A Study of Marketing Strategy For Mareting Strategy For Public And Private Sector Mutual Funds In India

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Abstract

This study mainly focuses on the need for marketing strategies for Mutual Fund Industry in India. The competitive landscape of the Mutual fund industry has undergone a tremendous advancement in recent years. Mutual Fund houses compete with one another either by satisfying different economic functions or by introducing a low-cost or a differentiated product. Mutual funds in India have confined its reach to urban areas leaving vast saving potentials in rural areas untapped. The main reason for restriction of mutual fund investment in Top cities or Urban areas is the lack of awareness level in the rural and semi urban areas. Mutual funds have not been recognized and accepted in the rural and semi urban markets. The role of mutual fund agents or distributors is to educate the investor community. The abolition of entry load from August 2009, criticized by some brought benefits to investors. Recently mutual fund companies are initiating different steps through financial inclusion. Thus helping in promotion of investment behavior by spreading awareness among prospective customers in urban and rural areas. Indian Mutual funds have remained focused around a limited range of products. Efforts to develop and expand the market through innovative products have been negligible. This may be attributed to the funds inability to take risks and to predict the future developments in the market. Therefore the spread of Mutual Fund market has been limited. The absence of product diversification and confusion in the market has been enlarged by the lack of marketing initiatives for Mutual Funds.

Keywords

Mutual fund, financial inclusion, Entry load

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Introduction

Mutual Funds are financial instruments. A mutual fund collects the money of investors and invests it in portfolio consisting of stocks, bonds, money market instruments and other investment options. Mutual funds are managed by an efficient team led by Portfolio manager who through his experience invest the funds in different financial instruments. A Mutual Fund is a pure intermediary which performs a basic function of buying and selling securities on behalf of its unit holders, which the latter also can perform but not as easily, conveniently, economically and profitably. The mutual fund business is highly concentrated fund-wise and scheme-wise. Many mutual funds are mainly sponsored by public sector banks and so investors are assured of some security in their investments, thus mutual funds had been able to inspire confidence among investors. Mutual Funds have emerged as an investment option with a wide variation of products aimed at investors with varied risk bearing capacities and investment objectives. The Indian Mutual Fund industry has not performed well as expected considering the opportunities available as they fail to obtain the small individual investor confidence and better products, better processes, and better services. Mutual Funds are popular mainly with the urban, high, and middle income groups only. They are yet to penetrate the rural areas and even investors are not quite familiar with the concept of mutual fund and its benefits. In general investors have low opinion about the investment efficiency of Mutual Funds. The primary objective of all mutual funds is to provide fair return to investors by minimizing the risk associated with capital market investment. Naturally the degree of risk associated with the expected returns differs. The Indian mutual funds industry started with the formation of the Unit Trust of India in 1963 under the Unit Trust of India Act 1963. India's mutual fund industry with 44 players had an average asset under management of 8.16 lakh crore as on 31st March 2013. For private banks who deal in wealth management, mutual funds are one of the core investment products they offer. Public sector banks also engage in the selling of mutual funds. Mutual funds in India have limited offices, primarily located in major cities. This is creating problems for the mutual fund industry as clients are closing their portfolios for lack of service and unavailability of vital information about products. Independent financial advisors were playing a very important role in dissemination of knowledge about the markets and ensuring that mutual funds reached the rural markets and the common man. Even though advancement in growth of rural India has been over shadowed by the progress made in urban regions but rural area has continue to play an important role in Indian economy and thus emerged as a key target market for various industries but a difficult one to penetrate. In order to enter the rural and semi urban areas financial inclusion plays an important role. Mutual fund advisors should initiate steps to attract small and medium income group customers. This will help Mutual fund companies to grow and deeply touch the investors in tier 1 and tier 2 cities. Even in urban areas investors are not fully aware about financial instruments and their benefits. Mutual fund advisors should try innovative products and should try to attract investors by disclosing all the relevant information.

SEBI, the regulator of financial market tries to safeguard the interest of the investors by taking various steps. The ban on entry load was a major step in this direction. SEBI through its policies and announcements tries to build investors' confidence and thus contributes to the growth of mutual fund industry. SEBI has initiated various steps to promote the benefits of investment in mutual funds and other financial instruments through investor's education and awareness programme.

