1. In the matter of goods and also in many services, Price is the resultant of demand and supply. Price can be used to influence the demand. When price is lowered, demand and sales go up. Many products have ‘sales’ and

‘discounts’, when the normal sales are less. Hotels have off-season rates. In some industries, prices are raised in order to curtail demand. Some taxi services tried varying the rates, if there was a sudden increase in demand. A restaurant would mark up the price of any drink for which there is a surge of orders, and lower it when that surge went down, like the prices in a stock exchange, did well as the customers began to preempt the decisions of the bar owner.

2. Insurance is not price-elastic. That is to say, the demand for insurance will not increase or decrease, as the price (premium) is reduced or raised. While there is need for insurance, very few ‘want’ it. On the contrary, if there is a heavy demand for insurance, as may happen during an epidemic or a riot, the insurer will have to be cautious in granting the requests.
3. Policyholders tend to comment that the premium rates are high. Owners of motor vehicles, both trucks and cars, were opposed to the rise in rates for motor insurance in India, while the industry claimed that there was adverse experience in claims. They also tend to compare the rates of one insurer with those of another. Such comparisons ignore the differences in the respective target segments. Similarly, comparisons between countries also mislead, because there are substantial differences in factors that affect claims in life insurance (mortality) as well as in non-life insurance (packaging, handling, security, etc., practices).

#### **EXAMPLE**

There is a view in India that the improvement in mortality rates as revealed by successive census data since independence, should be reflected in the reduction of the premium rates in life insurance. If one were to take the mortality rates of the insured population over this period, one may notice a different trend, because progressively, the insurance market has been expanded from the urban elite to the rural and the female segments.

4. Price is not merely what one pays at the time of the purchase. Price considerations should include what one will pay as long as the purchased product is in use. A cheaper product, which is likely to ‘break down’ frequently, may be costlier than one, which gives trouble free service, if costs of repair are added. A cheaper car may turn out to be costlier if the running costs are high. Because of intense competition among Internet Service Providers and cellular phone operators in India there are offers of ‘free’ access. One needs to check where the extra cost is. **Those who choose insurance agents, who offer temptations in cash or kind, later regret the lack of assistance from them.**

## **SUMMARY**

- A product is an aggregate of technical and physical features and attributes.
- A product is a complex cluster of values and satisfactions.
- There could be differences in the understanding of the policyholder and the insurer about the benefits under the policy.
- Insurance service exists in the interaction with the claimant at the time of claim.
- Process is part of the insurance product.
- Agent is the primary product in insurance.
- A loss of an asset is a loss to the community and not only to the owner and the insurer.
- There is no mass production in services. Every product is customized.
- A product is developed by decisions on service offer and delivery system.
- The delivery system is the most important part of the product development.
- The factors affecting perceptions of customers are different before purchase, during purchase and after purchase.
- Dissonance is likely to be more in the case of insurance purchases.
- Cost of production of service is difficult to determine.
- Pricing is a matter of strategic decision.
- In insurance there is limited scope to use price as a strategic weapon..
- In insurance price has to be determined on accepted principles.
- Over and above price paid at the time of purchase, costs include costs of maintenance

## **KEY TERMS**

- Augmented Product
  - Benefit Concept
  - Boston Matrix
  - Cartel
  - Collusion Pricing
  - Commodity
  - Core and Peripherals
  - Delivery System
  - Dissonance
  - Penetration Strategy
  - Predatory Pricing
  - Product Range - Breadth and Depth
  - Service Concept
  - Service Offer
  - Skimming Strategy
-



## Answers to Test Yourself Questions

Question 1.

The correct answer is (a)

Question 2

The correct answer is (b)

Question 3

The correct answer is (c)

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## SELF EXAMINATION QUESTIONS

Question 1

Which of the following statements is true?

- (a) Every insurance policy is customized.
- (b) Every insurance policy is a standard policy.
- (c) All insurance policies offer identical benefits.
- (d) All the above statements are wrong.

Question 2

While reviewing insurance product, which of the following would **NOT** be important?

- (a) Size of the segment
- (b) Claims ratio
- (c) Amounts paid as commission to agents
- (d) Premium collected

Question 3

Which of the following statements is true?

- (a) All complaints occur because an employee has been negligent.
  - (b) A complaint arises because the procedures may have been inappropriate.
  - (c) All complaints arise because the customer wants attention.
  - (d) All the above statements are wrong
-

## Answers to Self-Examination Questions

Question 1

The correct answer is (a)

Question 2

The correct answer is (c)

Question 3

The correct answer is (b)

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# CHAPTER 7

## STRATEGIES FOR INSURANCE MARKETING - II

### CHAPTER INTRODUCTION

In the last chapter, we learnt about strategies relating to two items in the Marketing Mix, namely Product and Price. In this chapter, we will look at strategies relating to the other items in the Marketing Mix.

### LEARNING OUTCOMES

- A. The Distribution Channel
- B. Insurance Intermediaries
- C. Promotion
- D. People

### A. THE DISTRIBUTION CHANNEL

#### (a) The Purpose of Distribution

1. After a product is manufactured, it has to reach the customer. It has to be ensured that the product is available to the customer when he wants to buy it. It should be available at a place where it is convenient for him to buy. Distribution is the process by which the product is moved from the place where it was manufactured to the place where the customer can buy it. **Distribution adds 'place utility' to the product.**
2. In the process of distribution, the product will be handled by many persons. The persons handling the movement are called intermediaries in the **distribution chain**. The route taken by the product is the **distribution channel**. The intermediaries are like way-side stations in the channel. **The last person in the chain is the retailer**, where the goods remain till the customer buys.
3. The retailer keeps stocks enough to meet the demands of the customers. The retailer also keeps stocks of alternatives, so that the customers will have a choice. The retailer helps the customers by informing them of the relative merits of the alternatives and by also delivering at home, giving credit for payment, etc. Retail shops may be as small as the cigarette vendor on the footpath or as big as a departmental store, spread over a lakh

of square feet of floor space. Retail stores may be specialty stores, like the Raymonds (Park Avenue) or Vimal outlets or super markets selling a big variety of products of all makes like Shoppers Stop or Big Bazaar.

## **(b) Wholesalers and Stockists**

1. A wholesaler is an important part of the distribution chain. His function is to service the needs of the retailer. He would hold stocks in bulk and distribute them to the retailers as per their requirements, supporting them with information and credit, if necessary. Wholesalers may also take back unsold goods to be diverted to other markets where the demand may be more. A typical wholesaler may be asked to recommend a retailer, consistent with the intended 'position' of the product. They are thus helping to serve the needs of the markets.
2. A wholesaler will serve many retailers at various towns and villages. A retailer may be served by many wholesalers. Normally, wholesalers deal in only one kind of product. It is unlikely that a wholesaler dealing in cosmetics deals also in electronic goods.
3. In addition to the wholesaler, there may be stockists, whose function is to hold stocks and release them to designated persons. Stockists and wholesalers may or may not have exclusive territorial rights. They may be expected to arrange for marketing activities in support of the products, like transportation down the channel, local advertisements and promotions, local market research, etc. The arrangements may or may not require the intermediary to pay and assume the title to the goods. Sometimes, the retailer may be required to pay the wholesaler only after the sale is over. The goods could be returned if the sale did not happen.

## **(c) Logistics**

1. The word 'logistics' is used to refer to the entire operation of transportation and storage of goods, till they finally reach the customer. The intermediaries share the logistics. **The costs of logistics form a significant part of the total costs of the product and have to be carefully managed.** Various models are developed from time to time to enable decision makers on logistics. The decisions will depend on the conditions of storage (controlled temperatures for medicines), size of product, kind of packing, frequency of purchase, shelf life, distances between markets and so on. Air freight, despite being expensive, may be preferred to surface transportation in the case of flowers and meat, in order to ensure freshness in the market. Fashion goods should be in the market by the start of the

season. The costs of logistics may be borne directly by the producer or built into the remuneration terms of the wholesaler/stockist.

2. Some organizations hold their own stocks and have their own retail outlets. BATA is famous for having its own shops everywhere. They have excluded other persons, but the need for retailing has not been avoided. They are doing it themselves. BATA shoes are available only at their exclusive stores and not other shops. The intention is to communicate an image that BATA is exclusive. Raymonds, Bombay Dyeing, Vimal, Titan (in watches), all are doing the same. EUREKA sells its vacuum cleaners and water purifiers, not through shops, but through salesmen who carry the goods from house to house. Here, the retailer is not a fixed location like a shop but an individual, who is mobile. The wholesaler is eliminated, but the stockist's activity remains.
3. With the emergence of on-line traders, the structure is changing. The on-line trader is the retailer, but he has no shop, no display and no stocks. What he displays on his sites are photographs with descriptions. When orders are placed, the goods are sent directly from the wholesaler or the manufacturer to the customer. The online trader can be the distributor for a variety of goods and a variety of manufacturers, including those of competitors.

#### **(d) Role of Intermediaries**

1. The distribution channel has its own costs. These costs have to be borne ultimately by the consumer. This data suggests that if the intermediary in the distribution channel is eliminated, the consumer would have to pay less. The chances are that without an intermediary, the vegetable may not leave the farm, harming both the producer and the consumer. The distribution channel provides to the consumer the service of collecting in bulk, sorting out on the basis of size or other relevant consideration, repacking in more convenient lots, bearing costs of transportation and loss during transportation and storage (thefts and deterioration).

#### **EXAMPLE**

When the consumer pays Rs. 40 for a vegetable, the agriculturist who grew it may get only about Rs. 3. The rest goes to the distribution channel, which moves the vegetable from the farm to the consumer's neighbourhood. In certain fashion goods, what is procured from the manufacturer at Rs.900 may be sold at even Rs.8000 to the customer.

2. The distribution costs are not avoidable. Depending on the resources of the producer, he may eliminate other persons from the chain, but the functions of the distribution channel will continue. Big hotel chains buy in bulk directly from the farmers. But they need to employ people who would go to the farm, sort out on the basis of acceptable quality and transport it to the hotel. For example, if one has to buy biscuits from the factory in the same town, because there are no retail outlets, the price may be a bit cheaper, but one will have to travel to and fro. That is distribution cost (time and money) directly borne.
3. The e-commerce companies like Flipkart and Snapdeal, are also intermediaries bringing the producers and the customers in touch with each other. They may resort to promotional activities which may benefit their clients. They do not however, represent their clients. The Government of India has recognised these companies as 'marketplaces'.
4. The advantages of the distribution channel are
  - early release of the funds of the manufacturer, as soon as goods are released to the first person in the chain, instead of having to wait till the ultimate consumers pay
  - widespread reach for producer
  - maximum convenience to the customers, providing easy access
  - support by way of advice, quick replacement of defects, etc
  - reduced costs of distribution, both to the producer and the consumer because of spread (producers as well as consumers)
  - a source of market intelligence
  - supplement for promotional activities

## **B. INSURANCE INTERMEDIARIES**

### **(a) Insurance Agents**

1. In the services business, agents and brokers are intermediaries. They find customers for products to be sold and mediate in the transaction. Agents perform the task of retailers, giving customers information about the available choices as well as letting the producer know the requirements of the customer. They may also arrange for financing the transaction, like the way a retailer gives credit.

### **EXAMPLE**

Houses and shares (of companies) are transacted through agents and brokers, who do not hold stocks themselves, but take a commission from either the buyer or seller or both. Agents may also be found as intermediaries, where the purchases are of large values, like airplanes or military hardware, for which there are no retail outlets

2. If an agent is serving only one principal, he may have exclusive rights and may be called a sole-selling agent. Mostly, though, agents are free-lancers, not exclusively attached to any one principal, in particular.
3. Insurance business is sold through agents as intermediaries. In India, the regulations provide that an insurance agent can represent only one life and one non-life insurer. No agent has sole selling rights for any territory. Insurers have many agents in every territory. An agent has to obtain a licence from the IRDA, which is granted only on the recommendation of the insurer and that too after passing a prescribed examination.

### **(b) Other insurance intermediaries**

1. Brokers, in the insurance business, are different from agents. They are independent business firms. They may be companies, cooperative societies or limited liability partnerships. They have to pass prescribed examinations and obtain licences from the IRDA. They try to understand the needs of the customers and find an insurer who can meet that need. They may even try to develop a unique product and find an insurer to offer that product and mediate in the negotiation of price.
2. Brokers may be found in the non-life insurance business helping customers whose insurance requirements are complex. They handle big risks and need superior financial and analytical skills. Brokers are not limited to only one insurer. Worldwide, brokers are intermediaries in the reinsurance business. Their services may be used by many ceding insurers as well as by many reinsurers in different countries.
3. Since January 2015, the IRDA has approved of Insurance Marketing Firms (IMF). Companies, cooperative societies or limited liability partnerships can be licensed to become IMFs. They are required to appoint at least 2 insurance sales persons for life insurance, 2 sales persons for non-life insurance and 2 for health insurance. IMFs are allowed to undertake insurance servicing activities and market other financial products through financial service executives (FSE), within the limits of a district. The Principal Officer of the IMF and sales persons have to undergo training

prescribed by the IRDA. The FSEs must have valid licences. The net worth of an IMF should be not less than ₹ 10 lakhs and they will receive commission.

### (c) Importance of intermediaries in insurance

1. Agents and other intermediaries are important in the distribution of the insurance business. The decision to buy insurance is an important decision for most people. It is also a difficult decision. The difficulty arises partly because people have limited knowledge about insurance. Popular notions are not totally correct. Other than the categories of general insurance, which are unavoidable because of the law or of conditions of financial assistance, **the need for insurance is rarely felt**. In general insurance, the insured wishes that the insurance policy is never called upon to pay. One may not know how to compare alternatives of plans or of companies. The information is limited, because the understanding of the implications of various clauses in the policy is limited. **In life insurance, the commitment is for a long period of time**. In such situations the level of involvement is high in the decision process. The decision is not made in a hurry. **The agent is seen as a knowledgeable person. His advice and opinions are valued**. In the absence of an agent, some other person, perceived to be knowledgeable, would have to perform the function of advising.
2. **The general image of an insurance agent has not been good**. Studies in the U.K. have suggested that, in the public perception, the agent needed to be more knowledgeable and professional. As a result, agents have been required to pass a Financial Planning Certificate examination and the number of agents fell from about 200,000 in 1990 to about 40,000 in 1999. The agents in India also suffer from similar perceptions of not being knowledgeable. This is so, despite the insurance companies having set up several training centres to educate agents. As per the IRDA regulations, new agents can be appointed only after they pass prescribed examinations. There are institutions in India offering advanced courses in insurance, which are aimed at agents.
3. **The perception also is that the job of an agent is difficult**. This perception exists despite thousands of agents who are highly skilled and professional, being members of the Chairman's Club of the L.I.C or of the internationally prestigious Million Dollar Round Table. The experience in India and many other countries is that more than half the new recruits into the profession quit by the end of the year. The reasons are not far to seek. Prospects do not want insurance and therefore, do not respond favourably to the initial approaches of the agent to sell. A new agent finds it frustrating, till he learns the virtues of patience and persistence, like the bowler in cricket,



who does not give up just because he is hit for a six. New agents have to be given a lot of backing and guidance, by supervisors and managers, in the initial stages. Otherwise the agency force will not build up.

4. An agent's advice is relied upon by most buyers of insurance. A lot of trust is placed on the agent. **To be worthy of this trust, the agent's advice must take a holistic approach to the buyer's needs and suggest a package for total financial planning that may, if necessary, include products other than that of insurance** An agent must be equipped with knowledge of available options in the market, so that he becomes a 'single window' for the buyer. If necessary, the agent may get associated with other professionals in the financial services business. The package that he recommends, could be a product that is unique, appropriate to the customer in front of him. **Effectively that customer constitutes a segment of one.**

**EXAMPLE**

A good agent must be able to suggest to the prospect how modified layouts in factories and commercial establishments may reduce the need for insurance. Other financial instruments may be more appropriate for some people.

5. Agents generally have target segments, in which they have chosen to operate. These choices are made more by accident than by design. The agent specializes in the needs of that segment. His sales talk, behaviours and approaches become attuned to that segment. Such segmentation leads to more focused efforts and better rapport with the market. He also builds a reputation in that segment.

**EXAMPLE**

When a satisfied customer recommends the agent to a friend, that person is likely to be in the same social/professional/demographic/business circle. The segment develops. The segments are also interesting. One agent's segment consisted of policemen. Every new recruit would be sent to this agent. Another's segment consisted of wayside tea shops. He found the business adequate to keep him busy and happy.

6. In the case of many goods, the customer does not need any attention after the sales. The transaction is complete on sale. It is not so in insurance. **The transaction really begins when the policy is sold and becomes complete only at the time of the claim.** The product is being experienced at that stage. The experience at that stage determines the quality of the product. There are intermediaries who facilitate the process at that stage.

7. The effort of the intermediaries at the claim stage, has to be to ensure that the legitimate claim is duly paid without delays. The necessary formalities have to be completed to the satisfaction of the insurer. The claimant, usually a person in distress, has to be helped to complete these formalities without feeling that there is harassment. The agent is the person who can provide this feeling. He then strengthens his image as one who can be trusted and who has the customer's interests in mind. To be able to do this, he also has to be in touch with the relevant formalities and procedures. If he is ignorant of these, he would be perceived as ignorant and incompetent and will lose credibility.
8. The other intermediaries at the stage of the claim are
  - In the case of general insurance, **surveyors and loss assessors**, who are independent professionals, who are called upon to inspect the damages and losses claimed against, in order to determine (i) that the claim is payable and (ii) what the amount of the claim should be. An excess payment would be unfair to the other policyholders. The law requires that every claim exceeding ₹ 1 lakh, must be surveyed and an assessment report obtained before deciding on the claim.
  - **Motor Accident Claims Tribunal** to adjudicate on the quantum of compensation that should be paid to the victims (third parties) of motor accidents.
  - **Lok Adalats**, consisting of judges, to enable expeditious summary disposal of long pending disputes regarding claims.
  - High Court judge, appointed by some insurers, to review claims which have been repudiated on grounds of misrepresentation or fraud.
  - Other organizations like hospitals (for health care and medical insurances) or garages (for motor repairs) who facilitate the claims settlements.

