Customer Orientation in Designing Mutual Fund Products

-An Analytical Approach to Indian Market Preferences

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ABSTRACT

The significant outcome of the government policy of liberalisation in industrial and financial sector has been the development of new financial instruments. These new instruments are expected to impart greater competitiveness flexibility and efficiency to the financial sector. Growth and development of various mutual fund products in Indian capital market has proved to be one of the most catalytic instruments in generating momentous investment growth in the capital market. There is a substantial growth in the mutual fund market due to a high level of precision in the design and marketing of variety of mutual fund products by banks and other financial institution providing growth, liquidity and return.

In this context, prioritization, preference building and close monitoring of mutual funds are essentials for fund managers to make this the strongest and most preferred instrument in Indian capital market for the coming years. With the decline in the bank interest rates, frequent fluctuations in the secondary market and the inherent attitude of Indian small investors to avoid risk, it is important on the part of fund managers and mutual fund product designers to combine various elements of liquidity, return and security in making mutual fund products the best possible alternative for the small investors in Indian market.

Researchers have attempted to study various need expectations of small investors from different types of mutual funds available in Indian market and identify the risk return perception with the purchase of mutual funds. Various sophisticated multivariate techniques are applied to identify important characteristics being considered by the

Indian investors in the purchase decision The paper also suggests a product design of an optimum mutual fund and track the positioning gap available in Indian mutual fund market. SPSS version 10 is used for data analysis.

INTRODUCTION

The reform process has sent signals to a wave of changes in savings and investment behavior adding a new dimension to the growth of financial sector. The Indian financial system in general and the mutual fund industry in particular continue to take turn around from early 1990s. During this period mutual funds have pooled huge investments for the corporate sector. The investment habit of the small investors particularly has undergone a sea change. Increasing number of players from public as well as private sectors has entered in to the market with innovative schemes to cater to the requirements of the investors in India and abroad. For all investors, particularly the small investors, mutual funds have provided a better alternative to obtain benefits of expertise- based equity investments to all types of investors.

RECENT TRENDS IN MUTUAL FUND MARKETING

The mutual fund industry in India has evolved little over three decades but the real impetus has come after the changes in the mutual fund regulations in early 80s. Private and foreign mutual funds are operating in the Indian market and constitute a substantial portion of the mutual fund industry. Today the industry consists of Unit Trust of India, mutual funds sponsored by public sector banks and insurance corporations, private and foreign mutual funds. Investors are constantly being bombarded by questions concerning their risk profile. Either a money market or guilt fund is targeted for the risk averse or a low graded company offering a high return on its fixed deposits. Banks like

Citibank , ANZ Grindlays, Deutsche bank, Hongkong bank, Commerze bank, Banque nationale de Paris and HDFC bank are not only aggressively marketing funds many are also planning to launch their own. The list of potential entrants includes ABN Amro, ANZ Grindlays, Hongkong bank and Jammu and Kashmir bank.

The Reserve Bank's Currency and Finance report 1997-1998 shows that the investors' appetite for risk has diminished considerably. As much as 46% of the financial savings of the household sector found its way back to bank deposits; 12% went in to Government savings plans and 18% in to provident funds. Only a miniscule 2% wound up in the capital market and 4% in company deposits. The mutual fund product designers have identified a strategic gap in the product offering in the capital market and now are fighting a loosing battle with government savings plans, bank deposits and provident funds. They are providing cheque facility on money market mutual funds to make them more enticing and guilt funds for the risk averse.

Product innovations and new product combinations have started rolling in to the Indian market. GIC mutual fund has launched an open-ended scheme named as GIC D'MAT in which 71 demat scripts having a weight of nearly seventy- percent in the sensex and the Nifty are being marked for trading. The specialty of this new product is that investors will have an opportunity to exchange their holdings of scrips, which are available for dematerialization with units of this scheme. There are 252 mutual fund schemes (as on 31st March 2001) and are likely to go higher in the future. The reason for launching of these large number of mutual fund products is the distributed pattern of investment behavior of Indian small investor .The purchase decision of a mutual fund is largely dependant upon investors level of savings, investment pattern and the risk profile.

