SERVICE QUALITY ENHANCES CUSTOMER SATISFACTION

BY

Therashree Govender

(200295222)

**Submitted in partial fulfilment of the requirements for the degree of
Masters In Business Administration**

**Graduate School of Business, Faculty of Management University of
Natal (Durban)**

Supervisor: Prof. Elza Thomson

SEPTEMBER 2003

CONFIDENTIALITY CLAUSE

TO WHOM IT MAY CONCERN

RE: CONFIDENTIALITY CLAUSE

Due to the strategic importance of this research it would be appreciated if the contents remain confidential and not be circulated for a period of five (5) years.

Yours sincerely

T.GOVENDER

DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed...

Date..

096194

ACKNOWLEDGEMENTS

I am most grateful to all who assisted in this dissertation and its presentation, especially to the following:

- My lecturers and my supervisor Professor Elza Thomson for your dedication, commitment and encouragement.

- My fellow group members, studying with you has been an enriching and fun-filled experience.

- Various individuals in Short term insurance industry, for your invaluable assistance with regards to legislation in the study.

- Finally to my loving parents, sisters, brother and friends for your incredible support, guidance, blessing and constant encouragement that made this task much easier to endure. This study is dedicated to you.

ABSTRACT

The main driving force behind the increasing interest in delivering service quality, is the need to keep customers satisfied and loyal. Companies are realizing that it's far more profitable to service existing customers than it is to develop new ones. As a result, they are doing all they can to strengthen and foster customer relationships.

This, in turn, has led to the need for more innovative service quality strategies. Knowledge of one's customers is an important factor. The more information a company has, the more targeted their marketing can be and the better able they are to serve their customers' needs.

This research dissertation is aimed at identifying the strategies that contribute to delivering quality service that leads to customer satisfaction and eventually client retention. It evaluates the benefits of the human, work process and technological dimensions and determines what actions are required by The Company to improve the levels of customer service.

Based on the analysis, the gap between the current service expectation of The Company and service delivery by The Company urgently needs to be reviewed in light of customer satisfaction and customer retention. The guiding principle at most companies today is to develop systems to economically produce goods or services that satisfy customer requirements. To carry this out effectively requires a companywide quality improvement program

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE - INTRODUCTION

1.1 INTRODUCTION

A consistent delivery of superior customer service is a function of a number of inters – connected aspects such as strategic, operational and emotional. To appreciate that in order to capitalize on the profit, customer service must be put in the centre, at the heart of the business and everything that is done by the business – technology, process and people. Inputs from both the customer and the company influence service quality. Service quality is about ensuring customers, both internal and external, get what they want. As travel and technology bring markets, people and products ever closer, it is the single most effective and sustainable means of differentiation between competing companies.

1.2 BACKGROUND OF THE STUDY

We are in the age of the customer. Leading enterprises, seeing the need to become more customer centric are turning to CSM (Customer Service Management) as a way to succeed. These CSM programs are taking place against a backdrop of technological uncertainty, and project failure rates are increasing. These failures cannot be laid at the feet of technology. It is more likely to be because senior management lacks the involvement, vision or passion for the anticipated outcomes. CSM is a business strategy to optimise not only customer satisfaction, but also profitability and revenue. This is done by organizing around customer satisfying behaviours and implementing customer centric processes and technologies that support co – coordinated customer interactions throughout a variety of channels.

1.3 WHAT IS QUALITY?

Quality means redefining corporate culture so that everyone from manager to worker to supplier is equally committed to producing and delivering grade A products and services. Quality isn't hard to define. Putting it into practice, that's the rub. Some experts contend that quality is something 10% of people understand, 805 are learning and the other 10% will never grasp. Companies are struggling to adopt quality principles. They know all the buzzwords: zero

1

defects, conforming to requirements, meeting specifications, fitness for use, continuous improvement and absence of variation.

But quality is a strategy. It addresses two interlocked questions: Are we doing the right things and are we doing things right? It's possible to do the wrong thing right and the right thing wrong.

The way to achieve quality is to do it right the first time," says Philip B. Crosby, chairman of Career IV, an executive consulting firm in Maitland. The basis of what Crosby has taught for 40 years is "zero defects." Crosby further explains that quality is conformance to requirements--giving the customer what you promised each and every time. The system is prevention. The performance standard is zero defects. The measurement is money--how much it costs to do it wrong instead of getting it right the first time.

The thrust of Deming's quality philosophy is "continuous improvement" where nothing is ever good enough and the job is never over. Deming employs statistical quality control (SQC), a system widely used during World War II. SQC is a way of analysing avoidable and unavoidable errors. The goal is to eliminate variations in materials, parts and the finished product during design and production. Essentially, continuous improvement means as you get smarter you get better, concedes Crosby, "It doesn't mean you make 10 mistakes this week, six next week and three the following week."
While Deming focuses more on detection and correction, both he and Crosby preach prevention. Juran uses the phrase "fitness for use" to explain the two sides to quality, the market side and freedom-from-failure side. The market side goes beyond zero defects to discovering why someone buys a product.

Quality improvement starts at the top. Senior and middle management must lead; the entire work force must be involved. This may mean restructuring, especially at larger companies that have built up layers of bureaucracy. Divisions may be broken down into smaller business units. Putting training programs into effect is also crucial.

Employee empowerment is imperative. Workers must be given greater authority and responsibility and with that will come a higher level of accountability. Many companies now use team structures for problem solving and performance improvement. Equally important is how information is disseminated. Every employee ought to be able to answer the key questions: Who are our major competitors? What are the company's strengths and weaknesses versus its competitors? How is the company performing in respect to sales and profits? Who are our target customers? What type of needs and expectations do they have and how satisfied are they with our service?

Every quality process has measurement systems to tell a company where it is and where it is going. Internal and external tools are employed to assess quality-from checklist and flow charts to customer surveys and employee feedback (Brown 2002).

Customers are more knowledgeable and demanding than ever before. To ensure that an organization can meet new challenges, the entire organization should be "customer-centred," a shift from the more traditional "process-centred." Making this shift requires a complete rethink of the organization. The rethink should concentrate on the critical success factors of people, process, technology, and environment. The implementation of a "customer-centred" organization should utilize management processes that are fine-tuned to bring about extraordinary customer service.

Competitive advantage can be gained through customer service management (CSM) when implemented as a comprehensive approach to centring the organization on the customer. To be successful in the CSM strategy, each area of an organization must see that, directly or indirectly, achieving its objectives contributes to the customer's overall experience with the organization. The most effective CSM strategies create a seamless integration of people, process, and technology. Creating such a seamless integration begins with deliberate and committed alignment of the

management processes- planning, organizing, leading, and controlling--into a system that is directed toward the customer.

Customer service management, sometimes referred to as customer relationship management, is much more than attentiveness to customer satisfaction. Customers do not want to be merely "satisfied." They want the feeling that the organization considers their business to be important, essential, and vital to its operation.

A constant evaluation and review of customer needs and desires is part of successful customer service management (CSM). Using a comprehensive CSM strategy can bring about customer centring, customer retention, and decreased costs of customer relations for an organization.

1.4 THE MANAGEMENT OF CUSTOMER SERVICE

The goal of CSM is to focus the management system on extraordinary customer relations and service. If each of the four functions of management (planning, organizing, leading, and controlling) is customer-centred, then customer service will be the mainstay of an organization.

- **Planning for Extraordinary CSM**

Being proactive is essential to continuous high-quality customer service. Quality does not just happen; it must be planned. Customer service must be part of the vision of an organization, not some add-on or afterthought.

Frequently, the planning process is centred almost exclusively on financial goal development. Financial goals are necessary, but are not the most critical basis for company success-the customer is! Without customers, an organization has no reason to exist. Therefore, the company strategy must integrate both customer needs and organizational goals. Financial efficiency is not enough; it is critical to be effective in gaining and maintaining customers.

One of the primary decisions to be made in the planning process is the choice of customers. Customers are not equally desirable. Often, there are customers who cost more to service than their business merits. Then the question becomes whether the cost of service outweighs the benefits of their purchases. The organization as a whole must know who the customers are

and which ones are the most profitable. These questions help define the appropriate customer focus.

From the customer base, a company must discover what customers want. Effective planning for CSM requires putting the organization into the customers' shoes and realizing what it truly feels like to interact with the company as a customer. Dialog with the customer is essential. Customer-centred organizations can anticipate what customers don't want; yet they will also know what customers do want in the short term and in the longer future.

The goal is to identify opportunities that will both satisfy customers and contribute to an organization's success. Prioritise-choose those opportunities that the organization can do best and integrate them into the company's goals. Making customer satisfaction a primary goal focuses an organization's people, processes, and technology on the customer.

Human resource planning is an essential part of successful customer service, because to a customer anyone working for an organization represents that organization. An organization needs to be fully aware of the impression that is received by someone who contacts the company. The impression made on the customer depends primarily upon how the organization's employees interact with the customer. Therefore, each employee is a potential customer service representative.

Employees consciously or unconsciously represent a company to customers or potential customers in a variety of ways. Human resources' personnel are also important, because job applicants may know the company's customers.

People, therefore, are critical success factors to CSM. However, without a plan to staff the best personnel and to retain them, customer service plans will fail. Continuous planning for the best people for the job reflects concern for customers. Additionally, diversity within an organization is important; the diversity of the service provider should match that of the community the organization serves. This diversity matching enhances the probability that an organization will address the concerns of all its customers.

- **Organizing for Extraordinary CSM**

Organizing to create a "customer-centred" operation requires careful attention to the people, technology, and environmental elements of the organization relationship structure. The major organizational goal is highly effective customer service that gains and retains customers. Achieving this goal necessitates teamwork. Therefore, in the customer-centred organization, customer service skills and abilities are significant considerations in recruiting, hiring, training, and promoting employees.

Delivering high-quality customer service is not possible without the "right" people. People are the key ingredient in CSM teamwork. The right people working in the right environment and with the right technology make an organization highly competitive.

The work environment, including the physical and the psychological environment, should encourage and reinforce team collaboration focused on providing superior customer service. Some organizations need to assign critical aspects of their customer service to specialized representatives. The accompanying illustration is an example of a physical arrangement that supports collaboration and teamwork among each customer service representative (CSR). Ideally in this arrangement, each CSR would have the technology to "immediately" access any and all customer information they might need. Additionally, in customer-centred organizations, the customer service function is highly rewarded, given more fiscal responsibility, and viewed as a core process of the organization.

Technology has developed to allow immediate access to a customer's service history and purchase patterns. One of the most recent developments is the ability to access an organization immediately through the Internet. The primary advantage of technology is that it allows faster and more accurate access to the information customers needs to do business with an organization.

- **Leading for Extraordinary CSM**

The foundation of customer service management is trust and teamwork. In essence, leading is accurately communicating the appropriate direction and providing relationship guidance to team members. Creating and maintaining teamwork begins with the assignment of a leader to the customer service function who has real clout with high-level management.

The most important asset in a company is the right people, that is, the ones who provide the team and customer service behaviour the organization needs. Employees in a customer-centred organization are competent and empowered to deal with all but the most technical customer questions. Customers truly enjoy having a well-trained, knowledgeable person deal with their concerns or orders.

Employees are no longer easily dispensable. In truth, employees represent a company's first market. If companies are not investing in and listening to their employees, as well as their customers, they are probably missing opportunities to create competitive advantage.

High turnover is a major problem that can only be addressed through trust. If employees do not trust the organization to provide equitable pay, training, and advancement, they will not stay long enough to become effective team members. When a company focuses on creating quality for employees and competence in employees, they can be empowered to create happy customers. And, happy customers buy more!

Leadership is what builds the corporate culture. The culture should exemplify extraordinary customer service management. Effective leadership builds a customer-centred corporate culture. If the corporate culture is not customer-centred, the organization is likely to lose large numbers of customers to its competitors, which means, of course, that leaders have the primary responsibility for the success of the organization.

- **Controlling for Extraordinary CSM**

All organizations need feedback on how well they are performing with regard to meeting goals and objectives. The controlling function of management is the process that provides this vital information.

Controlling (frequently called quality assurance) is accomplished primarily through evaluating and analysing data provided on sales and other customer concerns. Often, controlling receives the least attention and is, therefore, not done well. If an organization's technology equipment is set up correctly, customer data can be received and utilized much more effectively and efficiently. These data will provide information on where any adjustments to the initial plan should be made.

It is important that employees are involved in the control process. One way to involve employees is to make each employee responsible for ensuring that customers have an extraordinarily high quality experience with the organization. The assignment of this responsibility enhances the probability that the employees will be sources of quality improvement ideas. As employees become more aware of customer concerns and how to respond to them, employees will be able to discern ways in which the organization can improve its customer relations and service. Whirlpool allows its customers to heavily influence the control of product design. As a result, Whirlpool manufactures some of the hottest-selling cooking ranges in the industry (Jones 2002).

1.5 PROBLEM STATEMENT

What business strategies need to be implemented by The Company in trying to achieve optimal customer satisfaction?

1.6 RESEARCH OBJECTIVES

- ◆ To evaluate the present strategy implemented in The Company
- ◆ To determine the factors that would provide strategic and tactical solutions
- ◆ To create a seamless connection, multi – channel interaction between business and the client

- To strive for a balance between being efficient in delivery of customer service and effective in meeting the customer's need

1.7 THE IMPORTANCE OF THIS STUDY

The importance of this study is to critically analyse whether The Company is currently providing quality service and if not, what it should do in order to provide excellent quality service. This research aims to fill the gap in the literature by examining the proposition from both the client perspectives and motor claim administrators.

1.8 LIMITATIONS

The study is delimited to the KZN area and is also delimited to the motor claims department.

1.9 REPORT STRUCTURE

This chapter presented and introduced the objectives of the study and the importance thereof was explained. Further an explanation of the research methodology applied is also stated.

Chapter two comprises an in-depth analysis of the strategic models that are required to analyse The Company and its client types' environment and perspective on service quality.

Chapter three presents an overview of the current structure and processes of The Company As well as the short term insurance industry.

Chapter four focuses on an evaluation of the 'present' strategy being adopted by The Company, and alludes towards a gap analysis.

Chapter five presents the strategic options available and details the recommendations and conclusions based on the findings of the study.

1.10 RESEARCH DESIGN AND METHODOLOGY

Clients and the motor claim administrators were interviewed in regards to the service that was offered and the service that was expected.

A literature survey was conducted by consulting books, journals and webs to assist in forming the theoretical foundation of the study. The format of the

research is qualitative and secondary data was utilized to provide depth to the project. Descriptive methods were used to get a feel for the situation.

1. 11 CONCLUSION

This study will "conclude" whether the current strategies implemented at The Company results in service quality and customer satisfaction and, if not, what measures should be implemented in order to achieve this.

CHAPTER 2 - LITERATURE REVIEW

2.1 INTRODUCTION

The aim of this research is to provide valuable insight into the possible future strategic direction of The Company. The Company is a financial institution and aims to of provide quality service in every sector of its business.

Given the rapid growth, in the motor vehicle department, in the last year, it has reached a point where it needs to explore other options in providing effective and efficient service to its growing number of clients, hence the future strategic direction of the business needs to be assessed. In order to achieve this, the realm of strategy will need to be explored, to assess and ultimately choose the right path available to The Company. This entails researching the literature on the subject of strategy.

2.2 WHAT IS STRATEGY?

Mintzberg (1987) contends that strategy cannot be simply defined by a statement, rather, strategy should be developed using various definitions to increase the ability to manage the processes which shape strategies. Mintzberg proposed five definitions of strategy as plan, ploy, pattern, position, and perspective. Strategy as a plan is viewed as a consciously intended course of action whilst ploy is seen as an action intended to achieve some other end. Strategy can also be seen as a pattern of consistent behaviours, which are not necessarily predetermined (planned) but can emerge over time. Mintzberg fourth definition of strategy, as a position, seeks to place the organization in relation to its external environment. Thus, the organization should be matched to its environment in such a way as to realize competitive advantage. The fifth definition proposed by Mintzberg views strategy as a perspective more especially a shared perspective from within the organisation.

According to Thomson and Strickland (2001), a company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully, and achieve organisational objectives.

Prof. Andrews Christensen (1995) define corporate strategy as the pattern of decisions in a company that:

➢ Determines, shapes, and reveals its objectives, purposes, or goals;

➢ Produces the principal polices and plans for achieving these goals and;

➢ Defines the business the company intends to be in, the kind of economic and human organisation it intends to be and nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities.

According to Richard Lynch (2000) corporate strategy is the pattern of major objectives, purposes or goals and essential policies or plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.

2.3 STRATEGY IN CUSTOMER SERVICE

The first and most important step towards outstanding service is developing a service strategy. Strategy sets the stage and defines the constraints for all the other steps. Overlooking strategy and rushing headlong to improve service is always a mistake. Developing a strategy for customer service may sound like a waste of time. How much strategy do you need to capture a claim, make changes to a policy and offer the client excellent customer service? Yet, even those simple activities won't do much for customer satisfaction or corporate profits unless they are part of a considered strategy. Without a strategy, you don't know exactly who your customers are, how much they value different aspects of service, how much you will have to spend to satisfy them, and how big the payoffs are likely to be. Without a strategy, you can't develop a concept of service to rally around, or catch conflicts between corporate strategy and customer service, or come up with effective ways to measure service performance and perceived quality.

Companies without clear service strategies have a hard time perceiving conflicts among different types of customers.

A clear strategy also helps flush out products, marketing, and distribution decisions that undermine good service.

"Developing a strategy is fundamental to winning the customer service war. Companies that have clear, well-focused service strategies are better able to optimise the production and delivery of service. They have a leg-up in choosing the optimum mix of services for the customers they target and in driving to produce effective, efficient service"(Davidow and Uttal.1989).

2.4 THE GURUS OF QUALITY

Deming, the best known of the "early" pioneers, is credited with popularising quality control in Japan in the early 1950s. Today he is regarded as a national hero in that country and is the father of the world- famous Deming Prize for Quality. He is best known for developing a system of statistical quality control, although his contribution goes substantially beyond those techniques. His philosophy begins with top management but maintains that a company must adopt the fourteen points of his system at all levels. He also believes that quality must be built into the product at all stages in order to achieve a high level of excellence. While it cannot be said that Deming is responsible for quality improvement in Japan or the United States, he has played a substantial role in increasing the visibility of the process and advancing an awareness of the need to improve.

Deming (1986) defines quality as a predictable degree of uniformity and dependability at low cost and suited to the market. Deming teaches that 96 percent of variations have common causes and 4 percent have special causes. He views statistics as a management tool and relies on statistical process control as a means of managing variations in a process.

Deming developed what is known as the Deming chain reaction; as quality improves, costs will decrease and productivity will increase, resulting in more jobs, greater market share, and long-term survival. Although it is the worker who ultimately produce quality products, Deming stresses worker pride and satisfaction rather than the establishment of quantifiable goals. His overall approach focuses on improvement of the process, in that the system, rather than the worker, is the cause of process variation.

Deming's universal fourteen points for management are summarized as follows:

1) Create consistency of purpose with a plan.

2) Adopt the new philosophy of quality

3) Cease dependence on mass inspection

4) End the practice of choosing suppliers based solely on price.

5) Identify problems and work continuously to improve the system.

6) Adopt modern methods of training on the job

7) Change the focus from production numbers (quantity) to quality.

8) Drive out fear

9) Break down barriers between departments

10) Stop requesting improved productivity without providing methods to achieve it.

11) Eliminate work standards that prescribe numerical quotas

12) Remove barriers to pride of workmanship

13) Institute vigorous education and retraining

14) Create a structure in top management that will emphasis the preceding thirteen points every day.

Juran, like Deming, was invited to Japan in 1954 by the Union of Japanese Scientists and Engineers (JUSE). His lectures introduced the managerial dimensions of planning, organizing, and controlling and focused on the responsibility of management to achieve quality and the need for setting goals. Juran (1994) defines quality as fitness for use in terms of design, conformance, availability, safety, and field use. Thus, his concept more closely incorporates the point of view of the customer. He is prepared to measure everything and relies on systems and problem-solving techniques. Unlike Deming, he focuses on top-down management and technical methods rather than worker pride and satisfaction.

Juran's ten steps to quality improvement are:

1) Build awareness of opportunities to improve

2) Set goals for improvement

3) Organize to reach goals

4) Provide training

5) Carry out projects to solve problems

6) Report progress
7) Give recognition
8) Communicate results
9) Keep score
10) Maintain momentum by making annual improvement part of the regular systems and processes of the company

Juran is the founder of the Juran Institute in Wilton, Connecticut. He prompts a concept known as Managing Business Quality, which is a technique for executing cross-functional quality improvements. Juran's contribution may, over the longer term, be greater than Deming's because Juran has the broader concept, while Deming's focus on statistical process control is more technically orientated.

Armand Feigenbaum, like Deming and Juran, achieved visibility through his work with the Japanese. Unlike the latter two, he used a total quality control approach that may very well be the forerunner of today's TQM. He promoted a system for integrating efforts to develop, maintain, and improve quality by the various groups in an organization. To do otherwise, according to Feigenbaum, would be to inspect for and control quality after the fact rather than build it in at an earlier stage of the process.

Philip Crosby, author of the popular book Quality is Free, may have achieved the greatest commercial success by promoting his views and founding the Quality College in Winter Park, Florida. Crosby (1979) argues that poor quality in the average firm costs about 20 percent of revenues, most of which could be avoided by adopting good quality practices. His "absolutes" of quality are

- Quality is defined as conformance to requirements, not "goodness."
- The system for achieving quality is prevention, not appraisal.
- The performance standard is zero defects, not "that's close enough."
- The measurement of quality is the price of non-conformance, not indexes.

15

Crosby (1979) stresses motivation and planning and does not dwell on statistical process control and the several problem-solving techniques of Deming and Juran. He states that quality is free because the small costs of prevention will always be lower than the costs of detection, correction, and failure.

Like Deming, Crosby has his own fourteen points:

1) Management commitment. Top management must become convinced of the need for quality and must clearly communicate this to the entire company by written policy, stating that each person is expected to perform according to the requirement or cause the requirement to be officially changed to what the company and the customers really need.

2) Quality improvement teams. Form a team composed of department heads to oversee improvements in their departments and in the company as a whole.

3) Quality measurement. Establish measurements appropriate to every activity in order to identify areas in need of improvements.

4) Cost of quality. Estimate the costs of quality in order to identify areas where improvements would be profitable.

5) Quality awareness. Raise quality awareness among employees. They must understand the importance of product conformance and the costs of non-conformance.

6) Corrective action. Take corrective action as a result of step 3 and 4.

7) Zero defects planning. Form a committee to plan a program appropriate to the company and its culture.

8) Supervisor training. All levels of management must be trained in how to implement their part of the quality improvement program.

9) Zero defects day. Schedule a day to signal to employees that the company has a new standard.

10) Goal setting. Individuals must establish improvement goals for themselves and their groups.

11) Errors cause removal. Employees should be encouraged to inform management of any problems that prevent them from performing error-free work.

12) Recognition. Give public, non-financial appreciation to those who meet their quality goals or perform outstandingly.

13) Quality councils. Composed of quality professional and team chairperson, quality councils should meet regularly to share experiences, problems, and ideas.

14) Do it all over again. Repeat steps1 to 13 in order to emphasise the never-ending process of quality improvement.

All these pioneers believe that management and the system, rather than the workers, are the cause of poor quality. These and other trailblazers have largely absorbed and synthesized each other's idea, but generally speaking they belong to two schools of thought: those who focus on technical processes and tools and those who focus on the managerial dimensions. Deming provides manufacturers with methods to measure the variations in a production process in order to determine the causes of poor quality. Juran emphasizes setting specific annual goals and establishing teams to work on them. Crosby stresses a program of zero defects. Feigenbaum teaches total quality control aimed at managing by applying statistical an engineering method throughout the company.

Despite the differences among the experts, a number of common themes arise:

1) Inspection is never the answer to quality improvement, nor is "policing"

2) Involvement of and leadership by top management are essential to the necessary culture of commitment to quality.

3) A program for quality requires organisation –wide efforts and long-term commitment, accompanied by the necessary investment in training.

4) Quality is first and schedules are secondary (Omachonu and Ross. 1995).

2.5 QUALITY AND PROFITABILITY

Certain studies have revealed that satisfying the customer and delivering a higher relative level of quality than the competition pays huge dividends in terms of the 3 R's – repeat, referral, and renewal.

The Profit Impact of Marketing Strategy (PIMS) and The Technical Assistance Research Program (TARP) Institute produced the two most well known studies documenting the positive returns from being customer-centered.

The PIMS research was conducted to determine how key dimensions of strategy affect profitability and growth in business. The study involved 450 corporations for periods ranging from 2 to 10 years. In exploring the relationship between quality and profitability, the PIMS researchers examined two different kinds of quality: conformance quality and perceived quality. Conformance quality is achieving zero defects as measured against prescribed product specifications. Perceived quality refers to quality as defined by the customer.

The PIMS researchers did not find any positive relation between conformance quality and profitability. However, they discovered a strong correlation between perceived quality and organisational performance.

The PIMS research disclosed that business that offer a product or service with superior quality by customers clearly outperform those with inferior quality, whether the performance measure is return on sales or return on investment. It also disclosed that those "superior quality" business enjoys

➢ Strong customer loyalty.
➢ More repeat purchases.
➢ Less vulnerability to price wars.
➢ The ability to command higher relative price without affecting market share
➢ Lower marketing costs.
➢ Significant improvements in market share (Crego and Schiffrin1995).

2.6 RECOGNISING THE NEED FOR CUSTOMER DELIGHT AND LOYALTY.

Customer satisfaction makes money and sense. However, in the 21st century merely satisfying the customer is not going to be good enough. This is true because a satisfied customer is a vulnerable customer.

Figure 2.1

Customer Satisfaction Performance-Attitude- Behaviour Model.
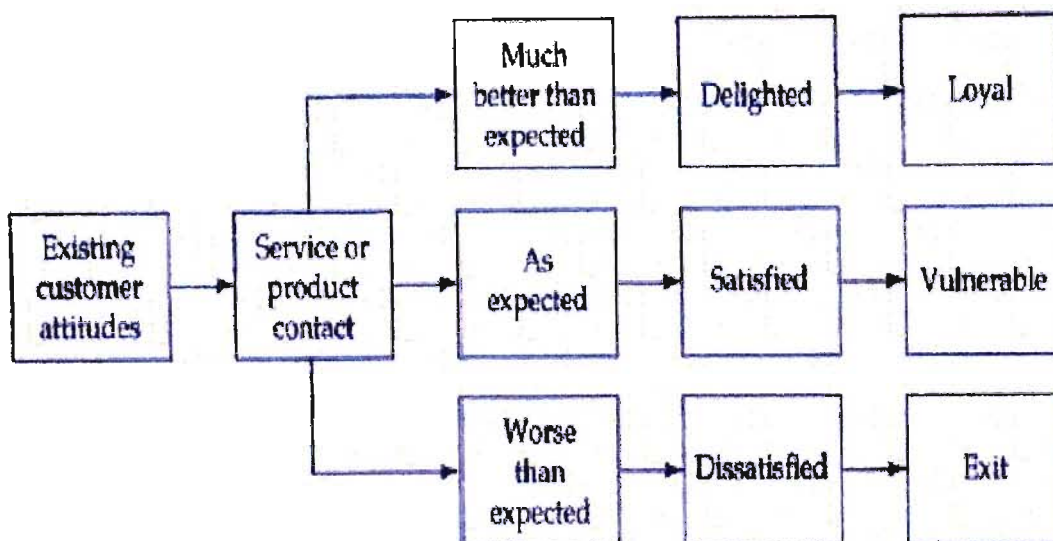
As the model shows, the customer comes to an encounter with existing attitudes or expectations. He or she has a contact with the organisation in a moment of truth or a series of moments. If that contract occurs as expected- that is, its nothing special – the customer is satisfied. He or she is vulnerable and may or may not return. Today's customers have an almost endless variety of options from which to choose. If the customer has no compelling reason to choose one over another because of a prior positive experience, the customer will continue to experiment or just rotate purchases among several providers.