#### (d) Bancassurance

1. The regulations in India allow individuals as well as firms and companies to become insurance agents. Some of the companies, who become agents, may already have a large body of clients in their line of business. Such clients could be ready prospects for insurance also. Similarly banks, which have large client bases and are also in the business of wealth creation and protection, can link up with insurance companies to mutual advantage. This is happening already in such a big way in European countries, that the name Bancassurance has been coined for this arrangement. This term somehow,

does not cover non-life insurance, although, even in India, banks influence a lot of non-life business.

#### **EXAMPLE**

Companies in the business of leasing and motor vehicles financing could sell motor insurance policies. Hospitals can sell health care products. Travel agents can sell travel related products. Every loan advanced by a bank is a matter for insurance.

2. **The aim of Bancassurance is to obtain synergies of two similar businesses.** Both insurance companies and banks have large networks of outlets and large numbers of clients, both individuals and corporate bodies. Almost all of them would need banking as well as insurance products. If they work together, the reach could be greater and there could be economies of scale, leading to lesser marketing costs. The customers would have the advantage of meeting their needs at one place. Either of them can leverage the strength of the other in distribution and infrastructure (office, staff, communication linkages, etc). There could be product integration and organizational integration. They could work as a joint venture, or as separate units sharing facilities.
3. The success of Bancassurance abroad is not necessarily a pointer to the possibilities in India. The Indian consumer is different from the western consumer, in his behaviour towards insurance as well as to banking. Cash transactions are much more in India than in western countries. Even in the western countries, the business done through Bancassurance does not exceed 20%. It is more in France than in any other country. Personal selling by individual agents accounts for more than 75% of the life insurance business. In India, private insurers have been able to take better advantage of the banks as agents.
4. As on 31 March 2015, the total number of individual insurance agents working for life insurers was over 20.68 lakhs, of whom just over 9 lakhs worked for the private insurers. The number of corporate agents was just above 500, of whom 360 worked for private insurers. Every corporate agent may have more than one person working for insurance sales. The following table shows the new business introduced by the different categories of agents of the life insurers during the year 2014-15. Individual agents were the most productive group. Banks have been most productive with the private insurers. In the case of group insurances, nearly 50% of the business had been placed directly. Banks and corporate agents contributed about 12%.

Agents	LIC	Others
	New Business %	New Business %
Individuals	95.97	35.73
Banks	2.6	47.37
Other corporates	0.12	3.35
Brokers	0.12	4.49
Direct	1.24	9.06

### (e) Direct Marketing

1. Insurers abroad have resorted to Direct Marketing wherein the provider of the service gets in touch with the customer without the aid of an intermediary. The advantage is reduction of costs. The media used for Direct Marketing are

- Direct mail - letters sent to consumers on the basis of addresses available from sources like telephone directory, membership lists of clubs and professional associations, stock exchange brokers or registrars to companies
- Telephone contacts, again on the basis of subscriber lists
- Television programmes, of relatively longer duration and content than the usual advertisements of 15 to 30 seconds duration
- Advertisements and loose insertions in main line as well as professional and trade journals, with slips to be returned to the insurer, showing interest in the product advertised
- Displays in conferences, seminars, for specialized products linked to the themes of the seminars.
- Direct contact from the insurer's salaried staff
- Stalls in exhibitions and even solo exhibitions in remote areas with large potential customers.
- Call centres or service centres, where intending customers can call and have their insurance needs met
- Kiosks with touch technology
- Over the Counter (OTC) in big stores, exclusively or along with other service products
- Personal contacts in residential colonies or offices

2. In India, direct marketing is done by the L.I.C. for its group gratuity and superannuation businesses. A separate department had been set up and officers were deputed to solicit and administer the business. The reason

apparently, was the relatively more technical nature of the sale, as well as the need to customize every policy to the specific requirements of the client. Only few selected agents were allowed to solicit group business from companies. There has been practically no direct marketing with respect to individual life insurance business.

3. In non-life insurance business, almost the entire business from corporate bodies had been done through direct marketing. Like in the group business of the L.I.C., the business was solicited by the officers of the insurers. Agents were not allowed to handle such businesses. Even standard plans of insurance were sold directly. Other businesses like crop and cattle, for example, were also done directly, because the covers were linked to the loans and financial assistance provided.
4. The Internet has opened up new possibilities in direct marketing. With just a press of the button, a message can reach millions of persons instantaneously. Interactive systems make it possible for likely customers to feed in basic information about themselves and obtain quotations from different companies, before they make choices. They can communicate changes in status as frequently required in certain 'open' policies in general insurance. **The potential of the Internet is yet to be explored**, but insurance companies, like other businesses, are getting excited about this new technology in communication. Banks already are experimenting with the Internet for some of the basic services. It is even claimed that within the next five years, every company will have to be in the e-business to survive. Such claims need to be considered along with the fact that the programme called Digital India will extend the scope for digitalization and the requisite infrastructure into the remote corners of the country.
5. Preliminary studies indicate that insurers may be able to use the Internet for the following purposes.
  - Provide basic information about available plans to prospects
  - Provide answers to frequently asked questions about insurance in general and about the insurer's offerings in particular
  - Provide details of nearest location of insurer's representative or office
  - Provide quotations for premium and for loans
  - Provide information to policyholders about policy status, pending requirements, etc.
  - Premium collection

- Sell simple policies like Personal Accident, Medical, Householders, Pure Endowment, Annuities, etc., requiring little underwriting. The signed policy document can also be delivered by the Internet
  - Agents, individually or collectively, can be informed instantaneously about changes in practices, new plans, targets, completions, status of proposals, claims arising, etc.
  - Policyholders can be informed collectively about their obligations under the policy like making nominations, informing changes in status of goods covered from time to time.
6. While the technology may make these and more such services possible, insurers will have to take care that internal systems are adequate. When computers were introduced with daily cycles to generate renewal notices, lapse actions, etc., it was necessary that the daily transactions be fed into the computers. Manual procedures could tolerate some delays, but computers do not wait. If they are made to wait, the advantage of the technology is lost. The absence of an individual should not delay response.

#### EXAMPLE

It is expected that enquiries made on the Internet or on e-mail will be responded to immediately. It should not be that nobody is present to take note of the enquiry. In one office spread over three floors, the message received by the single Fax machine reached the addressees, only when the designated peon came to pick it up. If he was busy elsewhere, the message would have to wait.

7. The Direct Marketing efforts may lead to a direct sale or to just responses, in the nature of asking for more information, for someone to call and explain, etc. These have to be attended to without delays for the advantages of direct marketing to become real. **The transactions on the Internet must also be monitored to ensure that the response is immediate and correct. Changes must be made almost instantaneously.** One does find outdated information even in web sites that are considered prestigious. Maintaining an online system requires a different skill, different knowledge base, different management style, different attitudes to customers, to sharing of information, to use of discretion by employees, to control, to perfection.
8. The competition for attention is ferocious on the Internet. One has to get surfers to visit the site. If there are no visitors, the effort will be futile and the costs, a waste, like an advertisement in a newspaper, which, because of

a strike by vendors, is not distributed. A campaign may be necessary for inviting visitors.

### (f) Web Aggregators

1. The IRDA Regulations issued on 3rd December 2013 provide for Web Aggregators (WA) to be licensed as intermediaries. WAs can be companies or Limited Liability Partnerships, which have a net worth of not less than ₹ 10 lakhs and which have as their main object web aggregation of insurance products. They will not be allowed to do any other business. The Principal Officer and others who are active in soliciting insurance business will have to undergo training for 50 hours to start with and for 25 hours every three years.
2. Was expected to have websites through which prospects can provide information about themselves and seek information about the availability of insurance covers. Insurers can register themselves with WAs in order to benefit from their services. The websites of WAs are expected to be secured and information can be shared only with the insurers which are registered with it. WAs will be marketing insurance through telephones, SMSs, e-mails, internet, etc., which constitute distant marketing, when the prospective customer is not physically present before the representative of the WA. The remuneration from the insurer to the WA is also prescribed in the Regulations. The insurer can pay ₹ 50,000 per year for each product displayed on the website and reasonable service charges on business procured through the WA.

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### TEST YOURSELF 1

Complete the sentence below with one of the alternatives provided thereunder.

Intermediaries are important in insurance because

- (a) Most people do not understand insurance properly
  - (b) Most people need help to decide which policy to buy
  - (c) People have to be persuaded to buy insurance
  - (d) Of all the above reasons
-

## C. PROMOTION

### (a) Purpose

1. The purpose of 'Promotion' is to communicate with the market, so as to
  - inform prospective customers about the product or the products
  - inform existing customers about new products features, price offers, new channels, new ways of access
  - generate interest in offers
  - persuade prospective customers to try a new product (first purchase)
  - persuade existing customers to continue use of the product (repeat purchase)
2. Promotion tries to influence attitudes and receptivity, to eliminate misconceptions and thus contribute to more sales. If A is the total market, B is the portion that is aware of the product, C is the portion that has tried the product and D is the portion that has tried and is satisfied, promotion tries to improve the ratios  $B/A$ ,  $C/B$  and  $D/C$ .
3. Promotion is done through a mix of
  - advertisements, which are paid for, non-personal forms of presentations in space bought from the printed or electronic mass media, including posters, hoardings, banners, stickers, exhibitions, stalls
  - publicity, which is not paid for, seemingly emanating from sources other than the marketer, like a news item or an article in a newspaper or journal, based usually on matter provided by the marketer.
  - public relations (PR)
  - personal selling and
  - sales promotion

### (b) Advertisements

1. **Advertisements** are paid for by the advertiser. They may be (i) visual (having pictures), (ii) audio (as on the radio), (iii) static (as in print media and hoardings) or (iv) moving (as on TV and in cinemas), having national reach or limited local reach, aimed specifically to target groups through general or specialty magazines and journals dealing with medical, fashion, sports, business, trade, finance, etc matters. Effectiveness of advertisements would depend upon the match between the profile of the readers or viewers of the media chosen, with the profile of target market.



Options available are infinite, but it is useful to remember the adage, “Don’t sell a mile wide and an inch deep.”

2. The choice of media (press, electronic, cinema, hoardings, etc) and preparation of the text of the advertisement (technically called the ‘copy’) are professional jobs. Big advertisements are not necessarily more effective than small ones. Long copy works, but not if it is pompous or rambling. **If the first 50 words can sustain the interest of the reader, the interest seldom falls for the next 100 words. Credibility improves when the messages are simple.** Even the most profound ideas are simple in the basics. Consultants and agencies are available to (i) provide guidance on the relative merits and demerits of the different media (ii) negotiate contracts with the media and (iii) prepare the copy and/or visuals, wherever necessary.
3. Communication through advertisements in the media, traditionally, aims for maximum **Reach**, which refers to the number of persons likely to see the insertion. With the availability of the Internet as a vehicle for commerce, the concept of Reach has given way to the concept of **Richness**, which measures
  - Bandwidth: which is the amount of information that can be moved in a given time
  - Depth of customisation: which is the extent to which the message can be personalised
  - Interactivity: enabling dialogue
4. Richness increases considerably through the Internet. The message in the bulletin board does not perish as in the printed press or on the TV. It stays till the viewer finds it. Perishability is low. It facilitates responses to enquiries or required clarifications. It is interactive. It overcomes the limitations of proximity. It can reach across the world.
5. The cost of an advertisement is worked out on the cost per person reached. If a newspaper prints one lakh copies and each copy is read by 3 persons on the average, a cost of Rs. 30000 for an advertisement works out to about 10 paise per person. Figures about circulation, readership, the number of people passing by a hoarding, etc., are made available by market researchers and advertisement agencies. They give some guidance to make decisions. But they need to be treated with caution. Everybody who reads a newspaper does not read all the pages. Every reader is not a potential customer. Selection of the media is, therefore, an important decision.

6. Equally important is the message to be presented and the manner of its presentation. This depends on the purpose of the communication. The purpose may be to just inform (new location, new product) or to get a response by way of enquiries or intimation of change in status to be incorporated in the policy. The purpose may also be to make one think about the need for insurance. **The appropriate messages may be based on emotional or rational appeals.** Emotional appeals may be based on either positives like gain, love, pride, etc., or on negatives like fear, guilt and shame. Negatives make people move only to the extent that the fear is removed. The need generated is 'to avoid'. Positives make people want. They are more effective.
7. The IRDA has issued regulations providing guidelines about advertisements by insurers and the agents or brokers in newspapers, magazines, sales talks, billboards, hoardings, panels, radio, television, websites, e-mail, portals, leaflets, literature, circulars, sales aid flyers, telephone solicitation, business cards, videos, faxes or any other communication with a prospect or policyholder urging him to purchase, renew, increase or modify a policy of insurance. The main requirements are
- The advertisement programme has to be overseen by an officer responsible for compliance with the regulations.
  - A copy of every advertisement should be filed with the IRDA.
  - Advertisements should disclose the full particulars of the insurer, as well as the form number and type of coverage of the policy referred to.
  - Display the registration/licence numbers on their websites.
  - No third party, other than the insurer or authorized intermediary, can distribute information or recommend purchase of specific insurance products.
  - Advertisements should not be unfair or misleading, which means, they should not (i) make claims that are beyond the policy to deliver (ii) describe benefits that do not match policy provisions (iii) hide or minimize the costs and risks inherent in the policy (iv) omit to disclose important exclusions, limitations and conditions of the contract (v) illustrate future benefits which are neither realistic nor realizable nor guaranteed (vi) imply a group or relationship that does not exist (vii) make unfair or incomplete comparisons with competitors, etc.
- Penalties are provided for non-compliance with the regulations.

## (c) Publicity

1. **Publicity** is communication which is not paid for, usually impersonal, appearing to emanate from sources other than the marketeer. Publicity happens when media, on subtle persuasion or otherwise, carries an article or news item about the marketeer or his products. It is more credible than advertisements, because it is seen as originating from the medium itself, as a news item or report. **Publicity is concerned with informative messages, as against advertisements which try to persuade, solicit or appeal in addition to inform.** The sponsor of the item does not exercise control on the contents of the publicity message, as the media are neither obliged to faithfully reproduce the matter supplied by the sponsor, nor publish it as prominently as the sponsor would wish.
2. The tools of publicity are
  - press releases issued to the members of the media.
  - press conferences, where information is given and questions are answered.
  - conducted visits, to enable members of the media see and experience the facilities
  - presentations, through films or otherwise, where details of offers are provided to the media and intermediaries.
  - informal briefings, providing material, on a selective basis to some members enabling them to write on the product or the offers.
  - exclusive interviews.
  - sponsored feature articles.
3. The media will carry the news, if the activities and messages are seen to be interesting, timely, accurate and of interest to the readers. When an aircraft crashed and the L.I.C found out the list of passengers and the insurance they carried and sent personnel to contact the families to expedite claim settlements, that was news and good publicity. When at the time of a calamity, some conditions of the insurance contract are waived, the news has public interest and is carried by the media.

### EXAMPLE

Awards for excellence, given by outside agencies like industry associations and trade journals (for cars, hotels, airlines, etc), constitute news and also effective publicity. The investments made by insurers in socially relevant projects (clean water supply, electricity, housing), functions to felicitate outstanding achievements, opening of new offices or new facilities, insuring of celebrities, are matters which lend themselves to publicity.

4. In the case of services, the most effective form of publicity is the '**Word of Mouth**'. This happens when a person familiar with the product or service, endorses it to another, personally. Such an endorsement, when not made at the behest of the marketeer, is credible. An endorsement made in an advertisement, is made at the behest of the marketeer and is therefore, not very credible. **Satisfied customers, who speak to others, are the most powerful form of publicity.** This is how doctors, lawyers and consultants widen their range of clients. The credibility varies according to the person endorsing. Arranged in descending order of credibility, are the following sources.
- immediate family
  - personal friends
  - professional colleagues
  - independent commentators
  - retailer's representatives
  - producer's representatives
5. **It is a good strategy to make customers talk of satisfactions.** They should be encouraged to talk. They can be given objects or materials that are giveaways or mementos (pens, key chains, paperweights, brochures, pictures, etc.) and can be passed on. Conveniences should be emphasised to customers. They are not likely to notice everything that is well done. Customer contacts can be maintained through
- bulletins, mentioning new facilities, innovations and improvisations that add value
  - greetings, gifts, souvenirs
  - invitations for special events
6. Those who may help in word of mouth publicity should be carefully targeted. **Opinion leaders are important to this strategy.** Opinion leaders are persons whose opinions are respected by large numbers of people of their acquaintances or readers and include columnists, parish priests, teachers, village elders, professionals, etc.
7. Publicity can only inform. It cannot persuade the reader to purchase. Both advertisements and publicity can create awareness and also arouse curiosity or interest. These are not powerful enough to generate desire or to provoke action.

## (d) Public Relations

1. **Public Relations** (PR) refers to the deliberate, planned and sustained efforts made with a view to establish and maintain mutually beneficial relationships between an organisation and the public, including its prospective customers. PR is based on the recognition that without the active support from the public, the organisation will have difficulty to carry on and grow. PR seeks to shift the public from

- hostility to understanding
- prejudice to acceptance
- apathy to interest
- ignorance to knowledge

2. **Publics are many.** Publics are elements of the system of which the organisation is a subsystem. They are affected by the activities of the organization and are in a position to affect the activities of the organization. There are many publics. PR efforts have to be directed at key personnel. **It is difficult to evaluate the effectiveness of the PR because the target is the mind sets of people and therefore intangible as well as not measurable.**

### EXAMPLE

All stakeholders (shareholders, Government, suppliers, dealers, customers, community, and society) are publics. In a sense, employees, outside their roles as employees, are also publics.