Many managers are now taking interest in designing mutual fund products with multi feature options for investors. Customers are often benefited from the improvements that are offered by new features, for example by enhanced quality products [Garvin (1984)]. These additions of features also offer advantages to others in the value chain. For the mutual fund agents new features provide new sales arguments in seller buyer interaction. New features do not only infuse single products but also entire product categories periodically with new lease of life [Broadbent (1980), Dowdy W.L. (1986)].

Based on the literature [Kotler (2000), Nicholas, (1992), Sen. (1996), Starr(1992)] a product feature is defined as each identifiable aspect of the total offering that a critical reference group perceives and evaluates as an "extra" to a known standard among comparable products. The success of a mutual fund and its capacity largely depends on its ability to mobilize funds. The total funds mobilized by the different mutual funds for the period 1987-88 to 1999-2000 is depicted in the Table –I

Table- I

Gross Mobilization by Mutual Funds

(Rs. Crore)

Year	UTI	Public Sector	Private Sector	Total
1987-88	1763	258	N/A	2021
1988-89	3483	301	N/A	3784
1989-90	5504	1204	N/A	6708
1990-91	3182	2967	N/A	6149
1991-92	8686	2580	N/A	11266
1992-93	11051	1978	N/A	13029

1993-94	9288	387	1548	11223
1994-95	8686	1333	1333	11352
1995-96	5891	301	301	6493
1996-97	9589	172	344	10105
1997-98	9116	344	1978	11395
1998-99	13201	1677	7826	22704
1999-2000	9159	1548	19178	29842

Source: Web Document at AMFI

On the total 252 mutual fund schemes are now available to the buyers out of which 103 are income schemes and 94 are growth schemes. The rest are hybrids. The total assets under all mutual funds are Rs. 90,685.25 crores (as on 31st March 2000) . The share of Unit Trust of India continues to be stagnant at 71 percent (64,637.37 crore). Private players now command assets of 17041.34 crore (19%). Public sector funds are holding the least (10%) with Rs. 9006.54 crore assets. The Government owned banks and UTI have 32 assured return schemes where as no private sector mutual funds offer assured returns.

The securities scam, unprecedented boom and the slow down in the economy saw the Indian stock market enters through a prolonged phase of instability. Therefore investor's preferences shift from equity funds to fixed income and debt instruments. In (Jan-March) 2001 Quarter the sensex oscillated between a low of 3436.75 and a high of 4462.11. The investment in Debt funds during this time has gone up. Due to the reduction in the interest rate in USA the Indian bond market rallied in expectation of a similar cut, debt funds staged a come back. Investors realize that an interest rate cut reduces the market yield and hence, increases the demand for long term debt papers bearing high coupon rates (**Refer Table-II**). The average annualized return for the quarter in debt funds was 14.64 which were much higher than the returns posted by any other debt based investment instruments on a post tax basis.

Table-II

Changing Fund Preferences

(Assets in Percentages)

Assets	1990	1993	1996	1999
Equity Funds	21.9	43.88	18.02	21.92
Debt funds	54.17	29.91	39.67	48.37
Mixed (Equity + Debt) funds	24.7	26.2	39.91	25.29
Money Market/ Liquid funds	0	0	0	2.17

Source: The Economic Times, January 3, 1999

The new mutual fund product launches had seen many of the equity based funds in the market during this period, primarily to attract investors who would like to take advantage of the low prices in the stock market but majority of the funds launched were debt funds. The budget has also supported the cause of debt fund rather than equity due to a lower dividend distribution tax. The investors hesitate to invest in the equity fund when the market is down but the marketing and distribution cost of these incurred during this period does not reflect a rise in the investors' choice. As a product manager one is ought to design mutual fund products, which shall combine an optimal mix of return, risk liquidity and safety for the small investors.