On the other hand, very satisfied or "delighted" customers become loyal customers. They would rather stay than switch. By staying, they generate

10

significant additional revenues and profits for the company to which they are loyal.

To sum it up, customer loyalty pays off in big ways. Those organisations that recognise this will reengineer themselves first to bring the customer in and then to drive costs out, rather than vice-versa. They will organise and manage themselves to promote customer delight and loyalty

(Crego and Schiffrin.1995).

2.7 STRATEGIC PLANNING

Strategic planning is a management tool, period. As with any management tool, it is used for one purpose only: to help an organization do a better job - to focus its energy, to ensure that members of the organization are working toward the same goals, to assess and adjust the organization's direction in response to a changing environment. In short, strategic planning is a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it, with a focus on the future.

A word by word dissection of this definition provides the key elements that underlie the meaning and success of a strategic planning process: The process is strategic because it involves preparing the best way to respond to the circumstances of the organization's environment, whether or not its circumstances are known in advance; nonprofits often must respond to dynamic and even hostile environments. Being strategic, then, means being clear about the organization's objectives, being aware of the organization's resources, and incorporating both into being consciously responsive to a dynamic environment. The process is about planning because it involves intentionally setting goals (i.e. choosing a desired future) and developing an approach to achieving those goals.

The process is disciplined in that it calls for a certain order and pattern to keep it focused and productive. The process raises a sequence of questions that helps planners examine experience, test assumptions, gather and incorporate information about the present, and anticipate the environment in which the

organization will be working in the future. Finally, the process is about fundamental decisions and actions because choices must be made in order to answer the sequence of questions mentioned above. The plan is ultimately no more, and no less, than a set of decisions about what to do, why to do it, and how to do it. Because it is impossible to do everything that needs to be done in this world, strategic planning implies that some organizational decisions and actions are more important than others - and that much of the strategy lies in making the tough decisions about what is most important to achieving organizational success.

The strategic planning can be complex, challenging, and even messy, but it is always defined by the basic ideas outlined above - and you can always return to these basics for insight into your own strategic planning process (Adapted from Bryson's Strategic Planning in Public and Nonprofits Organizations - 1996).

2.8 STRATEGIC THINKING AND STRATEGIC MANAGEMENT

Strategic planning is only useful if it supports strategic thinking and leads to strategic management - the basis for an effective organization. Strategic thinking means asking, "Are we doing the right thing?" Perhaps, more precisely, it means making that assessment using three key requirements about strategic thinking: a definite purpose be in mind; an understanding of the environment, particularly of the forces that affect or impede the fulfilment of that purpose; and creativity in developing effective responses to those forces.

It follows, then, that strategic management is the application of strategic thinking to the job of leading an organization. Dr. Jagdish Sheth, a respected authority on marketing and strategic planning, provides the following framework for understanding strategic management: continually asking the question, "Are we doing the right thing?" It entails attention to the "big picture" and the willingness to adapt to changing circumstances, and consists of the following three elements:

- formulation of the organization's future mission in light of changing external factors such as regulation, competition, technology, and customers

- development of a competitive strategy to achieve the mission

- creation of an organizational structure, which will deploy resources to successfully carry out its competitive strategy.

Strategic management is adaptive and keeps an organization relevant. In these dynamic times it is more likely to succeed than the traditional approach of "if it ain't broke, don't fix it" (Internet 1).

2.9 WHAT STRATEGIC PLANNING IS NOT

Everything said above to describe what strategic planning is can also provide an understanding of what it is not. For example, it is about fundamental decisions and actions, but it does not attempt to make future decisions (Steiner, 1979). Strategic planning involves anticipating the future environment, but the decisions are made in the present. This means that over time, the organization must stay abreast of changes in order to make the best decisions it can at any given point - it must manage, as well as plan, strategically.

Strategic planning has also been described as a tool - but it is not a substitute for the exercise of judgment by leadership. Ultimately, the leaders of any enterprise need to sit back and ask, and answer, "What are the most important issues to respond to?" and "How shall we respond?" Just as the hammer does not create the bookshelf, so the data analysis and decision-making tools of strategic planning do not make the organization work - they can only support the intuition, reasoning skills, and judgment that people bring to their organization.

Finally, strategic planning, though described as disciplined, does not typically flow smoothly from one step to the next. It is a creative process, and the fresh insight arrived at today might very well alter the decision made yesterday. Inevitably the process moves forward and back several times before arriving at the final set of decisions. Therefore, no one should be surprised if the process feels less like a comfortable trip on a commuter train, but rather like a

ride on a roller coaster. But even roller coaster cars arrive at their destination, as long as they stay on track (Internet 1).

2.10 THE IMPORTANCE OF THE STRATEGIC PLANNING

Strategic planning is the process by which an organisation makes decisions and takes actions that affect its long-run performance. A strategic plan is the output of the strategic planning process and its provides direction by defining its strategic approach to business. Central to the concept of strategic planning is the notion of competitive advantage. The fundamental purpose of strategic planning is to move the organisation from where it is to where it wants to be and, in the process, to develop a sustainable competitive advantage in its industry. Through strategic planning, managers develop strategies for achieving a competitive advantage over the other organisations in their industry.

In today's rapidly changing business environment, successful organisations must continually out-innovate their competitors to sustain their competitive advantage. Products and services are only temporary solutions to customers' problems; eventually someone always comes up with a better solution. Organisations that continuously focus on finding the better solution will be the ones that maintain their competitive advantage. Doing so requires effective strategic planning throughout the ranks of the organisation.

2.11 BENEFITS OF STRATEGIC PLANNING

Strategic planning requires a great deal of managerial time, energy, and commitment. To justify the associated costs, strategic planning must also produce tangible benefits. Research suggests that the benefits of strategic planning are both economic and behavioural.

A number of studies have suggested that companies that plan strategically outperform those that do not. Companies focusing on a variety of financial measures such as return on equity, return on investment and earnings per share found that there are financial benefits associated with strategic planning.

The process of strategic planning can also produce behavioural benefits. Since effective planning requires the involvement of a broad base of

23

organisational members, the benefits associated with participatory management are associated with strategic planning. These include:

➢ An increased likelihood of identifying organisational and environmental conditions that may create problems in the long term.

➢ Better decisions as a result of the group decision-making process

➢ More successful implementation of the organisation's strategy because organisational members who participated in the planning process understand the plan and are more willing to change.

Given the potential benefits of strategic planning and the potential costs of the failure to plan, most organisations recognise that strategic planning is essential (Lewis, Goodman and Fandt. 2001).

2.12 STRATEGIC PLANNING AS A PROCESS

Figure 2.2 Process of Strategic Planning
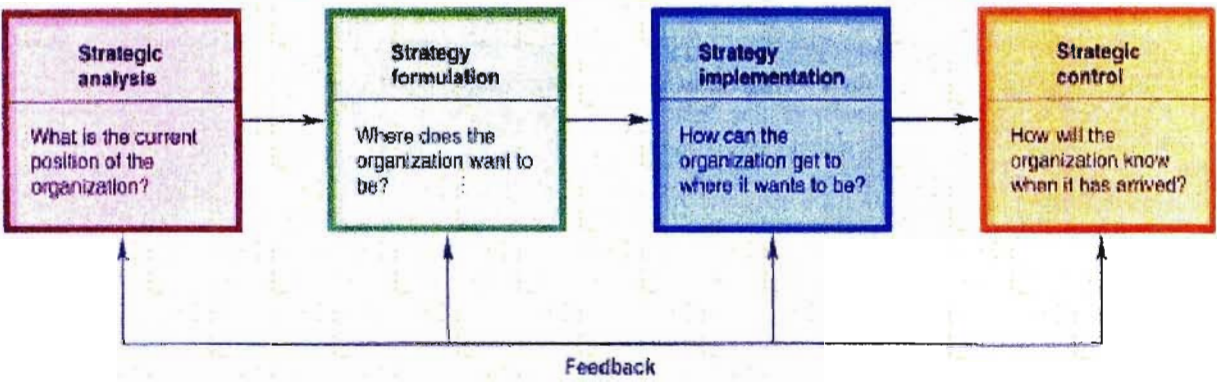
Source : Lewis, Goodman and Fandt. 2001

The above model illustrates a process – driven strategic planning model that is simple, straightforward, and applicable to a wide variety of organisational situations. While the level of sophistication and formality of the strategic planning process will differ among organisations, the process itself should be similar across all organisations.

The strategic planning process is carried out in four stages, each of which raises an important question that must be addressed when developing a strategic plan. The feedback lines in the model suggest that the strategic planning process is interactive and self- renewing, continually evolving as changes in the business environment create a need for revised strategic plans. The four stages of strategic planning are discussed below (Lewis, Goodman and Fandt .2001).

2.12.1 STRATEGIC ANALYSIS

The first stage is to assess the current condition of the organisation. Until you understand where the company is in its development, it is impossible to determine where it could and should be. Strategic analysis requires three primary activities:

a) Assessing the mission of the organization

b) Conducting an internal environmental analysis

c) Conducting an external environmental analysis

a) Assessing The Mission Of An Organisation

The mission of an organisation reflects its fundamental reasons for existence. An organisational mission is a statement of the overall purpose of the organisation that provides strategic direction to the members of an organisation and keeps them focused on common goals. A mission statement should be a living, breathing document that provides critical information for the members of the organisation. Although mission statements vary greatly among organisations, every mission statement should describe three primary aspects of the organisation:

1) Its primary products or services

2) Its primary target markets

3) Its overall strategy for ensuring long-term success

The information serves as a foundation upon which corporate and business strategy is built.

b) Conducting An Internal Environment Analysis

The purposes of an internal analysis are to identify assets, resources, skills, and processes that represent either strengths or weakness of the organisation. Strengths are the aspects of the organisations operations that represent potential competitive advantages or distinctive competencies while weaknesses are areas that are in need of improvement.

Several areas of the organisation's operations should be examined in an internal analysis. Key areas to be assessed include the company's products and services, as well as marketing expertise, operations, human resources and financial performance. These areas are typically evaluated in terms of the extent to which they support the competitive advantage sought by the organisation.

Human resources are one of the most important aspects of an organisation's internal environment. The human resources of the organisation, from top level management to frontline workers, are what determine the ability of the organisation to achieve a competitive advantage in its industry. Another important human resource issue relates to diversity. Capitalizing on workplace diversity presents a potential strategic advantage for many organisations. Diversity is not a problem to be solved but an opportunity to be embraced. To the extent that managers are prepared to capitalise on the breadth of thought and experience that is inherent in a diverse work force, they can formulate more creative strategies and plans and be more responsive to a diverse customer base.

Conducting an internal analysis of the organisation and assessing its relative strengths and weaknesses is a critical part of the strategic planning process. Managers will use this information to formulate strategies that capitalise on the organisation's strengths and remediate weaknesses.

c) Conducting An External Environment Analysis

The purpose of the external analysis is to identify those aspects of the environment that represent either an opportunity or a threat to the organisation. Opportunities are those environmental trends on which the organisation can capitalise and improve its competitive position. External

threats are conditions that jeopardise the organisation's ability to prosper in the long term.

The external environment is divided into two major components – The General and Task environment. The general environment includes environmental forces that are beyond the influence of the organisation and over which it has no control. Forces in the task environment are within the organisation's operating environment and may be influenced to some degree.

- **The General Environment**

An organisation's general environment includes political-legal factors, economic, sociocultural and technological (PEST). A strategic analysis must consider the global dimensions of all these factors as well as their domestic effects. There might be trends in each of these areas that might represent an opportunity and/or threat that would influence an organisation's strategic plan. The PEST analysis is discussed in more detail under tools of strategy.

- **Task Environment**

Task forces are within the organisation's operating arena and may be influenced to some degree by the organisation. Critical task environmental variables include the competition in the industry, the profiles of the targeted customer base, and the availability of resources.

➢ **Competition**

Success goes to organisations that have a clear understanding of the mission, strategies, and competitive advantages of their competitors hence the importance of competitive analysis in today's business environment.

In assessing the competition in a given industry, it is important to evaluate both individual competitors and the way they interact. When possible, and especially when the competitive field is relatively broad, each competitor should be evaluated using a common set of characteristics that can be compared across all competitors. For example, each competitor might be assessed in light of the service it offers its clients, marketing strategy, product mix and financial strength. Such information provides managers with a better understanding of how their organisation compares to its competitors, as well

as with a general sense of the roles that each plays within the industry. Competitive analysis has become increasingly complex as more and more industries have globalised. Some organisations simply overlook important international competitors because they are "hard to see".

Competitive analysis is an essential aspect of the strategic planning process, and managers must commit the time and energy necessary to gain a clear understanding of their competitors both domestically and globally.

➢ Customer Profiles

Customer profiles must also be assessed as part of the strategic analysis. At a time when the "customer is king" philosophy has been embraced by organisations across the globe and a quality orientation has become essential to the success of most organisations, it is imperative to have an in depth understanding of the characteristics, needs, and expectations of the organisation's customers. When an organisation's customers are consumers, their demographic and psychographics characteristics, as well as specific needs and expectations, are the most relevant dimensions for analysis. Demographic characteristics include age, gender, income level, and marital status. Psychographics characteristics relating to the consumer's lifestyle and personality may also be critical determinants of buying power. Understanding your customer is essential for success in fast-changing, highly competitive markets.

➢ Resource Availability

This is the final component of the organisation's task environment. The term resource can be applied to a broad range of inputs and may refer to raw materials, personnel or labour, and capital. To the extent that high-quality, low-cost resources are available to the organisation, opportunities exist to create marketable products or services. When any resource is constrained, the organisation faces a threat to its operations. Thus, strategic plans will be affected by the availability of the resources needed, both domestically and globally, to produce goods and services.

2.12.2 STRATEGIC FORMULATION: Achieving A Competitive Advantage

Strategic formulation addresses the question " Where does the organisation want to be?"

Answering this question requires:

a) Casting the vision for the organization

b) Setting strategic goals

c) Identifying strategic alternatives

d) Evaluating and choosing the strategy that provides a competitive advantage and optimises the performance of the organisation in the long term.

a) Casting The Vision For The Organisation

In developing a purpose of the organisation, there is a need to develop a vision of the future of the organisation, as it is central to any strategic plan. Vision can be defined as 'a mental image of a possible and desirable future state of the organisation. There are five reasons to develop a strategic vision:

- ➢ Most organisations will compete for business and resources that go well beyond the immediate future and purpose needs to explore this vision. Even not-for-profit organisations or those in the public sector usually need to compete for charitable or government funds and often desire to increase the range of services that they offer; such organisations will also benefit from a picture of where they expect to be in the future.

- ➢ The organisation's mission and objectives may be stimulated in a positive way by the strategic options that are available from a new vision

- ➢ There may be major strategic opportunities from exploring new development areas that go beyond the existing market boundaries and organisation resources.

- ➢ Simple market and resource projections for the next few years will miss the opportunities opened up by a whole new range of possibilities, such as new information technologies, biogenetics, environmental issues, new material and lifestyle changes. Virtually every organisation will feel the impact of these significant developments. Extrapolating the current picture is unlikely to be sufficient.

> Vision provides a desirable challenge for both senior and junior managers. Vision is therefore a backdrop for the development of the purpose and strategy of the organisation (Lynch. 2000).

b) Setting Strategic Goals

The purpose of setting goals is to convert managerial statements of strategic vision and business mission into specific performance target – results and outcomes the organisation wants to achieve. Setting goals and then measuring whether they are achieved or not help managers track an organisation's progress. Managers of the best performing companies tend to set objectives that require stretch and disciplined effort. The challenge of trying to achieve bold, aggressive performance targets pushes an organisation to be more inventive, to exhibit some urgency in improving both it financial performance and its business position, and to be more intentional and focused in its actions.

Because the goals establishes during the planning stage serve as a benchmark by which the organisation eventually will evaluate its performance, it is important that they be specific, measurable, time linked and realistic.

Setting goals that require real organisational stretch helps build a firewall against complacent coasting and low-grade improvements in an organisational performance.

c) Identifying Strategic Alternatives

These alternatives should be developed in light of the organisation's mission; its strength, weaknesses, opportunities, and threats; and its vision and strategic goals. Strategic alternatives should focus on optimising organisational performance in the long term. There are three ways to define strategic alternatives – Grand strategy, Generic strategy and International strategy.

- **Grand Strategy**

A grand strategy is a comprehensive, general approach for achieving the strategic goals of an organisation. It can be applied on both corporate and business levels and fall in three categories: stability, growth and retrenchment strategies.

➤ Stability strategies

These types of strategies are intended to ensure continuity in the operations and performance of the organisation. At the corporate level, stability implies that the organisation will remain in the same line(s) of business as it has in the past. No new businesses are added; no businesses are eliminated. The organisation maintains a stable and unchanged corporate portfolio. At the business level, stability strategies require very little, if any, change in the organization's product, service, or market focus. Organisations that pursue this strategy continue to offer the same products and services to the same target market as in the past. They, however, attempt to capture a larger share of their existing market through market penetration or improve bottom-line profits through greater operational efficiency.

➤ Growth Strategies

These strategies are designed to increase the sales and profits of the organisation. In the long term and to position the organisation as a market leader within its industry. At corporate level, growth strategies imply the addition of one or more new businesses to the corporate portfolio. This may be accomplished by adding a business that has a synergistic potential with an existing business unit or adding a business that is unrelated to the firm's existing business. The primary intent of a corporate growth strategy is to create a competitive advantage
through the combination of multiple businesses. At the business level, growth strategies involve the development of new products for new or existing markets or the entry into new markets with existing products.

➤ Retrenchment strategies

The purpose of retrenchment strategy is to reverse negative sales and profitability trends. At the corporate level, retrenchment often requires the elimination of one or more business units either through divestment or through liquidation. The cash generated from the elimination of a business unit is used to acquire other business units, build more promising units, or reduce corporate debt. At the business level, retrenchment strategy focuses on

streamlining the operations of the organisation by reducing costs and assets. Such reductions may require plant closings, the sale of plants and equipment, spending cuts, or a reduction in the work force of the organisation. Furthermore, new systems, processes, and procedures must be designed to support the new, leaner organisation. If the retrenchment strategy is successful, stability or growth strategies may be considered in the long term.

FIGURE 2.3

MODEL OF GRAND STRATEGIES CLUSTERS

Rapid market growth

1. Concentrated growth
2. Vertical integration
3. Concentric diversification

1. Reformulation of concentrated growth
2. Horizontal integration
3. Divesture
4. Liquidation

Strong competitive position

I | II
IV | II

Weak competitive position

1. Concentric diversification
2. Conglomerate diversification
3. Joint ventures

1. Turnaround or retrenchment
2. Concentric diversification
3. Conglomerate diversification
4. Divestiture
5. Liquidation

Slow market growth

Source: Pearce & Robinson. 2000

The above figure is based on the idea that the situation of a business is defined in terms of growth rate of the general market and the firm's competitive position in that market. When these factors are considered simultaneously, a business can be broadly categorized in one of four quadrants:

i.   Strong competitive position in a rapidly growing market,

ii.   Weak position in a rapidly growing market,

iii.   Weak position in a slow-growth market, or

iv.   Strong position in a slow growth market.

Each of these quadrants suggests a set of promising possibilities for the selection of a grand strategy.

Firms in quadrant I are in for an excellent strategic position. One obvious grand strategy for such firms is continued concentration on their current business as it is currently defined. Because customers seem satisfied with the firm's current strategy, shifting notably from it would endanger the firm's established competitive advantages. However, if the firm has resources that exceed the demands of a concentrated growth strategy, it should consider vertical integration. Either forward or backward integration helps a firm protect its profit margins and market share by ensuring better access to consumers or material inputs. Finally, to diminish the risks associated with a narrow product or service line, a quadrant I firm might be wise to consider concentric diversification; with this strategy, the firm continues to invest heavily in its basic area of proven ability.

Firms in quadrant II must seriously evaluate their present approach to the marketplace. If a firm has competed long enough to accurately assess the merits of its current grand strategy, it must determine

1) Why that strategy is ineffectual and
2) Whether it is capable of competing effectively.

Depending on the answers to these questions, the firm should choose one of four grand strategy options: formulation or reformulation of a concentrated growth strategy, horizontal integration, divesture, or liquidation.

In a rapidly growing market, even a small or relatively weak business is often able to find a profitable niche. Thus, formulation or reformulation of a concentrated growth strategy is usually the first option that should be considered. However, if the firm lacks either a critical competitive element or sufficient economies of scale to achieve competitive cost efficiencies, then a grand strategy that directs its efforts towards horizontal integration is often a desirable alternative. A final pair of options involves deciding to stop competing in the market or product area of the business. A multiproduct firm may conclude that it is most likely to achieve the goals of its mission if the business is dropped through divesture. This grand strategy not only

eliminates a drain on resources but may also provide funds to promote other business activities. As an option of last resort, a firm may decide to liquidate the business. This means that the business cannot be sold as a going concern and is at best worth only the value of its tangible assets. The decision to liquidate is an undeniable admission of failure by a firm's strategic management and is thus often delayed – to the further detriment of the firm. Strategic managers tend to resist divesture because it is likely to jeopardize their control of the firm and perhaps even their jobs. Thus, by the time the desirability of divesture is acknowledged, businesses often deteriorate to the point of failing to attract potential buyers. The consequence of such delays are financially disastrous for firm owners because the value of a going concern is many times greater than the value of its assets.

Strategic managers who have a business in quadrant III and expect a continuation of slow market growth and a relatively weak competitive position will usually attempt to decrease their resource commitment to that business. Minimal withdrawal is accomplished through retrenchment; this strategy has the side benefits of making resources available for other investments and of motivating employees to increase their operating efficiency. An alternative approach is to divert resources for expansion through investment in other businesses. This approach typically involves either concentric or conglomerate diversification because the firms usually want to enter more promising arenas of competition than forms of integration or development would allow. The final options for quadrant III businesses are divestiture, if an optimistic buyer can be found, and liquidation.

Quadrant IV businesses (strong competitive position in a slow-growth market) have a basis of strength from which to diversify into more growth areas. These businesses have characteristically high cash flow levels and limited internal growth needs. Thus, they are in an excellent position for concentric diversification into ventures that utilize their proven acumen. A second option is conglomerate diversification, which spreads investment risk and does not divert managerial attention from the present business. The final option is joint ventures, which are especially attractive to multinational firms. Through joint

ventures, a domestic business can gain competitive advantages in promising new fields while exposing itself to limited risks (Pearce & Robinson. 2000).

- **Generic Strategy**

Michael Porter (1985) argued that there were three basic generic competitive strategies:

   a) Cost leadership
   b) Differentiation
   c) Focus

Generic Strategies Matrix

Figure 2.4

		Competitive Advantage	
		Low Cost	Differentiation
Competitive Scope	Broad	Low Cost Leader	Differentiation
	Narrow	Low cost focus	Differentiation focus

Source: Adapted from M E Porter, Competitive Advantage, Free Press, 1985

Porter defines the generic strategies along two primary dimensions – the competitive advantage provided by the strategy and the competitive scope of the strategy. Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits (differentiation) that more than offset a higher price (Porter 1985).

Competitive scope refers to the breadth of the market targeted by the organisation. Some organisations target their products and services to very broad markets, while others identify a relatively narrow segment of the market.

The figure defines the choices of "generic strategy" a firm can follow. A firm's relative position within an industry is given by its choice of competitive advantage (cost leadership vs. differentiation) and its choice of competitive scope. Competitive scope distinguishes between firms targeting broad

industry segments and firms focusing on a narrow segment. Generic strategies are useful because they characterize strategic positions at the simplest and broadest level. Porter maintains that achieving competitive advantage requires a firm to make a choice about the type and scope of its competitive advantage.

Treacy and Wiersema (1995) offer another popular generic framework for gaining competitive advantage. In their framework, a firm typically will choose to emphasize one of three "value disciplines": product leadership, operational excellence, and customer intimacy.

a) Cost Leadership

Organisations that pursue this strategy compete on the basis of price. The organisation must be highly efficient so that it can achieve a low cost position in the industry. This can be achieved through by maximising capacity utilization, achieving economies of scale, capitalising on technology, or employing a more experienced work force. The organisation with the lowest cost has a clear and possible sustainable advantage. Low cost producers typically sell a standard, no frills product and place considerable strategic emphasis on reaping scale or absolute cost advantage from all sources.

b) Differentiation

Differentiation occurs by offering products or services that are different from those of their competitors in some way. Organisations charge a higher price based on the differentiated product or service feature. Distinctive characteristics may include exceptional customer service, quality, dependability, availability, innovation or image. In order to differentiate a product, Porter argues that it is necessary for the producers to incur extra cost. The differentiated product costs will therefore be higher than competitors. The producer of the differentiated product then derives an advantage from its pricing; with it uniquely differentiated product it is able to charge a premium price (Lynch. 2000).

c) Focus

This is the final generic strategy identified by Porter. A focus strategy occurs when the company focuses on a specific niche in the market place and develops its competitive advantage by offering products especially developed for that niche. Hence the strategy selects a segment or group of segments in the industry and tailors its strategy to serve them to the exclusion of others. By optimising its strategy for the targets, the focuser seeks to achieve a competitive advantage overall. It may undertake this process either by using a cost leadership approach or by differentiation (Lynch. 2000).

• International Strategy

Organizations choose to engage in international business activity for a variety of reasons. Many are trying to improve production efficiency by taking advantage of lower labour costs or better access to raw material. Others may be seeking new market opportunities. Regardless of the motive, an organization that pursues an international strategy must make decisions about both its mode of entry into international markets and the focus of its strategy.

➢ Mode of entry

An organization can enter an international market in several different ways. Each mode of entry offers certain advantages and disadvantages and requires a level of commitment. Commitment may be thought of as a loss of flexibility to withdraw from a market. In other words, once a strategic decision has been made to enter a particular international market, the entry mode selected will determine how easily the organization can rescind its decision and cease operations in that market.

Entry modes range from informal agreements with export management companies, to contractual obligations with overseas licensees, contractors, or franchisers, to actual investment in foreign assets via strategic alliances or wholly owned subsidiaries. The more attractive the identified market and the more experienced the organization has with international business activates, the more willing management may be to make strong commitment to that market.

➢ Focus of strategy

An organization pursues a multidomestic strategy when it operates in multiple international markets and follows an independent strategy in each market. Essentially, the organization views each nation in which it operates as a distinct host country market.

With global strategy, the organization pursues an integrated strategy in multiple national markets. National boundaries no longer define the firm's competitive spheres; competitive boundaries are represented simply by the world marketplace. Where possible, efficiency and standardization serve as the driving force for strategy. Product differences are minimized. The transfer of resources, technology, and managerial skills is critical to the implementation of the strategy.

2.12.3 STRATEGIC IMPLEMENTATION: Focusing On Results

The importance of strategy implementation should never be underestimated, for the best-formulated strategy is virtually worthless if it cannot be implemented effectively. If an organization is to achieve the best results from its strategic planning efforts, it must ensure that its strategy is put into action. Strategy implementation addresses the question " How can the organization get to where it wants to be?" Answering the question requires two primary activities. First, functional strategy must be developed. Second, various aspects of the organization system must be designed to ensure that the selected strategy can be institutionalised.