3. PR tools include

- all the tools of publicity
- entertainment, lunches and dinners
- lobbying
- journals/newsletters
- sponsorship of sports and other activities
- special drives
- interest group meetings, involving representatives of various publics

4. PR cannot succeed through sporadic, unplanned activities. PR programmes must be well-planned with clear objectives. The results must be evaluated against the objectives by assessing the images and perceptions among the relevant publics regularly and observing the changes. A PR effort is not being pleasant and friendly. It is not getting stories into the press and media. It is not lobbying with the Government. It is not merely

advertisement and propaganda. It is all of them. It does not try to mislead. It has to be straight forward and honest. It is neither a one-time job, nor a whitewashing job. The causes for dissatisfactions, if any, have to be tackled.

#### **EXAMPLE**

In the late 1950s, within a couple of years after its formation, the L.I.C of India was at the centre of a scandal known as the Mundhra scandal. For weeks on end, newspapers carried reports of an enquiry, which presented the L.I.C in bad light. After this died down and some individuals were penalized, the L.I.C.'s image continued to be poor. A major PR effort was mounted at that time. All members of both houses of Parliament and representatives of the Press were invited to a 2 hour show of documentary films showing the L.I.C.'s activities in the areas of spread of insurance to the masses, socially oriented investments, etc. The perceptions and the mood changed.

5. PR is normally organized as a part of the Marketing department. This is so because both functions have their orientations based on the external environment. Both are concerned with building up positive relations with the outside world. Both focus on the mind-set of the people outside the organization. Both have to take long-term views of the organisation's interests. Both rely on the feedback from the field.
6. However, PR activity is, like Human Resources Development activity, every manager's function. It cannot be that of a specialized department. **What any department does that impacts the public, is more effective PR than a campaign that may be run by a specialized department.** The PR department can provide the external communication necessary to influence perception of the service provided. The HR department must provide the expertise for the internal communication necessary to influence perceptions and attitudes of employees, in ways that focus on concerns of the external publics.
7. PR is different from advertising on the following grounds
  - Advertising is oriented towards marketing and selling, while PR is aimed at creating an understanding which may help selling efforts to succeed.
  - PR can overcome the negative impact of an advertisement, if it has offended the public because of some unintended interpretations of language or visuals.
  - PR, in trying to improve credibility, may be candid in admitting errors, while advertisements will generally, only state the positives.

- Advertisements can use imaginative visuals, which PR cannot.
- If PR is effective, there can be savings in advertisements.
- The costs of advertising can be measured but not of the PR effort.

### (e) Personal Selling

1. **Personal Selling** is another element of the promotion mix. Advertisements and other non-personal communications are one-way communications. They provide information, which, it is assumed, would be adequate for prospects to make choices to buy. They do not answer questions or allay fears of customers. Decisions are not made on the basis of information at the cognitive level. There could be doubts and fears that have to be allayed before the decisions to buy, are made.
2. Personal selling would seem to be an expensive method of promotion, compared to advertisement and publicity. The per capita cost of contact would necessarily be high. The returns could be better because unlike the other two, personal selling has the capability to take the customer beyond the stage of interest and curiosity and lead him to a sale. Personal selling can also be made to a group of persons at the same time, when the cost of contact also would come down. Personal selling is more adaptable and flexible, oriented towards the specific requirements of the target person and result-oriented.
3. There is more anxiety while purchasing services than while purchasing goods, because the nature of the purchase is not clearly known till after the purchase. Only a personal interaction can help in this situation. Personal selling is the only two-way communication available and is necessary to persuade people to buy. Even after personal interaction with the salesman who calls on the customer, doubts may persist about the nature and quality of service and integrity of the producer. Insurance raises more doubts than most of the other services.

#### EXAMPLE

The acceptance of the loan scheme offered by the different finance companies does not depend only on the rate of interest or the EMI. There are questions, sometimes difficult to articulate, and fears as to “what would happen if....” which need, not merely answers, but credible answers. The reports about finance companies employing heavy-handed methods to recover from defaulters, does not help the mind to be at ease.

4. A service being intangible presents a lot of uncertainties to the prospect. If the salesman is perceived as non-professional or incredible, the uncertainties increase. Salesmen should be seen as reliable and friendly, meaning well by the customer. They should emphasize conveniences, but not ignore to mention precautions necessary in usage. Effective salesmen understand and empathise with the customers. They are more acceptable to the customers. And they also make demands on the organisation on behalf of their customers.
5. Effective salesmen meet customers after the sales are made. They do so to
  - obtain feedback about the experience and satisfactions after buying.
  - strengthen the perceptions about the purchase made.
  - explain the essentials of maintenance and usage, including warranty conditions.
  - provide reassurance, if there are any doubts about the wisdom of the decision to purchase (dissonance).
  - obtain further contacts (prospects) as referrals.
  - tell about new products and achievements of the organisation, as a PR effort.
  - intensify sales campaigns in specific segments/areas
6. The salesman has to be sure that the reality as experienced by the customer corresponds to what he promised during the sale. This becomes necessary because the service is rendered by someone else and standardisation is difficult. In the case of some services like cinema, beauty, laundry, etc., the feedback can be had as the service is being rendered. In the case of services like health care, repair, couriers, training, conventions, the feedback can be had only much later. In insurance, it is more difficult than all these.
7. When salesmen send clients for conferences or tours to other destinations, the salesman cannot get feedback except through personal contact soon after the experience. The salesman's credibility itself could be at stake. The direct feedback so obtained is also important for the top management of the organisation as they would not otherwise, be in touch with what is going on, at the customer contact points.
8. In the case of insurance, the experience is available only at the time of claim. The agent has to be available to the claimant at that time. His availability is a confirmation that he takes responsibility to make sure that what he promised will happen. He establishes credibility. Otherwise, he is



like a conman, who makes promises and vanishes afterwards. For these reasons, one would expect that in the insurance business in India, the emphasis on personal selling would continue and the alternate options of direct marketing would be slow to develop.

#### (f) Sales Promotion

1. **Sales promotion** attempts to overcome the hesitations about buying, and to induce the prospect to buy. It is a slight push that is made through the offer of
  - bonus offers
  - additional services not normally available
  - price discounts, coupons, rebates
  - instalment payment facilities
  - contests and prizes
  - gifts
  - samples and demonstrations
2. Some of these will be made available only for short specified periods. Bonus offers may take the form of three for the price of two, concessional or free tickets for spouses, trade-in at attractive prices, free check-ups. Contests may not become popular if there are too many at a time or the required level of skill is negligible. Gifts have strong appeals. Even a teaspoon is enough to attract interest. Those who do outdoor publicity in rural areas find that a contest gets the entire village involved.

#### **EXAMPLE**

An organisation that wanted to get a survey done, told students in a school that each of them will get a ball point pen, if they brought the form back signed by their parents. Nearly all the forms were brought back the next day.

3. **There is practically no scope for sales promotion in insurance.** One reason is that there are controls on the price that can be charged, viz., the premium. The IRDA's approval leaves no options to the insurer to use price as a lever to promote sales. Sales promotion is essentially meant to push up sales at times when a slack season is expected or when new models or designs are expected and old stocks have to be disposed off. The second reason is that insurance is not price sensitive. The third reason is that insurers do not want to sell to anybody who asks for it. There has to be a selection made by the underwriter.

4. Gifts, like policy wallets, diaries, calendars, pen stands, key chains, etc., may be given to those who buy insurance. These will have the names and logos of the insurer embossed on them. They are given to customers directly or gifted through agents. **They are not inducements to buy insurance.** They are in the nature of mementos. **These can also be presented to opinion leaders, in order to get the advantage of word-of-mouth publicity.**

### (g) Merchandising

- 1 The display and appearances at the point of sale (POS), also called the Point of Purchase (POP), communicate. Physical facility is the first such communication to a prospective customer in the service industry. If there are ten shops in a street stocking refrigerators or furniture, the customer unfamiliar with the shops will enter the one that appeals to him in appearance. From the appearance, he forms an opinion as to which one will
    - have a bigger range to choose from
    - have the latest stocks
    - quote reasonable prices
    - have the right answers to one's questions
    - give proper advice
    - keep promises on warranties
    - be prompt to respond if there is a problem
  2. The physical facilities create expectations of quality of service. The ambience influences the experience. The attractiveness of the facade, the decor, the colour of the wood or laminates on the counters, the lighting, the uniforms (of staff), the cleanliness, the scents, the music, displays and the sense of space, make the customer feel more (or less) favourably inclined. This is similar to making judgments on the basis of the external appearances of the person. Though not altogether valid, such judgments are made as first impressions and do influence responses, till more valid data is generated.
  3. The trend is towards services being made available without having to visit the office of the service provider. This is true in banks. Good insurance agents can insulate policyholders and claimants from the offices. Therefore, physical facilities may seem to be less important as a factor of satisfaction to the customers. Nevertheless, the physical facilities affect the 'People', a factor which is critical and unavoidable to provide satisfaction to customers.
-

## TEST YOPURSELF 2

Which of the following would be a PR effort?

- (a) Campaign aimed to increase sales in a village.
  - (b) Campaign aimed to improve the attitude of policyholders.
  - (c) Campaign aimed to inform people of a new insurance plan.
  - (d) Campaign to promote sales of a particular plan of insurance.
- 

## D. PEOPLE

### (a) Critical Resource

1. People are the most critical resource in any organisation. Without people, no other resource can perform. People alone provide the innovation and initiative that make a difference in quality and customer satisfaction. Customer comes first but the People (meaning employees working for the service provider) are more first. Reason: only WOW employees can deliver WOW experiences to customers.
2. This is particularly true in the context of managing a service business like the insurance business. The satisfaction of customers depends on the nature of interaction between them and the people representing the insurer. These persons are agents and others who meet and interact with the customers as well as the people in the office, who process the data relating to the maintenance of the policy. Their knowledge, their manners, their competence and their attitudes, convey messages that provide satisfactions.
3. It is the responsibility of every manager (i) to ensure that the resources at his disposal are not wasted and (ii) to see that these resources are enhanced. More than any other, the human resource is likely to be wasted. If not managed properly, it will perform at much lower levels than its true capability.

### EXAMPLE

An employee, who is dissatisfied or worried, may not apply himself fully at work. If he is angry, he may even use his skills to disturb the process. His irritations may show in his treatment of the customer.

4. The potential for enhancement of capability is also highest with the human resource. Its performance at any point of time is not an indication of what

it is capable of doing. Given the right kind of inputs, there is literally no limit to what a person may learn to become. Formal education is no predictor of one's potential. An organization provides plenty of opportunity for learning and development of skills. **The seniors can either hasten or hamper the learning and development.**

**EXAMPLE**

All lawyers who passed out from a law college in the same year would not have risen to the same heights in the profession. Albert Einstein did not have a degree in physics. What one becomes is largely because what one learns himself, after academic classes and from experience in real life.

**(a) People are Managers**

1. The quality of the service provided by an organisation, is as experienced by its customers. Several little things add up to a total experience. Any one of these things can go wrong. They go wrong, because of some individual failed to do it right. He did not do it right, not necessarily because he was negligent.

**EXAMPLE**

The guests of the premium segment rooms in hotels, who are entitled to free use of Business Centre and Health Club services, cannot relish the premium offering, if the persons manning these services are not aware of the (i) identities and (ii) entitlements of the guests. The cause is the failure of the system to impart that knowledge and convey the information.

2. People at work use more of their knowledge than their physical skills these days. This trend is expected to increase as days go by. It is difficult, almost impossible, to supervise knowledge work. There have been cases where operators have got the collaborators to modify the designs of equipment, to avoid problems of clogging or heat loss. Some of these changes were very simple and retrospectively quite obvious, but needed an employee to bring out the improvement. There have also been cases of employees noticing the losses and not bothering about them. This is a matter of attitude. Attitudes are not inherent. **Attitudes are the result of the way they are managed.**

**EXAMPLE**

The supervisor cannot know, if the operator has identified the problem with the machine, but is pretending ignorance. If an employee is still working on a job (that should have been finished in half an hour) after two hours, the supervisor cannot know whether he was actually 'working' or just pretending

to work. A cook can spoil your party, if you scold him for not being fast enough.

3. The person dealing with a customer has to adjust to the variability in customer requirements and demands. It requires skill, discretion and preparation. It does not help to follow the rule book. Standardised procedures and rule books deal with customers as a class, while every customer is unique. His satisfaction is highest when the company treats him as a market segment of one. **Only the employee in front of him can provide that satisfaction.**
4. At the time of interaction with the customer, the employee is alone. In the course of that interaction, he cannot be referring to the rule book or the manual or the superiors for guidance. **If he does so, the perception would be that the person is incompetent, not knowledgeable and inadequate. There is an immediate loss of credibility and quality.** There is then a felt need to check whether, whatever the person does is to be accepted as final or needs to be got confirmed from someone else.
5. **The insurance service is fiduciary in nature.** Credibility or trustworthiness, in the perceptions of the customer, is crucial. The employee can strengthen or erode this.
6. Employees are in a position to contribute to the satisfaction of customers. One must assume that employees are willing to contribute. They would be willing to suggest improvements and even make the improvements practical, overcoming problems at work. To realize the potential, employees need three things - Knowledge and skills, an Attitude to contribute and a sense of Empowerment. All the three can be enhanced by the management. That is a responsibility of supervisors and managers.

#### **EXAMPLE**

In a cement factory, an employee suggested that groundnut husk, available in plenty in the neighbourhood, could be used as fuel. When they tried it, they found that husk being light in weight, was flying about during storage and while being fed into the plants. They fabricated the necessary systems to overcome these problems and the company saved substantial amounts.

7. Given the opportunity, employees experiment and learn; overhaul their skills, level of confidence and attitudes change. Success like this builds teams. The manager concerned could have killed this potential by just telling them that the idea was not workable, as groundnut husk was known to be difficult to handle.

## (b) People Learn at Work

1. **People learn. They do not have to be taught.** There is no place like the work place to learn work-related skills and attitudes. Formal class room training is not as effective, because it cannot reproduce the pressures and dynamics of the work place. What is discussed in a class room is more of 'what should be' instead of 'what is', the desirable and the ideal instead of the practical. Class room training helps at the cognitive level, explaining concepts. It can effectively deal with the technicalities of the job, but not the behavioural aspects.
2. Attitudinal changes cannot be brought about through classroom interactions. Attitudes are acquired as adaptations to the realities at work. The potentials remain suppressed.

### EXAMPLE

If employees do not exercise the freedom and discretion allowed to them or do not express their views openly, even when asked to do so, the reasons may be found in individual tendencies (fears, aptitudes, etc) or in what they may have learnt at work, viz., that being open can have adverse effects on one's future career. They may have learnt that a 'mistake' made while using discretion is fraught with unpleasant consequences, including accusation of malafides.

3. In contrast, there would be some organizations, in which the employees would be seen to be taking initiatives, even without being authorized to do so. There, the learning is of the opposite kind. The people feel empowered, assume that they are expected to take action and that such initiatives would be appreciated. There is no fear.
4. Neither confidence nor fear is taught in the class. They are learnt at work. The behaviours of the managers create the learning. Organizations that use 'mistakes' to learn and to teach, are the ones in which the capabilities of people are developed and released.
5. The potential for productive use of discretion will be released, if people
  - are aware of company's goals and purposes
  - get feedback on results and progress
  - are given feedback about mistakes as opportunities for learning and growth

- are not afraid of sharing concerns and personal goals with superiors without fear that they may be used against them
6. All the above are factors within the control of the immediate superiors. They create these problems and they alone can eliminate them. The method is to observe these at work, and to discuss it with the individual concerned. If both the employee and the supervisor are open and not defensive, then results can be fantastic.
- 

### TEST YOURSELF 3

Who, in an insurance office, can improve, or erode, the perception of credibility?

- (a) The employee processing the claim
  - (b) The telephone operator
  - (c) The enquiry clerk
  - (d) All the above three
- 

### (c) Unlearning

1. A person's behaviour is the outcome of a number of factors, which include his beliefs, attitudes, assumptions, values, expectations, etc., forming paradigms or patterns of thoughts. Any change in behaviour will happen only when some of these paradigms change. That would require that part of the past learning be replaced by something new. **Unlearning is invariably necessary before change in behaviour can occur.** When persons shift from one company to another, or even from one department to another, there will have to be a difference in the orientation towards procedures, and results. Unlearning is necessary for this to happen and that has to be facilitated by the supervisors.
2. Training, to be relevant, has to relate itself to the realities of what goes on within the organization. The training function has to arrange to collect relevant details from the variety of operations in the particular organisation and use it in the curricula. A lot of training goes waste, because the principles are discussed at very academic levels (naturally because the participants are from a variety of disciplines and industries) and the faculty does not have direct experience with the specific situation of the participant. Such principles may be appropriate in a high level seminar, not in a training programme for lower levels when the focus will be on operational skills, attitudes and corporate practices.

## (d) Reward Systems

1. Anything that gives pleasure or satisfaction is a reward. The opposite is a punishment. A punishment gives pain or denies pleasure. Theories on motivation suggest that people act in order to get pleasure or satisfaction and in order to avoid pain or dissatisfaction. They seek rewards and avoid punishments.
2. **All behaviour is goal directed.** The goals are determined by the availability of rewards or punishments. Therefore, reward systems are strong influences on employee behaviour. Systems should be such that behaviours that the management wants to encourage are rewarded and behaviours that the management wants to discourage, are punished. Inappropriate reward systems misdirect the energies of people. The reward systems tend to focus on doing the present tasks well and less on preparation for newer tasks of higher responsibility. The opportunity to learn is missed.