OBJECTIVE OF THE STUDY

The investors do not evaluate all possible product attributes while making a choice, but the marketer's search is for identification of "The key buying criteria" or "The key choice criteria" or "determinant attributes' which are defined as certain features of a product offering that are closely associated with preferences. This study aims at tracking investor's preferences and priorities towards different types of mutual fund products and for identifying key features of a mutual fund for deciphering sustainable marketing variables in the design of a new mutual fund product. Taking a lead from this, an attempt is also made to find out the important mutual fund product attributes that are essential in influencing the purchase decision of the investors.

METHODOLOGY

The study is based on a survey of 350 respondents through a questionnaire covering different groups of investors but the researcher could collect 328 complete questionnaire from investors out of which 300 were taken as an effective sample.

The data obtained from the study were analyzed by using Factor Analysis for identification of the key features preferred by the respondents in a mutual fund product. Factor analysis identifies common dimensions of factors from the observed variables that have a high correlation with the observed and seemingly unrelated variables but no correlation among the factors. Principal Component Analysis is the commonly used method for grouping the variables under few unrelated factors. However the researcher thought it proper to run the data under varimax rotation to reduce, if there was any chance of co -linearity among these factors.

Variables with a factor loading of higher than .5 are grouped under a factor. A factor loading is the correlation between the original variable with the specified factor and the key to understanding the nature of that particular factor. When developing new products marketers would like to be able to judge the consumer's response to their offer before it is introduced. One way to deal with the situation is to perform concept tests. Here the customer is presented with a description for a new product and is asked about the likelihood of purchase. The various attributes of a mutual fund product are broken down in to levels. Once the utilities of the attribute levels are known, it is possible to specify a new product that should have a maximum desirability.

RESULTS AND DISCUSSIONS

An investor takes into account various factors while deciding about buying of a mutual fund. These ranges of factors begin with investor perception, the promised return and to the attractiveness of the offer. So from informal discussions with mutual fund agents and from references to earlier studies, all the relevant variables in the purchase of a mutual fund were included in the study. Twenty-four statements were generated for measuring respondent's opinion on a 7-point scale on the purchase preference for mutual funds. Factor matrix and their corresponding factor loading after the varimax rotation are presented in **Table-III** for further interpretation.

Table- III

Loading of Selected Variables on Key Factors

(Loading Criteria>. 5)

	Key Product Variables	**F1**	**F2**	**F3**	**F4**	**F5**
01.	Awareness of Product	66128				
02.	Sponsor reputation				53726	
03.	Service Behaviour			68273		
04.	Performance of the MF	60561				
05.	Advertisement				66589	
06.	Capital Appreciation					59018
07.	Product Feature	65534				
08.	Safety of Fund		59053			
09.	Performance Guarantee					55141
10.	Broker/ Agents Recommendation				62964	
11.	Friend/ Relatives Suggestions				60444	
12.	Problem Freeness/Convenience	59261				
13.	Exclusively for Small Investor	57321				
14.	Liquidity		57860			
15.	Delivery Schedule			65013		
16.	Public Sector/Private Sector Ownership	56929				
17.	Regular Income		51759			

18.	Technology	55032				
19.	Tax Benefit		50991			
20.	Lock in Period	52771				
21.	Transparency			50419		
22.	Emergency need Fulfillment		56580			
23.	Assured Return					50495
24.	Brand Name	50872				

The grouping of variables with a factor coefficient >. 05 are shown in **Table-IV**. The researcher thought it proper to build a comprehensive idea about the loading of various variables on key factors and then to derive a key attribute for the design of a new mutual fund product.

Table IV

(Grouping of Factor-Loading for Identifying Key Product Features)

No.	Attributes	F1	F2	F3	F4	F5
01.	Awareness of Product	. 66128				
07.	Product Features	. 65534				
12.	Problem Free / Convenience	.59261				
13.	Exclusive for Small Investor	. 57321				
16.	Public Sector/ Private Sector	. 56929				

