



A study on mutual fund investors and marketing mix

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Abstract

Mutual Funds will be one of the major instruments of wealth creation and wealth savings in the years to come, giving positive results. The consistency in the performance of the Mutual Funds has being a major factor for attracting many investors. The Indian Mutual Fund Industries has been growing at a healthy pace for the past eight years and the trend will move northward. The presence of intelligent investors has already made the investment market scenario fiercely competitive; with in increased number of full proof high-yielding investments opportunities an investor normally prioritizes his investment needs before undertaking an investment. So different goals will be allocated in different proportions of the total disposable amount. Investments for specific goals normally find their way into the debt market as risk reduction is of prime importance. This is the area for the risk-averse investors and here, mutual funds are generally the best option.

Keywords: Mutual Fund, Investment, Marketing Practices, pooling, Investment Risk

Introduction

Development of an economy necessarily depends upon its financial system and the rate of new capital formation which can be achieved by mobilizing savings and adopting an investment pattern, be its self-financing (i.e. direct or indirect) where financial intermediaries like banks, insurance and other financial companies come in the picture and mediate between savers and borrowers of funds. The need to mobilize small savings of household sector and to channelize it for productive purpose through financial markets, further leads to the emergence of mutual funds which help the small investors to pool their scattered small savings and to invest in those securities which otherwise would not have been possible individually. An efficient, articulate and developed financial system is a must for the rapid economic growth and development of a country. Financial system facilitates the transformation of savings of individuals, governments and businesses into investment and consumption. A complete system is formed of specialized and non-specialized intermediaries, organized and non-organized financial markets and financial instruments and services. Financial institutions act as a niobilors and depositories of savings, purveyors of credit and also providers of various financial services to the community.

An investor normally prioritizes his investment needs before undertaking an investment. So different goals will be allocated in different proportions of the total disposable amount. Investments for specific goals normally find their way into the debt market as risk reduction is of prime importance. This is the area for the risk-averse investors and here, mutual funds are generally the best option. The overall set of principles or strategies that guide an investor. Examples include fundamental, technical, value, growth, and contrarian's. On the other hand the objective behind the investment remains,

the result desired by an investor or mutual fund, such as current income or capital appreciation with the policy of investment which states a formal description of the investment philosophy that will be utilized for a given fund, retirement plan, or other investment vehicle. An asset is usually purchased, or equivalently a deposit is made in a bank, in hope of getting a future return or interest from it. In an economy, at a particular point of time some people have higher current income than their current expenditure, while just reverse happens in respect of others. While the former are known as surplus spenders, the latter deficit spenders. The surplus spenders are ultimate savers and the deficit spenders are the ultimate investors. The need for connecting the savers and the investors can hardly be over-emphasized as savings would be wanting of investment opportunities and investment plans would become meaningless for the want of savings. It is the financial system which establishes a link between savers and investors and helps converting investment ideas into realities. One common theme to alternative investments is that they are often hoped to have modest correlations with traditional investments and so to increase the **diversification** of investor's portfolios. The change in investment management, therefore, lies in choosing the appropriate investments and designing a unit that will meet the investment objectives of the investor subject to his constraints. To take on this challenge, the first step will be to get acquaintance with the different types of investment alternatives available to the investors in our financial market. Let's now understand the classification of various investment alternatives.

- Savings bank account
- Money market funds (also known as liquid funds)
- Bank fixed deposit (Bank FDS)
- Post office savings schemes (POSS)
- Public provident fund (PPF)

- Company fixed deposits (FDS)
- Bonds and debentures
- Mutual funds
- Life insurance policies
- Equity shares.

Mutual Funds will be one of the major instruments of wealth creation and wealth savings in the years to come, giving positive results. The consistency in the performance of the Mutual Funds has being a major factor for attracting many investors. The Indian Mutual Fund Industries has been growing at a healthy pace for the past eight years and the trend will move northward. The presence of intelligent investors has already made the investment market scenario fiercely competitive, with in increased number of full proof high-yielding investments opportunities.