## (e) Empowerment

1. An organisation that emphasises customer service, needs people who, while rendering service at the front line, use discretion and take initiative, out of concern for the customer's satisfaction. Employees must look for opportunities to satisfy customers. **The person at the front line will do so, only if he feels 'empowered' to do so.**
2. Empowerment will not happen through a formal delegation of authority. A person may not exercise authority delegated to him, if he does not feel empowered. He will act beyond his formal authority, if he feels empowered. **Empowerment is learnt, not taught.**

### EXAMPLE

A four storey building caught fire one Saturday evening. A peon working in the office in that building, who happened to be passing by, identified himself to the fire officer in charge and pointed out the areas in which costly machines and important documents were located. They were saved from serious damage. He did not have any authority or responsibility to do so. He did so, because he felt that it was his duty to protect the organisation's interests and that he was doing the right thing by directing the fireman.

3. Those who do not feel empowered do not challenge or attempt to modify the proposals of others, even when aware of the need to modify. They do not pass on information that could be important and relevant for decision making, because they do not see it as their job. They allow opportunities to



pass by. A missed opportunity and its cost will never be reflected in the accounting data or the output from the management information systems.

#### **EXAMPLE**

A comment made by a customer on a matter concerning the service being performed at that time, may be ignored by one employee, while another may listen to it carefully and pick up further details. This could make all the difference between a satisfied and a dissatisfied customer, between getting or losing valuable feedback on customer perceptions.

4. An empowered employee focuses on results. He is not inhibited by formalities of position, authority or function. He does not consider himself bound by rules and procedures. **He believes that the organisation expects him to be aware of the ends to be achieved and to act in furtherance thereof.** He 'sees' constraints, but does not feel prevented thereby from doing what needs to be done. Instead, he seeks ways to overcome, not subvert, the constraints. **He believes that the organisation will not find fault with him, if he does something new or unusual.** On the contrary, he believes that the organisation expects him to do what he is about to do, to take the initiative and ensure that the customer's needs are met. He believes that if he hesitated and the customer turned sour, he would have let down the organisation.
5. An empowered employee will make demands on management. He may dislike conforming to rules and procedures, which, in his view, restrict his capacity to perform. He is likely to challenge company policies at meetings with seniors. If he is at that time, characterised as arrogant, rebellious or cantankerous, he may tend to conform and feel less empowered. **If the initiatives taken and the well intentioned efforts do not work out as planned, there will have to be tolerance and praise for the effort.** On the contrary, if a reprimand follows, empowerment stops.
6. **Empowered employees find solutions to problems, while others will find a problem in every solution.** Empowered employees say "It is difficult, but it is possible" and try, while others will say "It is possible, but it is difficult" and desist.
7. It is difficult to monitor the behaviours of empowered employees. **They need, and must be given autonomy at work.** The decision making authority must rest with them. They do not operate under the reflected glory of the bosses. The only way to control their behaviour at work is from within themselves. **They need to be coached on values and philosophy of the company.**

## **SUMMARY**

- Distribution adds 'place utility' to the product.
- An agent is seen as knowledgeable and his advice and opinions are valued.
- The work of an agent begins after the policy is sold and ends when the claim is settled.
- The competition for attention is furious in the Internet.
- The purpose of promotion is to communicate to the market.
- Promotion has to influence attitudes and receptivity.
- Advertisements seek to inform as well as persuade action.
- Publicity is more credible than advertisements.
- PR aims to establish better relations with the publics.
- PR cannot succeed through sporadic unplanned activities.
- A customer's satisfaction is highest when he is treated as a segment of one.
- Employees alone can strengthen, or erode, the perception of credibility.
- Unlearning is necessary before change in behaviour can happen.
- All behaviour is goal oriented.
- Empowerment is learnt, not taught.

## **KEY TERMS**

- Advertisements
- Bancassurance
- Brokers
- Direct Marketing
- Distribution Chain
- Distribution Channel
- Empowerment
- Intermediaries
- Insurance Marketing Firms
- Logistics
- Lok Adalat
- Loss Assessors
- Media
- Motor Accident Claims Tribunal
- Opinion Leaders
- Public Relations
- Publicity
- Retailer
- Sales Promotion
- Stockiest

- Surveyors
  - Unlearning
  - Wholesaler
  - Word of Mouth
- 

### Answers to Self-Examination Questions

Answer to Question 1 is (d)

Answer to Question 2 is (b)

Answer to Question 3 is (d)

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### SELF EXAMINATION QUESTIONS

Question No 1

Which of the following statements is correct?

- (a) The responsibility of an agent is over when a policy is sold
- (b) The responsibility of an agent is not over till the claim is settled
- (c) Both the statements are wrong
- (d) Both the statements are correct

Question No.2

Which of the following statements is true?

- (a) No employee should be allowed to break the rules
- (b) Any behaviour contrary to rules must be punished
- (c) Empowered employees often do not abide by the rules
- (d) None of the above statements is correct

Question No. 3

Which of the following elements of the Marketing Mix will give an insurer the maximum advantage?

- (a) Product
  - (b) Price
  - (c) Public Relations
  - (d) People
-

## Answers to Self-Examination Questions

The correct answer to Question No.1 is (b)

The correct answer to Question No 2 is (c)

The correct answer to Question No.3 is (d)

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# CHAPTER 8

## RURAL MARKETS

### CHAPTER INTRODUCTION

The rural areas, comprising of more than 6 lakhs villages and about 70% of the population had been neglected in the past by insurance companies. It cannot be ignored any more. There are significant developmental activities happening in the rural areas. This chapter attempts to provide a picture of what is happening in the rural areas

### LEARNING OUTCOMES

- A. The Rural Sector
- B. Economic Growth
- C. Infrastructure
- D. Development Programmes
- E. Structure of the Rural Markets
- F. Insurance in Rural Areas

### A. THE RURAL SECTOR

#### (a) General

1. Ever since the nationalisation of insurance (life in 1956 and non-life in 1973), there has been a thrust towards developing the rural market for insurance. Apart from the fact that about 70% of the people live in rural areas, the rural economy was vital for the country. Before nationalisation, private insurers used to neglect the rural markets for a number of reasons, most of which related to poor connectivity, relatively spread out populations and relatively poorer incomes.
2. The insurers in the public sector had done much to develop the markets, both in terms of infrastructure and appropriate covers. The Insurance Act and the IRDA regulations provide that all insurers must transact a certain minimum business in the rural areas. The regulations issued by the IRDA in 2009 revised the minimum business requirements upwards. For the year 2009-10 and later the minimum requirements are

- For life 25% of policies
- For non-life 7% of gross premium

During the years 2013-14 and 2014-15, all insurance companies fulfilled these obligations except the LIC, which, in the year 2014-15, managed to do only 23.09%.

3. The rural area is defined by the IRDA as a place in which the population does not exceed 5000, as per the last census, the density of population is not more than 400 per square kilometer and at least 75% of the male working population is engaged in agriculture. **This is the criteria followed by the census in identifying villages.** All other populated areas are classified as semi urban, towns and metropolises, according to the size of the populations.
4. As per the census of 2011, 68.84 % of the people, totalling 83.3 crores, stayed in the 6,40,867 villages and the remaining 31.16%, totalling 37.7 crores, stayed in the 15,870 urban areas, consisting of small and big towns. These urban areas would have been the target market of many insurers, if there were no legal compulsion to go to the rural areas. Half the rural population resides in about 1.15 lakh villages. **There are 2.56 lakh gram panchayats, which are units of self governance representing one or a cluster of two or three villages.**

#### (b) Profile of the Rural Sector

1. The demographic differences between the urban sector and the rural sector will be seen from the following data, which are based on the census.

	URBAN	RURAL
Households (crores) 2011	7.89	16.85
Population (crores) 2001	28.6	74.3
Population (crores) 2011	37.7	83.3
Percentage of population 2001	27.81%	72.91%
Percentage of population 2011	31.16%	68.84%
Women per hundred men 2001	900	926
Women per hundred men 2011	926	947
Literacy among males 2001	86.3%	70.7%
Literacy among males 2011	89.7%	78.6%
Literacy among women 2001	72.9%	46.1%
Literacy among women 2011	79.9%	58.8%
Below poverty level 2011	13.7%	25.7%
Wage per worker (000 pa)	103	86

2. The figures in the table above show that
  - there has been a migration from the rural to the urban areas during the decade
  - nearly 70% of the people are still in the rural areas
  - the sex ratio (women to men) has improved in both the urban and rural areas
  - literacy has improved in the rural areas better than in the urban areas
  - literacy rate has improved better among women than among men
3. The rural population is the lowest in the states of Kerala (26%), Goa (19%), Nagaland (15%) and Sikkim (5%)

### (c) Changes in the Rural Sector

1. **The face of rural India has been changing.** For example, over the thirty years from 1981 to 2012, the pattern of farmland holdings had changed considerably. While the area under cultivation remained almost constant at 159 hectares, the average size of holdings shrank by 37% from 1.84 hectares to 1.16 hectares. The land had been divided and the number of small holdings (less than 2 hectares) went up from 66.2 millions to 117 millions. **Six out of every seven farms were of a size that allowed only subsistence farming and limited incomes.**
2. The rural population had grown from 52.4 crores in 1981 to 74.3 crores in 2001 to 83.3 crores in 2011. The number of cultivators had become less from 12.7 crores in 2001 to 11.9 crores in 2011, while agricultural labourers had gone up from 10.6 crores to 14.4 crores, an increase of 36%. **This indicated a significant shift from cultivation to labour. 56% of the rural population were landless.**
3. **Cultivators had resorted to multiple cropping and to cash crops like horticulture.** They also received better seeds and appropriate fertilizers and pesticides, thus making a difference in yields. There has been an increase of mechanical farming equipments and machinery. With better marketing arrangements that have developed, the farmers' incomes have gone up. **However the vagaries of monsoon affect rural incomes badly.**

## (d) Employment

1. The pattern of employment among the rural population was as under.

Manual casual labour	51.14%
Agriculture - cultivators	30.10%
Domestic workers - part time or full time	2.50%
Non agricultural own business	1.60%
Income tax payers	4.58%

2. Out of the working population of 48.3 crores in the rural areas, only 362 or 75% had work for six months. This group is called 'main' workers. The rest, called 'marginal' workers, totaled about 12 crores and were given job cards under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA) for at least 100 days. The figures vary significantly between states. In Bihar the marginal workers went up from 25% in 2001 to 40% in 2011. In Jharkand it went up from 36% to 48% and in Gujarat and Maharashtra, it went down from 18% to 12% in spite of migration of workers from other states.
3. A study showed that, as on 16<sup>th</sup> March 2016, there were 10 crore active labourers registered under MGNREGA. Of them 6 crores had unique identification numbers (Aadhar cards) seeded in their job cards, which ensured that the payments were received by them without any leakage. The Government has proposed to spend ₹ 38,500 crores on MGNREGA in 2016-17.

A study in 2015 had found that under the MGNREGA, there were considerable bogus enrolments and siphoning off of funds, without creating any assets. Often payments were delayed for months forcing job seekers to desert the scheme. The situation had apparently improved by March 2016.

4. Self-Help Groups (SHG), consisting of women, have made a big difference in the rural areas. Since they were formed in 2011, they have mobilised credit from banks to the extent of about ₹ 70,000 crores to fund activities like starting a shop, milch cattle, etc.. **There are 26 lakh SHGs in the country comprising of 8 crore members**. The SHGs help the members to connect to the banks, ensuring mortgages and arranging loans. It is expected that the number of SHGs may grow to over 75 lakhs in the next ten years. With the skill developing programmes gathering momentum in the rural areas, diversified livelihood opportunities in non-farm jobs, will emerge in a big way in the rural areas. **SHGs are allowed to be agents for micro insurance**



*(In the discussions in the following paragraphs, the figures are taken from various studies and reports. Even if some of the figures may not be accurate, being based on samples, the trends can be considered significantly reliable. Further, the expression 'rural' may not be confined to the villages as defined earlier, as all studies may not have rigidly adhered to that definition.)*

5. In 74.5% of the households in the rural areas, the highest salary was less than ₹ 5000 per month. In 7.8% of the households, it varied between ₹ 5000 and ₹ 10,000. 40 lakh persons had annual incomes exceeding ₹ 10 lakhs and 14 crores had annual incomes exceeding ₹ 1.5 lakhs. These figures are taken from various studies and even if not accurate, do suggest the broad trends.

6. The standard of living can be gauged from the following figures.

9.3 % (of households)	owned a car or jeep
55.4%	owned a motorcycle
32%	owned a scooter
46.6%	owned a moped
44.9%	had TV sets at home
49%	had electric fan
50%	had access to toilets (over 90% in some states)

## **B. ECONOMIC GROWTH**

### **(a) Rurban Mission**

1. In September 2015, the Government of India launched the Shyama Prasad Mukherjee Rurban Mission (SPMRM) under which, over the next 3 years, 300 clusters of villages across all the States and Union Territories, will be created. Each cluster will comprise of contiguously located gram panchayats with population of 25000 to 50000 in the plains and the coastal regions and between 5000 and 15000 in desert, hilly and tribal areas.
2. In each of these clusters, there will be various initiatives related to developing skills, agro processing, agro servicing, agro storage and warehousing, digital literacy, sanitation, water conservation, provision of piped water supply, solid and liquid waste management, village streets and drains, street lights, fully equipped mobile health centres, upgrading schools and higher education facilities, road connectivity, centre for delivery of citizens services, public transport, LPG gas connections.

3. The Rurban mission is meant to provide urban infrastructure amenities to the rural areas, enabling farmers to get easier access to markets and more job opportunities. ₹9000 crores had been provided in the Central budget for 2016-17.

## (b) Agriculture

1. Agricultural production grew at 4.2% per annum during the 7 years from 2004-05 to 2011 - 2012. It was 2.7% during the previous 11 years. It fell to less than 2% in 2014-15, while India's GDP grew at 7.3%. This meant that 49% of the workforce supporting roughly 55% to 60% of the population, produced one-seventh of the country's GDP, and on which two-thirds of India subsisted.
2. **It is believed by experts that growth in the farm sector reduces poverty two to three times faster than other sectors put together.** Per capita GDP in the rural areas had been growing at 6.2% since 2000. The share of non-agriculture in the rural domestic product was around 70%. This is less vulnerable to the vagaries of monsoon.
3. There was a shift in agricultural output towards higher value labour intensive crops like vegetables and fruits, which grew at 6% annually, for a decade. Milk production grew annually at 4.5%. Lentils grew by 56%, oil seeds by 62%, maize by 80%, potatoes by 100% and cotton from 9.5 bales to 35.2 bales in 10 years. India continued to be the highest producer of fruits in the world and the second highest producer of rice, wheat, vegetables, tea, coffee and sugar.
4. In 2012 and 2013, India was the largest exporter of rice in the world. The combined shipment of wheat and rice exceeded 20 million tonnes in 2013-14. Fish exports doubled in 5 years. The price for wheat and other cereals also went up during this period. Prices for vegetables and fruits went up. Agricultural wages almost doubled in 5 years.
5. India is the leading producer of sugar, tea, milk, fruits and vegetables. Yields are lower than the world's best even in areas like fruits and vegetables, where India is the world's largest. More fruits and vegetables are lost in India (estimated at 30 million tonnes) than are consumed in the U.K. India has 60% of the world's production of mangoes, but Egypt, Australia and Mexico sell at a premium because of better storage.

### (c) Aquaculture

1. Fisheries production in India increased from 0.75 million tonnes in 1950-51 to 9.6 million tonnes in 2012-13, at an annual rate of 4.5%. This production was the second largest in the world, next only to China. 14.5 million people depend on this industry for their livelihood. This industry earned US\$ 3.5 billion in 2012-13. The share of inland fishing and aquaculture went up from 0.37 million tonnes, or 46%, in 1980 to 4.03 million tonnes, or 85%, in 2013 at a growth rate of over 6%. **This is often referred to as the Blue Revolution in India, compared to White Revolution that made India the largest producer of milk in the world.**

## C. INFRASTRUCTURE

### (a) Roads

1. In 2000, more than 50% villages did not have a metalled road or a bus stop within 2 kms. Only 47% villages had all weather roads. These were villages with population of 1500 or above. The Pradhan Mantri Gram Sadak Yojana launched in December 2000 seeks to connect all habitats with populations of 500 or above in the plains and with populations of 250 or above in hilly and tribal areas. Since its commencement, nearly 5 lakh kms of roads have been constructed or upgraded. **The number of habitations to benefit from this Yojana was 1.67 lakhs..**
2. There are considerable differences between states in these and other infrastructure details. Punjab, Haryana, Gujarat, Maharashtra, Goa, Karnataka, Kerala and Tamil Nadu are considered developed States. Others are undeveloped States. Western U.P. is more developed than Eastern U.P. 13 states report 100% electrification of villages. 90% of the villages in Kerala have a population of more than 5000, as against 10% for the country as a whole. All India averages of distances from village to post office, bank, potable water, primary health centre, literacy rates, employment of women, etc., will vary considerably between the States. Kerala, for example, has a high level of income because of the UAE connection, while the high level of income in Punjab comes from agricultural and industrial production.

### (b) Banking

1. The number of branches of banks in the country increased from 1,01,570 in 2011-12 to 1,23,180 in 2013-14 and 1,26,000 in 2014-15.. During the same period, the number of branches in the rural areas increased from 37,160 to

46,990 and 48,872. The number of ATMs increased from 1,05,780 to 1,78,410.