	Ownership						
18.	Technology	. 55032					
20.	Lock in Period	. 52771					
24.	Brand Name	. 50872					
04.	Performance of the Mutual Fund		. 60561				
08.	Safety		. 59053				
14.	Liquidity		. 57860				
17.	Regular Income		. 51759				
19.	Tax Benefit		. 50991				
22.	Emergency need Fulfillment		. 56580				
03.	Service Behaviour			. 68273			
15.	Delivery schedule			. 65013			
21.	Transparency			. 50419			
02.	Sponsor Reputation				. 53726		
05.	Advertisement				. 66598		
10.	Broker/Agents Recommendation				. 62964		
11.	Friend/ Relative Suggestion				. 60444		
06.	Capital Appreciation					. 59018	
09.	Performance Guarantee					. 55141	
23.	Assured Return						. 50495

{SPSS for MS Windows Release 6 PC extracted 5 factors. Extractions done at .5000 or above level}

The following factors **(Refer Table-V)** are named after grouping the key variables and looking at the commonality of the variables in explaining a typical attribute of a mutual fund product.

Table V

Key Factors of a Mutual Fund Product

F1 **The Core Product**	**F2** **Investors Expectation**	**F3** **Service Behavior**	**F4** **Persuasive Promotion**	**F5** **Investor Confidence**
Awareness	Performance of The mutual fund	Service Behaviour	Sponsor Reputation	Capital Appreciation
Product features	Safety	Delivery Schedule	Advertisement	Performance guarantee
Problem freeness	Liquidity	transparency	Broker/Agent Recommendation	Assured return
Exclusive for small Investor	Regular Income	Friend/relative suggestion		
Public sector/ Private sector Ownership	Tax benefit			
Technology	Emergency Need fulfillment			

Lock in period

Brand Name

It is evident from the analysis that the changing preferences of the investor create many new needs, which may be controlled by key determinants. Table- V depicts that the first factor identified with product features are awareness of attribute of the product, hassle free trading, exclusivity for small investors, ownership of the product, technology, lock in period and brand name. These attributes can be grouped under Factor- 1 and termed as **Core Product**. These are the core part of a mutual fund product, which are common expectation of any customer while making a purchase decision.

The second factor is designated **Performance Factor** on the basis of the loaded variables. The data set of the Factor-2 loading indicates that among various product feature variables, performance of the fund, safety, liquidity, regular income, tax benefit, emergency need fulfillment attributes are found to be important by customers for making a brand choice. This is an indicator that by sheer name of the company no mutual fund product is going to survive and grow in the market. This is supported by the recent series of poor performances of UTI in the Indian Market. People are no more looking in to the name for making decision. The market has moved purely from a market of single choice to a competitive choice.

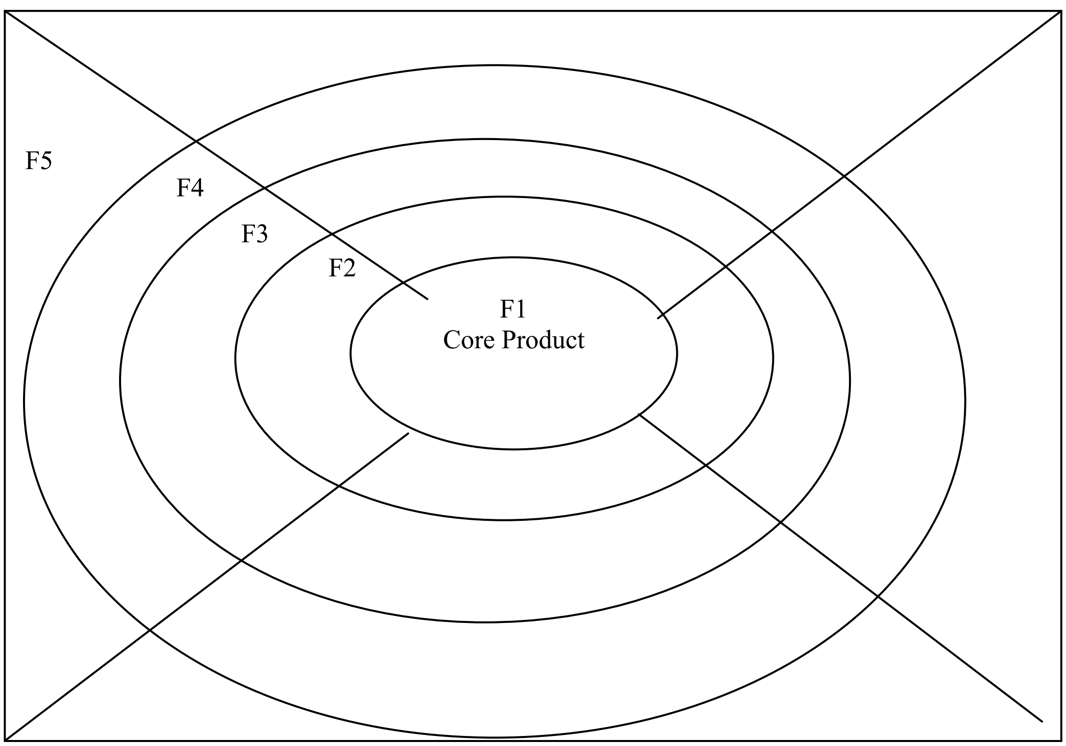
This kind of consumer orientation is good for the Indian market. It not only offers a basket of products to choose from but also makes the fund managers to think and take prudent decision regarding the investment and market capitalization. Unless the fund provides growth equipped with assured return and high liquidity the market response is going to be poor. While designing a mutual fund product the product manager has to be concerned about offering a mix of combination in risk return and liquidity. Thus performance factor of the fund expressed in its NAV details is an influential variable in the purchase decision of the investor making it the most **tangible component** visible to the investor in the offering.