Literature Review

Langer (1983) suggests that when these preferences are based on choices, there is more ego involvement and attachment to the preferences, suggesting heightened level of preference bias. This phenomenon is consistent with the prediction from Cognitive Dissonance theory of Festinger (1957).

De Bondt and Thaler (1985) while investigating the possible psychological basis for investor behaviour, argue that mean reversion in stock prices is an evidence of investor over reaction where investors overemphasize recent firm performance in forming future expectations.

Ippolito (1992) says that fund/scheme selection by investors is based on past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds.

Robert J. Shiller (1993) reported that many investors do not have data analysis and interpretation skills. This is because, data from the market supports the merits of index investing, passive investors are more likely to base their investment choices on information received from objective or scientific sources.

Gupta (1994) made a household investor survey with the objective to provide data on the investor preferences on MFs and other financial assets. The findings of the study were more appropriate, at that time, to the policy makers and mutual funds to design the financial products for the future.

Kulshreshta (1994) offers certain guidelines to the investors in selecting the mutual fund schemes.

Phillip (1995) reported that there is a change in financial decision-making and investor behaviour as a result of participating in investor education programmes sponsored by employees.

Berhein and Garnette (1996) affirmed Philip's findings and further stated that a serious national

Campaign to promote savings through education and information could have a measurable impact on financial behaviour.

Madhusudhan V Jambodekar (1996) conducted a study to assess the awareness of MFs among investors, to identify the information sources influencing the buying decision and the factors influencing the choice of a particular fund. The study reveals among other things that Income Schemes and Open Ended Schemes are more preferred than Growth Schemes and

Close Ended

Schemes during the then prevalent market conditions. Investors look for safety of Principal, Liquidity and Capital appreciation in the order of importance; Newspapers and Magazines are the first source of information through which investors get to know about MFs/Schemes and investor service is a major differentiating factor in the selection of Mutual Fund Schemes.

Sujit Sikidar and Amrit Pal Singh (1996) carried out a survey with an objective to understand the behavioural aspects of the investors of the North Eastern region towards equity and mutual funds investment portfolio. The survey revealed that the salaried and self-employed formed the major investors in mutual fund primarily due to tax concessions. UTI and SBI schemes were popular in that part of the country then and other funds had not proved to be a big hit during the time when survey was done.

Syama Sunder (1998) conducted a survey to get an insight into the mutual fund operations of private institutions with special reference to Kothari Pioneer. The survey revealed that awareness about Mutual Fund concept was poor during that time in small cities like Visakhapatnam. Agents play a vital role in spreading the Mutual Fund culture; open-end schemes were much preferred then; age and income are the two important determinants in the selection of the fund/scheme; brand image and return are the prime considerations while investing in any Mutual Fund. NCAER in 1964 when a survey of households was undertaken to understand the attitude towards and motivation for saving of individuals. Another NCAER study in 1996 analyzed the structure of the capital market and presented the views and attitudes of individual shareholders. SEBI - NCAER

Survey (2000) was carried out to estimate the number of households and the population of individual investors, their economic and demographic profile, portfolio size, and investment preference for equity as well as other savings instruments. This is a unique and comprehensive study of Indian Investors, for, data was collected from 3,00,000 geographically dispersed rural and urban households. Some of the relevant findings of the study are : Households preference for instruments match their risk perception; Bank Deposit has an appeal across all income class; 43% of the non-investor households equivalent to around 60 million households (estimated) apparently lack awareness about stock markets; and, compared with low income groups, the higher income groups have higher share of investments in Mutual Funds (MFs) signifying that MFs have still not become truly the investment vehicle for small investors. Nevertheless, the study predicts that in the next two years (i.e., 2000 hence) the investment of households in MFs is likely to increase. We have to wait and watch the investors' reaction to the July 2nd 2001, great fall of the Big Brother, UTI. (Note: Behaviour is a reaction to a situation. So as situation changes, behaviour gets modified. Hence, findings and predictions of behavior studies should be viewed accordingly).