2. As of April 2016, many villagers had to travel several kilometers to reach a bank to withdraw money. They had to go to banks as several payments due to them as subsidies and wages, were being credited directly into their bank accounts under the DBT (Direct Bank Transfer) schemes. The total amount going into the accounts under DBT estimated to exceed ₹ 6000 crores covering 54 schemes, the major ones being MGNREGA ( ₹ 3265 crores to 9.8 crore people) and LPG subsidy ( ₹ 2288 crores to 16.5 crore people).
3. **There are, in the rural areas, bank correspondents, called bank mitras,** who would go to the villages with micro ATMs to enable the villagers to do banking transaction. Micro ATMs are actually card swipe machines, with a finger print scanner, through which a bank customer can remotely connect to the bank's core banking system using the debit card. Micro ATMs are used by bank correspondents. Each of the bank mitras had to cover territory within a 5 kilometer radius.
4. The latest proposal, to be implemented by March 2017, is to involve post offices and postmen to make door-to-door disbursal of payments including wages for rural jobs and subsidies for food, fuel and fertilizers. **All the rural post offices would be brought on the core banking platform,** which allows an account holder to operate an account from any branch. **The aim is to have 2 or 3 alternative systems in every village for DBT.**
5. **Kisan credit cards enable farmers to get loans over periods of 3 to 5 years.** Kisan Credit Cards are issued by cooperative banks, rural regional banks and commercial banks. Upto March 2014, 101 million Kisan credit cards had been issued, 35.7 million by cooperative banks, 10.6 million by regional rural banks and 54.7 million by commercial banks.
6. The number of post offices in the rural areas was 1,39,000, . The postal department, called India Post, has been licensed by the Reserve Bank of India to function as a payments bank. A payments bank can accept deposits upto ₹ 1 lakh, but cannot grant loans. **India Post has installed nearly 900 ATMs in the rural areas.** India Post has tied up with more than 800 e-commerce companies including the majors like Flipkart, Snapdeal and Amazon, for delivering parcels in the rural areas. The parcel revenue of the postal department grew by 45% in 2014-15 and a staggering 100% till February 2016. **In 2015-16, it delivered 43 crore parcels, earning ₹ 1645 crores.**

7. Major Indian and foreign banks are seeking to have alliances with India Post for banking products and services. BSNL, the state owned telecom company, is seeking a partnership with India Post for the mobile wallet business, while American financial services giant Visa has approached India Post for a pact on ATM and point of sale transactions. **All these companies are keen to use the extensive infrastructure of the postal department to take advantage of the massive business opportunities.**

### (c) Telecom

1. The rural areas are well covered by basic telecom services through penetration of computers and smart phones. In 2015, it was estimated that there were 138 million users of internet in the rural areas. This was growing at more than 50% annually. Online portals are being seen as key channels for companies trying to enter and establish themselves in the rural market. Internet is cost effective for companies looking to overcome geographical barriers and increase reach.
2. As on 30.November 2015, there were 436.26 million telephones in the rural areas of which 431.61 million were mobile phones. The corresponding figures for the urban areas were 598.92 and 577.84 respectively. **The tele-density in the rural areas was just about 50%, while in the urban areas, it was little over 150%.** Broad band coverage went up from nearly 80,000 panchayats in 2010 to 111,000 panchayats in 2011.

### (d) Health

1. As on 31 March 2015, there were (a) 1,53, 655 sub centres catering to about 5400 persons on the average, in villages of population not more than 5000 (b) 25,308 primary health centres manned by a medical officer and 14 para medical staff catering to about 33,000 persons on an average and (c) 5,396 community health centres manned by a surgeon, a physician, gynecologist and pediatrician, with 30 bed facilities for in-patients, a labour room, X ray and laboratory, catering to about 1.54 lakh persons on the average. Sub-centres provide basic care for maternity, child care, hygiene, nutrition, diarrhea, etc. Community health centre provide integrated curative and preventive health care
2. The Government of India has also announced health insurance packages covering up to ₹ 1 lakh hospital expenses (₹ 30000 more for those aged over 60 years). The programme includes maintenance of electronic health records. When the digitalization programmes gets under way, **the rural clinics will be able to contact the better equipped hospitals in the towns**

and get advice on the course of treatment in cases where they need professional consultation.

3. Apart from 3000 shops set up to sell quality generic drugs, arrangements are being made to provide dialysis in all district hospitals. All these programmes will result in better health profiles in the rural areas.

#### (e) Drinking Water

1. Of the 167.9 million households in the rural areas, 23.5 million have tap water within the house, 35.2 million have other sources (well, borewell) in the premises, 72.2 million have to walk less than 500 metres to access water and 37 million (21.76%) have to walk more than 500 metres to access water.
- 

#### TEST YOURSELF QUESTION 1

Which of the following statements is true?

- (a) India is a leading producer of fruits and vegetables in the world.
  - (b) The yields in India of fruits and vegetables are less than in many other countries.
  - (c) More fruits are lost in India than are consumed in the UK.
  - (d) All the above statements are true.
- 

#### D. DEVELOPMENT PROGRAMMES

1. The Government has started the **Mission Antyodaya**, a process for participatory planning, beginning at the village panchayat level, feeding into the block level plans, which then enrich the district level plans. The target of Mission Antyodaya is to address multi dimensional poverty in lock-step with four major programmes, the **National Rural Livelihood Mission**, the **Deen Dayal Upadhyaya Grameen Kaushalya Yojana**, the **National Social Assistance Programme** and the **Indira Awaas Yojana**. These four schemes are meant to **provide self employment for the rural poor**, for improving their skills, for improving social standards and **for providing houses for the rural poor**. The anchor scheme for the Mission is MGNREGA to provide basic employment and livelihood and then help labourers acquire professional skills which could be utilised in asset creation. With all these schemes working in unison, there is likely to be much improvement in employment and incomes in the rural areas.

2. Another programme of the Government of India is called **Nav Kalpana Kosh** and is meant to study various innovations and submit reports to **improve rural areas at various levels such as governance, agriculture and hygiene**. This will also monitor the progress of various programmes of development in the rural areas.
3. On 1st May 2016, the Government launched the **Pradhan Mantri Ujjwala Yojana** that would **provide 5 crore women with LPG cylinders**. This will reduce pollution, within the homes and outside, as well as **improve the health of the housewives and rural population in general**.
4. There are also programmes for speedier implementation of infrastructure in the rural areas, through construction of roads and provision of electricity. **It is expected that by March 2017, every village in the country would have electricity**. This would enable the establishment of industries, resulting in opportunities for employment outside the agricultural sector. Not only would the market potential grow several fold, but access to that market would become easier.
5. There are also programmes to improve efficiency in agriculture (through better knowledge and credit) and for marketing of agriculture produce, through unified agricultural marketing scheme creating a common marketing platform in wholesale markets. Inaugurated on 14<sup>th</sup> April 2016, the **National Agricultural Market (NAM)**, is an electronic trading portal, which will connect 21 wholesale agricultural markets (*mandis*) in 8 states immediately and 585 *mandis* in India by March 2018. **The farmer will be able to know the prevailing process in all these *mandis* and sell at the place of his choice**.
6. The **Pradhan Mantri Sinchayee Yojana** has planned an outlay of ₹ 50000 crores over the next 5 years till 2020 to **provide irrigation to every village in India**, by converging various ongoing irrigation schemes into a single focussed programme. Of the total of 141 million hectares of net cultivable area, only 46% is covered with irrigation. In 2016-17, another 28.5 million hectares my get irrigation facilities.
7. The Government was also investing ₹ 6000 crores on **sustainable management of ground water resources**. 5 lakh farm ponds and dug wells in rain fed areas and 10 lakh compost pits for organic manure are expected to be taken up under MGNREGA in 2016-17.
8. A study of soil health is also planned to be completed by March 2017, which would **make farmers know about nutrient levels of the soil and make**

**judicious use of manure and fertilizers.** 14 crore land holdings are likely to benefit from this initiative. 2000 model retail outlets for fertilizer companies will be given soil testing and seed testing facilities: all these would help farmers.

9. The Central Government is also spending ₹ 75000 crores to supply uninterrupted electricity through separate feeders for agro domestic consumption in rural areas.
10. 'A Scheme for Promotion of Innovation in Rural Industry and Entrepreneurship' (ASPIRE) will create a network of technology centres and incubation centres to promote start ups and accelerate entrepreneurship in the agro industry.
11. The Government of India had provided ₹ 850 crores in the budget for 2016-17, for setting up a **National Genomic Centre** for promoting advanced breeding technology, as part of the programme on **improved animal husbandry**.
12. The **Skill India** programme aims to create 50 crores of skilled persons, most of whom will be in the rural areas.
13. There has been a steady migration of manufacturing jobs to the country side. 75% of factories opened in India in the last decade, were built in rural areas. These factories accounted for 55% of the country's manufacturing GDP and 70% of all manufacturing jobs.
14. There is heavy investment in roads. **Connectivity**, which used to be a problem in reaching the rural market, **is already considerably eased and would be further eased in the near future**. The Central budget for 2016-17 provides for expenditure of ₹ 87,765 crores. The states would also be investing substantially

## **E. STRUCTURE OF THE RURAL MARKETS**

### **(a) Traditional Markets**

1. The Indian rural market consists of
  - About 47000 *haats* or weekly markets in the villages. These are also called *painths* or *shandies*. These are held on specific days of every week in the villages and are visited by villagers, within a radius of 5 to 10 kms. 15000 of these are bigger ones catering to populations of 2000



or above. These are effectively assembly and distribution centres. Individuals come with small surpluses. Big marketeers, like national FMCG producers, participate in these *haats* up to the block town level. On an average a big *haat* in a village with a population of 5000, caters to about 20 villages, will have over 300 stalls and will be visited by more than 90% of villagers regularly.

- At the secondary level, there are about 7000 agricultural markets called *mandis*. These are permanent places, located in district or other towns, near railway stations. Transactions take place daily. They are regulated by the state governments.
  - At the next level are about 3.8 lakh fair price shops, where essential commodities are sold, at prices and quantities fixed by the Governments. The number of retail shops in villages is estimated to be about 30 lakhs. The fair price shops are part of the public distribution system intended to help the poorer sections of society. Rice, wheat, kerosene etc., distributed by governments to ration cardholders are sold through these fair price shops
  - About 25000 *melas* or festivals are held every year. Some of these are temple events. They may last for more than one day, as long as 45 days in some places. The *kumbh melas* in Allahabad and Ujjain are examples. They attract 7 to 8 lakh visitors and traders. It is estimated that in some *melas*, business worth upto ₹ 1 crore may be transacted.
2. At the village level, the intermediaries are big cultivators, village merchants, *dalals* or brokers and also traveling traders. At the *mandi* level, there are agents, *dalals*, and cooperative societies. **Cooperative societies, numbering more than 3000, help the producers with seeds, manure, finance, technology, etc. and also help them find markets.** These intermediaries are in touch with the individuals in these areas and also have some influence, being partners in business, relatively well to do and perceived as people ‘who have seen the world’ and therefore, knowledgeable. They travel for their own work and can be useful intermediaries for insurance.
3. The characteristics of the traditional rural market are
- **Long distances to travel to meet people.** Time and effort to reach places, for soliciting business or for verification of claims, would be more than in the urban areas; not commensurate with results as

business per capita could be less than in the urban areas. These difficulties have lessened over the last decade and will improve further with the focus on development of the infrastructure in rural areas.

- **There is a strong influence of caste, hierarchy and tradition.** Acceptability of the concept of insurance and of insurance agents may happen only if endorsed by someone belonging to and respected (opinion leader) by the community
  - Consumption, which reflects the money resources of the people, is dependent on the performance of the agricultural sector. 68% of India's cropped area, providing livelihood to 470 million people, is rain fed and is characterised by constraints in water availability, higher poverty ratio, lower population density and difficult access to markets, employment and services. **This situation is also changing fast.**
  - **The banking network is extensive** and has gone into the remote villages, through cooperative and rural banks. .
  - **TV reaches more villages in the rural area than the newspapers.** Regardless of the level of literacy, the newspapers are read fully and listened to, by many. The cinema reaches more than 60% of the rural areas.
  - **The telephone network, including STD and ISTD, has penetrated deep.** States are planning IT penetration through colleges and schools and setting up internet kiosks in panchayat wards.
4. Some of the characteristics of the rural customers are
- He enjoys a visit to the town. That is where he makes most of his big purchases. His mobility is high because of bicycles, motorcycles or tractors.
  - He has an uneventful, routine life style, which is in tune with nature, not the clock or the calendar. (Sunday is not a holiday). After work, he spends his time drinking or at the community hall to listen to the TV, read or listen to newspapers being read, see cinema or listen to someone one who has come from far away. His visit to the towns or even the village *haats* and *melas* are intended, partly, to break this monotony and have some fun

- With the impact of TV, cinema and younger generations being exposed to **higher education and urban life styles**, the needs and wants are changing.
- **Cultural constraints** may prevent purchase, without approval of elders or seniors. **Traditions may inhibit** the lower classes from possessing goods which the upper classes may consider status symbols.
- They are **generally fatalistic**. Whatever happens is as per the will of the Almighty. When things happen according to God's will, it would be foolish to try and counter such happenings, through insurance.
- It had been noticed that the villager values his cattle and land (means of production) more than the family and his own needs.
- He may be illiterate: but he is wise.
- He has a natural suspicion of the smart operators from towns. Winning trust through the endorsement of one of the village elders is essential. He is also quick to accept the opinion of someone he trusts.

## (b) Promotion

1. **Promotional communication in the rural areas is more complex than in the urban areas.** Written matter has little impact. Cinema, as a medium, is poor. Three-fourths of the touring talkies are in the southern states. They do not generally agree to show ad films. Even if they do, there is no guarantee that they will show it as agreed. Even if they were screened, the visuals and spoken words must match the local customs and lingo, to make any impact. There are said to be 850 dialects in India. **Commercial radio and TV advertisements have much better reach.** They have to be carefully prepared so as to appeal to the rural folk.
2. **The spoken word, through personal selling and word-of-mouth, is the most powerful medium of communication in the rural areas.** A study showed that information about new products is received from shopkeepers (75%), T,V, ads (23%), newspapers (60%), friends (10%) and *haats* (2%).
3. Other effective promotional media for the rural markets are
  - **Specially prepared films, to be shown through publicity vans.** Parked in the middle of the village, they would attract attention, through the

songs they play and the equipment they have. A formal meeting can be organized soon, with a village elder invited to preside. Children would willingly spread the message around. Public participation will be high if some of them are involved in arrangements. Contests like quiz based on the films to be shown can be arranged. Prizes do not have to be expensive. The opportunities to speak on the microphone, to be recorded on the video and to be performing before the community, are all greatly valued.

- Claim cheques may be handed over at a function attended by the community, preferably by the agent who arranged the insurance.
- Promotional messages can easily be weaved into local entertainments like the *katha* or folk theatre.
- Village walls are cheap backgrounds for promotional messages.

### (c) Trends in the Rural Market

1. The rural sector, in which about 70% of the people live, contributed about 18% to India's GDP. **But the size of the rural market had been increasing.** Overall, 56% of Indian consumption comes from the rural areas. Since 2000, the GDP in the rural areas was growing faster, (at CAGR 6.2%) than in the urban areas (CAGR 4.7%). Between 2009 and 2012, spending in the rural area was estimated to have touched about ₹ 50,000 lakh crores, 25% more than in the urban areas. Estimates also suggest that rural consumption can continue to grow at 150% of urban consumption and touch ₹ 70 lakh crores by 2025.
2. **Rural markets have 64% of all retail stores, but account for just one-third of FMCG sales.** The numbers of petrol pumps, repair shops and spare part dealers have gone up. Access to improved water sources has gone up by 59%. Children attending school has gone up from 18.76% in 2006 to 30.8% in 2014. All these are indicators of positive developments in the rural areas.
3. The sale of FMCG products in the rural areas was 9% in 2009. It was expected to be 35.3% in 2015, the figure being ₹ 90,000 crores approximately. The CAGR growth during the period 2009-15 would have been 13.2%. **Rural growth for most companies was double the urban growth.** Market researchers expect that the sale of FMCG products would have touched ₹ 250,000 crores by 2015 and may touch ₹ 1,000,000 crores by 2025. The share of the rural market will increase if the monsoons are favourable.

4. **The rural areas are already a growing market** for soups, detergents, cosmetics, textiles, two wheelers, tooth pastes, packaged tea, TV sets, refrigerators, washing machines and mobile phones. 90% of all shampoos and 65% of packaged tea, sell in satchels and small packs in the rural areas. **More than half of India's stock of consumer durables and 2 wheelers are in rural India.** Rural India accounts for over 53% of FMCG products and consumer durables. Sales of Jaquar bathroom fittings are expected to grow at 25% in rural areas. There is a market for premium products. Hindustan Unilever and Colgate say that they get 50% of their revenues from the rural areas. Because of the spread of the internet and smart phones, the e-commerce companies are also selling in the rural market.

#### **(d) Corporate Initiatives**

1. **Hindustan Unilever's Kan Khajura Tesan programme**, very popular in the rural areas, responds to a missed call by playing popular songs, interspersed with advertisements for their products. This initiative was started in Bihar and Jharkand in 2013 and has since been extended to other states. HUL is also compiling data on the time when calls are made, the point in the programme when the connection is cut, the person who calls, etc., enabling them to target more sharply on the use of advertisements. **HUL estimates that there are over 42 million subscribers to the programme.**
2. Another initiative of HUL, started in 2001, is called 'Shakti'. Women in villages, called **Shakti Ammas**, are encouraged to become entrepreneurs distributing HUL's products. The villagers are also given education on health and hygiene through community portals. Shakti has extended to over 50,000 villages in 12 states across the country. **By the end of 2014, 70000 Shakti Ammas, along with 48000 Shaktimaans (men) are making sure that societal needs and business interests go hand in hand.**
3. **ITC Ltd had introduced e-Choupals in rural areas in 2007.** An employee manning a kiosk with a computer and a phone or a VSAT could connect to the Internet and provide farmers in the village, information about prices for his produce in various markets. This helped the farmers to sell directly to ITC without the intermediaries. **By 2012, e-Choupals were operating in 40000 villages in 10 states, benefitting 40 million farmer households.** The benefits to farmers now extend to advisories on crop management, information on weather, scientific farming practices and job opportunities available outside the villages, which would of interest to the youth.
4. **Tata Motors is planning to triple its network in the rural areas from 460 in 2016 to 1500 in the next 3 years, making it the biggest expansion by a**

passenger vehicle motor company. **Hiring farm equipment is big business in the rural areas**, valued at ₹ 15000 crores, largely in the unorganised sector. Mahindra and Mahindra have started the Trrigon, a company to help the farmers who own tractors to get in touch with farmers who want to hire them. **M & M expects that the farmers would get better quality equipments and improve productivity with this initiative.**

- 5 Other similar initiatives are **DCM's Haryali Kisan Bazaar, ITC's Choupal Saagar, Godrej's Aadhar chain, M & M's Shubh Labh Stores, Tata Rallis Kisan Kendras and Escort's Rural Stores.** All these companies had opened chain stores, some in the nature of the malls in towns. The experience of all these initiatives has not been uniform. DCM had opened 300 stores by 2008. By 2012, it closed most of them, as profits were low. Godrej had 45 outlets in Punjab and Gujarat. Over the year 90 % of sales came from groceries and consumer goods, compared to 33% from farm inputs, when they started. **They believe that local franchisees can do better with these stores as they build stronger customer relationships.**
  4. Among the many entrepreneurs seeing business opportunities in the rural areas is **101 Commerce Services. It is set to help traditional shops fight online organised retailers with the use of technology.** With its technology platform Shop X, it seeks to provide small retailers the same level of technology, logistics, sophistication and supply which e-commerce or organised retail uses.
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## **TEST QUESTION 2**

Which of the following would you prefer to use for communicating to the villagers?