Comparison of Mutual Funds With Other Investment Options:

Investment Options	Positive	Negative	Remarks
Mutual Fund	a) Avail the services of Fund Managers /Professionals b) Through Diversification risk is minimized c) Returns are comparatively higher	a) Returns are subjected to market risk. b) Accessibility is not easy c) In ELSS Funds are locked for 3 years	Good for long term investors
Company FD	Option to maximize returns within a fixed-income portfolio. It offers high return to investors	Investors should consciously and judiciously select the companies they invest in as quite a few small investors have lost their life's savings by investing in FDs issued by companies that have run into financial problems	Only for investors who can take high risk
Bank Time Deposit	a) They are 100% risk free. b) Easy Liquidity	Post Tax yield is low	Good for conservative investors
Post Office Savings Schemes (POSS)	a) Relatively higher Returns than Bank Deposits. b) The monthly income plan could suit a retired individual or the one's having regular income needs. c) Besides the low (Government) risk, the other salient feature of POSS is that there is no tax deducted at source (TDS)	a) Low rate of Interest b) Post Tax yield is very low	Good for Senior citizens
Public Provident Fund (PPF)	Good for Tax payers. Eligible for EEE Benefits	a) Money is locked for a minimum of 6 years b) Rate of interest is low	Tax payer must have PPF Account
Equity Shares	a) One would be in a position to make handsome gains when the market is in boom Return from shares after 1year is fully exempted from tax.	a) Investing in equity shares is also perceived to carry a high level of risk. b) There is also a likelihood of the investors loosing money when they fail to correctly forecast company market trend.	Good for skilled and informed Investors

Review of Literature: The review of literature is to guide us in the methodologies to be used, estimation procedures and interpretation of results. A number of academics, professionals have written articles explaining the concept, function and importance of mutual funds in the development of the capital market in India. Mutual funds play a crucial role in reducing risk and transaction cost while investing in the stock markets. They offer a more efficient route of investing. In the process of encouraging more investments they help in realizing true prices of securities. This in turn helps attract investments through the initial public offer route and unleash the savings of Indian households. **Devakumar (1987)** reveals that earlier to 1985 there were very few investors and they were knowledgeable. During 1985 boom thousands of new investors invaded the market. The new investors suffered heavy losses compared to the professionals. A good number of new investors have walked out of the stock market to safer areas like UTI units, NSC etc. There is a mid-shift of investment preferences to Mutual fund also.

Vidhyashankar S (1990) identified a shift from bank or company deposits to mutual funds due to its superiority by way of ensuring a healthy and orderly development of capital market with adequate investor protection through SEBI interference. The study identified that mutual funds in the Indian capital market have a bright future as one of the predominant instruments of savings by the end of the century. **Bogle (1994)** presents a guide to investors in developing and implementing an intelligent investment programme through Mutual Fund. It covers equity funds, bond funds and money market funds. While Mutual Fund are ideal vehicle to mitigate substantially the risk of holding specific stocks and bonds market risk still remains. The central task of life time investment strategy is to allocate financial resources so as to balance the different market instruments. **Sadhak (1997)** makes available the marketing strategies and investment practices of Mutual Fund in India. The study shows the marketing strategies the history and management of Mutual fund in India and abroad

Objective of Study: This study mainly focuses on the need for marketing strategies for Mutual Fund Industry in India. The major objectives of the study are as follows:

1. To analyze the marketing strategy of Public and Private Sector Mutual Funds.
2. To analyze the issues responsible for pathetic attitude of investors towards mutual fund investment and to suggest various strategies.

Analysis: Marketing is a dynamic process which changes with the new developments in the socio-financial environment. The Indian Market witnessed many changes in the 1990s in terms of the emergence of intra and inter - institution competition, market regulations, innovation in products, investor's awareness, and technological development. The mutual funds industry gradually started taking new initiatives in order to adapt to the emerging market environment. The offer documents have become more structured and contain information relating to service and management. The use of technology for communication selling and servicing has also improved the marketing of mutual funds. All this has resulted in better protection of investors than in the early 1990s. Further as a result of the competition arising from the entry of private sector mutual funds, investors now have a wider choice in terms of products, costs and management styles. The media is also playing a very active role in disseminating information – by encouraging debate and focusing on the performance of mutual funds, it is facilitating the process of informed decision making by investors. Given all these factors, today's investor is far more enlightened performance oriented and assertive. In addition, the Prudential Regulations by SEBI, which are in many respects comparable to the best in the world, have enhanced the accountability of AMCs and their directors, as well as the trustees of funds. There has thus been a significant transition and the market has become considerably more mature. The marketing of mutual funds is a critical activity today and calls for a futuristic vision with respect to products, as well as a more scientific and structured approach for market penetration and product placement. Recently mutual fund companies are initiating different steps through financial inclusion. Financial Inclusion helps in the promotion of investment behavior by spreading awareness among prospective customers in urban and rural areas. Mutual funds in India have been quite wrongly promoted as alternative to equity investing thus creating very high expectations in the mind of investors. Indian Mutual funds have remained focused around a limited range of products. There was lack of initiative to develop and expand the market by creating innovative products. This may be attributed to the funds inability to take risks and to predict the future developments in the market. Therefore the spread of Mutual Fund market has been limited. The absence of product diversification and confusion in the market has been enlarged by the lack of marketing initiatives for Mutual Funds. The agent-oriented network has largely been a failure because most of the agents are not specifically trained to sell Mutual Fund products.