• Formulating Functional Strategy

Functional strategy provides an action plan for strategy implementation at the level of the work group and individual. It puts corporate and business strategy into operation by defining the activities needed for implementation. Depending on the specific strategy to be implemented, functional strategy may need to be formulated by a variety of work groups within the organization e.g. the research and development department, the marketing department, the production department etc. The most significant challenge lies in coordinating the activities of the various work groups that must work together to implement

the strategy. The strategies must be consistent both within each functional area of the business and between functional areas.

- **Institutionalising Strategy**

Institutionalising a strategy means that every member, work group, department, and division of the organization subscribes to and supports the organisation's strategy with its plans and actions. Theory suggests that a fit must exist between the strategy of the organization and its structure, culture, and leadership if the strategy is to be institutionalised.

Organizational structure defines the primary reporting relationships that exist within an organization. The structure of the organization establishes its chain of command and its hierarchy of responsibility, authority, and accountability. Departmentalisation of organizational activities is the focus of the structuring process. Organizing work responsibilities into departments requires grouping individuals on the basis of the tasks they perform. Alfred Chandler, one of the earliest researchers in the area of strategy, originally advanced the idea that "structure follows strategy." In essence, Chandler's findings indicate that an organisation's strategy should influence its choice of organizational structure. When an organization fails to change its structure in response to changes in its strategy, it will most likely experience operational problems that will eventually result in declining performance. Since Chandler's classic research, a significant body of research has developed that suggests that organizations should develop structures that are appropriate for and supportive of their strategies. In fact several studies have successfully linked a strategy-structure fit to superior financial performance.

Organisational culture refers to the shared, emotionally charged beliefs, values, and norms that bind people together and help them make sense of the systems within an organization. It guides the behaviour of and gives meaning to the members of the organization. In an organisation with an effective culture, employees are convinced that top-level management is committed to the implementation of its strategy. Employees believe that they will receive the support necessary to implement the organisation's plan. Developing a strong pervasive organizational culture has become more challenging as the work force has become more culturally diverse. People with different backgrounds,

from different nations, or with different cultural frames of reference often have very diverse views about organizations and how they should function. Reaching agreement can be more difficult in such groups – both in establishing goals and in determining methods for achieving these goals. Managers must be prepared to work harder and more creatively to ensure that a strong organizational culture exists within culturally diverse organizations.

Leadership is the third organisational component that should be in alignment with the strategy of the organization. If an organization is to implement its strategy effectively, it must have the appropriate leadership. Without effective leadership, it is unlikely that the organization will realize the benefits of its selected strategy. This is particularly true when a quality orientation is a key aspect of its strategy.

At the top of the organization must be a visionary leader. Visionary leaders can envision the future, communicate their vision to those around them, empower the people of the organization to make the vision happen, and reward them when it becomes a reality. Equally important to strategy implementation is effective leadership in the ranks of managers. In today's organization, they may be team leaders, coaches or champions rather than traditional middle-level managers, but the idea is the same. These individuals must do whatever is necessary to ensure that their work groups are making a contribution toward fulfilling the mission of the organization, achieving its goals, and implementing its strategy.

It is essential for an organization to develop the systems necessary to support its strategy. When a strategy is being implemented, it is important to monitor both the success of the implementation process and the effectiveness of the strategy. Strategic control provides the mechanism for doing that (Lewis, Goodman and Fandt. 2001).

2.12.4 STRATEGIC CONTROL: Ensuring Quality And Effectiveness

Strategic control involves monitoring the implementation of the strategic plan and ensuring quality and effectiveness in terms of organisational performance. An effective control system identifies problems and signals the organization that a change may be needed. Acquiring information is more

difficult when the scope of the organisation's operations is broad, and processing and interpreting information from such diverse sources can be challenging. Organizations that pursue international strategies must often maintain very sophisticated control systems. Control mechanisms can be either feed forward or feedback controls.

Feed forward controls are designed to identify changes in the external environment or the internal operations of the organisation that may affect its ability to fulfil its mission and meet its strategic goals.

Feedback controls compare the actual performance of the organization to its planned performance. These controls usually target the goals established in the organisation's strategic and operational plans.

Organizations should maintain both feed forward and feedback controls. Relying on one type of control could be a mistake, because these controls focus on different issues that could affect the organizations plans (Lewis, Goodman and Fandt .2001).

2.13 STRATEGIC TOOLS

Under this section, the strategic tools that a company can use in order to ascertain it external and internal environment, as an advantage or disadvantage, would be discussed.

2.13.1 Swot Analysis

SWOT is an abbreviation for **Strengths, Weaknesses, Opportunities and Threats.** SWOT analysis is an important tool for auditing the overall strategic position of a business and its environment. Once key strategic issues have been identified, they feed into business objectives, particularly marketing objectives.

Strengths and weaknesses are Internal factors. For example, strength could be your specialist marketing expertise. A weakness could be the lack of a new product.

Opportunities and threats are external factors. For example, an opportunity could be a developing distribution channel such as the Internet, or changing consumer lifestyles that potentially increase demand for a company's products. A threat could be a new competitor in an important

existing market or a technological change that makes existing products potentially obsolete.

It is worth pointing out that SWOT analysis can be very subjective - two people rarely come-up with the same version of a SWOT analysis even when given the same information about the same business and its environment. Accordingly, SWOT analysis is best used as a guide and not a prescription. Adding and weighting criteria to each factor increases the validity of the analysis.

Areas to Consider

Some of the key areas to consider when identifying and evaluating Strengths, Weaknesses, Opportunities and Threats are listed in the example SWOT analysis below:

Swot Analysis Table

Table 2.1

	Positive	Negative
Internal factors	**Strengths** ➤Technological skills ➤Leading Brands ➤Distribution channels ➤Customer Loyalty / Relationship ➤Production quality ➤Scale ➤Management	**Weaknesses** ➤Absence of important skills ➤Weak brands ➤Poor access to distribution ➤Low customer retention ➤Unreliable product / service ➤Sub-scale ➤Management
External factors	**Opportunities** ➤Changing customer tastes ➤Liberalisation of geographic markets ➤Technological advances ➤Changes in government politics ➤Lower personal taxes ➤Change in population age-structure ➤New distribution channels	**Threats** ➤Changing customer tastes ➤Closing of geographic markets ➤Technological advances ➤Changes in government politics ➤Tax increases ➤Change in population age-structure ➤New distribution channels

Internet 2

Another way SWOT can be used to aid strategic analysis is illustrated below.

Figure 2.5

Swot Analysis Diagram

Numerous environmental opportunities

Cell 3: Supports a turnaround-oriented strategy

Cell 1: Supports an aggressive strategy

Critical internal weaknesses

Substantial internal strengths

Cell 4: Supports a defensive strategy

Cell 2: Supports a diversification strategy

Major environmental threats

Source: Pearce & Robinson.1991
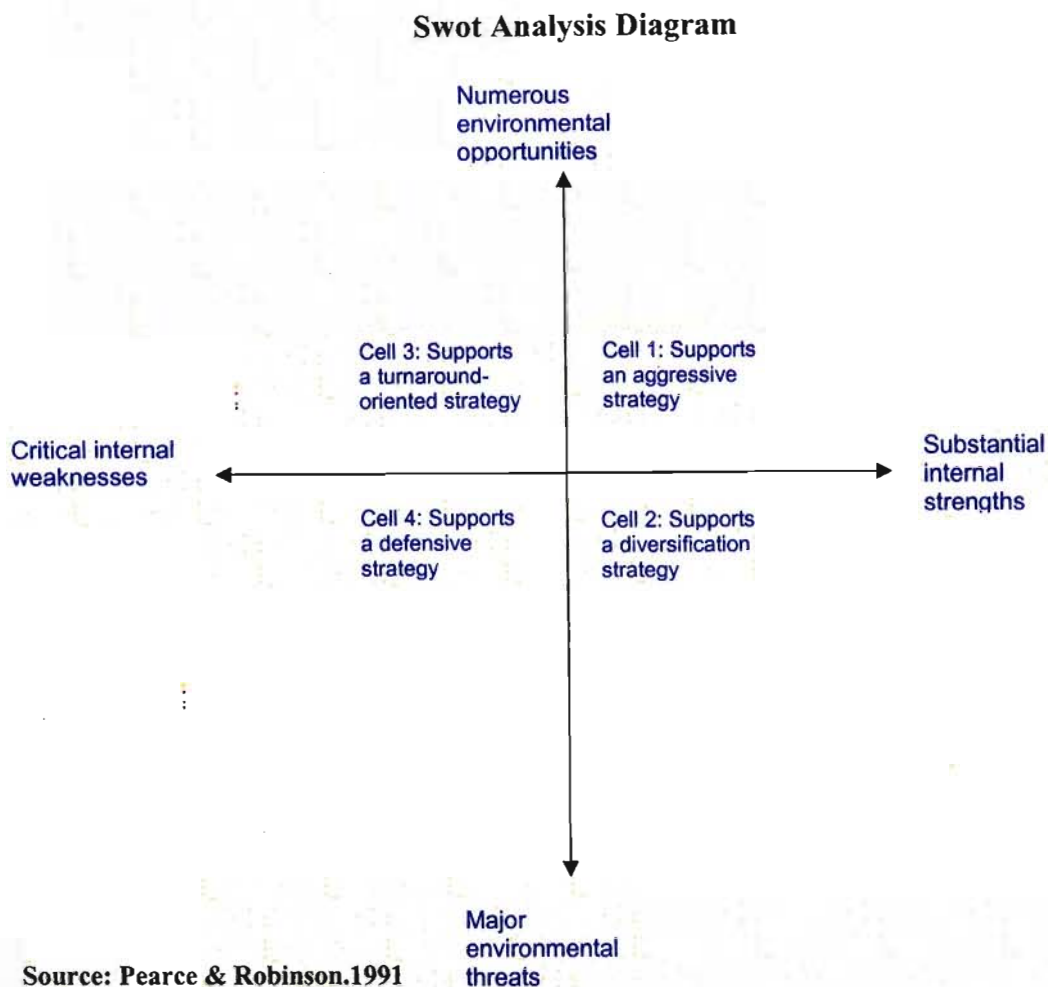
In the above diagram external opportunities and threats are systematically compared with internal strengths and weaknesses in a structured approach. The objective is identification of one of four distinct patterns in the match between a firm's internal and external situation.

Cell 1 is the most favourable situation; the firm faces several environmental opportunities and has numerous strengths that encourage pursuit of those opportunities. This situation suggests growth-orientated strategies to exploit the favourable match.

Cell 4 is the least favourable situation, with the firm facing major environmental threats from a position of relative weakness. This situation clearly calls for strategies that reduce or redirect involvement in the products markets examined by means of SWOT analysis.

In cell 2, a firm with key strengths faces an unfavourable environment. In this situation, strategies would use current strengths to build long-term opportunities in other products-markets.

A firm in cell 3 faces impressive market opportunity but is constrained by internal weaknesses. The focus of the strategy for such a firm is eliminating the internal weaknesses so as to more effectively pursue the market opportunity.

The careful matching of a firm's opportunities and threats with its strengths and weakness is the essence of sound strategy formulation(Pearce & Robinson 2000).

2.13.2 The Value Chain

Figure 2.6

Porters Generic Value Chain And The Five Forces On Competition
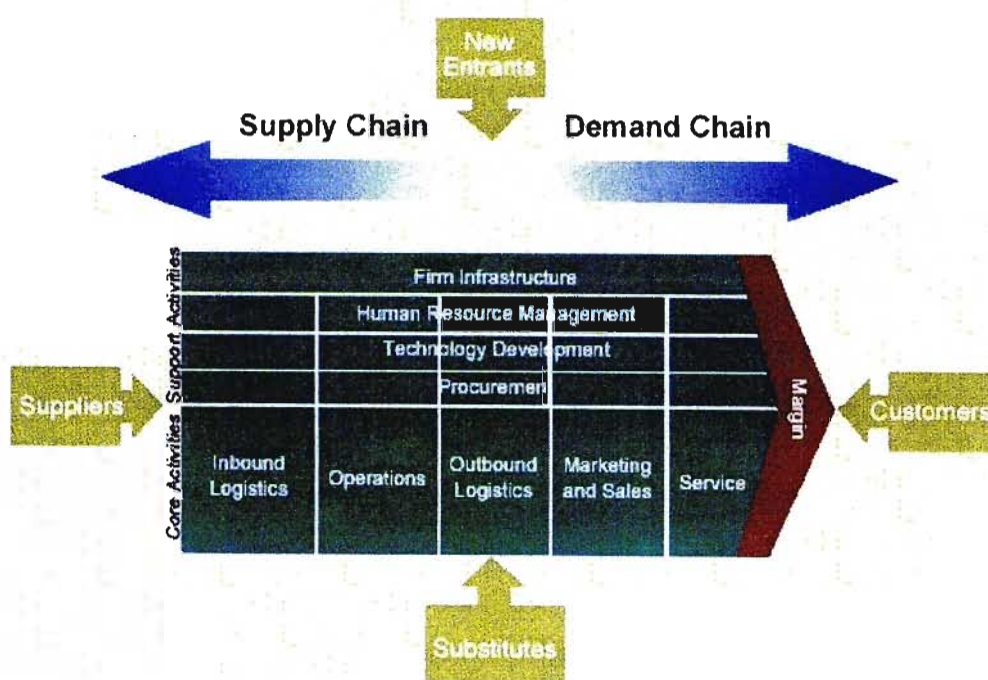
Source: Epoch Partners And Competitive Advantage, Porters

The value chain links the value of the activities of an organisation with its main functional parts. It then attempts to make an assessment of the contribution that each part makes to the overall added value of the business. Professor

Michael Porter suggested that it could be applied to strategic analysis and linked the two areas together:

1) the added value that each part of the organisation contributes to the whole organisation; and

2) the contribution to the competitive advantage of the whole organisation that each of these parts might then make.

The company is then split into primary activities and support activities that give the necessary background to the running of the company but cannot de identified with any individual part. The analysis then examines how each part might be considered to contribute towards the generation of value in the company and how it differs from competitors.

- **Linking Value Chain Analysis to Competitive Advantage**

What activities a business undertakes is directly linked to achieving competitive advantage. For example, a business which wishes to outperform its competitors through **differentiating** itself through higher quality will have to perform its value chain activities better than the opposition. By contrast, a strategy based on seeking **cost leadership** will require a reduction in the costs associated with the value chain activities, or a reduction in the total amount of resources used.

Primary value chain activities include:

Primary Activity	Description
Inbound logistics	All those activities concerned with receiving and storing externally sourced materials
Operations	The manufacture of products and services - the way in which resource **inputs** (e.g. materials) are converted to **outputs** (e.g. products)
Outbound logistics	All those activities associated with getting finished goods and services to buyers
Marketing and sales	Essentially an information activity - informing buyers and consumers about products and services (benefits, use, price etc.)
Service	All those activities associated with maintaining product performance after the product has been sold

Support activities include:

Secondary Activity	Description
Procurement	This concerns how resources are acquired for a business (e.g. sourcing and negotiating with materials suppliers)
Human Resource Management	Those activities concerned with recruiting, developing, motivating and rewarding the workforce of a business
Technology Development	Activities concerned with managing information processing and the development and protection of "knowledge" in a business
Infrastructure	Concerned with a wide range of support systems and functions such as finance, planning, quality control and general senior management

- **Steps in Value Chain Analysis**

Value chain analysis can be broken down into a three sequential steps:

➢ Break down a market/organisation into its key activities under each of the major headings in the model;

➢ Assess the potential for adding value via cost advantage or differentiation, or identify current activities where a business appears to be at a competitive disadvantage;

➢ Determine strategies built around focusing on activities where competitive advantage can be sustained (Internet 3).

2.13.3 Pest Analysis

A PEST analysis is an analysis of the external macro-environment that affects all firms. P.E.S.T. is an acronym for the Political, Economic, Social, and Technological factors of the external macro-environment. Such external factors usually are beyond the firm's control and sometimes present themselves as threats. For this reason, some say that "pest" is an appropriate term for these factors. However, changes in the external environment also create new opportunities and the letters sometimes are rearranged to construct the more optimistic term of STEP analysis.

Many macro-environmental factors are country-specific and a PEST analysis will need to be performed for all countries of interest. The following are examples of some of the factors that might be considered in a PEST analysis.

Political Analysis

- Political stability
- Risk of military invasion
- Legal framework for contract enforcement
- Intellectual property protection
- Trade regulations & tariffs
- Favoured trading partners
- Anti-trust laws
- Pricing regulations
- Taxation - tax rates and incentives
- Wage legislation - minimum wage and overtime
- Work week
- Mandatory employee benefits
- Industrial safety regulations
- Product labelling requirements

Economic Analysis

- Type of economic system in countries of operation
- Government intervention in the free market
- Comparative advantages of host country
- Exchange rates & stability of host country currency
- Efficiency of financial markets
- Infrastructure quality
- Skill level of workforce
- Labour costs
- Business cycle stage (e.g. prosperity, recession, recovery)
- Economic growth rate
- Discretionary income
- Unemployment rate
- Inflation rate
- Interest rates

Social Analysis

- Demographics
- Class structure
- Education
- Culture (gender roles, etc.)
- Entrepreneurial spirit
- Attitudes (health, environmental consciousness, etc.)
- Leisure interests

Socio- cultural Analysis

- Recent technological developments
- Technology's impact on product offering
- Impact on cost structure
- Impact on value chain structure
- Rate of technological diffusion

The number of macro-environmental factors is virtually unlimited. In practice, the firm must prioritise and monitor those factors that influence its industry. Even so, it may be difficult to forecast future trends with an acceptable level of accuracy. In this regard, the firm may turn to scenario planning techniques to deal with high levels of uncertainty in important macro-environmental variables (Internet 4).

2.13.4 Porters Five Forces

An industry is a group of firms that market products, which are close substitutes for each other (e.g. the car industry, the travel industry). Some industries are more profitable than others. Why? The answer lies in understanding the dynamics of competitive structure in an industry. The most influential analytical model for assessing the nature of competition in an industry is Michael Porter's Five Forces Model, which is described below:

Figure 2.7

<div align="center">

PORTERS FIVE FORCES

</div>
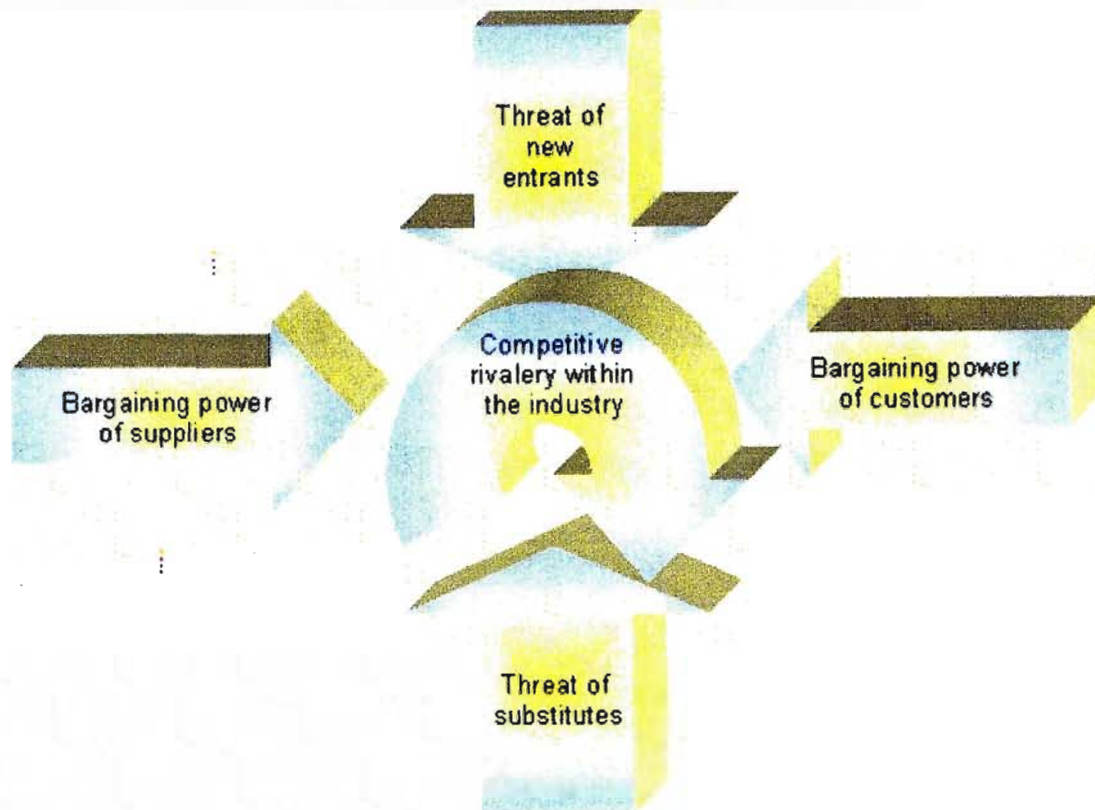
Porter explains that there are five forces that determine industry attractiveness and long-run industry profitability. These five "competitive forces" are

➤ The threat of entry of new competitors (new entrants)

➤ The threat of substitutes

➤ The bargaining power of buyers

➤ The bargaining power of suppliers

➤ The degree of rivalry between existing competitors

- **Threat of New Entrants**

New entrants to an industry can raise the level of competition, thereby reducing its attractiveness. The threat of new entrants largely depends on the

barriers to entry. High entry barriers exist in some industries (e.g. shipbuilding) whereas other industries are very easy to enter (e.g. estate agency, restaurants). Key barriers to entry include:

- ➢ Economies of scale
- ➢ Capital / investment requirements
- ➢ Customer switching costs
- ➢ Access to industry distribution channels
- ➢ The likelihood of retaliation from existing industry players.

- **Threat of Substitutes**

The presence of substitute products can lower industry attractiveness and profitability because they limit price levels. The threat of substitute products depends on:

- ➢ Buyers' willingness to substitute
- ➢ The relative price and performance of substitutes
- ➢ The costs of switching to substitutes

- **Bargaining Power of Suppliers** (Suppliers are the businesses that supply materials & other products into the industry)

The cost of items bought from suppliers (e.g. raw materials, components) can have a significant impact on a company's profitability. If suppliers have high bargaining power over a company, then in theory the company's industry is less attractive. The bargaining power of suppliers will be high when:

- ➢ There are many buyers and few dominant suppliers
- ➢ There are undifferentiated, highly valued products
- ➢ Suppliers threaten to integrate forward into the industry (e.g. brand manufacturers threatening to set up their own retail outlets)
- ➢ Buyers do not threaten to integrate backwards into supply
- ➢ The industry is not a key customer group to the suppliers

- **Bargaining Power of Buyers**

Buyers are the people / organisations who create demand in an industry.

The bargaining power of buyers is greater when:

➢ There are few dominant buyers and many sellers in the industry

➢ Products are standardised

➢ Buyers threaten to integrate backward into the industry

➢ Suppliers do not threaten to integrate forward into the buyer's industry

➢ The industry is not a key supplying group for buyers

- **Intensity of Rivalry**

The intensity of rivalry between competitors in an industry will depend on:

➢ The structure of competition - for example, rivalry is more intense where there are many small or equally sized competitors; rivalry is less when an industry has a clear market leader

➢ The structure of industry costs - for example, industries with **high fixed costs** encourage competitors to fill unused capacity by price cutting

➢ Degree of differentiation - industries where products are commodities (e.g. steel, coal) have greater rivalry; industries where competitors can differentiate their products have less rivalry

➢ Switching costs - rivalry is reduced where buyers have high switching costs - i.e. there is a significant cost associated with the decision to buy a product from an alternative supplier

Strategic objectives - when competitors are pursuing aggressive growth strategies, rivalry is more intense. Where competitors are "milking" profits in a mature industry, the degree of rivalry is less - Exit barriers - when barriers to leaving an industry are high (e.g. the cost of closing down factories) - then competitors tend to exhibit greater rivalry(Internet 6).

2.15 THE FOUR ZONES OF SERVICE QUALITY

According to Wexler, Adams and Bohn (1993), the system of dividing service quality into four zones provides a useful tool, to reveal your company's service practices and attitudes and show you what quality service looks like. The four

zones of customer service include the rigid zone, the safe zone, the progressive zone and the indulgent zone.

These zones fall on the continuum between 100% operations - focused and 100% market - focused. However, few companies provide one level of service. Within most organisations, departments or individuals work differently than the company as a whole. The perceptions that customers form when they do business with you are crucial. Your company must strive to make those perceptions consistently positive.

2.15.1 The Rigid Zone Of Service Quality

The rigid zone could also be called" inferior customer service". As the poorest level of service, it is 99% operations – focused. The attitudes of companies in the rigid zone seem to be" Here's what we are selling, take it or leave it". " This sure would be a great place to work if it weren't for the customers".

A company in the rigid zone sees service as something the customer isn't necessarily entitled to, but something the company will provide if a must. Customers' expectations are irrelevant and never enter the company's decision- making process. Rigid service fails everyone – the company and the customer – by falling short of customer expectations and damaging the company's reputation.

Rigid service is often provided by employees who have not received enough training, are unhappy with their jobs, or feel resentful toward management. When employees are angry with their managers, they get even – often by taking it out on customers.

This substandard form of service is one – sided; it serves the short-term needs of the company or individual employee at the expense of the customer. Long- term it serves no one. Service is provided begrudgingly by employees who sometimes show an open disdain for customers.

Rigid zone service is not always company wide. There can be individual employees or even entire departments serving customers differently from the

rest of the company. The same can be said of all the zones of service. They may be the exception rather than the rule. That's why a company must pay attention to its service quality and strive for consistency.

Rigid service creates nothing but bad will. The usual reaction is outrage and a determination never to do business with the company again.

- **Values in the Rigid zone**

Even though all companies have ethical values, rigid zone companies are more likely to violate theirs. Rigid zone companies are least likely to formulate or articulate a set of core values. Whether they are articulated or not, values are communicated daily though interaction between employees, managers and customers.

The zone is such a self- cantered, short- term way of thinking that unethical behaviour can be just a short step away. Rigid zone companies, by definition, adhere to their strategic and operational values at all times. The attitude is "Lets make doing business easy for us. If a customer does not like it, too bad. There are more where they came from." Customers are regarded as commodities.

- **Treatment of people**

Rigid zone thinking is best summed up in the attitude; " I don't give a damn." Rigid companies don't care about their customers or employees. Employees are regarded as expendable tools and customers as commodities. In every company, employees imitate the behaviours they observe. When the internal attitude is adversarial rather than cooperative, employees treat their customers the same way. The cause for this maybe the mirror effect ("This is the way we treat people around us") or it could be an angry reaction ("If they're going to treat me poorly, I'll take it out on their customers.")

- **Management Style**

Rigid companies are perfect examples of short -term thinking that focuses only on profits. Their owners, managers, CEOs lack the understanding of the

realities of the marketplace and rarely have a vision of corporate growth, longevity, or positioning.

Management is as rigid with employees, as employees are with customers. Employees are rewarded for conforming to policies and procedures, not taking risks in the ongoing process of acquiring and maintaining customers. There is little freedom and authority to employees. Decisions of any significance must be approved by higher – ups, slowing the process and making any delivery of quality service more unlikely or untimely. To further exacerbate the problem, managers are isolated and out of touch with front-line people.

- **Marketing/Sales Focus**

Just as all current customers are treated the same, all prospective customers are treated identically. This does not mean that they're treated poorly; it simply means they are treated well if they want exactly what the company is selling at the exact price it's being offered. No flexibility, customisation, or extra service is ever offered. No value is added to the sale. If price is a customer's sole buying criterion, he may not be alienated by a company in the rigid zone. The sales and marketing attitude of a rigid zone company is "We're the only game in town. We've got the product ….now let the world beat a path to our door."