- (a) Hoardings near the market place
  - (b) A publicity van with films visiting every village
  - (c) Advertisement in the TV programme meant for villages
  - (d) Pamphlets for free distribution in the villages
- 

## **F. INSURANCE IN RURAL AREAS**

### **(a) Selling Insurance**

1. It has been noted earlier that selling of insurance is a difficult task even in the urban areas. Resistance to the sale is natural. Many visits may be necessary, before a sale happens. In the rural areas, the effort is more and

the size of the insurance when it happens would be relatively small, compared to the results in an urban area. Naturally the returns by way of commission would be also low. This is true in life insurance. It is worse in general insurance, because the commission to an agent is only one time and is at a lower rate. **Agents would therefore be reluctant to work and develop the rural markets.**

2. **Rural agents must find ways to improve the ratio of effort to result.** One way is to do the sales at places where people congregate for some reason or other. Another is to combine the insurance activity along with some other, so that with one effort, more than one business is done. Bancassurance is an example. With every bank loan, there can be some insurance, both life and general. Composite insurance agents, selling both life and general, have better options.
3. Dealers in pump sets, bicycles, motorcycles, tractors, etc., cooperative societies providing seeds and manure and helping in marketing are centres from which lot of insurance can be influenced. Teachers, who meet heads of households in the normal course, save on the effort of selling insurance, if they are agents. **These persons have the added advantage, that they would already have gained the trust of the customers.**

## **(b) Crop Insurance**

1. The **Pradhan Mantri Fasal Bima Yojana** covers distress due to crop failure or damage because of unseasonal rains, monsoon failure, storms, floods, pests or diseases. **It will cover at least 50% of the 11.86 crores farmers, of which 61% had small and marginal holdings (below 2 hectares).** Farmers would have to pay uniform premium of 2% of total value of *kharif* crops, 1.5% of *rabi* crops and 5% of all commercial (cocoa, cotton, tea, tobacco) and horticultural crops. The balance premium will be paid by the state and central governments. The total premium would be in the range of ₹ 10,000 crores. The scheme will be administered by the Agricultural Insurance Company of India. Farmers will be better protected against crop losses.
2. Earlier, out of 13 crores of farmers, only 28% had crop insurance covering 25% of the area and 10% of the agricultural output. The total crop insurance premium was ₹ 5000 crores, just 10% of the farm institutional credit of ₹ 50000 crores and much less when compared to the agricultural output. With the PM Fasal Bima Yojana, the total crop insurance coverage would be much wider and will reduce the burden on the farmer. **It is expected that this**

will put an end to the scourge of farmers committing suicide due to distress.

### (c) Micro Insurance

1. To enable insurance companies to provide insurance cover to the poorer sections of society, the IRDA introduced the concept of micro insurance. The Regulations issued by the IRDA in 2005 had fixed the maximum sum assured for micro insurance at ₹ 50000. Non-life covers would include personal accident, health, hut, livestock and tools, instruments. Life covers will include term insurance (with return of premium), endowment and health. Covers can be provided to individuals or to groups.
2. The IRDA, vide regulations issued on 12<sup>th</sup> March 2015, raised these limits to ₹200,000 for life, ₹ 100,000 for non-life and ₹ 250,000 for group health covers. A new **variable hybrid life policy cover** was also recognised as micro insurance, which is a policy with systematic contributions with term insurance and a lock-in period of 5 years, during which surrender was not permitted, but partial withdrawals may be permitted.
3. Micro insurance can be sold only through **specially licensed micro insurance agents**, who have to undergo training at the time of initial appointment and every three years thereafter. NGOs, Self help groups and microfinance institutions are permitted to be intermediaries. Since 31.1.2014, the IRDA has agreed that Reserve Bank regulated NBFCs and MFIs, district cooperative banks, regional rural banks, urban cooperative banks, primary agricultural cooperative societies and banking correspondents of scheduled banks can also be appointed as micro insurance agents.
4. The micro insurance premium (in lakhs of rupees) written by the life insurers in the last four years were as follows, separately for individuals and for group covers

	IND	IND	IND	IND	GROUP	GROUP	GROUP	GROUP
	11-12	12=13	13-14	14-15	11-12	12-13	13-14	14-15
LIC	10603	9949	8635	1640	9831	21045	12581	28193
Private	964	1018	929	1249	1150	757	1595	3366

5. During 2014-15, the LIC had issued 4 lakh individual policies and the private sector companies had issued 4.16 lakh policies. The total premium collected by the LIC was ₹16.4 crores and by the other companies ₹ 12.49 crores. Under group plans, the corresponding figures were 2.06 crore lives with



premium collection of ₹ 281.93 crores by LIC and 0.24 crore lives with premium collection of ₹ 33.66 crores by the private companies. During that year, ₹ 448.20 crores (₹ 432.62 by LIC and ₹ 15.58 by private companies) were paid out as claims under micro insurance life policies. The number of agents working on micro insurances was 20,855 as at the end of 2014-15, of whom 1476 were with the private insurers..

#### (d) Uplift Mutual

1. Uplift Mutual is a fully community owned, comprehensive health risk management scheme, working among the slums in Mumbai, Pune and Rajasthan. The persons who are covered by the scheme own the company. They become entitled to receive the benefits from

- OPD attention at a fully equipped health hub with basic drugs
- 24 X 7 helpline managed by medical staff who provide guidance in emergencies
- Health talks, health campaigns and health camps
- Referral guidance and follow up
- Network of multilayered health care products like, labs, radiological, clinics, drug stores, etc
- Reimbursement of cost of hospital treatment

The community decides on facilities to be provided, the costs to pay and also on the claims to be admitted. This was started by SHG women in 2003 and covers more than 200,000 persons

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#### TEST QUESTION 3

Which of the following statements is correct?

- (a) Micro insurance can be sold to big landlords.
  - (b) Micro insurance can be sold by any agent visiting a village.
  - (c) Micro insurance can be sold only by specially authorised persons.
  - (d) None of these statements are correct
- 

#### SUMMARY

- Between 12981 and 2012, the number of small holdings went up by from 66.2 millions
- to 117 millions.
- Cultivators had resorted to multiple cropping and cash crops.

- MGNREGA guarantees work for marginal workers for at least 100 days in a year.
- The Rurban Mission seeks to provide urban like amenities to 300 clusters of villages.
- Growth in the farm sector reduces poverty faster than in other sectors.
- Banking facilities have penetrated rural areas through Micro ATMs, bank mitras and
- post offices
- More than a lakh of panchayats are covered by broad band.
- Teledensity in rural areas is more than 50%
- Clinic hospitals and arrangements for drugs will change the rural health profile.
- More than 78% have drinking water in their homes or within 500 metres.
- Ongoing programmes will improve connectivity and health, employment and earning.
- There is a strong influence of caste, hierarchy and tradition in the rural areas.
- Rural customers are in tune with nature, not clock or calendar.
- Needs and wants are changing in rural India.
- Rural people are generally fatalistic.
- Rural people may be illiterate, but they are wise.
- Promotion in rural areas is more complex than in urban areas.
- Spoken word is the most powerful medium.
- Promotion can be weaved into local entertainment like *katha* or folk theatre.
- Government's Fazal Bima Yojana has expanded the cover for crop insurance.
- Several business firms are adding technology to business in the rural areas

## KEY TERMS

- Bank Mitra
- Direct Bank Transfer (DBT)
- *Haat*
- *Katha*
- Kisan Credit Card
- India Post
- *Mandi*
- *Mela*
- MGNREGA
- Micro Insurance Agents

- Rurban Mission
  - Self-Help Groups
- 

### Answers to TEST YOURSELF Questions

The correct answer to Question 1 is (d)  
The correct answer to Question 2 is (b)  
The correct answer to Question 3 is (c)

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### SELF EXAMINATION QUESTIONS

Question No. 1

What does the Blue Revolution refer to?

- (a) Production of flowers
- (b) Production of milk
- (c) Production of fish
- (d) Production of films

Question No. 2

Why is a teacher in a village likely to succeed as an insurance agent?

- (a) He is already in contact with the people in the village
- (b) He is seen as knowledgeable
- (c) He is seen as trustworthy and dependable
- (d) For all the above reasons

Question No. 3

Why is the rural areas considered to be the big market of the future?

- (a) Because there are more than 6 lakhs villages.
  - (b) Because nearly 70% people live there.
  - (c) Because of the developmental activities happening there.
  - (d) Because of all the above reasons
- 

### Answers to Self-Examination Questions.

The correct answer to Question No. 1 is (c)  
The correct answer to Question No. 2 is (d)  
The correct answer to Question No. 3 is (c)

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# CHAPTER 9

## CONSUMERISM AND SOCIAL RESPONSIBILITY

### CHAPTER INTRODUCTION

Over the years, there has been an increasing awareness of dangers to the environment as a result of reckless exploitation of the natural resources. Business organisations with very large funds at their disposal, are, more than any other section of society, in a position to contribute to the protection of the environment. This chapter deals with issues related to this problem and that includes ethical behaviour.

### LEARNING OBJECTIVES

- A. Consumerism
- B. Business Ethics
- C. Social Responsibility
- D. The Spiritual Basis
- E. Role of Organisations

### A. CONSUMERISM

#### (a) Beginnings

1. **Consumerism, as a movement started in the USA in the 1950s.** It began with Ralph Nader protesting against death and injuries in car accidents, caused mainly because manufacturers neglected safety features. The movement, as it developed, exposed many manufacturers, who, for the sake of continued business, either through neglect and oversight or sometimes by deliberate action, caused harm to the consumers.

#### EXAMPLE

Cigarette manufacturers, it was alleged, added chemicals so that the smokers would get addicted and find it difficult to kick the habit. Companies ignored to provide safety features in their processes or to prevent toxic wastes escaping into the atmosphere or into the rivers used by the community

2. U.S. President, John F Kennedy, in 1962, stated that the consumer had the rights to a number of things as listed below. By implication producers of goods and services have to respect those rights. The rights are
  - safety (security), health warnings, tamper proof packaging, etc
  - information
  - choice (amid diversity)
  - redress (to be heard and compensated)
  - be not deceived (like reduced contents without reducing price)
3. In India, the landmark in the consumer movement, is the enactment of the **Consumers Protection Act in 1986**. This Act applies to all goods and services, provided by private, public or cooperative sectors. The Act (a) protects the consumer from the marketing of goods that are hazardous to life and property, (b) insists that the consumer be given information about the quality, quantity, potency, purity, standard and price of goods so as to protect him from unfair practices and (c) sets up fora at district, state and national levels to hear grievances of consumers and to provide due redress, relatively faster than ordinary trial courts.

#### **(e) The Insurance Industry**

1. For the insurance industry, the Government had framed Rules under the Insurance Act, 1938, whereby **Ombudsmen can be appointed to receive complaints from policyholders relating to the settlement of claims**, of the value of Rs. 20 lakhs or less. This scheme came into effect from 11.11.1998. The Ombudsmen can look into cases where the insurer had partially or totally repudiated a claim or where there is a dispute on the premium payable or the construction of the policy. Even delays may be looked into. **The insurer has to implement the recommendation of the Ombudsman within 15 days, if the complainant accepts the same.**
2. Even before the Consumers Protection Act had been enacted in 1986, the consumer movement had been strong in India. **There were many NGOs who volunteered to look after the interest of consumers.** Some of them specialized in insurance matters. As a result, the L.I.C. of India had set up committees to review on its own, every repudiated claim. At the highest level in the Central Office, the review panel was headed by a retired judge of the High Court.

3. **The IRDA has, by regulation, laid down a code of conduct for insurance agents.** The purpose of this code is to ensure that rights of the consumers are respected by the agents. The code specifies that the agent must
  - give to the prospect requisite information about the proposals offered for sale
  - take into account the needs of the prospect while recommending an insurance plan
  - indicate the premium to be charged for the proposed plan
  - inform prospects promptly about the progress of the proposal
  - render necessary assistance to the policyholders or claimants in complying with the requirements for settlement of claims
  - advise policyholders to make nominations
4. The code also states that no agent shall
  - induce a prospect to omit material information or submit wrong information in the proposal form
  - interfere with a proposal submitted through another agent
  - demand or receive a share of the proceeds under a policy
  - force a policyholder to terminate an existing policy and to effect a new proposal instead

These are actions that can harm the interests of a policyholder, who, unaware of the implications, may follow the advice of his agent.

5. The IRDA has also issued regulations regarding advertisements and other promotional or informational material released by insurers and by agents. **Basically, they prohibit false information regarding plans and benefits thereunder, including understating the exclusions, limitations and conditions of the contract.** It specifically prohibits making unfair comparisons with products, which are not comparable, or disparaging competitors.

#### **(b) Marketing and Consumerism**

1. Marketing and consumerism complement each other. Both focus on the consumer as the main concern of business, whose satisfactions should be the primary objective of all business. A company pursuing marketing principles in its strategy and policies, will automatically **conduct itself in ways that do not harm the consumer.** There will be no room in this

situation for a grievance or for a third party to intervene as a mediator in a dispute.

2. Insurance is based on the principle of *Uberrima Fides* or utmost good faith. **This requirement is mutual, binding on the insurance company, as much as it is binding on the policyholder.** Consumer interests are automatically taken care of, if the insurance company adheres to these principles. **An agent represents the insurance company and is therefore, bound by these principles in the same way as the insurer is.** If ever a situation arises alleging that the insurer or its agent had misrepresented facts or given false information or misled the prospect to take insurance, the prima-facie presumption has to be that the insurer is guilty of violating the principle of *Uberrima Fides*.
  - 3 There are opinions to the effect that all marketing is unethical. This stems from the premise that marketing persuades people to buy. This may be by promoting goods as better substitutes of products already in use (toothpaste for *datuns*, shampoos for cereal powders), or by raising desires that were dormant or extinct till then (colour TV and smart phones, for example). To raise the baser instincts for pleasures, at costs which may be difficult to bear ('pay later' arrangements), is in effect putting the customer to **hardship by promising him comfort, and that is cheating.** Insurance companies will, however, not face such a charge, as their offerings do not raise illusions of enjoyment. They serve social causes.
- 

## TEST YOURSELF 1

Consumerism is related to which of the following?

- (a) Product causing harm to the user.
  - (b) Repairs not being done as per warranty provisions.
  - (c) Gifts not being given as advertised.
  - (d) All of the above
- 

## B. BUSINESS ETHICS

### (a) Understanding Ethics

1. **Ethics deals with questions of right and wrong.** Business ethics deals with questions of right and wrong in business. What is wrong in daily life could become right in a business context. **Ethics is contextual.**

### EXAMPLE

if one were to ask a friend to change a Rs. 500 note for him, he expects to receive in return Rs. 500 in smaller notes. But if one were to go to a money-changer for the same transaction, he would expect to get back only lesser value after deduction of some commission. It would be wrong for the friend to make such a deduction, because he is not in business. What is ethical in business is not ethical outside business.

2. There are often grey areas as to what is right and wrong. It is considered proper for business to make profits by charging prices higher than the cost. But what is the level of profit margin that is proper? **At some point, profit making becomes profiteering, and that is not acceptable.** Commissions are normally paid in business, to those who promote the company's interests, like dealers and agents. But sometimes, such commissions are considered wrong and are called kickbacks or bribery.
3. These differences may arise out of the relevant legal position, as in the case of the Bofors gun purchase in the 1980s and the Augusta Westland helicopters deal in 2012, where commissions were specifically prohibited. But even if there were no specific law on that subject, as in the case of purchases by private companies, **it would be wrong if the purchase manager's decision to buy depended on the amount of commission (really bribe) that he was offered by the vendors.** Would it still be wrong, if the purchase was justified on the merits of the case? Would it be different if no money was paid to the purchase manager, but some money was paid to a relative of his in a distant town or his son had been working in the vendor company?
4. **Standards of rights and wrongs are called values.** They vary between persons. They are not taught. People acquire their values from what they are exposed to in family, in school and in organisations, through friends, teachers, books, journals, cinema, T.V. etc. However, it is **generally believed that the following would be wrong in the context of interactions between individuals.**
  - It is wrong if one's actions cause harm to another. **'Harm' will include all violations of the other's rights.**
  - It is not wrong to look after one's interests (to be selfish). But it would be wrong to do so **at the cost of another's interests.**
  - Cheating and breach of trust cause harm to the interests of another and are therefore, wrong.



- **Not doing one's duty is tantamount to breach of trust and is wrong.**  
The reason for the failure to do one's duty, is immaterial
- It is wrong not to keep up one's promises.
- The intentions, rather than the actions per se, determine rightness or wrongness.