Load factor as Marketing Strategy: In a competitive market, pricing policy plays a crucial role in expanding the market for the product. For an intangible product like mutual funds (units) the cost of entry to and exit from the fund strongly influences the rate of return to the investors. Hence, mutual funds have introduced many innovations in pricing, sale charge (often called 'front-end load') and repurchase expenses (often called 'back-end load'). Differential pricing and loading, relatively recent phenomena in the Indian mutual funds industry, started with the entry of private sector mutual funds which intensified the competition. With the increase in competition, funds with no-load or low-load bases are being launched in India. The predominant practice; however is to launch schemes with front-end load.

Tax Benefits as a Marketing Strategy: Tax benefits are considered to be an inducement for investing in mutual funds. These benefits arise from the legal provisions relating both to mutual funds and to investors in mutual funds. Investors in mutual funds directly enjoy certain tax benefits under the provisions relating to Income tax and capital gains. While their income is completely exempted from Income tax, taxes on capital gains are to be levied at a prescribed rate.

Mutual Fund Rating: There has been a degree of anarchy in the capital market in recent times, particularly due to market transition and expansion, as well as changes in the nature and intensity of competition. It is often observed that the market does not follow the fundamental principles of market economy. The unpredictability has been further compounded by group control over the market so that the market very often the market does not function as a free market but as a slave of vested interest. The motivated and strategic actions suppress the market alerts which mislead the investors. The suppression of market alerts makes investment decisions an extremely risky proposition and puts the investor in a vulnerable position. As a result of the growing concern about the risks entailed in investment, investors all over the world have started relying on risk assessment by rating agencies. There are two main types of funds ratings. One type evaluates a fund on the basis of its past performance, volatility and expenses while the other focuses on the future and provide ratings on the explicit risks. Ratings of mutual funds have not yet been institutionalized in India though some attempts are being made. Certain initiatives have been taken by the rating agencies which are prompted primarily by business considerations. The agencies include Credit Rating and Investment Services India Ltd. (CRISIL), Credit Analysis & Research Ltd. (CARE) and Investment Information & Credit Rating Agency of India (ICRA).

Investors' status and Preferences: A marketing strategy should take into account the class of investors, their occupational status and their preferences. The Indian market presents a similar scenario. The mutual funds market in India has the following characteristics:

- ✓ The market base predominantly comprises individual investors, mostly with a service, business or professional background; housewives also have a significant presence.
- ✓ The investors are basically risk averse
- ✓ The investors have a significant preference for assured income schemes as well as schemes with insurance as a secondary benefit.
- ✓ An overwhelming majority of investors are not satisfied with the performance of Mutual funds.
- ✓ Past performance is the most important determinant of investment decision, while the reputation of fund managers, access to and promptness in servicing and agents feedback have considerable influence on decision making.
- ✓ Newspapers and magazines are the most important basis of investment decisions.
- ✓ Investors are quite willing to have more information on mutual funds.
- ✓ There is great potential for the growth of mutual fund industry since the emerging(domestic) savings market is very large