This is a technical orientation, one that can only lead to trouble. Technological advantages are usually short lived. If you have an advantage and treat customers poorly, they'll abandon you as soon as a competitor comes on the scene.

- **Differentiation**

The only way a rigid zone company can differentiate itself is by virtue of a product or service that's high in demand and low in supply. Company policies and procedures evolve, just like a company 's level of service. The rigid zone is the beginning of the evolution and, as such, is a primitive state for the company (Wexler, Adams and Bohn. 1993).

2.15.2 The Safe Zone Of Service Quality

In the Safe zone, the company acknowledges its customers deserve some level of service. However, this type of service is associated with the mediocre, run–of–the mill service, which merely meets customers' expectations, but never exceeds them. Safe service remains risk-free, courteous, and perfunctory. Individual needs are not taken into consideration. The rigid and safe zones have something in common; they remain within clearly defined parameters and only fix something when it's broken. Nothing extra is volunteered; no added value is offered. Usually, customers' expectations are lowered so that the company can more easily live up to them. One of the characteristics of a safe service company is that, it lacks a sound plan to improve service and it's actually a plan to maintain service. It is mostly operations – focused, with a little market – focused awareness thrown in. Even though, employees believe that their customers are entitled to service, management usually insists that company policies are followed to the letter. Employees are given no freedom to bend the rules. This type of service ranges from providing the basics with civility to listening attentively to customers' complaints. The level of service gets the job done, but it

provides customers with nothing more or less, than they paid for.

Safe service, is mediocre at best, often reflects the limited commitment the company made when it decided to jump on the customer service bandwagon. Majority of businesses still don't see quality service as an investment that should be taken as seriously as research and development, advertising, and sales. Companies in the safe zone try to change their images and service standards solely through advertising. Unfortunately, few companies fully grasp what is involved in the transformation. The outcome is usually a rewrite of the company policy manual with no real service vision thus remaining operations– focused.

- ### Values of Safe Zone Organisations

Companies in this zone are more likely to live up to their ethical standards. These companies are ethical but not very creative. Philosophical/strategic and operational values are sacred and strictly enforced. The difference between

the inflexibility of the safe zone company and the inflexibility of the rigid zone company, it that in the safe zone the employees are more apologetic and claim that their hands are tied by management. Whereas, in the rigid zone, employees don't realize an apology is appropriate.

- **Treatment of People**

Employees in this zone are treated with more respect, but management still exerts control over everyone. There is little catering to individual needs. The archaic industrial age mentality of employees as expendable tools prevails.

The company policy manual is a bible and to deviate is a sin. Courteous inflexibility is the operating principle in the safe zone. Businesses operate in this zone either when they think they don't have to worry about competitors or when they're trying to give the appearance of catering to customers. Safe zone thinking takes a defensive business posture. In business, instead of asking, "How do we do it better than our competitors?" a safe zone manager might ask," How can we do it as well as our competitors?"

Employees are trained to listen to customers. The response, however, is the same for everyone, regardless of what the customer says. Employees are not given the decision-making authority to resolve unusual problems on their own. Authority lies with someone in the company, several levels up and when a customer pushes an employee to deviate from the company's standard operating procedure, it may take an inordinate amount of time to track down the rare person who can approve such an aberrant request.

- **Management Style**

Employees in this zone are treated by the book. They are as policy minded as managers in the rigid zone companies. Safe zone companies are generally structured as the traditional pyramid, with orders being barked from the top. Everyone works for someone directly above them, with the occasional thought given to the role of the customer. The mindset of managers in the safe zone is control. They see their jobs as ringleaders who crack the whip and make sure their employees adhere to the rules. There is little, if any, trust or creative license.

- **Marketing/Sales Focus**

The attitude of companies in this zone is "Let's develop a product or service and find people who want to buy it." It's a "me first" attitude shaped by a myopic, internal focus rather than a "customer first" external focus.

Safe zone companies often take one of two approaches to business. They either sell an exclusive product or service or they sell a commodity. If they sell an exclusive product, they're convinced customers need them. If they sell a commodity, then they compete on price. Being price- focused, they figure they can always lower their prices to attract more customers. Few of these companies have any quality service consciousness at all.

- **Differentiation**

Companies in the safe zone can only differentiate themselves in terms of location, pricing, product or technology. Companies in this zone do not stand out in terms of service quality, so they must be competitive on other levels. Companies in this zone risk losing market share to competitors who provide better service. A business can remain in the safe zone only as long as customers' expectations remain low or until a competitor comes along who provides quality service, a better product or a lower price. As soon as one variable changes, a safe company will lose market share quickly. As long as you have an exclusive on the supply, you can get away with operating in the safe zone. As soon as your exclusive disappears, you would have to compete on other levels, namely, quality service (Wexler, Adams and Bohn. 1993).

2.15.3 The Progressive Zone Of Service Quality

The progressive zone reflects an enlightened corporate vision and an understanding of how to provide exemplary customer service. It is this level of service that will truly differentiate your company from your competitor. The company must be committed to a long journey, which, in effect, never ends. You have a vision of your destination, chart your course, and manage your journey. This requires dedication, training, and teamwork at every level.

Progressive customer service is a market –focused philosophy that makes the customer an obsession. The goal of progressive customer service is to delight customers by managing their expectations and then providing service that meets and exceeds those expectations. This kind of service is rendered thoughtfully. Customers get what they want, not what the company wants them to have. It provides an immediate benefit to the customer, with short and long term benefits for the company. The amount of goodwill generated is tremendous. Customers develop a sense of loyalty and feel cheerfully compelled to do business with you. Service in this zone is delivered with sensible flexibility. Employees are given a great deal of freedom and authority to use their judgement and problem solving abilities. They are encouraged to go beyond the routine and stretch the normal operational parameters of their training. They are guided to do so, however, in a manner that doesn't cause the company unreasonable costs or risks.

- **Values Of Progressive Zone Organisations**

A company in this zone have to develop and articulate a set of ethical, philosophical/strategic, and operational values that results in a corporate culture. Honestly, mutual respect, and maintaining peoples dignity are basic ethical values held by enlightened companies. They make working for those companies, and being a customer, a rewarding experience.

A progressive company remains true to its philosophical/strategic values. Employees are more willing to go the extra mile for their customers who want to break a philosophical value.

Operational values serve as flexible guidelines. Rules, procedures and policies are not rigidly enforced, nor are they flagrantly broken. The key is

flexibility. Employees have the authority to bend, reshape, or break the rules to accommodate their customers within reasonable parameters.

- **Treatment of People**

Progressive customer service just does not happen. It reflects a countrywide culture in which the number one value is people- internally and externally. People are treated the way rational, mature people should treat other rational, mature people. Each situation is assessed on its own merits, so management is fair and reasonable. When standard operating procedures fail to offer a solution, creative problem – solving is used. In a progressive company, employees are trained to be self- managing and, in turn take responsibility for being so. When mistakes occur, the mistakes are kept in perspective.

One of the values of the progressive corporate culture is optimum cooperation, treating each other (including people in other departments) as if they were customers. Each person realises that they are working for the same purpose – the acquisition and maintenance of customers.

It's easy for prospective customers to build a working relationship with a progressive company. Sales people and others involved in generating new business are open minded and willing to go to great lengths to accommodate special needs. The progressive way of selling is to discover the needs of the prospect and put together packages to meet those needs. Progressive companies never promise more than they can deliver. The key is managing expectations. When you buy goods or a service from a progressive company, you have confidence that it is reliable, responsive, and committed to your business relationship.

One of the basic principles of progressive customer service is the way the company views and handles its most important customers – complaining and demanding ones. Feedback from complainers shows a company where its service is falling short of expectations and how it should be improved. Demanding customers show how to take service from just meeting expectations to the higher levels of exceeding them. Both types of customers provide opportunities to build relationships and create loyalty.

By pushing the decision-making process down to the front lines, they allow employees to please customers without time-consuming searches for

approval. If a situation arises that is too far out of their operational parameters, employees know how to turn the decision over quickly to someone who has more training or experience. Expediency is the name of the game.

- **Management Style**

Self-managed teams, cross-trained personnel, managers as coaches, and decision-making participation are some of the many features of a new high performance organisation. Two of the most important values in a progressive company are trust and commitment. These values are at the heart of providing quality service. Without them, an effective company-wide service philosophy cannot exist. Trust starts at the top. In a progressive company, top management has adopted a quality service philosophy. They have started the wheels of implementation turning, believing this will pay off in the near and distant future.

Commitment to a quality service philosophy is long term and full time. It is championed by managers, supervisors, and everyone else in the company, with no exceptions.

- **Marketing/Sales Focus**

The attitude of companies in this zone is, "We've combined our resources with the needs of the marketplace to meet or exceed our customers' expectations." It's a type of service quality that addresses a customer's specific needs.

- **Differentiation**

How does a progressive company differentiate itself? In a word – quality service. In three words – Responsive, Reliable, and dedicated to the Relationship (Wexler, Adams and Bohn. 1993)

2.15.4 The Indulgent Zone Of Service Quality

Progressive customer service taken to the extreme can become indulgent and irresponsible. Indulgent customer service caters solely to the customer's needs without regard for the company's financial well-being. It exceeds

reasonable expectations of quality service and places a financial burden on the company. The customer is not only getting more than expected, but also not being charged for it.

Indulgent customer service stems from a corporate vision that seeks to improve service, but lacks a sound plan for doing so. The sole consideration is customer's happiness. The expectations created by the marketplace are so inflated they cannot be met, so employees try to compensate by overindulging customers. There is a short-term benefit to the indulgent zone company in the form of goodwill, but significant, long term, financial harm is inevitable. This type of service may be provided by employees that are out of control and the reason may be that management is decentralised and out of touch. Another reason may be the company is in start up mode and constantly trying to "win" customers instead of finding out ways to attract customers and keep them. Indulgent service can also be found in well-established companies that are loosing market share. To compensate and win back customers, they give away the farm. Market share increases, but at a loss or with decreased profit margins.

The indulgent zone of service is a level of generosity that is difficult, if not impossible, to maintain. At some point, the customer has to be weaned from this extravagant service. When this happened they become disappointed and take their business elsewhere.

Indulgent service is not always company-wide. There may be departments or individuals within the company that operate in the indulgent zone. This being the case, it is important to differentiate between indulgent companies and indulgent behaviour. Indulgent customer service is generally provided by employees who are either poorly trained, unhappy with their jobs, desperate to prove their worth, or anxious to improve customer service ratings. Their recklessness may or may not be conscious. At times there may be a fine line between progressive and indulgent service: hence the need for proper training and supervision. Both make this line clear to employees.

- **Values of Indulgent Zone Organisations**

A company that has good intentions, but no idea of how to wisely provide quality service, provides indulgent service. Core values have either been

poorly conceived or have never been articulated. The lack of training and coaching creates a free-for-all in which everyone is shooting from the hip. Employees give their customers virtually anything they ask for. Accountability is nonexistent, so it's easy to give away the store.

- **Treatment of People**

Employees in this zone are usually treated extremely well. They are generous, flexible, and accommodating. As a result, these companies can be a great place to work – while they are in business.

Prospect customers, complaining and demanding customers are all treated like royalty. They get whatever they want, whenever they want it.

- **Management Style**

Indulgent companies lack all the controls and guidelines that help healthy companies survive. Starting at the top, these companies either lack vision or possess a misguided one. Without a vision and set of core value, they also lack behavioural guidelines. This free-for-all operational environment is made possible by a loose supervision and a lack of financial controls.

- **Marketing/Sales Focus**

Indulgent companies build their customers expectations to unrealistically high levels and then jump through all kinds of hoops to meet those expectations, even if it isn't cost effective. This reflects a poorly developed marketing strategy and a lack of awareness of the marketplace. They are more concerned with cash flow than with profits. Their focus is on good public relations, often at the expense of financial stability.

- **Differentiation**

They create a lot of goodwill, which stimulates word of mouth advertising. Business booms until their bottoms fall out. Then they are differentiated by another reputation. They've either disappointed their customers or they've gone out of business (Wexler, Adams and Bohn. 1993).

2.16 CONCLUSION

The discussion of strategy has identified many differing perspectives on strategy from an environmental fit where the organization seeks to align resources with opportunities, to organizational stretch where the organization builds its core competences and changes its environment. The success of firms is dependant on their stability to implement strategies for today whilst developing the competences to ensure future success. One should therefore take into account both the internal and external environment in order to pursue a strategic direction for the organization, as identified in this chapter.

CHAPTER 3 - THE SHORT-TERM INSURANCE INDUSTRY

3.1 INTRODUCTION

The need for insurance arises out of the risks we all run in the course of living. Our lives are constantly in danger through accidents or illness; our property may be subject to loss or damage, while losses incurred by others may affect us in some way or another. We also run the risk of causing injury or damage to other people or their property at a subsequent heavy cost to ourselves.

There, is thus a constant striving for security, for some means of eliminating a risk, reducing it or transferring it to someone or something better able to bear it. This becomes a matter of growing importance as economic life develops because of the increasingly onerous burden of risk.

3.2 HISTORY OF THE COMPANY

The Company is part of a leading financial institution. This tends to give people peace of mind when they are dealing with the insurance part of The Company. They are the largest insurer of houses and living units in South Africa, with more than 30 years' experience in house owner's insurance. It is generally accepted that they are market leaders in this area and the clients enjoy the benefits of our well-established infrastructure branches and panels of contractors who can normally immediately attend to immovable property that has been damaged or even destroyed.

The Company's target market is the average South African household. The Company's underwriting philosophy revolves around charging the correct rate for the Client's level of risk. The chances of the insured property being damaged or lost, combined with the cost of replacement or repair, determine the premium charged. Successful, scientific application of this philosophy has been made possible by the creation and maintenance of an extensive and sophisticated pool of statistical data over the past 15 years.

Three years ago, they developed the motor vehicle insurance division. The insurance policy can cover your vehicle for a number of events. Theft and

hijacking, damage due to accident, fire, hail, etc. You would also be covered for damage caused by you to another party's vehicle or property.

3.3 THE COMPANY'S BRAND

The success of The Company depends on the ability to build a powerful brand. A strong brand will:

- Create a unique identity
- Allow customers to identify with The Company
- Be more attractive than competing brands

This can only be achieved by offering legendary service to their customers.

The Company's brand stands for many things:

- It stands for being approachable and progressive.
- It represents the total spectrum of financial services.
- It represents financial competence and expertise
- It shows concern for customers and their financial well-being
- It stands for building lasting relationships with all our stakeholders

3.4 THE COMPANY'S MISSION, VISION AND VALUES

- **The Company's Mission**

To be partners in growing South Africa's prosperity by being South Africa's leading financial service group, serving all our stakeholders.

- **The Company's Vision**

To be customer-focused financial services group in targeted market segments The vision will help us make a difference in the life of a customer.

- **The Company's Values**

The Company's values are an important part of the brand. These values determine the way they work, the way they treat people and the way in which they live the brand.

The five values are:

- Value our people and treat then with fairness
- Demonstrate integrity in all our actions
- Strive to exceed the needs of our customers
- Take responsibility for the quality of our work
- Display leadership in all that we do.

3.5 VISION OF THE COMPANY'S INSURANCE DIVISION

- To be a leading insurance company specialising in niche markets.
- To be the preferred provider of short term insurance within The Company's group.
- To service the needs of The Company's clients.

3.6 CURRENT STRATEGIC GOALS OF THE COMPANY'S INSURANCE DIVISION.

- To protect and profitably grow our current core business as far as possible
- To improve relationships with The Company's brokers and The Company's vehicle financial house thereby obtaining new business which will improve premium income
- To improve service levels to customers
- To increase the volume of profitable motor and personal lines of business signicantly
- To develop the various divisions in the bank as delivery channels
- To improve claim management
- To increase underwriting profits by ensuring strict underwriting criteria and to ensure that the underwriting criteria is market related
- To keep management expenses within an acceptable level
- To implement and maintain HR and development initiatives that improve business performance
- Through the communication process create a climate of empowerment and ownership thereby improving business performance

- To have a user friendly computer system that provides a high level of productivity, accountability, security, speed and efficiency thereby contributing to financial success
- Identify new markets and products within The Company's client base (niche products)
- To ensure the effective utilisation of re- insurance

3.7 CURRENT STRUCTURE OF THE COMPANY'S INSURANCE DIVISION

The insurance branches are situated in Cape Town, Port Elizabeth, Bloemfontein, Pretoria, Durban, and the head office in Gauteng.

3.7.1 INTERNAL

- **Sales department**

The sales department is responsible for writing up the policies for the client. Clients would have to call a toll free number. Quotes are faxed to the client and if the policy is accepted, the policy documents and a copy of the schedule are posted to them. The sale department is situated in the head office in Gauteng.

- **Underwriting Department**

There is an underwriting department in every regional office. Underwriters are responsible for making changes on a clients policy at the clients request, up selling the policy by introducing the client to new products being offered, increase in premiums, cancellations, reinstatements etc.

- **Brokers**

The Company's brokers assist prospective clients to take out insurance policies with The Company but if The Company does meet the needs of that particular clients, the brokers do get alternative quotes from other insurance companies as these sales are commission based.

- **Claims Administrators (vehicle and non- motor)**

The claims administrators are responsible for capturing the claim after they have received the completed claim forms from the client. Allocating relevant assessors by calling them and then faxing them the details, costing of claims, advising client if he is covered for the incident and checking if there are discrepancies regarding the incident.

- **Claim's Manager**

One claim's manager that oversees that processes run smoothly and they're to make decisions, which cannot be authorised by some administrators. Responsible for both homeowners and vehicle claims.

3.7.2 EXTERNAL

- **Vehicle Assessors**

Once the claim has been captured, the administrator sends a fax to the relevant vehicle assessor. The assessor will have to get in contact with the client and arrange a suitable time to have the vehicle assessed, that is if the vehicle is drivable and not at the panel beaters.

- **Panel beaters**

Clients are free to use whichever panel beater they choose as long as it is SAMBRIA approved.

3.8 CLAIMS PROCESS

➢ Client calls to submit claim e.g. vehicle accident

➢ Claims administrator faxes him the claim forms.

➢ Once the claim forms are faxed back to the administrator, the administrator captures the claim on the system and checks if the premium was successfully debited. She asks the client to get three quotes and fax it back to her

➢ A vehicle assessor is then appointed. He meets with the client.

➢ The client's claim is then filed away in the filing cabinet. No other relevant checks are done. She waits for the assessors report.

- Once the assessment is done, the report has to be prepared by the assessor and he faxes it to the client. This takes between three to fours days.
- The administrator then pulls out the clients' file and starts processing the claim. The following checks that need to be done on all accident claims are:
  - Confirm accident date and time with the relevant South African Police
  - Check if the client is on the correct no claim bonus. If a claim exceeds six thousand rands, the administrator has to confirm previous insurance
  - Contact the third party to confirm the incident and check if it is the same as the client has reported.
  - Work out the excess and inform the client.

3.9 COMPETITORS

Competitors in the short-term industry range from Hollard, Santam, Budget etc. The major competitors vying for greater market share are discussed below.

3.9.1 AUTO AND GENERAL

Auto & General Insurance Company, a member/subsidiary of the Telesure Investment Holdings group, was founded on 1 June 1985. The Company presented the South African consumer with a monthly Domestic Short Term Insurance alternative, based on innovative administration efficiency and a service-orientated approach. Technologically, the concept of computerised, telephonic Insurance was totally unique world-wide and the Company was faced with a major challenge, but its innovative spirit, vision and dedicated staff facilitated a successful entry into the SA Short-term Industry; establishing Auto & General as a trend-setting leader.

Since 1985, Auto & General has expanded and grown tremendously. The Company has achieved an annual compound growth rate of over 50% per

annum in 12 of its 15 years; has been placed first and second in SA for percentage growth by the Financial Mail and commended highly in various editions of the "Top Companies" survey. International options have also been successfully explored with the establishment of similar operations in the UK and Australia. In the mid 90's, the Company re-affirmed its position as leader in the industry with the creation of its Core Value, "An Obsession with Service". Integrated with each task, Staff Members are trained to focus on each aspect of service - thereby providing both broker and client with consistent excellence.

In the interest of enhanced service levels, a new Claims Philosophy was developed in 1996 and Hotline Administrative Services employed in 1998 to ensure specialised administration and claims focus. Implementation of the Core Value was further boosted by complete software upgrades (1998) and 1999's redesign of the policy document, which earned Auto & General the "Readability Mark" - a stamp of approval, awarded by "Plain Business Writing", for user-friendly layout and jargon-free wording.

Auto & General's target market is the average South African household. The Company's underwriting philosophy revolves around charging the correct rate for the Client's level of risk. The chances of the insured property being damaged or lost, combined with the cost of replacement or repair, determine the premium charged. Successful, scientific application of this philosophy has been made possible by the creation and maintenance of an extensive and sophisticated pool of statistical data over the past 15 years.

Auto & General was established in 1985 and pioneered the user-friendly telephone method of insurance. This innovative spirit continues today and remains a key to the Company's success.

Instead of using the usual difficult to understand insurance industry jargon, we have used plain English to make reading this policy information as easy as possible. Auto & General was the first Short-Term Insurer in South Africa to receive the Readability Mark for its Term and Conditions.

"We decided to stay niche because we understand this segment of the market," says CEO Nick Mew. "This is not to say we may not expand into other insurance niches, but we will move only into areas where we fully understand the risks."

"We have a huge database with detailed statistics on the various risks around the country going back many years. We can tell you which streets in which suburbs are most at risk, or which cars are most likely to be stolen.

"And we can monitor what's happening on a day-to-day basis. That means we can establish an individualised risk rating for each customer. This avoids the kind of cross-subsidisation that comes with more generalised risk rating."

Auto & General's target market is the average South African household. Its underwriting philosophy is to charge the correct rate for the client's level of risk. Premiums are based on a scientific assessment of the probabilities of the insured property being damaged or lost, combined with cost of replacement/repair.

Interestingly, the company employs no actuaries. "We have sufficient skills ourselves, backed by our extensive database," says Creamer (Internet 7).

3.9.2 SA EAGLE

Originally a composite insurance company, SA Eagle sold its life fund in 1972, having led the market with innovative equity-linked long-term products. Today the Company operates in both the domestic and commercial markets, transacting all classes of short term insurance. Listed on the Stock Exchange in 1968, SA Eagle's shares were oversubscribed some 10 times. It's major shareholder, with 83,6 percent of the equity, is Zurich Financial Services. The remaining 16,4 percent is held by Mutual & Federal and the general public.

The Company markets its products almost exclusively through brokers and agents. It has a network of offices throughout South Africa, subsidiary insurance companies in Botswana and Zimbabwe, and associate insurance companies in Mauritius and Swaziland.

Specialist products include marine, engineering and aviation insurance. In addition, the Company has several innovative niche products: risk financing with cell captive facilities through its wholly owned subsidiary, SA Eagle Risk Financing; and a personal legal expenses insurance product, the SA Eagle

Legal Plan, through a joint venture company, SA Eagle Legal Expenses Underwriting Managers.

SA Eagle Auto Assess, a service implemented a number of years ago, offers policyholders an added benefit freeing them of the hassles associated with a minor accident claim. The Company's business-to-business initiative, called the Internet Monthly Policy (IMP), offers brokers and agents a complete policy and claims management system via the Internet. Other products include a policy tailored to meet the needs of the bed & breakfast industry, a solution suited to individuals or collectors of fine art, policies for 4x4 owners, cyclists and bowlers.

The Company's computer system Eagle 2000 offers enhanced service to both intermediaries and clients and is providing improved information for decision-making, reducing operating costs and increasing productivity. The implementation of workflow technology ensures that SA Eagle is at the forefront of leading edge information technology solutions.

South Africa is Africa's largest and most sophisticated short term insurance market. It has undergone many changes in recent times resulting in only three major industry players with SA Eagle positioned as the third largest.

Short-term insurers operate in an extremely competitive industry, which has been recently characterised by intense consolidation activity.

Systems, procedures and processes change constantly and, in order to remain competitive, we must regularly revisit existing strategies to ensure that they are cost-effective and, where necessary, develop solutions that keep us at the leading edge of our industry.

We believe in looking ahead, in trying to perceive clearly, understand and even predict future trends and shifts. Foresight and the ability to anticipate are valuable survival qualities – they're part of the ever-changing business arena that we're competing in today.

SA Eagle is a visionary company. An outward and forward-looking world-class organisation, empowering its people and developing products and services to anticipate and meet market needs (Internet 8).

3.9.3 OUTSURANCE

Outsurance is the global pioneer of the new-generation outbonus concept unique within the short term insurance industry.

Outsurance was the brainchild arising from research conducted for RMBH by René Otto, Willem Roos and Howard Aron in early 1997. Together, they developed the business plan that positioned Outsurance as a "Greenfield's" alternative to the competitive South African short-term insurance market.

Launched in February 1998, Outsurance soon captured the imagination of the public, with its innovative approach that included a suite of products with a range of special features and benefits.

Outsurance took the lead in transforming the negative perception of personal lines short-term insurance to a real value-for-money service to consumers.

The Outsurance business model is simple and effective. The pillars of an actuarial rating and underwriting approach plus effective cost and claim management rest on the base of an efficient information technology platform. This supports the company's ability to implement superior risk management through unique and innovative product design, such as the outbonus.

Skilled people using sophisticated systems ensure that the company delivers on its promise - "you always get something out."

On 1 January 2000 Outsurance merged with First National Insurance a company within the same group. The merger formed part of the broader FirstRand bank assurance strategy and consolidated the groups short term insurance business. As a result Outsurance became one of the leaders within the industry in offering House Owners Insurance cover to bond account holders.

The holistic business model is founded on the dynamic interdependence between our business processes. This ensures that information is shared across all the business segments. A feature of our approach is that strategically key business processes are conducted in-house resulting in tight control over those factors influencing our bottom line results.

Marketing and advertising is based on the branded philosophy of "you always get something out". We adopt strategies that strongly differentiate us from the traditional insurance industry approach. Our advertising campaigns are measured carefully to maximise effectiveness and gauge public reaction to the Outsurance alternative in addressing consumer insurance needs.

Direct Sales transform our products from pure commodities to valued services. The direct, call-centre based model allows them to cut out the middlemen and thereby make their premiums more competitive and attractive.

Underwriting and rating methodologies rely on sound actuarial input thus ensuring that the right premium is charged for all related risks. This enables effective risk selection and avoids the traditional underwriting mistakes of allowing low risks to cross-subsidise high risks. The result of this scientific approach gives rise to a vast differentiation when comparing premiums for high and low risks. Since the general approach in the industry is less differentiating, we tend to attract and "cherry-pick" the better risks.

Client Care focuses on providing world-class after sales service. Clients are retained through a combination of excellent service and quality products that incorporate such features as the outbonus.

Claims administration is grounded in a philosophy of paying valid claims rapidly and enthusiastically. Our claims department is an important window in building relationships with our clients. Claims are validated with emphasis being on prompt and fair settlement. Fraudulent claims are actively investigated and a zero tolerance approach is employed.

Quality control is an ongoing diligent process that permeates our entire business. Our commitment to provide consumers with quality products is coupled with providing quality after sales service that is recognised as world class in excellence (Internet 9).

3.9.4 MUTUAL AND FEDERAL

The company was formed on 20 May 1970 and has enjoyed an outstanding history of growth. The premiums have increased from R31 million in the first year of operation to R5.6 billion in 2002, whilst the asset base has grown equally impressively from R30 million to R6.5 billion in the same period.