#### **EXAMPLE**

If a person had promised to meet a friend at a particular time and give him some money and did not turn up as promised, it would be considered as a case of cheating. But if later it is found that the person had met with an accident while on his way to keep the promise, it would not become a case of cheating. If death is caused by an accident and there was no intention to cause the death, it would not be considered a case of murder.

5. Collectives like clubs and companies also have values. These values determine their ethical behaviour. Whether what they do is right or wrong, depends on the values that they uphold. A later paragraph on Sustainability will show how several corporates are doing more than the minimum expected of them.

#### **EXAMPLE**

A company might think it is enough to conform to the minimum standards of safety or environmental care as prescribed by the law, while another might operate at lower levels and try to avoid penalties through bribing the inspectors. A third company might try to establish much higher levels than the minimum. These differences are because of their different values.

### **(b) Ethics is not Law**

1. What an individual or a company does, depends on the values, not on the provisions of the law. People are considerate to each other causing civilized behaviour in communities, because they want to do so (values) and not because of any penalties prescribed by law. People stand in queues or do not pick other's pockets, because they think it is wrong to do otherwise. **Those who do not think so, will do so, despite the existence of laws and penalties. It is not as if they have no values. In their values, what they do are not wrong**
2. Every member of an organisation must understand its values. Otherwise, they will act in a manner contrary to what the company thinks is right. **Conformity in behaviour is achieved easier through shared values than**

**through rules and regulations.** Such sharing of values is particularly important in the context of intense competition in the market place and employees may be called upon to respond quickly in order to counter the strategies of the competitors or to 'recover' an aggrieved customer. **Value dissemination is also necessary for empowerment.**

3. In the case of insurance companies, the values will relate to the
- extent to which the laws and regulations will be observed or avoided (letter versus spirit).
  - the attitude towards settlement of claims (try to pay or try to avoid).
  - biases (unequal treatment) in dealing with employees or clients.
  - support to Government policies while investing funds.
- 

## TEST YOURSELF 2

Which of the following statements is correct?

- (a) Values are taught in schools.
  - (b) Values are learnt without being taught
  - (c) Everybody has the same set of values.
  - (d) A person who does wrong has no values.
- 

### (c) Ethical Dilemma

1. When a choice has to be made between alternatives, a decision has to be made. If the alternatives can be evaluated on economic or such other measurable considerations, which throw up clearly some data helping to decide which alternative to prefer, there is no difficulty in making the decision. If the alternatives have equal weight on the relevant criteria, there could be difficulty in making the choice. That situation is called a dilemma. Sometimes, all the available choices may have ethical implications. That is to say, any choice will be right as well as wrong at the same time. When this happens, there is an ethical dilemma.

#### EXAMPLE

When a police officer has to arrest his son who has committed a crime and is hiding in his house, he has an ethical dilemma. His duty as a father requires that he save his son and the duty as a police officer is exactly the opposite. He cannot fulfil both duties at the same time. The same dilemma is faced by a person when his mother and his wife are at daggers drawn. The duties of a son and of a husband clash

2. All decisions are not dilemmas. In business, a dilemma can arise if the benefits from one choice are in the short term, while the other choice is more beneficial in the long terms. A decision would become an ethical dilemma only if the considerations for choice are based on values. Values are not subject to measurement.
3. Ethical dilemmas are always intrapersonal. Interpersonal dilemmas are caused when one's values clash with the values being dictated by another person, parent / boss or organisation / society. In such situations the alternatives will be to follow one's own values or to ignore one's own values and obey the other. He has to face the consequences of either alternative. The consequences affect only the person having the problem. It is still an intrapersonal problem.
4. Individuals find different ways to resolve ethical dilemmas. No choice is fully justifiable. What is done is to justify the choice to oneself with a statement of **rationalisation**. The statements used to rationalise are of the following nature.
  - It is not really wrong (it is within reasonable limits).
  - It is in the interest of the organisation.
  - It is expected.
  - It will not be found out.
  - The company will protect me.
  - It won't hurt anybody.
  - Others are doing so.
  - It would save money or make money.
  - There is no other way.
  - Others will understand.
  - It is not that important.
  - I am only following instructions.
  - I am only doing a job.
  - I am not responsible for the decisions.
  - I will be excused.

#### **(d) Managing Ethics**

1. Managements of organisations establish ethical standards through large and small policy instructions. What the organisation does, will speak more loudly than what they say in policy statements. **Actions clarify what the**

**organisation's ethical standards are.** In evolving these standards and deciding on appropriate actions, the questions to be asked will be of the following nature.

- Are the actions injurious to customers individually or society as a whole?
- Is public interest being held more valid than self interest?
- What is happening at pressure points viz., places where products are returned, complaints are recorded, claims are being made, defects are reported, quality is checked, grievances are heard?
- Are control mechanisms based on trust or on coercion or on need to improve or to find fault?

#### **EXAMPLE**

A pharmaceutical company manufacturing vaccines for injections had strict instructions that all stocks after expiry dates must be destroyed. The practice was to give it to a contractor for destruction. He used to sell them in the market at cheaper prices. The company did not know, until there were complaints from users.

2. It would help to have a code of ethics, which states in principle, the standards of right or wrong. Preparation of such a code requires that the top management thinks through its responsibility and the values it wants to uphold. Following are some of the items included in the code of ethics of some firms, **as strictly prohibited.**
  - Non-Adherence to safety and quality standards, Extortion, Bribery, Kickbacks, Illegal political payments, Use of inside information, Violation of any law, Falsification of accounts, Moonlighting, Revealing company secrets.
3. Such codes should have more seriousness, than as a statement for public relations purposes. Preferably, they should be acceptable to members of the organisations, being consistent with their values and practices. Otherwise, such statements will only have cosmetic value, not the power of direction. The possibility of the code being violated would be real.
4. Ethical behaviour is that which satisfies oneself as well as others. Business managed ethically will not de-humanise workers, will enhance self esteem for all persons, employees and customers. Many organisations find that being ethical is the same as being socially responsive. **Being ethical helps to improve public image.**

5. While giving rewards, the ethical nature of the performance should not be ignored. **The rewards system communicates messages regarding values** Complaints are valuable sources of information as to what is happening in the market place.
6. **A periodical audit regarding the organisation's performance on ethics would contribute to the creation and maintenance of an ethical environment.** Both corporate activities and individual behaviours can be audited. The audit must be done by persons who have no direct responsibility for operations and should report directly to the CEO or the Board of Directors.
7. The vigilance departments of Government and public sector organisations are aimed to establish norms of proper behaviours. But like audit, they come into effect only after the events have happened. When certain behaviour is detected and punished, the effect is to avoid such behaviour or to prevent detection, because of fear. **The effect is more powerful when the inculcated values provide the momentum positively for ethical actions, instead of brakes for the unethical.**
8. LIMRA, the premier research organisation in life insurance marketing in the U.S. had found **that ethics in insurance selling consists mainly of putting the interests of the client first.** This implies that the advantages to the agents in terms of remuneration are not as relevant as the advantages to the client from taking out the policy. This is nothing but the marketing philosophy. The research study showed that such an approach benefits the agent in the following ways
  - Prospects, whose needs have been studied, and who have understood how the plans will meet these needs, are more likely to purchase than those to whom such explanations have not been made. Thus both business and earnings should improve
  - Such business tends to stay in the books longer
  - Because of the high level of satisfaction, the agent occupies a special place in the client's mind and future business as well as further references become easy
  - He gets more honour and prestige among his clients and in the community.
  - There is no fear of the consequences of being harmful or unexpected

## C. SOCIAL RESPONSIBILITY

### (a) Rationale

1. Organisations are creations of society, being granted the necessary resources and accepting the outputs. **They are citizens (members of society) and as citizens, they have a responsibility to the society as a whole.** This responsibility is different from the responsibility they have to the stakeholders, like shareholders, customers, government, suppliers, etc. These stakeholders benefit because they contribute directly to the activities and success of the organisation. **The activities have impacts on persons other than the stakeholders.**

#### EXAMPLE

Toxic effluents allowed to flow into the streams nearby, will penetrate the soil and the vegetables and the animals, thus having long-term consequences on the health of the people, their productive capabilities and the economy of the region.

Wage levels, inconsistent with the prevalent levels in the neighbourhood, can build up dissatisfactions in an otherwise contented locality.

2. **Organisations are powerful subsystems of the societal system.** They are also instruments of society to produce goods and services. They cannot function effectively if the society is not healthy, just as organs of a body cannot function effectively, if the body as a whole is not healthy. **The health of the society has to be a matter of concern for any business organisation.** This is more so in the case of insurance companies. The underlying rationale of both life and general insurance is the welfare of the society.
3. **The activities of organisations have large multiplier effects on the society.** The establishment of the steel factory has given rise to the huge city that Jamshedpur now is. The origins of any huge city may be found in the small business ventures that began in that area.

#### EXAMPLE

A petrol station on a highway will in due course of time, give rise to various auto related repair services, auto related spare parts dealers, rest rooms and eating facilities, small shops (selling cigarettes, soaps, toothbrushes, etc.) and more people, which, in turn, will enhance the available technical and entrepreneurial skills in the neighbourhood, as well as economic activities, gradually building up to a village and even a small town.

## (b) Social Impact

1. **Organisations are in command of large financial, human, technical and other resources. They are the natural leaders of society.** They transact with the society giving out and taking in. The people go out from the organisation to the society and have their own interactions there. **The nature of these social interactions can be helpful to strengthen the fabric of the society or to weaken the fabric.** This depends on whether the practices of the organisation and the values underlying them are consistent with those of the society or not.
2. The manner in which the press reports events (investigative journalism) tends to **undermine the faith of the public in institutions set up to safeguard the interests of society.** In the process, the press may also persuade some persons to commit breach of faith and disclose facts and documents entrusted to their care and custody. They may also violate one's rights to privacy. All these have impacts on society, on a long term basis.

### EXAMPLE

Media reports and discussions focus on failure of political leaders and police to perform their duties. Politicians engage in virulent allegations against each other and their parties, calling them corrupt and looters, using official machineries for their personal benefits. Many of them quote official documents to which they claim exclusive access in support of their claims. Watching these, one wonders whether anybody can be depended upon to do his / her job honestly and in the interest of the common people.

3. An individual at work, who is used to being dependant, acting only on instructions and never on his own, not used to taking responsibility, not decisive, who always seeks confirmation from superiors on the correctness of his thoughts, **is unlikely to behave differently in his roles outside work.** As the head of the family or as a citizen, he would shun responsibility and remain dependant. But in those roles, he may be called upon to accept responsibility and be decisive without a 'superior' to confirm. **Such demands cause stress.** On the contrary, if organisational practices are such that individuals are accustomed to taking responsibility in their respective roles and striving to achieve what they have planned for, it becomes natural to perform their other roles outside work comfortably and without stress. **The consequential effects are also on those whom they have to interact with in society.**

#### 4. Organisations have the capability to

- **break down caste or parochial barriers through the secular fellowship** that may exist within it
  - **develop appropriate hygiene and health care practices** through provisions of medical facilities and also through training, even for families
  - **develop mutually cooperative attitudes (good neighbourliness)**, by building up work teams that recognise interdependence and provide experience in the benefits of trust, support and consensus decisions.
  - **make people assert themselves against injustice, exploitation, abuse of power, etc and to show concern for others**, through practices that recognise fellow workers as also customers.
- 

### TEST YOURSELF 3

Which of the following actions will have social impact?

- (a) Opening of an office in a new town
  - (b) Adopting a new recruitment policy favouring local residents
  - (c) Opening of a room for employees to practice yoga
  - (d) All of the above
- 

#### (c) Social Responsiveness

1. Apart from the social impact, **the organisation**, as a responsible citizen is expected to **use its resources to support the society's attempts to upgrade the quality of life of its people**. This may be in the nature of sports, hospitals, schools, patronage for local arts and crafts, sponsorships, etc. **If the organisation responds to the society's concerns, it is said to be socially responsive**. On the contrary, if it is concerned only with its own purpose, and ignores the society's concerns, it is socially not responsive.
2. Should social impact and social responsiveness be the concern of the organisation? It costs, to manage these impacts without adding direct value to the customer's satisfaction in the short run. According to some observers, the responsibility for managing these impacts should not be thrust upon or accepted by business organisations. **The grounds for such a stand are:**



- Organisations have one and only one social responsibility and that is to use its resources and engage in activities designed to achieve its basic purpose, mostly in terms of economic performance.
  - Business managers are specialised in the narrow disciplines of technology and business and cannot be expected to have experience with social issues.
  - A business organisation is an agent for economic performance and should not be burdened with **non-economic issues of social relevance**.
  - Social issues **should be the concern of elected representatives of society**, answerable to society for their actions. Business managers are answerable only to themselves or at best to shareholders.
  - Responsibility of business managers for economic performance precludes their using non-economic criteria, in making strategic and policy decisions.
3. On the other hand, those who believe that organisations must be socially responsive, argue that
- Corporate power, **vast in potential strength**, must be brought to bear on certain social problems, if the latter are to be solved at all.
  - Business managers with **the integrity, intelligence and humanity**, adequate to run organisations, with enormous budgets and thousands of workers, **cannot be impervious to the consequences of their economic activities on society**.
  - A business organisation is created by society as **an instrument to serve it**. It cannot pursue its immediate purpose at the cost of other impacts. **The society has the option to prevent the organisation from functioning at all**. The right to regulate, includes the right to prohibit, even in a free society.
  - **Social issues are not the concern of only a few elected persons, but are of all responsible citizens**.
4. The debates referred to above have largely been resolved in favour of corporate bodies having to be socially responsible, increasing in scope and complexity, as corporate size and power increases. Ignoring the impacts would be, according to Peter Drucker, irresponsible. What are the constraints?
- Impacts which are not essential and which are not part of one's specific purpose and mission, **should be kept to the minimum**. Even if they appear to be beneficial, if they are outside the boundaries of one's function, they will sooner or later be resisted and considered an

imposition. Thus there is need to determine the areas in which the organisation would demonstrate its social responsiveness.

#### **EXAMPLE**

For a textile company, the priority would be effluents rather than a sports development activity. If the latter (sports) activity at some time becomes part of a controversy in the society, the textile company would be accused of unnecessarily interfering in an activity which was not its concern.

- Secondly, the acceptance of this responsibility requires concern, compassion and conviction of all executives. This has to become a value throughout the organisation. This is particularly so, in organisations that are large and decentralised like insurers. In such large organisations, **the policy decisions must be clearly understood throughout.** Unless specifically taken care of, the Chief Executive, committed to the doctrine of social responsibility, might be surprised by the neglect that may occur, at distant parts of his organisation.
- Activities concerning social responsibility are not usually quantifiable. They do not become numbers that constitute economic performance and results. Managers tend to focus on numbers that reflect their work, as survival of self takes precedence. **There may be difficulties in developing systems that focus on social issues, as much as on organisational outputs.**
- There is need to incorporate into strategic and operating plans of regional organisations or profit centres, specific objectives in areas of social concerns, strategically related to the economic activity and community environment, of the organisation unit. The executive at the corporate head office cannot know or specify the appropriate social strategy in some other parts of the country. **Intermediate managers** who are familiar with (a) the social policy of the organisation and (b) the needs of that society, **must elicit and generate from below, proposals for investment of time, money and energy.**
- Financial, production and sales requirements may be transmitted down rather drawn upwards in an efficient planning process: But not social policy. **If a community-centered social strategy is initiated from the top, it can only be in terms so general as to be ineffective.** It will also stifle creativity and commitment.

## (d) Dimensions of Social Responsibility

1. Society expects that organisations should perform as responsible citizens, meaning being trustworthy and reliable, not causing harm. Some of the ways in which these expectations are expressed are detailed below.
  - First of all, the organisation is expected to satisfy customers, for which it will **produce more, better and greater variety**
  - Also the organisation **will conserve and utilise resources entrusted to its care without wastage, thus improving productivity and reducing costs, passing on the gains to the workers and the society.**
  - **Society does not approve of ‘exploitation’ by organisations.** Exploitation includes unfair treatment of workers as well as of customers and suppliers. It demands justice in distribution of goods, fidelity to contracts, respect of basic rights of members of society. The extent to which an organisation conceals real data about itself, and attempts to mislead, is also a nature of exploitation.
  - Society is a bigger entity than the aggregate of workers, consumers, suppliers, etc. who deal directly with the organisation. **There is public awareness of the bad effects that may be caused to the environment as well as to the normal life of the people,** in an area where a factory is set up. Pressures are built through voluntary organisations as well as government agencies to control and avoid these bad effects. Organisations, even governments, have been compelled to abandon or to substantially modify plans and projects, because of public pressure.

### EXAMPLE

The bad effects may be pollution of air and water, disturbances of eco-equilibrium, dislocation of local life-styles, concentration of economic power, domination, rigging prices, denying worker’s dues, false advertising, supporting (or ignoring) anti-social practices, disturbing local values and practices, etc.

- There is increasing awareness that an **organisation has to be responsible for the development and welfare of the community around itself.** This is not only in terms of better economic development of the area, **but investing in the development of township, hospitals, schools, parks and so on,** which would have an impact on the quality of life of the community.

- Society holds the organisation responsible for any damage caused to the environment as a result of neglect within the organisation. If there is any accident, and damage is caused to people, property or environment, the organisation would be liable for damages, penalties and compensations, which may become increasingly burdensome in future.

#### EXAMPLE

As in the case of the Bhopal tragedy of 1984, the effects of the toxic gases that escaped into the atmosphere have continued till 2016. There can be no compensation for the sufferings of the affected persons.

- The policies governing employment and management of employees are expected to conform to the aspirations of society. Particularly relevant are extra consideration for the weaker sections, minorities, women, care for the old and the sick, safety precautions, etc.
2. Organisations have recognised the need to be known as socially responsible, but the nature of responses is not uniform. Some are keen to publicise their responsiveness. There is often more verbiage than substance, highlighting minor or short term activities that appear significant.