Factor- 3 shows significance for transparency, service behaviors and delivery schedule. This factor suggests that the process of delivery should be prompt and on time. An investor's service expectation statement should be the vision for the organization to aspire for. This component of service augmentation or "**Augment Part"** of the product makes it mandatory on the part of the fund manager to provide services in a continuos basis so that the customer stays loyal and happy with the fund and responds to changing need of the customers

Factor-4 includes attributes such as sponsor reputation, advertisements, Broker/Agents recommendations, friend/ relative suggestion. This element is more important in a competitive market where most of the product offerings are similar and the customer finds it difficult to take a decision. In an advanced and matured market like that of urban India what needs to be done for the success of a mutual fund is a high degree of **persuasive communication** than the current practice. Present communication and promotions about various mutual fund products in India are informative only. As the market has advanced to a higher level what needs to be done is to promote own brands than promoting the category only for attracting investors of mutual fund. The concept of brand image and market goodwill generated out of past performance of mutual fund is explained by the term sponsor reputation.

Factor- 5 clearly indicates the combination of three attributes such as performance guarantee, assured return and degree of capital appreciation. This factor is termed as investor's **confidence factor,** which is built over a period of time due to consistency in performance and transparency in market behavior.

The five factors explained above are the proposed product combinations of a mutual fund offering to the investors. If the product designers will be careful about these key issues while designing a brand of mutual fund then only the brand will see a higher customer response and enjoy market success.



DIGRAM – 1 (The Whole Mutual Fund Product)

Where **F1:** -Core Expectations

F2: -Tangible Product (Market Performance)

F3: -Augment Product (Service Behavior)

F4: -Persuasive Communication

F5: - Confidence Factor

CONCLUDING OBSERVATIONS

The present study looks at customer expectation levels in a mutual fund product. This kind of customer orientation is necessary in a market like India where the market is turning competitive due to large number of players with varied financial muscle powers and expertise of reinvestment. The small investors purchase behavior does not have a high level of coherence due to the influence of different purchase factors. The buying intent of a mutual fund product by a small investor can be due to multiple reasons depending upon customers risk return trade off. Due to the reduction in the bank interest rates and high degree of volatility in Indian stock market, investors are looking for an alternative for their small time investments which will provide them a higher return and also safety to their investments. The bond market is also passing through a recession due to its interest parity with bank instruments. So mutual funds offer the best alternative to the small investors in India. A prudent product design by adding the features expected by investors and spelt out in this research will make the new mutual fund products attractive for the Indian investors. The factors identified in the study provide key information inputs regarding investor's preferences and priorities that will guide future mutual fund product managers in designing attractive mutual fund products for the Indian market.

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