The history of Mutual & Federal extends well back beyond 1970, and its roots can be traced back more than 160 years. The companies from which it was born were already in operation early in the 19th century and many mergers took place, leading to the formation of the company in 1970. Now as one of the leading insurance companies in southern Africa, Mutual & Federal provides personalised short-term insurance service to the personal, commercial and corporate markets in South Africa, Namibia, Botswana, Malawi and Zimbabwe (Internet 10).

3.10 THE SHORT-TERM INSURANCE INDUSTRY FOR THE PERIOD ENDED MARCH 2003.

❖ **Industry results - Typical insurers (typical insurers, are those insurers who offer most types of policies to, mostly, the general public).**

• The table below sets out combined unaudited statistics (net after reinsurance) for the typical insurers for the calendar years 1998 to 2002 and for the first three months of2003 as well as comparative figures for the first three months of 2002.

TABLE 3.1 – COMBINED UNAUDITED STATISTICS FOR THE TYPICAL INSURERS

	1998	1999	2000	2001	2002	3 months ended March 2002	3 months ended March 2003
Net premiums R'm	12 384	12 673	13 044	14 497	16 860	4 103	4 994
Underwriting profit/(loss) R'm	(165)	(288)	(171)	199	377	76	199
Underwriting and investment income R'm	1 034	908	1 395	1 961	1 714	274	510
Claims (as % of earned premiums)	71	72	72	70	71	71	70
As % of net written premiums:							
Management Expenses and Commission	30	29	29	28	26	25	24
Underwriting profit/(loss)	(1)	(2)	(1)	1	2	2	4
Underwriting and investment income	8	7	9	14	10	7	10
Net premium increase (year to year)	0	2	3	11	16	15	22
Surplus asset ratio (median)	48*	75*	67	61	43	63	42

*The increase in the median surplus asset ratio in 1999 is largely due, in our opinion, to the changes in the calculation of the statutory surplus asset ratio contained in the new Short-term Insurance Act which came into effect on 1 January 1999.

- The following graph indicates how underwriting and operating (including investment income) results of the typical insurers have fluctuated over the past ten years and the first quarter of 2003.

FIGURE 3.1 - OPERATING AND UNDERWRITING RESULTS FROM 1993 TO MARCH 2003 -TYPICAL INSURER

RESULTS AS PERCENTAGES OF NET PREMIUMS
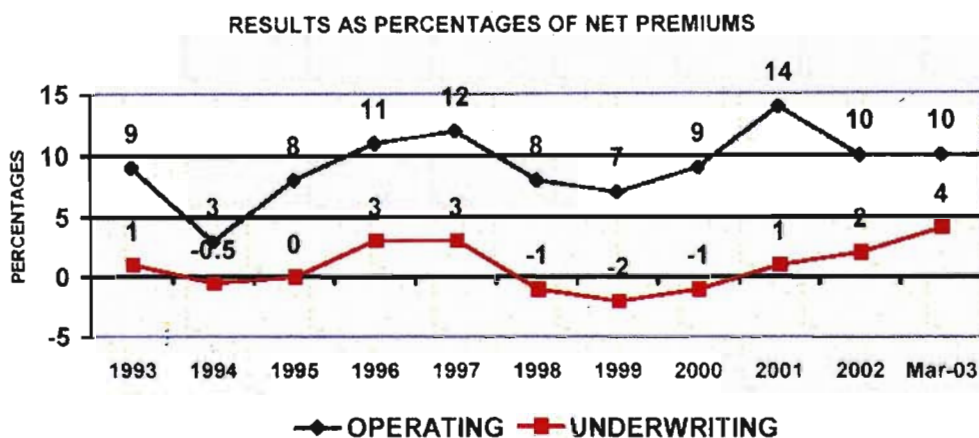
Eight of the twenty-three insurance companies classified as typical insurers reported underwriting losses for the three months ended March 2003 compared with five (of the twenty-two) who reported underwriting losses for the twelve months ended December 2002.

Six of the twenty-three insurance companies reported operating losses for the three months ended March 2003 compared with two (of the twenty-two) for the twelve months ended December 2002.

77

- **Statutory Surplus Asset Ratios**

The following table indicates the spread of the statutory solvency percentages of the typical insurance companies.

TABLE 3.2 - STATUTORY SOLVENCY PRECENTAGES – TYPICAL INSURER

	Number of insurers				
	December 1999	December 2000	December 2001	December 2002	March 2003
Below 15%	0	1	0	0	0
Between 15% and 20%	1	1	1	2	1
Between 20% and 25%	0	0	2	1	2
Between 25% and 30%	2	1	1	2	1
Between 30% and 40%	1	0	1	3	4
Between 40% and 50%	4	3	4	5	6
Between 50% and 100%	7	11	7	4	3
Above 100%	9	8	8	5	6

❖ **Industry results - Cell captive insurers (cell captive insurers, are those insurers who offer, mostly, cover of the risks of first party cell owners only).**

• The table below sets out combined statistics (net after reinsurance) for cell captive insurers for the calendar years 1999 to 2002 and for the first three months of 2003 as well as comparative figures for the first three months of 2002. The figures are unaudited.

TABLE 3.3 – COMBINED STATISTICS FROM 1999 –2002 –2003 – CELL CAPTIVE INSURERS

	1999	2000	2001	2002	3 months ended March 2002	3 months ended March 2003
Net premiums R'm	1 582	1 422	1 608	1 868	528	1 108
Underwriting profit/(loss)· R'm	135	(90)	15	(207)	(231)	(288)
Underwriting and investment income R'm	323	88	226	77	(178)	(216)
Claims (as % of earned premiums)	62	64	51	75	108	65
As % of net written premiums:						
Management Expenses and Commission	20	38	59	35	37	50
Underwriting profit/(loss)	9	(6)	1	(11)	(44)	(26)
Underwriting and investment income	20	6	14	4	(34)	(20)
Surplus asset ratio (median)	33	68	57	73	55	41

SOURCE: INTERNET 11

- The following graph indicates how underwriting and operating (including investment income) results of the cell captive insurers have fluctuated over the past four years and the first quarter of 2003.

FIGURE 3.2 - OPERATING AND UNDERWRITING RESULTS FROM 1999 TO MARCH 2003 – CELL CAPTIVE INSURERS

RESULTS AS PERCENTAGES OF NET PREMIUMS
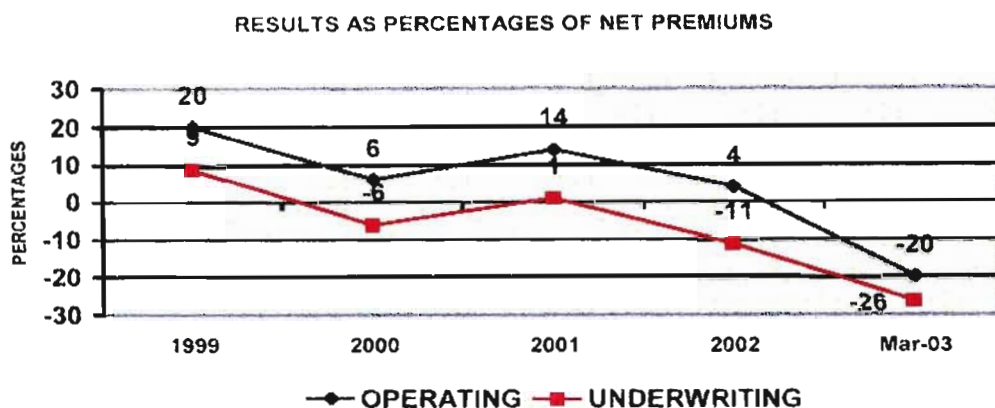
Of the nine operational cell captive insurers, three have reported underwriting losses and two operating losses for the three months ended March 2003 compared with three of the eight who reported underwriting losses and one an operating loss for the twelve months ended December 2002.

- The following table indicates the spread of the statutory solvency percentages of the cell captive insurance companies.

TABLE 3.4 – SPREAD OF SOLVENCY PERCENTAGES – CELL CAPTIVE INSURANCE COMPANIES

	Number of insurers				
	December 1999	December 2000	December 2001	December 2002	March 2003
Below 15%	0	0	0	0	0
Between 15% and 20%	0	0	0	0	0
Between 20% and 25%	2	0	0	2	0
Between 25% and 30%	0	2	1	0	1
Between 30% and 40%	2	0	1	0	3
Between 40% and 50%	0	1	1	3	1
Between 50% and 100%	1	2	4	1	3
Above 100%	1	3	2	4	1

SOURCE: INTERNET 11

❖ **Industry results - Captive insurers (captive insurers, are those insurers who offer cover of the risks of the owners' company or companies only).**

• The table below sets out combined statistics (net after reinsurance) for captive insurers for the calendar years 1999 to 2002 and for the first three months of 2003 as well as comparative figures for the first three months of 2002. The figures are unaudited.

TABLE 3.5 - COMBINED STATISTICS FROM 1999 –2002 –2003 CAPTIVE INSURERS

	1999	2000	2001	2002	3 months ended March 2002	3 months ended March 2003
Net premiums R'm	305	527	596	698	143	76
Underwriting profit/(loss) R'm	9	(13)	39	14	0	15
Underwriting and investment income R'm	87	101	180	204	35	44
Claims (as % of earned premiums)	84	91	80	86	94	53
As % of net written premiums:						
Management Expenses and Commission	14	11	12	12	8	21
Underwriting profit/(loss)	3	(2)	7	2	0	20
Underwriting and investment income	28	19	30	29	25	58
Surplus asset ratio (median)	115	170	161	152	163	158

- The following graph indicates how underwriting and operating (including investment income) results of the captive insurers have fluctuated over the past four years and the first quarter of 2003.

FIGURE 3.3 - OPERATING AND UNDERWRITING RESULTS FROM 1999 TO MARCH 2003 – CAPTIVE INSURERS

RESULTS AS PERCENTAGES OF NET PREMIUMS
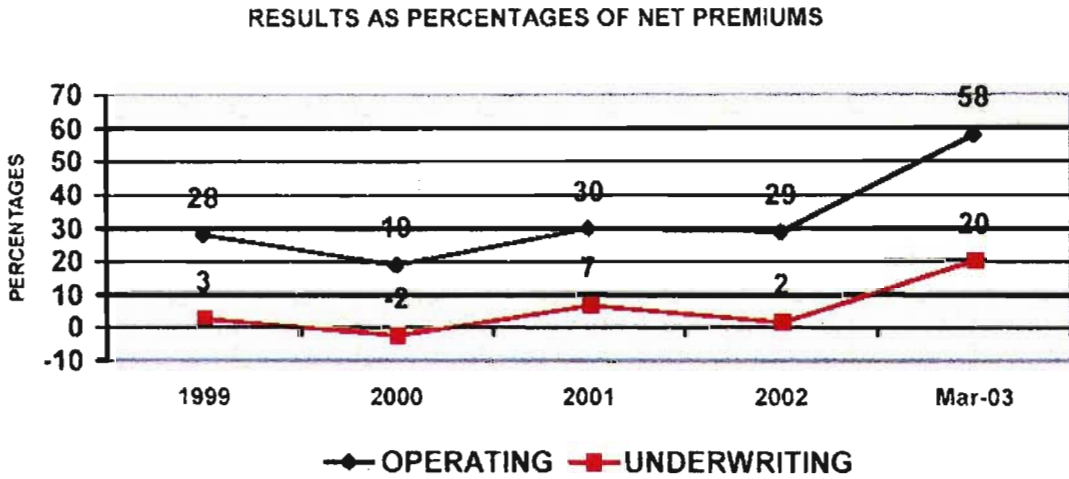
Four of the fourteen captive insurers who submitted returns have reported underwriting losses and one an operating loss for the three months ended March 2003 compared with four of the fifteen captive insurers who reported underwriting losses and none operating losses for the twelve months ended December 2002.

The following table indicates the spread of the statutory solvency percentages of the captive insurance companies.

TABLE 3.6- SPREAD OF SOLVENCY PERCENTAGES – CAPTIVE INSURANCE COMPANIES

	Number of insurers				
	December 1999	December 2000	December 2001	December 2002	March 2003
Below 15%	0	0	0	0	0
Between 15% and 20%	0	0	0	0	0
Between 20% and 25%	0	0	0	0	0
Between 25% and 30%	1	0	0	0	0
Between 30% and 40%	1	0	0	0	0
Between 40% and 50%	0	3	1	0	0
Between 50% and 100%	3	3	4	5	5
Above 100%	6	9	8	10	9

INTERNET 11

❖ **Industry results - Niche insurers (niche insurers, are those insurers who offer, mostly, specialised cover only, in certain niche markets).**

• The table below sets out combined statistics (net after reinsurance) for niche insurers for the calendar years 1999 to 2002 and for the first three months of 2003 as well as comparative figures for the first three months of 2002. The figures are unaudited.

TABLE 3.7– COMBINED STATISTICS FROM 1999 –2002 –2003- NICHE INSURERS

	1999	2000	2001	2002	3 months ended March 2002	3 months ended March 2003
Net premiums R'm	2 457	2 336	1 812	2 195	656	549
Underwriting profit/(loss) R'm	315	223	102	(198)	(281)	(44)
Underwriting and investment income R'm	1 425	589	657	438	(128)	79
Claims (as % of earned premiums)	71	71	60	84	130	75
As % of net written premiums:						
Management Expenses and Commission	16	18	32	24	21	27
Underwriting profit/(loss)	13	10	6	(9)	(43)	(8)
Underwriting and investment income	58	25	36	20	(19)	14
Surplus asset ratio (median)	134	114	124	107	105	114

Internet 11

- The following graph indicates how underwriting and operating (including investment income) results of the niche insurers have fluctuated over the past four years and the first quarter of 2003.

FIGURE 3.4- OPERATING AND UNDERWRITING RESULTS FROM 1993 TO MARCH 2003 – NICHE INSURERS

RESULTS AS PERCENTAGES OF NET PREMIUMS
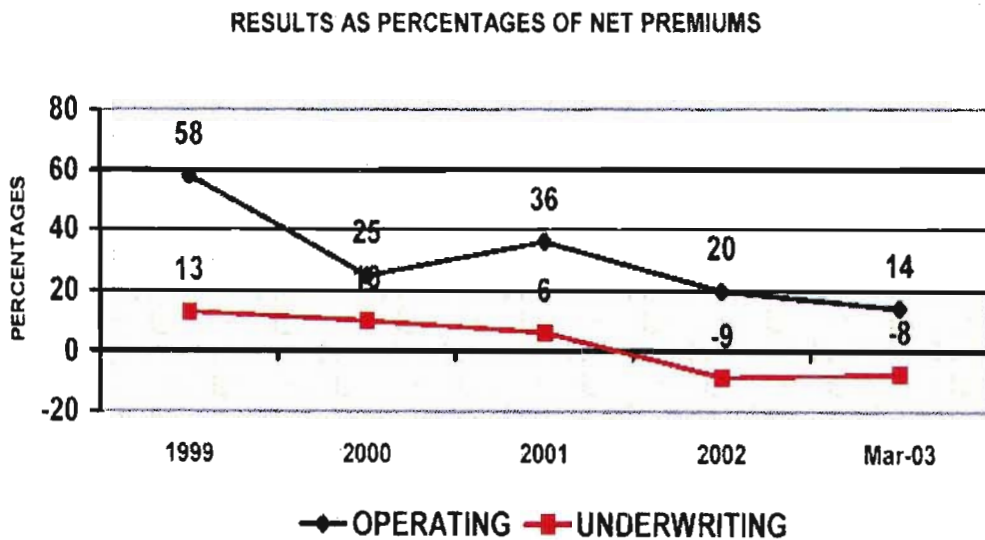
Fifteen of the twenty-eight operational niche insurers who submitted returns for the three months ended March 2003 have reported underwriting losses and eight have reported operating losses compared with seven of twenty-eight for the twelve months ended December 2002 reporting underwriting losses and three operating losses.

- The following table indicates the spread of the statutory solvency percentages of the niche insurance companies.

TABLE 3.8 - STATUTORY SOLVENCY PERCENTAGES - NICHE. INSURANCE COMPANIES

	Number of insurers				
	December 1999	December 2000	December 2001	December 2002	March 2003
Below 15%	1	1	0	0	0
Between 15% and 20%	0	1	2	2	1
Between 20% and 25%	0	0	0	1	1
Between 25% and 30%	1	1	0	1	3
Between 30% and 40%	1	1	1	1	3
Between 40% and 50%	1	2	3	2	1
Between 50% and 100%	7	7	7	5	4
Above 100%	16	14	16	16	15

Internet 11

3.11 INDUSTRY OVERVIEW

Gross premiums in the short-term insurance industry grew by 7.6% during 2001, compared with adjusted figures of 8.6% in 2000 and 6.5% in 1999. (The adjustments in previous years were made due to numerous financial year-end changes by insurance companies). Underwriting results for the short-term insurance industry improved in 2001 with the underwriting profit as a percentage of net premiums improving from –2 % in 2000 to 0% in

2001, breaking even for the first time since 1997 in spite of competitive premium pricing. The extent to which the positive underwriting cycle will continue depends on insurers' ability to provide cost-effective services. The higher inflation experienced during 2002 will also make it easier for insurers to implement premium increases. The reinsurance market has

experienced a severe reduction in capital following the events of 11 September 2001, resulting in the increase of reinsurance tariffs worldwide. This will further necessitate the need for insurers to increase premiums.

Investment income contributed to a 19% operating profit expressed as a percentage of net premiums for 2001.

Consolidation in the insurance industry has reduced the number of insurance companies in the market, leaving two dominant players together with their subsidiaries, with a market share of 38% of the total market and a share of 56% of the general (non-specialised) market. Although some insurers stopped doing new business, thereby creating opportunities for others, business opportunities for insurers continued to be slim.

Surplus assets as a percentage of net premiums for the primary insurers have declined from 119% in 1999 to 94 % in 2001.

3.12 FINANCIAL SUMMARY

3.12.1 The following table gives a summary of the results of the primary short-term insurance industry for 1999, 2000 and 2001:

TABLE 3.9- RESULTS OF THE PRIMARY SHORT-TERM INSURANCE INDUSTRY FOR 1999, 2000 AND 2001

	1999*	2000*	2001	% Change	% Change
Primary insurers	R'm	R'm	R'm	'99 to '00	'00 to '01
Gross premiums	21 250	24 670	26 538	16.1	7.6
Income					
Net premiums	16 205	16 345	17 313	0.9	5.9
Investment income	4 631	4 859	3 692	4.9	-24.0
Total	**20 836**	**21 204**	**21 005**	**1.8**	**-0.9**
Expenditure					
Claims paid	10 889	11 812	11 593	8.5	-1.9
Management expenses	2 314	3 002	3 683	29.7	22.7
Commission	1 798	1 636	1 641	-9.0	0.3
Total	**15 001**	**16 450**	**16 917**	**9.7**	**2.8**
Underwriting profits	-4	-337	22	-8 325.0	106.5
Underwriting profits plus investment income	4 627	4 522	3 714	-2.3	-17.9
Assets	**39 122**	**37 729**	**34 538**	**-3.6**	**-8.5**
Liabilities	19 778	17 935	18 340	-9.3	2.3

*Actual figures for 1999 exclude the figures for Compass and Guardrisk and, for 2000, exclude the figures for Guardian Insurance, due to a change in the financial year-ends.

3.12.2 The following table gives a summary of the adjusted results of the primary short-term insurance industry for 1999 and 2000:

TABLE 3.10 – ADJUSTED RESULTS OF THE PRIMARY SHORT-TERM INSURANCE INDUSTRY FOR 1999 AND 2000

	Adjusted figures**			
	1999	% Change	2000	% Change
Primary insurers	R'm	'98 to '99	R'm	'99 to '00
Gross premiums	22 515	6.5	24 460	8.6
Income				
Net premiums	16 703	6.7	16 281	-2.5
Investment income	4 755	95.9	4 840	1.8
Total	**21 458**	**18.7**	**21 121**	**-1.6**
Expenditure				
Claims paid	11 201	2.4	11 783	5.2
Management expenses	2 385	-4.9	3 015	26.4
Commission	1 839	-3.3	1 632	-11.3
Total	**15 425**	**0.5**	**16 430**	**6.5**
Underwriting profits	76	169.7	-347	-556.6
Underwriting profits plus investment income	4 831	108.4	4 493	-7.0
Assets	**40 272**	**12.1**	**37 744**	**-6.3**
Liabilities	**20 604**	**33.5**	**17 938**	**-12.9**

**Adjusted figures include unaudited figures for Compass and Guardrisk for 1999 and for Guardian Insurance for 2000 and also include annualised figures for insurers who reported figures for periods other than twelve months, due to a change in the financial year-ends.

3.12.3 The following table gives a summary of the results of the short-term reinsurance industry for 1999, 2000 and 2001:

TABLE 3.11 – RESULTS OF THE SHORT-TERM REINSURANCE INDUSTRY FOR 1999, 2000 AND 2001

Reinsurers	1999 R'm	2000 R'm	2001 R'm	% Change '99 to '00	% Change '00 to '01
Gross premiums	3 179	3 689	4 147	16.0	12.4
Income					
Net premiums	1 895	2 140	2 030	12.9	-5.1
Investment income	533	397	651	-25.5	64.0
Total	**2 428**	**2 537**	**2 681**	**4.5**	**5.7**
Expenditure					
Claims paid	1 219	1 526	1 210	25.2	-20.7
Management expenses	152	153	167	0.7	9.2
Commission	491	533	860	8.6	61.4
Total	**1 862**	**2 212**	**2 237**	**18.8**	**1.1**
Underwriting profits	-356	-138	-90	61.2	34.8
Underwriting profits plus investment income	177	259	561	46.3	116.6
Assets	**4 975**	**5 599**	**5 792**	**12.5**	**3.4**
Liabilities	**3 885**	**4 518**	**4 255**	**16.3**	**-5.8**

3.13 INVESTMENT SPREAD

The figures below show the total investment spread for the short-term insurance industry excluding the South African Special Risks Insurance Association (SASRIA):

TABLE 3.12 -TOTAL INVESTMENT SPREAD FOR THE SHORT-TERM INSURANCE INDUSTRY

Kinds of assets	1999		2000		2001	
	R'm	%	R'm	%	R'm	%
Shares	17 392	46.4	16 957	43.4	16 129	41.0
Stocks	4 778	12.7	5 811	14.9	5 469	13.9
Debentures and mortgages	221	0.6	172	0.4	158	0.4
Cash and deposits	8 758	23.4	8 461	21.7	9 149	23.3
Fixed assets	637	1.7	511	1.3	514	1.3
Outstanding premiums	1 726	4.6	1 938	5.0	2 489	6.3
Debtors	3 993	10.6	5 213	13.3	5 428	13.8
Total	37 505	100.0	39 063	100.0	39 336	100.0

3.14 SURPLUS ASSET RATIO

The table below gives an indication of the financial strength of the short-term insurance market, expressing net surplus assets as a percentage of net premiums written by primary insurers who submitted quarterly reports as at 31 December 1999, 31 December 2000 and 31 December 2001, excluding SASRIA:

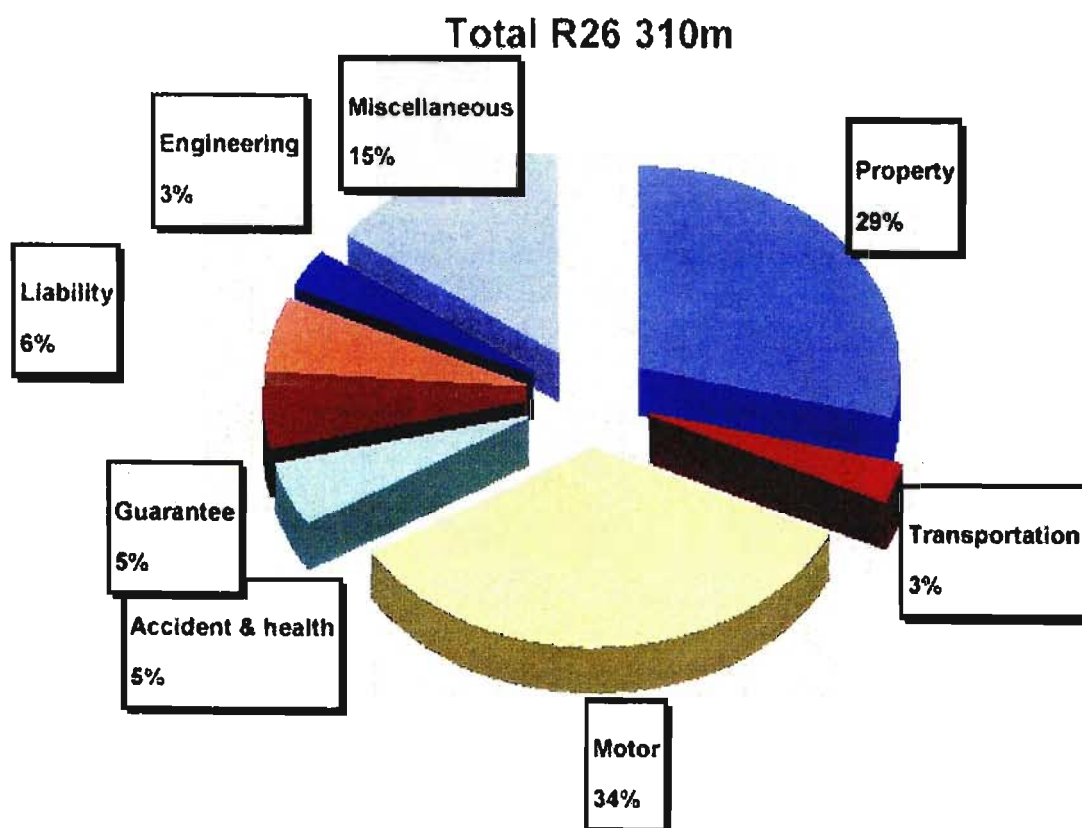**TABLE 3.13- NET SURPLUS ASSETS AS A %1999, 2000 AND 2001**

Surplus asset ratio %	Number of insurers		
	1999	2000	2001
Below 15%	1	2	0
Between 15% and 20%	1	2	3
Between 20% and 25%	2	0	2
Between 25% and 30%	3	4	2
Between 30% and 40%	6	1	3
Between 40% and 50%	4	9	9
Between 50% and 100%	18	23	22
Above 100%	33	34	34

All insurers with surplus asset ratios below 25% have been investigated and corrective measures have been implemented.