#### EXAMPLE

Public companies are required to state in their annual reports what they have done in terms of energy conservation and import substitution. Many company reports give little information beyond stating that adequate steps have been taken. These provisions are intended to focus serious attention on these important issues, while in practice they are treated as routine

3. Some would cheat if they can avoid being detected. Some behave responsibly because, the costs of being otherwise are too high. For example, safety features are incorporated more out of fear of penalties and bad publicity in the event of failure, than the need to be protective of workers or environment. Some do it for fear of being compelled by the society later. Some do it proactively, recognising the good that it will do to the environment.
4. Some limit their social responsiveness to the limits of what the law compels - nothing more. Some others see the law to prescribe only the minima of organisational obligations. They want to do more. **Social demands and proprieties are not fully expressed in the statute books.** Legislation usually codifies what is already expressed by social pressures.

## **D.THE SPIRITUAL BASIS**

1. Individuals determine corporate values. Some individuals, like those who founded the organisation, may have more influence than others in determining corporate values. **A strong spiritual base helps to exercise significant influence in determining values.**
2. **Spirituality is different from religiosity.** Spirituality is the very essence of all religions and thus unites mankind. Common people however, understand religion in terms of rituals and practices ordained by the priests and commentators. These tend to divide people along religious boundaries.
3. **Spirituality consists of an awareness that man is just an element in the huge universal system, in which there is place for, not only every living being, but also for the trees and plants and mountains and seas. Being aware of the inscrutable dynamics of the events in the universe, the movements and changes based on processes still not understood, functioning with precision and regularity over several centuries, the tremendous power and the force held within minutest particles and so on, one cannot but be wonderstruck at the creation that encompasses the whole. Then, one has no option but to be humble and not to arrogate to oneself an exclusive privilege or benefit. One is then forced, by oneself not any other, to be loving and just to, and be concerned about, all people and living beings. This is the essence of all spiritual teachings.**
- 4 **True spirituality prompts one to see every other being as of value, as an extension of oneself. The whole universe is one mighty expression of a common existence.** Life is one. Even a dog is entitled to consideration and love. When such identification of oneness happens, there will be no attempt to exploit or harm the other. How can one exploit or harm oneself? No one cheats himself. Cheating takes place only when the one cheated is seen as different, as of lesser consequence, whose interests do not matter. Spirituality does not give room for such thoughts
5. **Spirituality provides the strongest base for ethical behaviour.** Justice and fairness automatically manifest, when one deals with another on the basis of love and concern for the other. **Given the basis of love and concern, there can be no exploitation or discrimination.** Substandard products will not be sold. Mistakes in production or processing will be avoided; or if still occurring, apologised and made amends for. Profits will be made as legitimate reward for entrepreneurship. There will be no profiteering, which is exploitation of the other's compulsions. Costs will not be cut at the expense of safety considerations.

6. Doing one's duty means fulfilling the obligations of the jobs undertaken by oneself. **Duty is in relation to one's responsibility.** One has duties at work depending on the position occupied, and in the family (as a parent or as a son/daughter, or as sister/brother). **Dereliction of duty is cheating and unethical.** Bending the proprieties of one's function to achieve personal ends is cheating.
7. Corruption is not merely taking bribes, but not performing one's duty, in consideration of some other personal advantage. **Spirituality helps one to retain faith in the performance of duty being its own reward,** being beneficial in the long run, and to see non-performance of duty (including abuse of authority) being harmful in the long run, to self, to the organisation and to the society. Those benefits include happiness and peace of mind; equanimity, stature in the eyes of the colleagues. **Doing one's duty is its own reward.**

#### **EXAMPLE**

When a policeman locks up an innocent person, knowing him to be innocent, that is not performance of duty. That is misuse of authority. He does so because he derives some benefit out of it, by way of personal revenge or to help someone else get even.

8. Spirituality is concerned with strengthening (focussing) one's mind. Both the Dalai Lama and Swami Chinmayananda have emphasised that the **quality of one's performance and its texture is ordered by, controlled by, the quality and texture of his thoughts.** If the thoughts are noble and serene, intelligent and creative, performance will also be creative, beautiful. One becomes what one thinks/does. The way one faces the challenges in life, will depend upon the type of values the mind cherishes. Hatred, jealousy, greed, passion, lust - if these negative values are in you, the mental energy spent in facing the problem will be enormous. When one hates another, outwardly he may be acting civilly, shaking hands etc. but in the mind he will be cursing, planning, thinking how to destroy. The mind will be in turmoil. The one hated, not knowing this, is relaxed. When one cultivates the spirit of forgiveness, the mind is peaceful and serene.

## **E. ROLE OF ORGANISATIONS**

### **(a) The conflicts**

1. Organisations are managed for effectiveness, viz., obtaining planned objectives without wasting resources. Is there a conflict between ethics and

effectiveness? Effectiveness, in the sense of achieving results for the organisation's growth, may point to the need for violation of law or falsification of accounts or support of an illegal activity. Several prosecutions of industrial houses have been for violations and improprieties in law, which may be seen as improper even without the provisions of law. Some questions which arise are

- (a) Is good business the determinant of good ethics?
- (b) Is it necessary that a corporate body should be a moral (ethical) person?
- (c) Should organisations set standards of ethical behaviour for others in society?

2. The tendency is to answer the first question in the negative. For example, it is argued that the Manville Corporation should have actively taken care of the sickness of the workers suffering from asbestosis and prevented further incidence. The news of such sicknesses may have hurt the sale of asbestos (as has happened now), or may have enhanced the reputation of the company and helped its business. It is also possible that some method may have been found to contain the problem. It is hypothesised that
  - Ethics begets ethics from employees (loyalty) and suppliers (commitment)
  - Lack of ethics begets penalties and loss of customers
3. **Good business decisions in terms of profit earnings may often be short term, but ethical standards compel long term focus, which could mean sometimes painful choices.** For example, several organisations which helped to build Iraq's capabilities in the 1980s, were condemned in the 1990s, after the Gulf war. The companies which did good business in land mines were required to close down in 1997. Several companies which did good business by bribing Government officials have come to grief, when the case was exposed by investigative journalists
4. If the first question is answered in the negative, the second question automatically gets a positive answer. **An ethical organisation supports and encourages ethical behaviour from its constituents.** Malfeasance may be an individual offence, as much as the result of an organisational value. An organisation's moral standards are determined by identifying and examining its values. Criteria like Return on Investment and techniques like Managing by Objectives focus on the short term as part of Performance appraisals. They can therefore, lead managers astray. Some insurers who started business after 2000 in India, in a hurry to show growth in premiums,

resorted to recruiting agents without careful adherence to selection criteria. They have not been able to stabilise performance

5. The third question about organisation's attempt to influence society is as difficult as the individual's responsibility to influence the organisation - a subsystem influencing the bigger system. A case in point is of Dupont (\$36 billion in revenues) which being in the business of chemicals, plastics, oil, coal, and fibres, faced threat from environmentalists. It had already spent (by 1990) about \$1000 million in pollution control equipment, about \$800 million in operating that equipment, about \$500 million to clean up past environment lapses and about \$250 million on environmental staffers. In the process, it became one of the world's biggest and most promising services firm which could net revenue of about \$8000 million by 1993. Its sale of agricultural chemicals, good for the environment, tripled over 5 years, while the average growth in the USA for agricultural chemicals had been 3% per year. The Gujarat Ambuja Cements Co. (now Ambuja Cements) set up world class standards of clean environment demonstrated by the existence of a rose garden below the kiln in the plant. This became the industry standard soon thereafter.
6. Some organisations align themselves to Government policy by, for example, building cheap housing for the weaker sections despite more profitable opportunities being available. The pay-off has been in terms of
  - public support in times of difficulty,
  - smoothening out of the ups and downs of market fluctuations or
  - wholesome respect among all constituents like Government, financial institutions, etc.
7. Tata Steel is an example of an organisation, behaving very responsively on issues of social impact, long before the emerging laws. The pay off was in terms of stronger worker and public support to an extent that the Government, in the late 1970s, had to give up a proposal to nationalise the company, in the face of popular opposition.
8. **The ethical significance of organisational activities can be determined by asking three other questions.**
  - Do the activities maximise social benefits and minimise social costs (utility)
  - Do they respect human rights (rights)
  - Are they fair and just in distributing benefits and burden (justice)?



**Utilitarian analysis takes into account not only economic costs but also human costs.** For example, the relocation of a factory for economic reasons, have costs in terms of worker's anxiety, disruption of family lives, etc.

9. **The question of rights is still more difficult to analyse.** The organisation's demands on its work force may conflict with some of the workers' fundamental rights as citizens and also with the customers' rights. Cigarettes are harmful and therefore smoking cigarettes can be looked upon as 'wrong' as selling drugs. To refuse to sell can be seen as violating the customer's right to choose his way of life. Does it become ethical to have a statutory warning while at the same time advertising for increasing consumption? A decision to ban or even restrict the sale of cigarettes will affect the livelihoods of lakhs of people dependent on the manufacture and sale of cigarettes.
10. Several pressure groups attempt to criticise the ethics of organisations and prominent individuals associated therewith. They usually assume high moral superiority (which their actions may not justify). They usually only criticise, in terms of certain standards (or principles) which they at that time articulate, but would not propose alternate, practical, feasible direction. They usually have debating advantage over managements as they position themselves as defenders of the weak, the exploited, the victimised. They accuse the managements of bias, neglect and corruption. **Pressure groups do not always represent social demands. At the same time they can, if ignored, cause embarrassment to the organisation.**
11. **Some organisations are proactive.** For example, employment of handicapped or weaker sections may be adopted as a policy by an organisation on its own, not because of any compulsion by law or otherwise. **Such policies are not only avoiding harm but positively contributing to social good.** Simultaneously they are also relevant to the organisation's purpose of economic performance. In 1992 when Bombay suffered through communal riots and the serial explosions, several companies got together to fund a campaign called "Salam Bombay" complimenting and reinforcing the ability of its citizens to restore normalcy.
12. **The social responsibility of organisations is sometimes ambiguous.** The concept can perhaps even become dangerous. In the name of social responsibility, the organisation may launch programmes which may not be beneficial to society. All organisations do not follow the 'righteous path'. Society may not be able to stop those who stray. Censor Boards act in the

name of “social” responsibility. **Even mergers and acquisitions have dimensions of social responsibility.** It is not easy to see the propriety of these actions. One individual’s preference cannot be the determinant of what is socially desirable.

13. Social responsibility is something every organisation has to think through and decide on its action plan. Social responsibility includes productivity and creating achieving workers. **But it goes beyond economic performance.** It will not be included within the mission of the organisation. It is not catering to populist demands. It is not dealing with forces that affect the organisation’s business. It requires lending the organisation’s immense financial and organisational strength to support and promote socially relevant goals. **To fulfil itself, organisations may have to enter into partnership with other groups like schools, universities, hospitals, labour unions, social groups etc.** to link social needs and organisational goals.

#### **(b) Insurance and Social Impact**

1. The business of insurance is one that has significant social impact. It mitigates losses to socially valuable assets, both human and non-human. **Apart from that the funds of insurance companies go towards socially beneficial ventures like infrastructure, water supply, etc.**
2. Insurers can focus on supporting activities in areas like hygiene, sanitation, health, road safety, education, etc., which will impact on accidents and health and thereby impact their own business performances. **Adopting villages is an option.**

#### **F. SUSTAINABILITY**

1. The laws prescribe that companies must set aside at least 2% of net profits towards activities of social responsibility (CSR). Many companies however, understand the role they have to play as responsible citizens and commit substantial resources to such issues. The corporate spending on CSR exceeded ₹20000 crores per annum.
2. In recent times, partly because of the focus on climate change and the need to protect the natural resources, companies have moved further and **are taking responsibility for what they call ‘Sustainability’.** Broadly, sustainability looks at preserving resources, including avoiding discharging waste into the environment, as if the environment is a reservoir for waste. Corporates account for most of the carbon footprint of the world.

3. Business groups like the Tatas (revenues of \$ 108 billion), Aditya Birla (\$ 41 billion) and Mahindra and Mahindra (\$ 17 billion) have appointed CEOs overseeing sustainability activities in all the group companies. Shri Anand Mahindra stated (in April 2016) that his companies have built a green revenue portfolio that exceeds US\$ 350 million and that he expects that “it will be one of the best investments the group had ever made”. When early in 2016, the sale of big diesel vehicles was banned in Delhi, to contain pollution, the Mahindras were already working on a new smaller engine, which would not pollute the environment.
4. Some of the areas in which Sustainability is focussing on are
  - Investment in generation and use of renewable energy (REINVEST) like solar power, which the Government is placing emphasis on. The target of the National Solar Mission is 100,000 MW of solar energy by 2022, of which 40,000 MW would come from roof top installations connected to the Grid.
  - Joining programmes like EP 100, which aims to double energy productivity (increase economic output for each unit of energy consumed) by the year 2030, which will result in savings of US\$ 327 billion per year in energy costs, add 1.3 million jobs and reduce CO2 emissions by one-third.
  - Housing with green certificates (using less resources from depleting forest covers) to reduce power consumption, including manufacture of bulbs and other electrical equipments, that consume less power without loss of output efficiency.
  - Ways to conserve water, waste management. Hindustan Unilever Ltd, has, working with NGOs, government agencies and local communities, managed to save 100 billion litres of water and generate 7 lakh person/days of employment.
  - Micro irrigation
  - Electric vehicles like Model 3 Tesla car launched globally in March 2016.
  - Substitutes for depleting resources. Example is ‘manufactured’ sand, instead of sand from river beds. Used beverage cans instead of bauxite and primary aluminium. Birlas are searching for ways to avoid using wood from endangered forests in its manufacture of viscose staple fibre and yarn.
  - Swedish brand H & M has crafted a jacquard riding coat made from recycled PET bottles, as part of its new line Conscious Exclusive featuring 100% sustainable materials. Also making its foray into H & M’s range of organic clothing is a fabric called Tencel created from the cellulose of eucalyptus wood pulp. Bengaluru based Summer House is

also an avid user of this fabric. At the Green Wardrobe fashion show at the Lakme Fashion Week in India in 2016, eight designers showcased their works Chanel's spring summer collection included cork shoes and dresses made from wood shavings.

5. Sustainability provides a new framework for thinking that moves from a linear model to a coherent model that has value as part of an era of cheap oil and materials. The new concept is of a circular economy, which refers to an industrial economy that is providing waste and pollution by design or intention and in which material flows are of two types - **biological nutrients designed to reenter the biosphere safely and technical nutrients which are designed to circulate at high quality in the production system**, without entering the biosphere as well as being restorative and regenerative by design.
6. Sustainability has also given rise to a new concept of **Triple Bottom Line (TBL)**, an expression coined by John Elkington. **TBL suggests that there be separate bottom lines for social, environmental (or ecological) and financial dimensions.** Ratified by the United Nations and the ICLEI (groups of local self government), TBL will be the standard for urban and community accounting and the dominant approach to public sector cost accounting. **Similar UN standards apply to natural capital and human capital measurement**

## **SUMMARY**

- Consumerism aims to protect the rights and interests of consumers.
- Rights include safety and correct information.
- In India, the Consumer Protection Act was enacted in 1986.
- Marketing principles are directed towards protecting interests of consumers.
- Ethics deals with questions of right and wrong.
- Ethics is contextual.
- Values are standards of right and wrong.
- Conformity in behaviour is achieved easier through values than rules.
- Value dissemination is also important for empowerment
- Actions clarify what the organisations ethical standards are.
- Being ethical helps to improve public image.
- Reward systems communicate messages regarding values.
- Ethics in insurance selling consists mainly of putting clients first.
- Organisations, being powerful citizens, have a responsibility to Society.
- Organisations are natural leaders of Society.
- Organisational practices affect behaviour of employees in Society.

- Society does not approve of ‘exploitation’ by organisations.
- Pressure groups do not always represent social demands.
- Social responsibility goes beyond economic performance.
- Social responsibility is sometimes ambiguous.
- Sustainability looks at preserving resources including zero discharge into environment.
- Triple Bottom Line (TBL) envisages separate bottom lines for social, environmental and financial achievements.

## KEY TERMS

- Consumerism
  - Ethics
  - Exploitation
  - Ombudsman
  - Profiteering
  - Social Impact
  - Social Responsibility
  - Social Responsiveness
  - Sustainability
  - Triple Bottom Line (TBL)
  - Values
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## Answers to Test Yourself Questions

The correct answer to Question 1 is (d)  
The correct answer to Question 2 is (b)  
The correct answer to Question 3 is (d)

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## SELF EXAMINATION QUESTIONS

Question No. 1

Which of the following statements is correct?

- (a) Every decision is a dilemma.
- (b) Every dilemma is an ethical dilemma.
- (c) An ethical dilemma can be resolved by consulting a lawyer.
- (d) All the above statements are wrong.

## Question No. 2

Which of the following would you recommend as a social responsibility activity?

- (a) A company should recruit new staff only from the neighbourhood.
- (b) Local producers should be helped to make quality products.
- (c) Lady member of employees should be given lessons on hygiene, balanced food etc.
- (d) All of the above

## Question No. 3

Which of the following statements is correct?

- (a) Spirituality unites people. Religiosity divides them.
  - (b) Rituals and practices are irrelevant for a spiritual person.
  - (c) Preachers are responsible for emphasising religious differences
  - (d) All the above statements are correct.
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## Answers to Self Examination Questions

The correct answer to Question No. 1 is (d)

The correct answer to Question No. 2 is (d)

The correct answer to Question No. 3 is (d)

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## **Recommended Reading**

**Balachandran S. : *Services Marketing*, Shroff Publishers, Mumbai (2011)**

**Kotler P & Keller K.L. : *Marketing Management*, Prentice Hall (2006)**

**L.I.C. of India : *Yogakshema* (various issues)**

**Valerie A Zeithaml & Mary Jo Bitner : *Services Marketing*, McGraw Hill New York, (1996)**