Strategy for Financial Inclusion in India: According to a KPMG report the contribution from India's top 20 cities is over 90% of the industry's total assets under management (AUM). There is a scope for extending the reach of mutual fund industry in India through investor's education, awareness building Programme and use of IT to untouched area or segments. Fund houses need to conduct more and more investors' awareness Programme every month. Reliance Mutual Funds have already initiated steps in this direction as they already conducts 70-100 awareness programmes every month. Mutual funds in India also have an important role to play for ageing group of people which are increasing as people are living longer after retirement. There is a need for the mutual companies not to hide the warning if they are providing any information regarding risk in investment. Securities and Exchange Board of India (SEBI) and Association of Mutual Funds in India (AMFI) are initiating different steps in order to promote and attract the small segments investors through incentives for developing Mutual fund as easy investment option. It is expected that there is good future ahead for mutual fund industry in India attracting major share of household saving from urban as well as semi urban and rural areas. India is a country where the farmers in majority of areas are dependent on monsoon for agriculture growth and thus there earning depend on monsoon season. Hence the farmers could be a potential target group of customers for mutual fund companies. Mutual fund could prove as a good investment options if there is a natural disaster i.e. failure of monsoon season. Mutual fund companies in association with SEBI should try to focus on creating a scheme or financial product for farmers which could protect them against financial stress due to monsoon season failure. Systematic Investment plan (SIP) could be discussed with rural people where there are daily and weekly SIP by fund houses has attracted many retail small segment customers. Awareness campaign should be organized by Government and mutual fund companies in association with Panchayat. The mutual fund schemes and the rules and regulations should be discussed in such a manner that could be understood even by a lay man. The perception or mindset of the low income people or rural communities should be changed so that rural India could become rich. In the present scenario the investors mainly in urban areas are more aware about investment options like mutual funds, NSC, PPF, Fixed deposits etc. This has resulted in the mutual fund advisors and agents to be more serious in introducing innovative products to the investors. The introduction of daily and weekly

Systematic Investment Plans is quite useful as it helps to attract small retail investors. In order to improve the transparency on the part of investors guidelines like Know your Customer has been introduced and made mandatory from January 1, 2011. The usage of the Aadhaar number by the Mutual Fund industry could help to increase the acceptability by investors.

India Post should look for using its low cost service along with other strategic partners like Mutual fund and Insurance companies to spread reach to rural communities and low income households through different awareness campaign. Since many banks are offering Insurance and mutual fund products, financial inclusion will give opportunities to cross sell these products and earn fee based income. Mutual funds should make postal agents their independent financial advisors which will ensure that the products reach the grassroots. The funds can be provided targets regarding the number of postal agents who must become independent financial advisors.

Shortcomings of Marketing Strategies: The marketing strategies developed and pursued by Indian mutual funds till now have several shortcomings. These not only restrict the reach of the funds, but also often play a part in shaking the confidence of the investors. In India, a large number of initiatives have taken place to promote financial inclusion. However, financial inclusion still remains a challenge, particularly in the low income states and rural areas of India. Thus the reach of financial products to villages and small towns has to be made convenient. Some of the serious shortcomings in the marketing of mutual funds are as follows:

- ❖ The marketing strategy has failed to address the psychology and expectations of the investors.
- ❖ The marketing strategy of most mutual funds is lackluster.
- ❖ While designing the marketing strategy, most mutual funds fail to take stock of changes in the socio-economic structure of the market. This has resulted in a strong urban bias, among other things.

Conclusions: Mutual funds in India have an important role to play in educating investors (particularly those in rural and semi-urban areas) about the manifold advantages of investment in Mutual funds. A marketing plan for Mutual funds services need to stress the firms-product –customer relationship. The competitive landscape of the Mutual fund industry has undergone a tremendous advancement in recent years. Mutual funds in India have confined its reach to urban areas leaving vast saving potentials in rural areas untapped. The main reason for restriction of mutual fund investment in Top cities or Urban areas are lack of awareness, inferior distribution and limited banking services in the rural and semi urban areas. Mutual funds are not yet recognized and accepted in the rural and semi urban markets. The role of mutual fund agents or distributors is to educate the investor community. The abolition of entry load from August 2009, criticized by some brought benefits to investors. Efforts need to be put in to attract investor from tier II and tier III cities and awakening levels be intensified to take Mutual Fund industry's subscription in every district to connect rural India with it. The commercial banks nowadays are in to selling of various products such as insurance, mutual funds, stocks and derivative products. The financial institutions has a crucial role to play as they have to extend their financial services beyond core banking activities and extend it to selling and providing awareness campaign about financial products like mutual funds, insurance , stocks and derivative products. The delivery of banking services or financial services would now actually mean the delivery of all kind of services to the poor and lower income people in association with the other entities. In order to seek the attraction of investor mutual fund especially from the rural and semi urban areas, companies are expected to ensure full disclosure of the relevant information.

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