3.15 ANALYSIS OF GROSS PREMIUMS PER POLICY TYPE

The diagram below shows the composition of the gross premiums per policy type of primary insurers (excluding SASRIA):

FIGURE 3.5- GROSS PREMIUMS PER POLICY TYPE OF PRIMARY INSURERS

Total R26 310m

Miscellaneous 15%

Engineering 3%

Liability 6%

Property 29%

Guarantee 5%

Transportation 3%
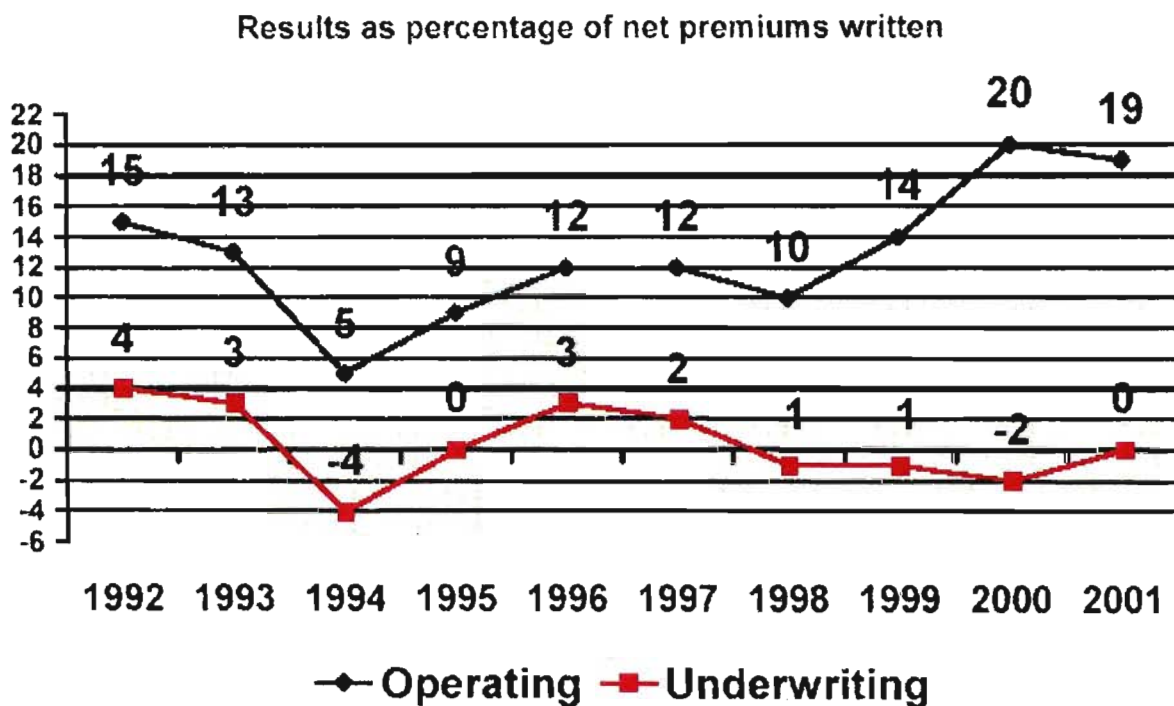
Accident & health 5%

Motor 34%

RESULTS

The following graph shows how underwriting results and operating results (including investment income) of primary insurers have fluctuated over the past ten calendar years.

The figures exclude SASRIA:

FIGURE 3.6- UNDERWRITING RESULTS AND OPERATING RESULTS PRIMARY INSURERS.
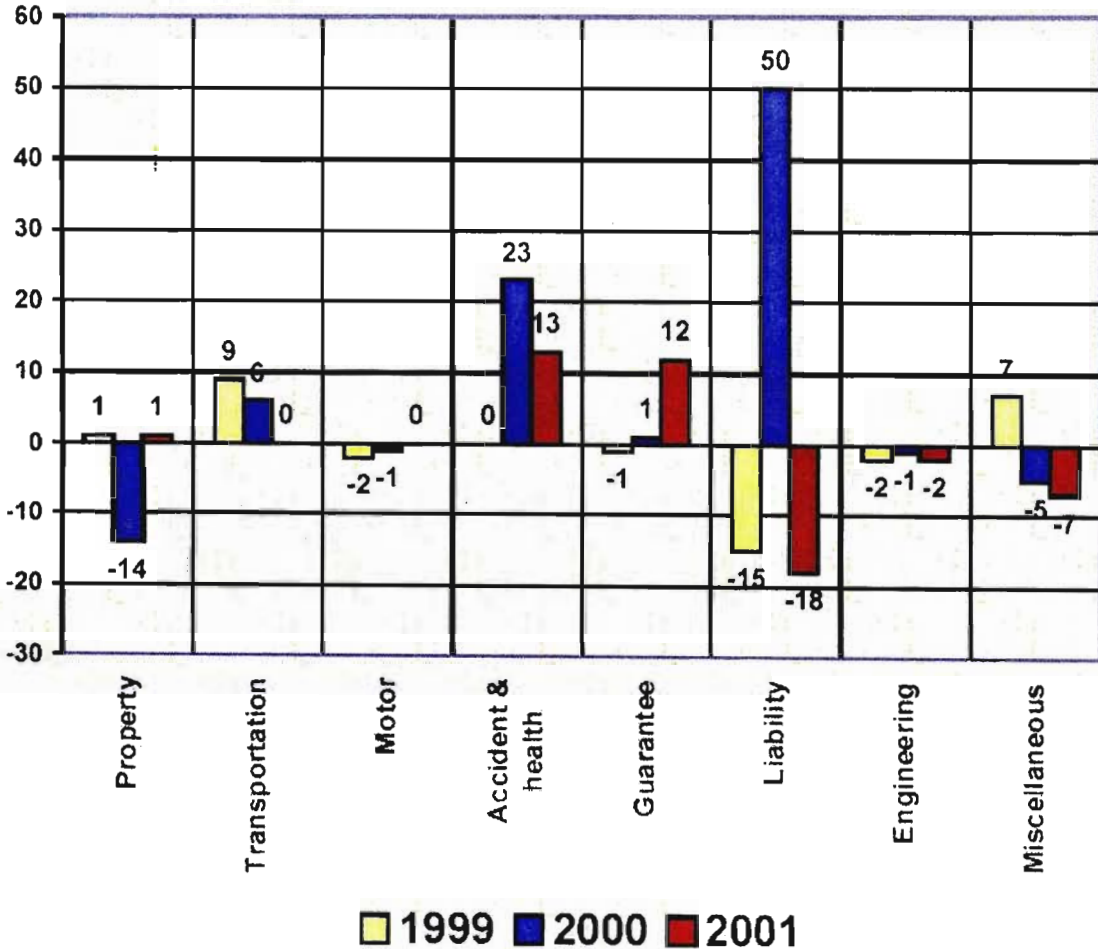
Results as percentage of net premiums written

13.16 UNDERWRITING RESULTS BY TYPE OF BUSINESS

The bar chart below shows how the underwriting results, as a percentage of net premiums, per type of policy for primary insurers, have fluctuated over the past three calendar years.

The figures exclude SASRIA:

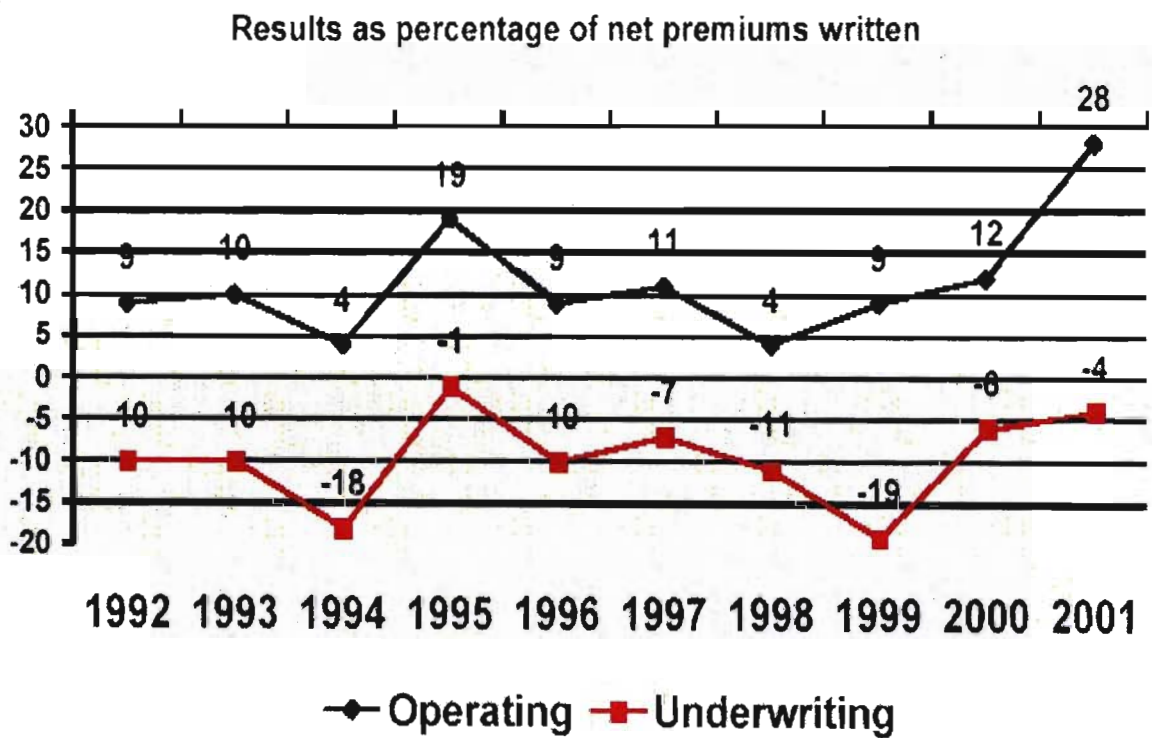## FIGURE 3.7- PERCENTAGE OF NET PREMIUMS- PRIMARY INSURERS.

□ 1999 ■ 2000 ■ 2001

SOURCE: INTERNET 11

Of the three largest business classes, making up 78% of the total gross premiums, both motor and property showed improvements while miscellaneous showed a decline.

3.17 REINSURANCE

This graph shows how underwriting results and operating results (including investment income) of short-term reinsurers have fluctuated over the past ten calendar years:

FIGURE 3.8- UNDERWRITING RESULTS AND OPERATING RESULTS OF SHORT-TERM REINSURERS

Results as percentage of net premiums written

1992 1993 1994 1995 1996 1997 1998 1999 2000 2001

◆ Operating ■ Underwriting

UNDERWRITING RESULTS BY TYPE OF BUSINESS

This bar chart compares the underwriting results as a percentage of net premiums per type of policy for reinsurers for 1999, 2000 and 2001:

FIGURE 3.9- UNDERWRITING RESULTS AS PERCENTAGE OF NET PREMIUMS FOR REINSURERS
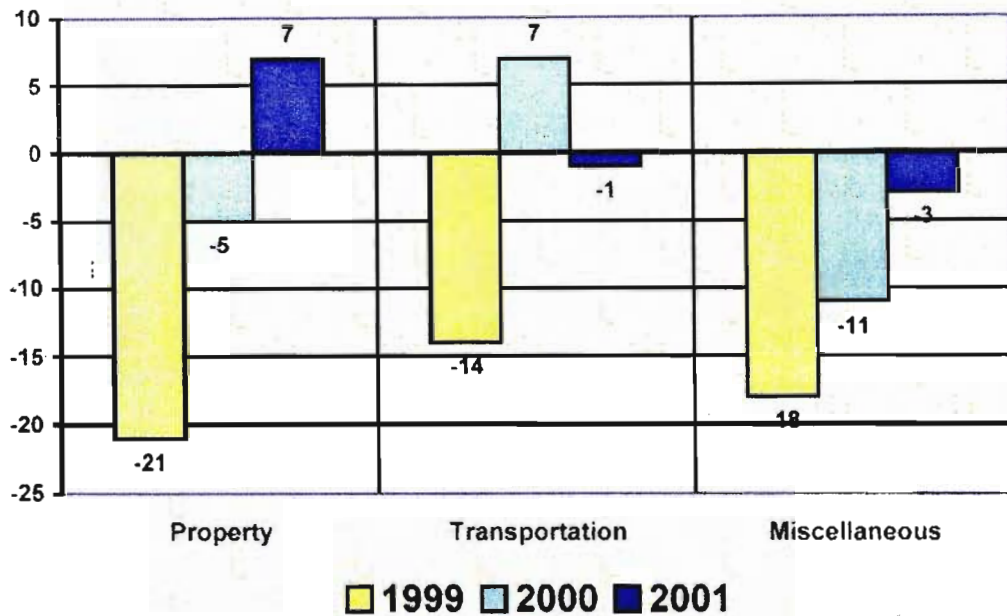

3.18 ECONOMIC TRENDS IN THE INSURANCE INDUSTRY

The types of unanticipated events that occur can provide a challenge to the asset allocation process, but are part of the short-term fluctuations that are managed and incorporate into assessments. Processes are constructed to manage the risk associated with market timing and is reflected in the fairly minor shifts in the asset mix made throughout the year.

3.18.1 CONTRIBUTION TO GROSS DOMESTIC PRODUCT (GDP)

This graph shows the contribution by the long- and short-term insurance industries to the GDP from 1994 to 2001:

**FIGURE 3.10 -CONTRIBUTION BY THE LONG AND SHORT-TERM INSURANCE INDUSTRIES TO THE GDP.**
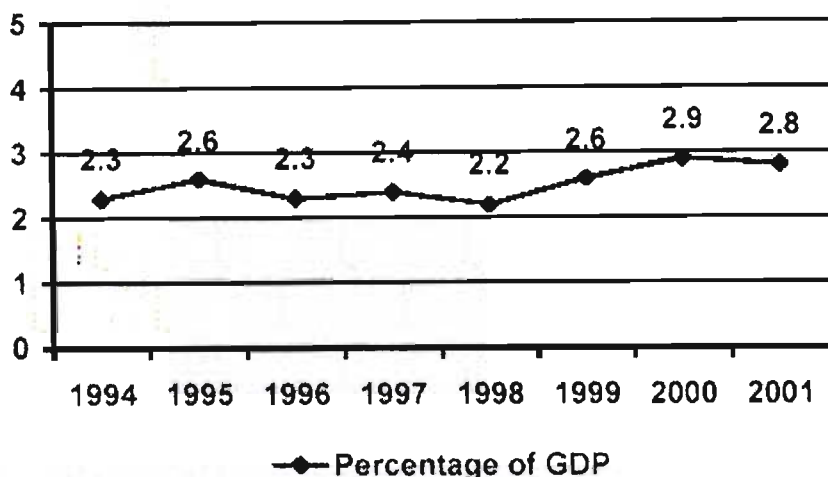
Source: South African Reserve Bank

3.18.2 EMPLOYMENT

The number of people employed in the long- and short-term insurance industries decreased from 61 780 to 58 476 between December 2000 and December 2001. Employment figures are represented as follows:

FIGURE 3.11 EMPLOYMENT FIGURES FROM DECEMBER 2000 TO DECEMBER 2001
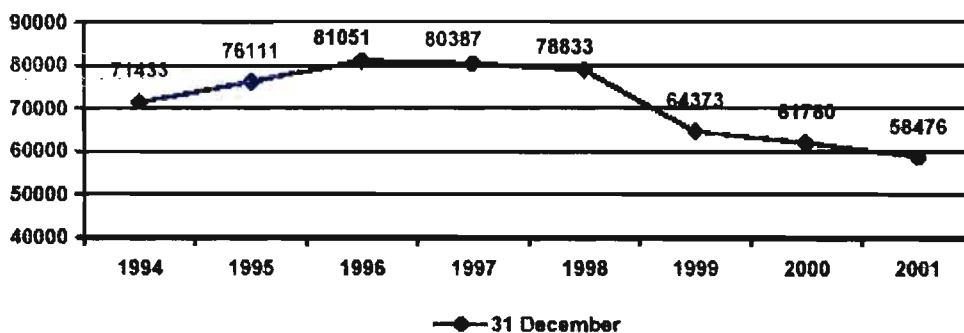

Source: Statistics South Africa

Attempts to provide services more efficiently to policyholders lead to the development of more sophisticated information technology applications. This, together with the drive to reduce expenses, resulted in an ongoing decrease in the number of people employed in the industry. Consolidations in the industry also lead to a reduction in the workforce (INTERNET 11).

3.18.3 THE MARKET CAPITALISATION OF THE INSURANCE SECTOR ON THE JOHANNESBURG STOCK EXCHANGE (JSE)

The market capitalisation of the short-term insurance sector on the JSE amounted to R18.5 billion on 30 June 2002, or 1.03% of the total market capitalisation of the JSE. In December 1998 Sanlam was listed on the JSE and market capital increased by R19 billion. In July 1999 Old Mutual was listed on the JSE, resulting in market capital increasing by R45 billion. Both companies are long-term insurers. The graph shows the market capitalisation of the combined long- and short-term insurance sectors on the JSE over the past eight years, as at 30 June each year.

FIGURE 3.12- THE MARKET CAPITALISATION OF THE COMBINED LONG AND SHORT-TERM INSURANCE SECTORS ON THE JSE.

R'billion
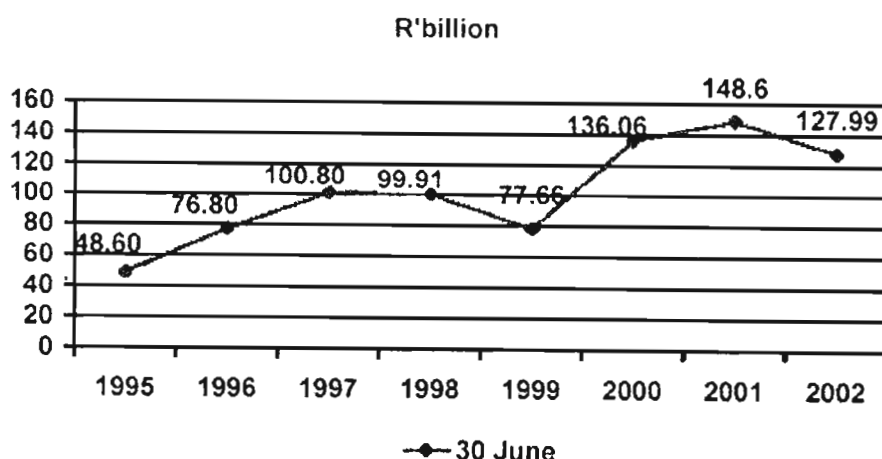
Source: JSE

3.19 ADVISORY COMMITTEE

The Advisory Committee is a statutory committee appointed by the Minister of Finance to investigate and advise on matters relating to the short-term insurance industry. The Policyholder Protection Rules, developed under the guidance of the Advisory Committee, were promulgated as from 1 July 2001.

3.20 PROTECTION OF POLICYHOLDERS

The disclosures referred to in these rules enable a policyholder to make informed decisions regarding short-term insurance products and ensure that the parties involved conduct business fairly and with due care and diligence.

The rules require insurers to submit a written report to the registrar within a period of four months after the end of every financial year detailing the steps taken to ensure compliance with the rules, problems experienced and full details of complaints received by the insurer. This rule became effective from 1 January 2002. The registrar is required to compile a compliance review based on these reports and to submit this review to the Advisory Committee for consideration. The first compliance review will be published in the next annual report.

3.21 LLOYD'S BUSINESS

The Act permits Lloyd's to carry on short-term insurance business in South Africa through Lloyd's correspondents. The authorisation of the correspondents is the responsibility of the Lloyd's Representative Office in South Africa. Lloyd's correspondents do not submit individual returns to this Office. The reporting function has been consolidated and one return is submitted by the Lloyd's Representative Office in South Africa. Lloyds conducted business in all eight classes of business and the total gross premium income amounted to R1 322 million, making them the fifth largest insurer.

3.22 FINANCIAL ADVISORY AND INTERMEDIARY SERVICES BILL

The Financial Advisory and Intermediary Services Bill proposes to regulate the rendering of certain financial advisory and intermediary services to clients, to provide for matters incidental thereto and to amend certain laws. In terms of

the bill no person may act as a financial services provider unless such person has been licensed. The bill was promulgated on 15 November 2002 and consideration of application for licenses will commence during the first quarter of 2003.

3.23 CONGLOMERATE SUPERVISION

The Financial Services Board (FSB) continues to perform conglomerate reviews on insurance groups with the co-operation of the insurers' management. The reviews highlighted certain areas of concern resulting in the improvement of insurance legislation and regulation. The FSB is continuing with the investigation of the introduction of a formal

approach to conglomerate supervision and in this regard international developments are closely monitored and researched. Future developments may include the introduction and implementation of regulations for insurance groups and, subsequently, for financial conglomerate groups.

3.24 COMMISSION REGULATION

Regulations to effect the removal of the statutory ceilings that limit the amount of commission to be paid to intermediaries on corporate and commercial business in the short term insurance industry were drawn up, submitted to the National Treasury, and approved by the Minister of Finance. The decapping of commission on this business will become effective on a date to be decided by the registrar after the Financial Advisory and

Intermediary Services Act becomes effective.

3.25 ROAD ACCIDENT FUND

The financial position of the Road Accident Fund has continued to deteriorate, reporting a R13.3 billion deficit at 30 April 2001 and, for the first time, the fund experienced a negative cash flow in a financial year. Although management has implemented corrective action, and efforts are being made to reduce fraud, it is critical to find solutions for the sustainability of its business.

3.26 AMENDMENTS TO LEGISLATION

The Insurance Amendment Bill, 2002 was approved by cabinet and published in the Government Gazette for comment. It is envisaged that this bill will come into operation during the first quarter of 2003.

The bill provides for amendments to the Long-term Insurance Act, 1998 and the Short-term Insurance Act, 1998 following an intensive review by the Registrars of Long- and Short-term Insurance of the administration, implementation and efficacy of the two acts since their promulgation a few years ago. Amendments proposed would rectify certain textual errors and remove certain provisions that have become redundant, and will otherwise promote more effective supervision, regulation and consumer protection. Most of the amendments are effected in an appropriately adjusted manner to basically similar provisions in both the acts dealing, inter alia, with certain definitions, advertising, changes to insurers' names, new empowerments for reinsurers, notifications of certain termination of appointments and resignations by members of insurers' managing executives and immaterial misrepresentations by policyholders.

3.27 THE OMBUDSMAN FOR SHORT-TERM INSURANCE -ANNUAL REPORT 2001

The Ombudsman for Short-term Insurance functions under the auspices of a voluntary arrangement. The office of the Ombudsman for Short-term Insurance was incorporated as a section 21 company on 1 January 2001.

The number of complaints received by the ombudsman increased from 2 275 in 2000 to 2464 in 2001.
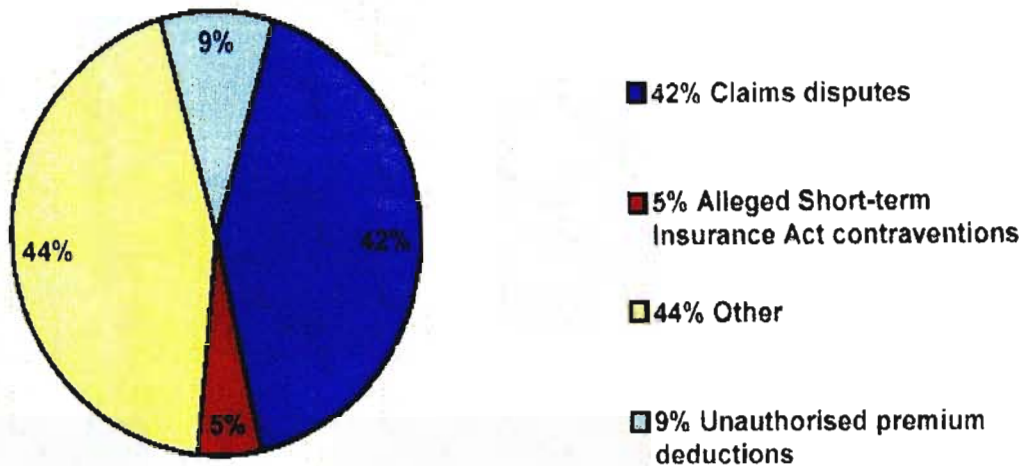
3.28 CONSUMER COMPLAINTS

Four-hundred-and-forty-three complaints were received during the period under review and 82% of these were resolved.

Consumer complaints can be broadly categorised as follows:

FIGURE 3.13 – CUSTOMER COMPLAINTS

- ■ 42% Claims disputes
- ■ 5% Alleged Short-term Insurance Act contraventions
- □ 44% Other
- □ 9% Unauthorised premium deductions

INTERNET 11

3.29 CONCLUSION

The foregoing internal and external analysis has identified a number of key issues pertinent to the choices of strategic direction of The Company. These external factors have an impact on employment, investment and other related conditions in The Company's conditions. The Company faces competition from companies whose core business is short term insurance only. These competitors seek to retain customers through the effective service they offer their clients. The internal process (claim process), which is bogged down by paperwork and lack of understanding of the clients needs would be dealt further in chapter 4 and chapter 5.

CHAPTER 4 - EVALUATION OF THE COMPANY'S STRATEGY

4.1 INTRODUCTION

Charting the future direction of The Company requires an assessment of both the internal and external environment, which The Company operates in. This would aid in the decision making process about the future of The Company. Utilising the strategic tools (GAP Analysis, Porters five forces, PEST analysis and SWOT) we would be able to identify the players in the industry with a view to determining their current strategic position and possible future actions.

4.2 THE GAP ANALYSIS

Gap analysis is a technique that can be understood in many different ways. The common theme running through all the definitions of gap analysis is not surprising, the word "gap". The dictionary defines the word "gap" in a number of ways:

➢ as a physical space between things

➢ as a period of time when not involved in a particular activity

➢ when something is missing that prevents the successful completion of an activity

➢ as a great difference between two things, people or ideas

An analysis of all four of these forms of "gap" can be considered as gap analysis. Recognition of the fact that a "gap" exists is only one stage in the process.

4.2.1 Questions that centre around the approach to the Gap Analysis:

4.2.1.1. Where are we now?

4.2.1.2. Where do we want to get to?

4.2.1.3. How do we get there? (Ambrosini, Johnson and Scholes. 1998).

4.2.1.1 WHERE ARE WE NOW?

To ascertain exactly where The Company lies in regards with the type of service they offer their clients, interviews were administered with the motor

claim administrators and clients. After tabulating the results, a diagram was drawn to illustrate exactly in which continuum of service quality, the clients and administrators, feel that the level of service quality is offered.

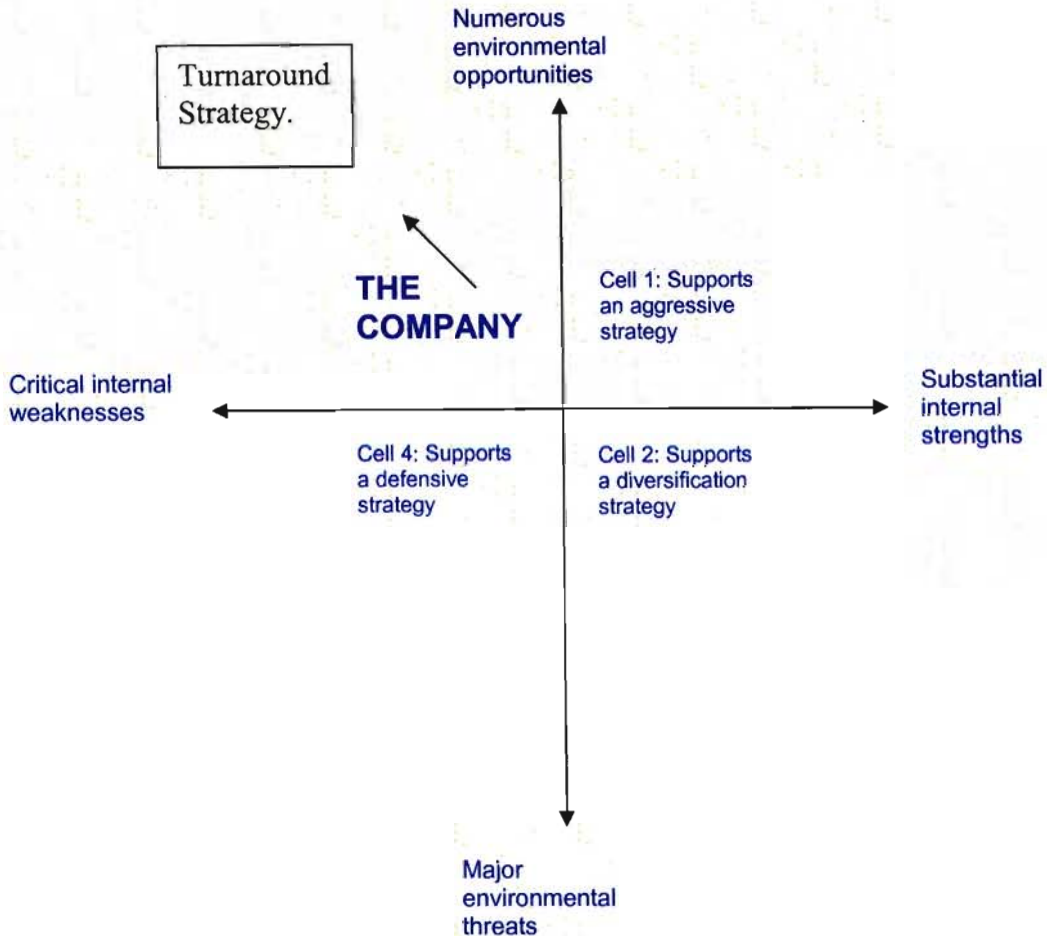**FIGURE 4.1- LEVELS OF SERVICE QUALITY**
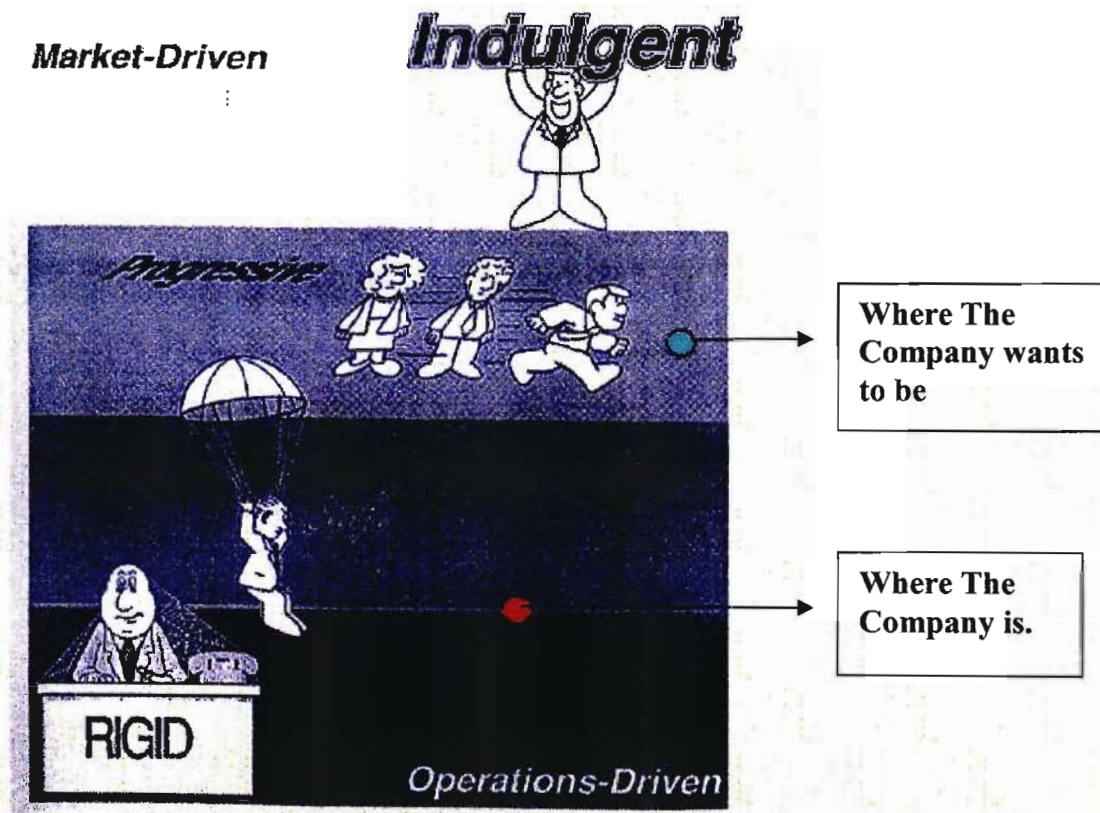
From the above diagram, one can ascertain that the clients and administrators feels that the service that The Company offers borders on the rigid and safe zone of service quality.

❖ SWOT ANALYSIS

With the aid of the Swot diagram The Company falls in Cell 3 as illustrated below.

FIGURE 4.2 – SWOT DIAGRAM

Source: Pearce & Robinson.2000

There is impressive market opportunity but is constrained by internal weakness. The focus of strategy for such a firm is eliminating the internal weaknesses so as to more effectively pursue the market opportunity. (Pearce and Robinson.2000.).

• Strengths

The Company is a financial institution, which through many acquisitions of various banks, have become a stable player in the South African economy. They boost a strong financial condition and therefore ample financial

resources are available to grow and strengthen the insurance sector of their business. They have a strong company reputation that is strengthen by their brand. The Company as a whole is a market leader and has an attractive customer base that could filter through to the insurance division with the correct strategy. The Company invests in strong advertising and promotion so that people can identify instantaneously with their brand.

- **Weakness**

The motor insurance division has no clear strategy. Processes and procedures are carried out without questioning the reason and logic behind it. Computer systems are obsolete and capabilities are not relative to rivals.

Details of the claim are captured on the system, from the claims form, which the client has completed. These are the only details that an administrator can get from the computer system, which is duplicated of the claim form. If a client calls to query the progress on a claim, the administrator goes to the filing cabinet, fetches his file and tries to ascertain exactly what has been done so far. There are six claim administrators. Clients are divided into sections according to the surnames. Each administrator is responsible for certain sections e.g. A- L – administrator 1. If an administrator is absent, it is difficult for other administrators to assist those clients and usually informs the client that the administrator is on sick leave and will be back the next day. there is no sense of teamwork and cooperation amongst staff. This delays the claims and the client often gets irate, as they would expect someone else to assist them. Only if the client goes to management to complain, an administrator will be allocated to take over the claim until finalised. No training is provided to the new staff on the products offered and operating the computer programmes. The only training provided is, on the job training. The policy documents are long and tedious and not written in simple English, which makes it difficult for the average person to understand the insurance terminology.

- **Opportunities**

The Company only offers comprehensive insurance cover to their clients. By expanding their product segment to Third Party, Fire and Theft Cover and

Third Party Cover, they would be meeting the a broader range of clients needs. By exploiting new emerging technologies they would be able to design a computer programme which enables them to provide efficient service that does not require the opening and closing of files. This would lead to excellent customer service and an opening to take market share away from rivals through excellent service quality.

The insurance division should trying to forging customer strategies that combine high touch with high tech, using modern IT tools to maximize the quality--not quantity--of relationships. By improving customer relationships, through the service you offer, the insurance division has the opportunity to gain new customers, generate higher revenue from existing customers, retain key customers, and increase sales of higher-margin products and services.

- **Threats**

Mounting competition from other insurance companies pursuing new technology that results in effective and efficient customer service. Increasing intensity of competition amongst the insurance rivals may cause a squeeze on the profit margins. There may be a shift in the clients needs away from the insurance products offered by The Company, and the client will have to look for another insurance company that offers her the products she is looking for.

❖ PORTERS FIVE FORCES

- **The Rivalry Among Existing Players.**

Competitive jockeying among insurance company rivals can heat up when a competitor seeks an opportunity to better please customers or is under pressure to improve its market share or profitability. Rivalry amongst the insurance companies increases as the smaller companies such as Dial Direct Insurance and MIB Glenrand expand and becomes more equal in size and capabilities. The rivalry amongst the insurance companies is strong as the demand for insurance is growing slowly. Auto & General, and Budget Insurance have similar strategies. Their claims are captured telephonically and they invest in the latest technology that enables them to offer efficient

service. Theses companies sell the same products that The Company sells but provides their clients with a genuine quality of service, which makes the switching cost for clients high. There is not much differentiation between players in the insurance industry and their products; hence, there is much price competition.

- **Supplier Bargaining Power**

The term 'suppliers' comprises all sources for inputs that are needed in order to provide goods or services. The insurance industry is dominated by a few large suppliers such as banks, brokers, panel beaters and tow trucks. There are no substitutes for the particular input as a client would have to take their vehicle to SAMBRIA approved panel beater to have their vehicle repaired. If a client has a broker, the broker "bargains" for the best quote on behalf on the client. So, if a broker offers the client a cheap premium, which takes into account all the clients needs, the client would opt for that and that makes the bargaining power of the high. Without the insurance companies. Auto & General have a panel list from which their clients have to choose a panel beater. The Company allows the client to get three quotes from a SAMBRIA approved panel beater and once the vehicle assessor audits it, he allocates the panel beater that is reasonable regarding their labour, mark up etc.

- **Bargaining Power Of Customers**

Similarly, the bargaining power of customers determines how much customers can impose pressure on margins and volumes. Clients are price sensitive. They would usually choose the insurance policy that offers them the cheapest premium but they are unaware if they have chosen the correct cover to serve their needs. Switching to an alternative product e.g. from Comprehensive cover to Third Party cover, may be much cheaper, but it will not cover a client who has bought a brand new vehicle and who's vehicle has been stolen.

- **Threat Of New Entrants**

The competition in an insurance industry will be the higher, the easier it is for other companies to enter this industry. In such a situation, new entrants could change major determinants of the market environment (e.g. market shares, prices, customer loyalty) at any time. There is always a latent pressure for reaction and adjustment for existing players in this industry.

The threat of new entries into the insurance industry is very minimal has the new player will have to come from a strong and stable financial background. There are high initial investments and fixed costs.

- **Threat Of Substitutes**

A threat from substitutes exists if there are alternative products with lower prices of better performance parameters for the same purpose. They could potentially attract a significant proportion of market volume and hence reduce the potential sales volume for existing players. Insurance arises out of the risks we all run in the course of living. Our lives are constantly in danger through accidents; our property may be subject to loss or damage, while losses incurred by others may affect us in some way or another. We also run the risk of causing injury or damage to other people or their property at a subsequent heavy cost to ourselves. There, is thus a constant striving for security, for some means of eliminating a risk, reducing it or transferring it to someone or something better able to bear it. This becomes a matter of growing importance as economic life develops because of the increasingly onerous burden of risk thus there is no substitute for an insurance policy. .

❖ **PEST ANALYSIS**

- **Political-Legal Environment**

This includes the regulatory parameters within which The Company must operate. Tax policy, trade regulations, minimum-wage legislation are just a few kinds of political-legal issues that can affect the strategic plans of The Company. The political-legal environment an insurance company often varies dramatically from nation to nation. As a consequence, insurance companies

that operate internationally must develop a strategy for dealing with multiple political-legal systems e.g. Dial Direct.

- **Economic Environment**

This component of the general environment is represented by the general state of both the domestic and the world economy. The health of the domestic economy is reflected by variables such as total gross domestic product (GDP), growth in the GDP, interest rates, the inflation rate, the consumer price index, and the unemployment rates. Similar measures can be used to evaluate the world economy. The economy is generally considered to be a strong determinant of the demand for goods and services. Consequently, forecasts of past economic activity will influence the strategic plans of The Company.

- **Sociocultural Environment**

This component is represented by the attitudes, behaviour patterns, and lifestyles of the individual who ultimately purchase the policy or services of The Company. The analysis must consider demographic conditions and trends. As these aspects of the sociocultural environment change, so must the strategy of The Company that are affected by such changes. Many aspects of the sociocultural environment are specific to certain nations or groups of nations.

- **Technological Environment**

Technological forces are the final component of the general environment in which The Company operates. They include changes in technology that affect the way the organisation operate or the products and services they provide. To keep abreast of technological trends, many companies engage in technology forecasting. Unfortunately, The Company does not. Such forecast identify trends in technology that require adaptation on the part of the company. They feel that the technology that they currently are using will suffice, as it is not a contributing factor of service quality. They prefer to use paper and pen at all times. The most significant technological advances of the

recent past have been related to information technology. The advent of the Internet has changed the way industries function, organisations operate, and consumers purchase goods and services. The success of virtually all companies today is dependent, at least in part, upon their ability to identify and respond to technological changes.

4.2.1.2 WHERE DO WE WANT TO GET TO?

It has been established that we are bordering on the rigid and safe zone of service. The rigid zone could also be called" inferior customer service". As the poorest level of service, it is 99% operations – focused. Safe service remains risk-free, courteous, and perfunctory. Individual needs are not taken into consideration. The rigid and safe zones have something in common; they remain within clearly defined parameters and only fix something when it's broken.

The aim is to get to the progressive zone of service quality. Progressive customer service is a market –focused philosophy that makes the customer an obsession. The goal of progressive customer service is to delight customers by managing their expectations and then providing service that meets and exceeds those expectations. This kind of service is rendered thoughtfully. Customers get what they want, not what the company wants them to have. It provides an immediate benefit to the customer, with short and long term benefits for the company. The amount of goodwill generated is tremendous. Customers develop a sense of loyalty and feel cheerfully compelled to do business with you. Service in this zone is delivered with sensible flexibility.

4.2.1.3 HOW DO WE GET THERE?

This would be dealt with thoroughly in Chapter 5.

4.3. CONCLUSION

The Company has many opportunitities available to them but because of its inefficiencies in being service orientated, they are losing market share. The competitors, whose core competency is short term insurance through customer service, use more advanced technology and service quality strategies to provide better and efficient service. The outcome of the analysis is the realisation that The Company finds itself in a position in which it depends on the strength of the holding company to carry it. The Company has the financial support of the holding company and thus should adopt a turnaround strategy in order to compete on the same footing as the rest of the insurance companies.

CHAPTER 5 - RECOMMENDATIONS AND CONCLUSION

5.1 INTRODUCTION

In the final chapter, I would make recommendations on how to close the gap between where The Company currently is and how it is going to achieve its goal. The review of literature has provided the foundation to the turnaround process that The Company needs to adopt in order to be successful in providing excellent service that leads to customer satisfaction.

5.2 REENGINEERING

Hammer (1993) defines reengineering as the fundamental rethinking and radical design processes to achieve dramatic improvements in critical contemporary measures of performance such as service, cost, and speed.

Janson (1992) notes that by focusing on making improvements in all dimensions of the service organisation-human dimension, work process dimension, and the technological dimension-reengineering helps companies overcome systematic work barriers that interfere with efforts to achieve higher levels of customer satisfaction.

5.2.1 The Three R's of Reengineering

Every re- engineering effort involves 3 basic phases:

➤ **Rethink:** The Company should examine their current objectives and underlying assumptions to determine how well they incorporate the renewed commitment to customer satisfaction. They should exam those areas that clearly set them from the competition.

➤ **Redesign:** This requires The Company to analyse the way they produce products or service it sells, how jobs are structured, who accomplishes what tasks, and the results of each procedure. Then, a determination must be made as to which elements should be redesigned to make jobs more satisfying and more customer focused.

> **Retool:** This requires a thorough evaluation of the current use of advanced technologies, especially electronic word and data processing systems, to identify opportunities for change that can improve quality of service and customer satisfaction (Omachonu and Ross.1994).

5.2.2 The Impact of Reengineering On The Service Industry

According to Janson (1992), reengineering is not a single technique. It represents a major advance over conventional management strategies for improvement. As an integrated approach, it involves three dimensions of a service organisation:

- **The Human Dimension**

To achieve a stronger customer focus, employees at all levels must adjust their thinking and recognise that customer satisfaction is the overriding goal. The Company should engage in formal training to help employees become better listeners, probe for customer concerns more effectively, or satisfy customer needs more creatively. The motive in reengineering is to become more motivated to provide superior service and be skilled at doing it.

- **The Work Process Dimension**

Work systems must be designed not according to their internal logic or any external definition of efficiency, but according to how well they satisfy customer needs. This sometimes requires structural changes in The Company, changes that do more than just revamp job descriptions. It means setting up work teams to perform all the functions once divided among the several departments or combining several individual jobs to create one multi-skilled customer service professional. Total re-evaluation of management's role in the company comes into play, and lower level employees typically assume far greater responsibility for service quality.

- **The Technology Dimension**

New technologies should be introduced not only because they are more advanced, but because they truly support the company's in its drive to achieve higher customer service. Distribution access computer systems can be used to lessen the need for callbacks and transfers and give those who

actual service the customer easier access to important information. Most importantly, technology problem should be used to automate secondary work functions, leaving the claims and clients service operators free to concentrate on more critical matters, such as satisfying customer needs and solving

5.2.3 Benefits of Reengineering

Rohm (1992/3) proposes some important benefits of reengineering:

> **Revolutionary thinking:** Reengineering will encourage the company to abandon conventional approaches to problem solving and "think big".

> **Breakthrough improvements:** The slow, cautious process of incremental improvement leaves many companies unprepared to compete in today's rapidly changing marketplace. Reengineering will help the company to make noticeable changes in the pace and quality of their response to customer needs.

> **Organisational structure:** Through reengineering, the company can be transformed from a factory-style company that is essentially rule driven and job cantered to a marketing organisation that focuses directly on the customer. The current primary objective of the company is to identify real customer needs, rather than create products that ignore the needs and wants of the customer.

> **Organisational renewal:** Reengineering often results in radically new organisational designs that can help the company respond better to competitive pressures, increase market share and profitability, and improve cycle times, cost ratios, and quality.

> **Corporate culture:** Perhaps the major accomplishment of the reengineering effort is the changes that occur in the corporate culture and in the basic principles by which departments operate. Employees at all levels, from claims to administration, should be encouraged to make suggestions for improvements and to believe that management will listen to what they have to say. However, management will struggle to draw people into the participative process, as this would be a totally new culture the employees are faced with after. Reengineering will eventually help the

culture in the company to evolve from an insular one to one that accepts change and knows how to deal with it.

➤ **Job redesign:** Reengineering will help create more challenging and more rewarding jobs with broader responsibilities for employment. Employees who were used to performing only one task over and over are now involved in the entire process of prospecting for customers, making a sale, and processing and submitting applications (Omachonu and Ross. 1994).

5.3 RECASTING STRATEGY

FIGURE 5.1

THE TOTAL QUALITY SERVICE MODEL.
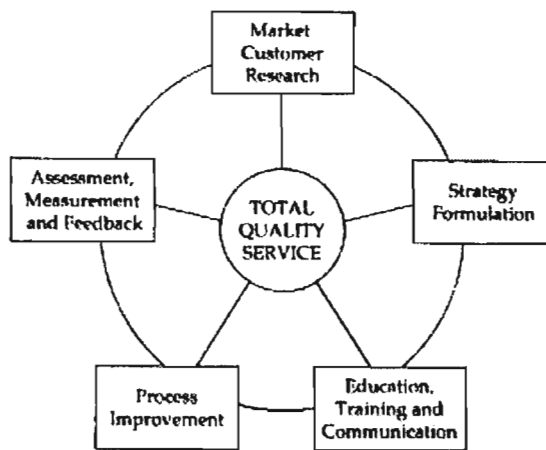
Source: Crego and Schiffrin.1995.

Changing times require changing strategies. They key to success for the claims department is to focus on customer services. The company should start by defining a set of customer- orientated values and then instilling them in the employees and rewarding employee performance based on those values. By making customer satisfaction a cornerstone of it strategy, The Company would be able to compete on the same footing as the rest of the short term insurance companies. Creative strategies for creating total customer value are built to strive for the seamless customer experience. Another strategy can be co-ordinating tasks and processes and enhancing them with services that get closer to the customer as we approximate total

116

customer value e.g. when a client has a vehicle accident and the vehicle is not drivable, the first call the client should make is to her insurance company. A motor claims consultant should be able to dispatch a tow truck, that would charge a reasonable rate, to the accident scene, so that the vehicle could be towed to a recognized panel beater, where no storage costs are incurred. A vehicle assessor should then be appointed immediately. Once the client is safe at home, a claim form could be e-mailed to her so that she could complete is and e-mail it back to the claims consultant. Once all the relevant checks are done, the client should be informed of her excess and the panel beater should be faxed authorization to start repairs on the vehicle.

5.4 REDESIGNING COMPUTER SYSTEMS

The Company are currently using computer programmes that are outdated as they feel that more attention needs to be dedicated to paper work, which results in duplicate work. Departments are segregated and computer programs are restricted to certain departments, which result in inefficient service if a client calls the wrong departments and has a query. If a motor claims consultant needs to check details on the policy, she would have to go to the underwriting department and request for policy schedules to be printed.

5.4.1 Planning A Computer Based Quality Information System (QIS)

The planning of a new computer based quality system can be very complex. The Company will have to start with an analysis of the customer needs, creation of a design specification for the system, and preparation of a proposal indicating costs and time required. If management approves the system, it would be developed, tested, and implemented. The system must be tailored to meet the needs of both internal and external customers of the company. When planning the system the following principles are generally applicable.

➢ The system should be designed in such a way that it makes it possible to receive and process information by means of a telephone call, letters, or other media, even though information is received on special claim forms.

- Provide flexibility for meeting new data needs.
- Provide for collection of data on three time phases: real time (continuous), recent (minutes to hours) and historical (extended time).
- Provide for eliminating collection of data that are no longer useful as well as reports that are no longer needed. This requires a periodic audit of the use (or lack of use) of the data and reports.
- Issue reports that are readable, timely, and have sufficient useful detail on current problems to facilitate investigations and corrective action and also provide early warning of potential problems
- Prepare summary reports covering long periods of time to highlight potential problem areas and show progress on known problems
- Keep track of the cost of collecting, processing, and reporting information and compare this cost to the value of the information (Juran and Gryna.1993).

Typically, the quality information system becomes a reality through software

5.4.2 Creating The Computer Software Program

Computer programming spans the spectrum of complexity, depending on the processing that is desired for the information. The followings steps are usually required to create a program:

- Studying the present system of information flow and the desired outputs for the future. The present system should be thoroughly reviewed before proceeding with the development of a program. A system flowchart analysis and data flow diagrams are usually necessary. In this step, thorough communication between the programmer and the user of the information is essential.
- Developing a programming plan. The programmer develops an approach for the project. This approach can include deciding on input and output media (with the user), deciding on what programming language to use, and deciding whether to use already prepared (canned) programs.
- Detailing the processing operations. The programmer prepares detailed flowcharts, describing all elements of input, processing, and output of information. These charts are drawn with special programming symbols and they become the basis for writing the actual program. The step

includes provision for coding the input data to prepare the data for the computer.

➢ Writing the program. The program consists of a sequence of instructions written in a particular programming language and meeting the rules set up for that language

➢ Reviewing the program for errors. This "desk check" (typically done by a programmer) and a "code walkthrough"(done by a programmer and peers) are necessary because of the difficulty of writing even a moderate-size program without making errors

➢ Testing the program on the computer and making corrections as required

➢ Documenting the program. The documentation is generated throughout the development phases and includes the flowcharts, the list of program steps, the output format, and special instructions (if needed) for the operator of the computer

➢ Evaluating the program. This starts with the adequacy, to the user, of the output. The evaluation also includes the degree of documentation, the utilization of prepared programs, and the utilization of the full capacity of the computer

➢ Providing for training. New software is a mystery to many users, and training must be provided to encourage its use and make its application successful (Juran and Gryna.1993).

5.5 RESHAPING STRUCTURE – The Insurance Value Chain

Many companies change their structure as part of change efforts. Most, however do it incorrectly. They restructure with a "function follows form" mentality and assume that they can do whatever they want to structure with little to no attention to its impact on the customer. If the purpose of The Company is to create total customer value, then they should look at how all the departments or divisions lends itself to a customer being correctly insured thus making the claims process problem free.
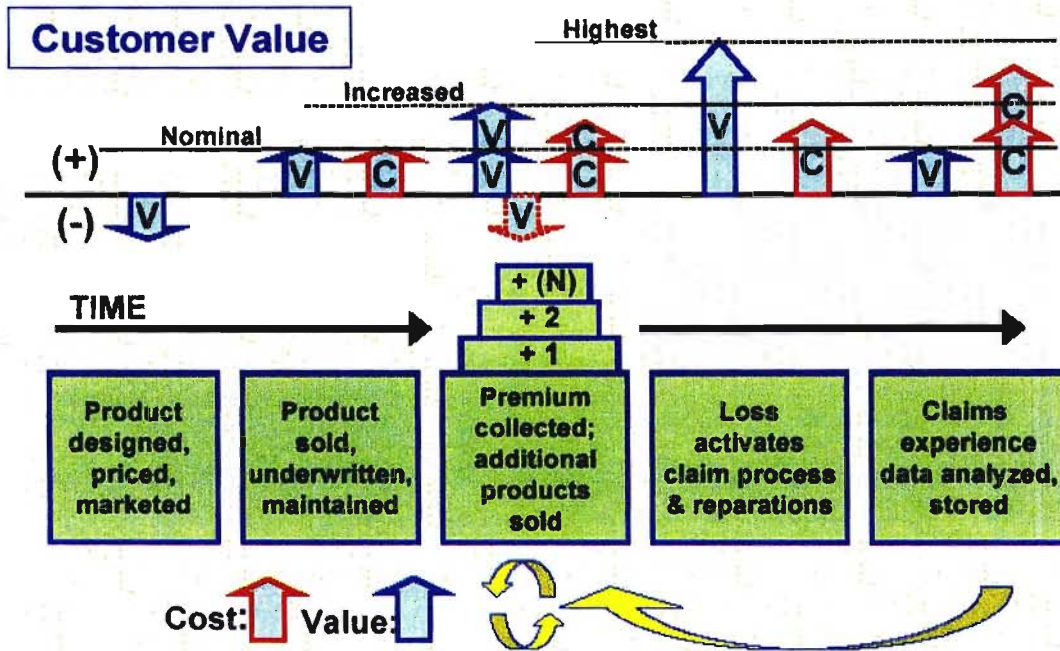
FIGURE 5.2 - CUSTOMER VALUE

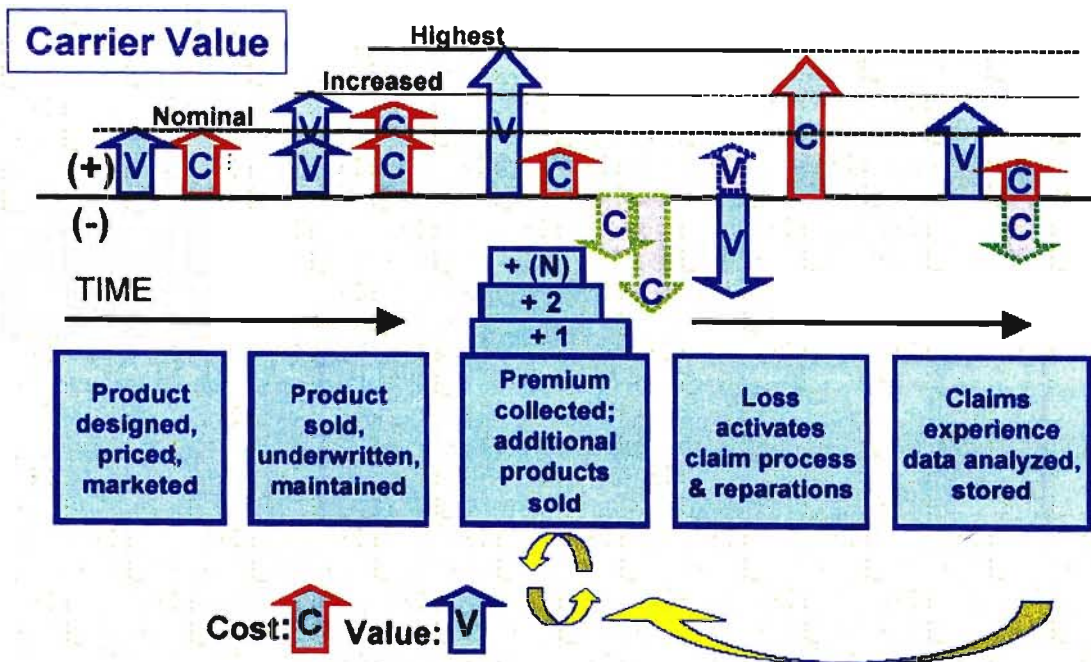**FIGURE 5.3 - CARRIER VALUE**

INTERNET 12

FIGURE 5.4 - INSURANCE VALUE CHAIN

Insurance Value Chain

A. The processes, steps, and operations that support the delivery of risk management products and services to consumers and business.

B. Exchange of information, monies, and services needed to accomplish A.

C. Must consider and include both internal and external components and the links between them.
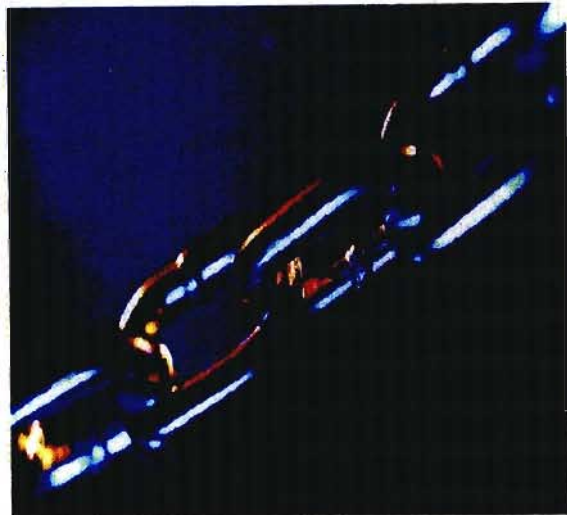
External Value Chains:

Exchange goods, services, and information between carrier, policyholder, claimant, and each other.

- **Distribution Channels**
    - ✓ Independent & Captive Agents
    - ✓ 3rd Party (Banks, Brokers, CPAs, CFPs, etc.)
    - ✓ Internet (portals, aggregator, virtual agency, search engines)
- **Service Providers**
    - ✓ Life – MIB, APS, Credit Bureaus, Medical support
    - ✓ P&C – DMV, Credit Bureaus, Repair Shops, Car Rental, Contractors, Replacement Services
- **Advertising / Marketing** – with all above

Internal Value Chains:

Exchange goods, services, and information among carrier departments in support of policyholder, claimant, and each other.

- **Product development**
  - ✓ Actuaries, Marketing, Agency Operations
  - ✓ Pricing, Underwriting, Customers
  - ✓ 3rd Party rating services, data aggregators, regulators
- **Service Providers**
  - ✓ Agency Operations, Underwriting , Claims Management
  - ✓ Billing, Compliance, General Council, Reinsurance
  - ✓ Contact & Service Centers

FIGURE 5.5 - CLAIMS PROCESS

Policyholder / Claimant

Adjuster

Repair Shop

Car Rental

Claims Manager

Agent

Jones: I had an accident !
Where are the preferred shops?
Which ones are best?

Agent: Start claim; reply
Contact / schedule adjuster
Who's available

Jones: should I have to pay for the rental?

Shop: Parts not in yet.
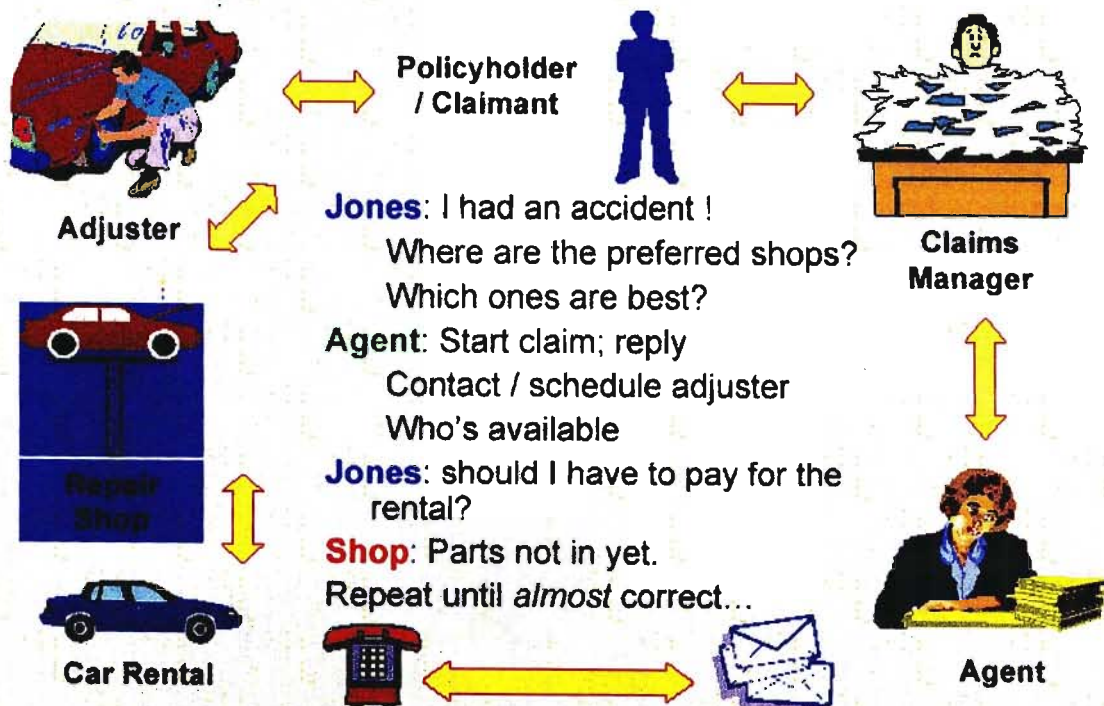
Repeat until *almost* correct...

FIGURE 5.6 VALUE CHAIN IMPERATIVES

Value Chain Imperatives

- **Accelerate Communications**: To assure improvements in customer relations and retention, all events need to be communicated quickly and confirmed.

- **Automate Metrics Exposure:** Value chains are valuable only to the extend that process steps can be monitored and action taken to address problems.

- **Adaptability**: Processes need to be able to react to the steady pace of change within insurance such as new products, regulations, and events.

The Next Step: Web Services

- **Evolutionary**: Fulfills promise of the last 40 years of computing – computers "talking" to each other.

- **Standards based:** Promoting the use of standards will improve the reliability and accountability of insurance in general.

- **Automation where it is needed**: Answers the question, "Why can't your computers work together?"

FIGURE 5.7- TECHNOLOGY DIMENSION

- Why Web Services?
  - Uses e-enablement efforts
  - Open by design
  - Builds IT value
- Value of Standards
  - ACORD
  - Data models, XML

(Diagram labels: Review Policy Provisions ← Report LAE ← Review SLA ← Available Tues... ; New claim ; FNOL Agent Adjuster → Reply to claimant → Confirm Provider → Auto Schedule ; Repair Shop)
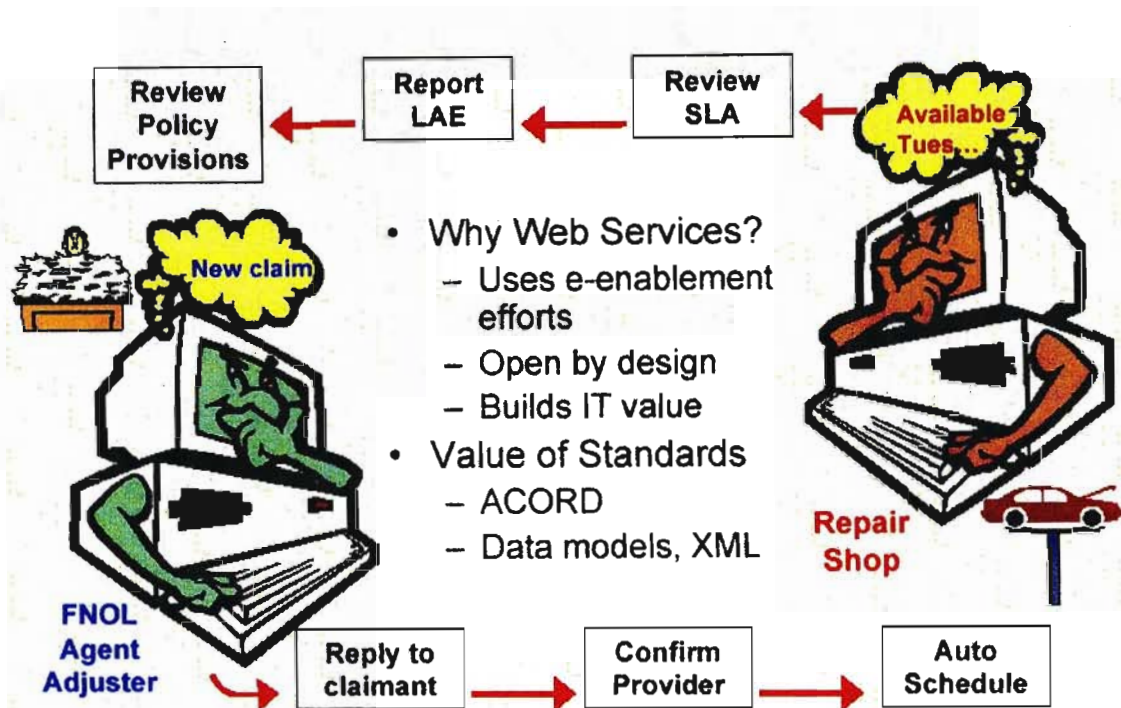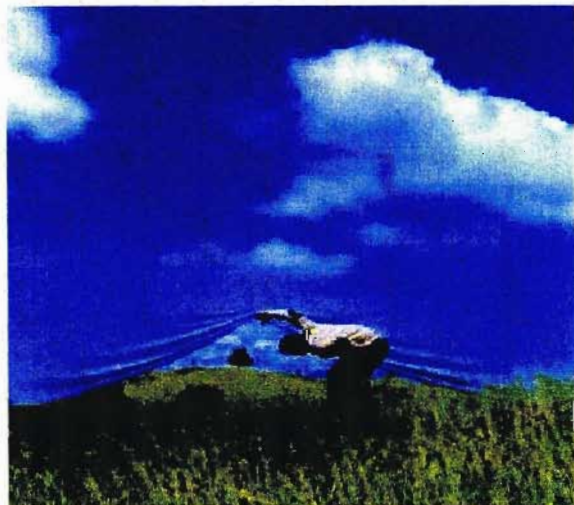
FIGURE 5.8 -TOMORROWS VALUE CHAIN

Tomorrow's Value Chain

The role of automation in supporting the value chains with the financial services will only increase:

- Volume and complexity of information is expanding at a tremendous rate

- Increased use of intelligent systems within the value chain

Customer Value Centricity Tomorrow: Real Time Value Chain

- **New Customers:** Every new customer causes the generation of an autonomous software agent (ASA) in the OODBMS.

- **Interactions:** The ASA receives all customer interaction data and stores it for value calculations.

- **Automation where it is needed**: The ASA is called upon to provide critical customer information regardless of touchpoint or person initiating request. Includes portals, CSRs, policy processing, periodic value calculations (better rates, accident forgiveness, etc.), body shop, car rental.

INTERNET 12

5.6 REAWAKENING PEOPLE

Leveraging creativity in the interest of total customer value requires the empowerment of the employees. Establishing a framework for change that is appropriately tuned to what employees know and don't know and what they can do and can't do. It means creating opportunities for employees to stretch their talents and their responsibilities in a planned manner that helps them grow and add greater value to the customer. Recognition of the employees as individuals leads to the liberation of human creativity. This requires that some people work better as individuals than as members of teams. Others work better in team. Still others do best with a mix of individual and team involvement. While customer-cantered re-engineering requires that the employees have an appropriate degree of freedom to create the world on behalf of the client, it does not require that management must accept everything that any and all employees develop.

5.7 HOW TO BUILD AND MAINTAIN THE CUSTOMER RELATIONSHIP

FIGURE 5.9

THE CUSTOMER CENTERED REENGINEERING TRIANGLE
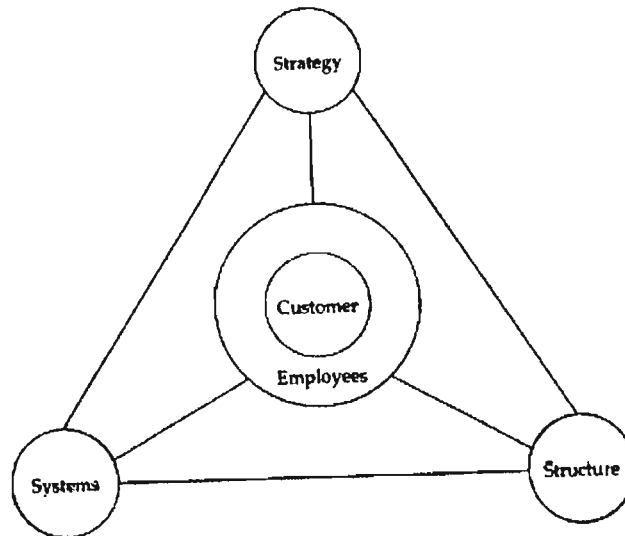
Crego and Schiffrin.1995.

5.7.1 Customer Focused: Showing commitment by proactively focusing on your client's needs wants and interests.

Staff with the above behaviour takes personal responsibility for the client. They think about a situation in terms of the client's needs, not their own. They focus on understanding the client's point of view and make a sincere commitment to providing solutions that best fit with the client.

IT IS:

➢ Developing a deep understanding of the client's industry and organisation to proactively identify potential opportunities for improvement or risks that may impact the client or other clients.

> Demonstrating an appreciation for the client's personal and organisational culture by acquiring knowledge with respect to cultural norms, beliefs and values.

> Continuously developing your own knowledge and skills to improve service to the clients

> Consistently exceeding the clients expectations

5.7.2 Following Through: Being persistent in following up to ensure that you deliver on promises.

IT IS:

> Meeting deadlines or completing tasks or projects in advance of deadlines

> Keeping the client personally informed of progress on a regular basis

> Ensuring any problems are dealt with immediately by the appropriate individual/team

> Developing and maintaining a network of relationships with clients, peers and colleagues in the industry to respond to requests, questions and opportunities raised by the clients

> Listening carefully to a clients subtle requests for information or assistance and providing it in a timely and appropriate manner

5.7.3 Empathetic: Showing a genuine concern for the clients' issues and well being.

People with the above behaviour have the ability to accurately listen and understand, seek additional relevant information and respond appropriately when interacting with others.

IT IS:

> Demonstrating concern for both business and non business issues; offering support through listening and making oneself available to help

> Consciously considering differences in communication styles and consistently matching your own style to establish and maintain rapport with clients

> Demonstrating accurate assessments and sensitivity to the cause for the client's behaviour

> Using appropriate verbal and nonverbal cues to demonstrate understanding and sensitivity (Zemke and Woods.1999.)

5.8 WHY LEADERSHIP IS IMPORTANT

Leadership helps makes strategy a day-to-day reality. Unless top managers profess the religion of customer service, employees will view the most elegant strategy as just another easily ignored public relations campaign.

Leaders of companies that produce outstanding service incessantly pronounce their beliefs and back up their words with actions, often-dramatic ones that become corporate legends. Their goal is to nurture a service culture that will shape employee behaviour more effectively than rules and regulations can. They make service everybody's business and empower workers to make on-the-spot decisions in the customer's interest.

Effective service leadership can be hard on middle managers accustomed to giving orders instead of coaching employees to act independently. But cutting through red tape and blasting bureaucracy is key to delivering great service.

No company can produce outstanding service unless its top managers are visibly, constantly, and sometimes irrationally committed to the idea. Taking care of customers is so much work that it gets done only if people at the top lead the charge. When they don't, the organisation naturally turns inward and concentrates on internal processes that are less demanding to work on. Everyone succumbs to the pressures of just doing their jobs instead of catering to the customer.

When a company lacks unremitting pressures from the top to realise a service vision, the daily unglamorous job of caring for existing customers loses out in competition with projects for winning new customers. It's the old story of grabbing for obvious, short-term profits at the expense of subtle, long-term gains.

Leaders shape culture, and culture is key to customer service. Much of service is key to customer service. Much of service is a social process, a web of interactions between employee and customer.

No company can triumph in customer service unless its leaders drive the process and drive it hard. Giving great service often calls for employees to ignore short-term profits; it always calls for them to do hard emotional work in order to create positive social processes.

"Leaders of companies that shine in customer service should adhere to three principles:

➢ Foster a service-orientated culture.

Leaders help create and nurture cultures by communicating values. They worship at the altar of customer service every day, and they do it visibly. They are personally involved in service activities. They back up slogans with dramatic, often costly actions. To inculcate values they stress two-way communications, opening their doors to all employees and using weekly meetings of work groups to inform, to inspire, and solve service problems. They put values into action by treating employees exactly as they want employees to treat customers.

➢ Make customer service everybody's business

Unless every employee assumes responsibility for the customer's experience, service dies. Leaders encourage each employee to feel and act as if he or she owns the company. They set impossibly high standards. They push responsibility and authority for service as far down into the organisation as possible, often using upside-down or concentric organisation charts to underline the idea that front-line employees are second in importance to customers.

➢ Declare war on bureaucracy

Red tape and recalcitrant middle managers will sabotage service every time. To produce effective, efficient customer service, leaders keep policies, procedures, and other formal control mechanisms to a minimum, relying

instead on cultural control. They re-educate middle managers and supervisors to focus on serving and supporting front-line employees, measuring their performance by surveying the service they render to internal customers. (Davidow &Utta.1989).

5.9 CONCLUSION

The processes that The Company is currently pursuing seem to be lending itself to the poor quality of service. It results in inefficient and ineffective service. Service which results in clients getting irate as they perceive that there is a lack of understanding of their needs and wants. A decision to adopt a turnaround strategy is seen as the most appropriate choice The Company should pursue. By implementing the above recommendations, The Company could position itself as one of the leaders in the insurance industry. The Company should present the South African consumer with a monthly Domestic Short Term Insurance alternative, based on innovative administration efficiency and a service-orientated approach. Technologically, the concept of computerised, telephonic insurance should be implemented to provide efficient and effective service. In the interest of enhanced service levels, a new Claims Philosophy should be developed to ensure specialised administration and claims focus. Implementation of the Core Value should be boosted by complete software upgrades and redesign of their strategy.

However, the choice of the turnaround strategy is only appropriate in the context of the issues discussed herein and in the present timeframe, hence, the landscape may change in such a manner to make a choice redundant. Therefore this particular choice must be seen as part of a web of strategic choices and should the landscape change, then all choices must be revisited to determine their appropriateness.

REFERENCES

1) Ambrosini. 1998. **Exploring Techniques of Analysis and Evaluation in Strategic Management.** Prentice Hall. London

2) Brown C. 2002. **Quality Pays Off.** Academy of Management Executive. Vol. 20 Issue 5

3) Crosby B., Devito R. and Pearson M. 2003. **Manage your customer's perception of quality.** Review of Business. Vol. 24

4) Crosby P.B. 1979. **Quality is Free**. McGraw Hill. New York

5) Covey, S.R.1990. **Seven Habits of Highly Effective People**. New York: Distican.

6) Collis, David J.; Montgomery, Cynthia A. **Competing on resources: strategy in the 1990s**, Harvard Business Review, Vol.73, No.4 (July-August, 1995)

7) Clews, R.1987. **Insurance Broking**. England. Woodhead Faulkner Limited.

8) Crego, E.T & Schiffrin, P.D. 1995. **Customer-Centered Reengineering – Remapping For Total Customer Value.** New York: Irwin Professional Publishing.

9) Drucker P.F. 1999. **Management Challenges for the 21st Century**. Harper Business. New York

10) Davidow, W.H and Uttal.B. 1989.Total Customer Service – The Ultimate Weapon.U.S.A.Harper Collins Publishers.

11) Danaher, P.J. & Mattson, J. 1994. **Customer satisfaction during the service delivery process.** European Journal of Marketing.

12) Gitomer, J 1998. **Customer Satisfaction Is Worthless, Customer Loyalty Is Priceless: How To Make Customers Love You, Keep Them Coming Back And Tell Everyone They Know.** Bard press.

13) Gebhardt J.E. & Townsend P.L. 1990. **The Quality Process: Little things mean a lot.** Review of Business. Vol.12.

14) Hamel G & Prahalad C.K. 1994. **Competing for the Future**. Harvard Business School Press. Boston

15) Hart W.L. 2001. **The Profitable Art of Service Recovery**. Harvard Business Review

16) Hiebeler R, Kelly T.B & Ketteman C.1999. **Best Practices – Building Business with Customer- Focused Solutions.** Simon & Schuster. Great Britain.

17) Johnson G & Scholes K. 1997. **Exploring Corporate Strategy.** 4th Edition. Prentice Hall. London.

18) Johnston R. & Mehra S. 2002. **Best-Practice Complaint Management.** Academy of Management Executive. Vol. 16. Issue 4

19) Jones C.A. 2000. **Extraordinary Customer Service Management.** Business Perspectives. Vol. 12

20) Juran J.M. & Gryna F.M. 1993. **Quality Planning and Analysis.** 3rd Edition. McGraw-Hill. New York

21) Kriegel, R.1992.**If It Ain't Broke...Break It.** U.S.A: Warner Books.

22) Lovelock, C.H. & Young, R.F. 1979. **Look to customers to improve productivity.** Harvard Business Reviews, 57(May – June).

23) Lewis P.S, Goodman.S.H. and Fandt.P.M. 2001.

24) **Management :Challenges in the 21st Century.** 3rd Edition. South Western College Publishing. Cincinnati

25) Lynch R. 2000. **Corporate Strategy.** 2nd Edition. Prentice Hall. Pearson Education Ltd. London.

26) Mintzberg H & Quinn J.B. 1991. **The Strategy Process.** 2nd Edition. Prentice Hall. New Jersey

27) Maister, D.H.1993.**Managing The Professional Service Firm.** New York: The Free Press

28) Maister, D.H.1997. **True Professionalism.** New York: Free Press.

29) Nauman, E & Giel, K. 1995. **Customer satisfaction measurement and management: Using the voice of the customer.** Cincinnati, Ohio:Thompson

30) Omachnonu V.K. & Ross J.E. 1994. **Principles of Total Quality.** Kogan Page. Ltd. London

31) Porter, Michael, **Competitive Advantage**, The Free Press, NY, 1985.

32) Porter, Michael, **"What is strategy?"** Harvard Business Review Vol.74, No.6 (Nov-Dec, 1996).

32) Prahalad, C.K. and Gary Hamel, **"The Core Competence of the Corporation,"** Harvard Business Review, Vol.68, No.3 (May-June, 1990).

33) Pearce J.A & Robinson R.B.1991. **Formulation, Implementation and Control of Competitive Strategy.** 4th Edition. Irwin Publishers. United States of America

34) Porter M.E. 1980. **Competitive Strategy.** The Free Press. New York

35) Rudestam, K.E., R.R. Newton, 2000. **Surviving Your Dissertation.** 2nd edition. Sage Publishers.

36) Reichheld, F.F.1996. **The Loyalty Effect.** Harvard Business School Press

37) Rumelt, R., 1998. **The Evaluation of Business Strategy** in B. De Wit & R Meyer, **Strategy – Process, Content, Context,** 2nd ed. International Thompson Publishing.

38) Stalk, G., Evans, P., and L. Schulman, **"Competing on Capabilities: the New Rules of Corporate Strategy,"** Vol.70, No.2 (March-April, 1992).

39) Smith Douglas. K. 1999. **Make Success Measurable!** John Wiley & Sons. United States of America

40) Thompson A. A & Strickland A.J. 2001. **Crafting and Executing Strategy.** 12th Edition. McGraw-Hill. New York

41) Treacy, M., F. Wiersema, **The Discipline of Market Leaders,** Addison-Wesley, 1995

42) Wexler.P.S; Adams, W.A. & Bohn, E.(1993. **The Quest For Service Quality: Rxs For Achieveing Excellence.** U.S.A.: Maxcomm Associates.

43) Young, G.,1999. **Strategic Value Analysis for Competitive Advantage,** Competitive Intelligence Review.

44) Zeithaml, V.A., Parasuraman, A & Berry, L.L. 1990. **Delivering quality service: balancing customer perceptions and expectations.** New York. The Free Press

45) Zemke, R & Woods, JA.1999. **Best Practices in Customer Service.** AMACOM.

46) Wiersema, T .1996. **Customer Intimacy: Pick Your Partner, Shape Your Culture, Win Together.** Knowledge Exchange.

INTERNET ARTICLES:

CHAPTER 2

46) Internet 1

http://www.supportcenter.org/sf/genie.html

47) Internet 2

http://www.tutor2u.net/business/strategy/SWOT_analysis.htm

48) Internet 3

http://www.tutor2u.net/business/strategy/value_chain_analysis.htm

49) Internet 4

http://www.netmba.com/strategy/his.

50) Internet 5

http://www.themanager.org/pdf/p5f.pdf

51) Internet 6

http://www.tutor2u.net/business/strategy/porter_five_forces.htm

CHAPTER 3

52) Internet 7 - www.autogen.co.za

53) Internet 8 - www.saeagle.co.za

54) Internet 9 – www.outsurance.co.za

55) Internet 10 - www.mf.co.za

56) Internet11 - ftp://ftp.fsb.co.za/public/documents/2001st.pdf

CHAPTER 5

57) Internet 12

http://img.cmpnet.com/insurancetech/msvalue/presentations/Bisker/Bisker.pdf

GLOSSARY

1) NO CLAIM BONUS

The No Claim Bonus or NCB is a discount that is allowed on a client's premium based on the fact that the client has had no motor claims over a period of time whilst enjoying continuous cover.

2) SASRIA

The Short Term insurance industry recognized the need of the insuring public to have cover for such perils, specifically because of the proliferation of political incidents at the time. In consequence, under the auspices of the SAIA and in conjunction with the Government, the industry met with a view to forming a risk carrying entity to cover such perils. Since no reinsurance coverage was available for such perils, the Government of the Republic agreed to act as reinsurer of last resort. SASRIA was consequently incorporated in terms of this section and provided such cover on a non-refusable and non-cancelable basis to all sections of the community.

3) THE THIRD PARTY

In the insurance industry, the insurance company and the client of the insurance company are seen as the first and the second parties respectively. The term third party refers to any person or legal entity who suffers damage or loss because of another person's (client's) actions or non- actions. This third party may hold the "guilty" person (client) liable. The third party is a party not contracted under the insurance policy.

4) PREMIUM

The amount of money that a client has to pay for insurance cover is reffered to as the premium. In short term insurance, this usually refers to monthly premium. This refers to the amount of money that the client has to pay for a month's insurance cover.

5) UNDERWRITING

The process of obtaining certain information from the client to decide whether the risk is acceptable or not is referred to as underwriting. The company has an open contract, which can run indefinitely. Therefore the process of underwriting will be repeated from time to time and is the referred to as re underwriting.

6) CLAIM

When a client suffers an insured loss such as a car accident, he contacts us to request compensation. This request for compensation is called a claim.

7) DECLINE/REPUDIATE

To repudiate a claim or a contract means that we deny that a client has cover for the loss claimed for and that we are therefore not liable to cover his loss. We will then not pay the claim.

8) BROKER

A broker is an intermediary who acts as an agent on behalf of our clients. They introduce the clients to the company and look after the client's insurance interests.

9) OMBUDSMAN

A highly qualified and experienced person (usually a retired judge of the supreme court) is appointed and paid by the short term insurance industry to arbitrate where an insured does not agree with the insurer's decision. The ombudsman will hear both sides and give a recommendation, but does not have the authority to enforce a decision.