Objectives of the study

In case of Mutual fund, Returns are determined by Managerial efficiency and investment strategy. Mutual fund marketing strategies is successful if it creates confidence among potential

investors and strengthens their desire to put their money with a particular fund.

1. **Product:** Mutual fund as a product is the investment, which the investors hold. The steps, which are involved in the formulation of the schemes or product designing, are conceptualization, drafting, test marketing, approval and authorization of the scheme. Since mutual fund is a service, there is a little element of physicality. Physical evidence is the Mutual fund documents and the statements that are received periodically. Mutual fund managers want to deliver good quality at a reasonable cost, but the managers cannot make any promises about the future performance of the investment since a mutual fund is not a consumer product with consistency of performance. There are number of mutual fund schemes that are floating in the market. One mutual fund house deals in many schemes. The product line of the mutual fund houses ranges from 30 to 300 schemes in India as market segmentation is done to cater to all the specific investment demands of the customers. Market segmentation increases product differentiation, limiting competition to the funds belonging to the same category, while fund proliferation increases market coverage. It relies either on the creation of many funds in order to hide the poor performers merging them into the best ones. Sponsors of the mutual funds make efforts to differentiate their products and bring in recognition of their brand names in the consumers as it leads to product identification at the market place. It is seen that Mutual funds in India have been quite successful in brand policy and brand identification.
2. **Place:** Place or the marketing channel describes the groups of individuals and Companies which are involved in channelizing the flow and sale of product services from the provider to the eventual customer. In mutual fund also there are channels broadly defined as 'direct' or 'indirect'. Direct channels involve the movement and sale of products directly between the provider and the customer as in the traditional branch network, whereas in the case of indirect channels product flows via intermediaries and middlemen. Traditionally mutual fund has been via the branch network, but now different approaches are adopted.
3. **Promotion:** With globalization the entry of multinational corporations propelled due to which the market changed into a buyers' market and due to the sudden competition growth, the domestic mutual fund industry was shaken. Promotional efforts should be stimulating and motivating enough to generate interest in and promote a positive attitude towards a Mutual fund house so that they will be considered favourably in comparison with the competitors. As there are so many players in the Mutual fund Industry, to choose one mutual fund over the other becomes very difficult for the investors. This has led the mutual fund to follow aggressive promotional techniques. Besides leading National Dailies, funds regularly advertise in business newspapers and magazines.
4. **Pricing:** Price competition involves using low prices as a competitive tool to attract customers. As the price of

the mutual fund is dependent upon the price of the underlying shares. Therefore it is the distribution cost not the manufacturing cost in Mutual fund that separates one competitor with another. One of the advantages of Mutual funds that it discloses its entire fee charged.

5. **People:** Mutual fund marketers need to develop a high level of inter personal skills and customer oriented attitude in employees for the simple reason that employees in services are the key to service experience. All employees in the mutual fund house have an effect on the sale of the products. This is true of frontline a staff that has direct control with customers; they provide the link between the Mutual fund and the investors. To the investor they represent the Mutual fund Company. Success of mutual fund is highly dependent upon the relationship of the investors with the employees as there is a little difference between the products the different fund houses are offering, it is mainly the commitment that a mutual fund house makes.
6. **Physical evidence:** The allocation of greater amount of space in a mutual fund house is likely to have a positive relationship between the company and the investors. Physical evidence also means the offer documents and Mutual fund statements that the investors are provided with. In order to have a better relationship with the investors, the statements should be regular, easily understandable and all the facts should be mentioned in it.
7. **Process:** Process means the process through which the investors' money is invested in different schemes and the returns are provided to them. The process should be less complex. The revision of schemes should not be a very frequent task as it leads to increase in cost. The mutual fund houses make efforts to standardize the process. In order to customize the process, so lot of different schemes is coming into market.

Distribution Channels

There are number of distribution channels that are existing and the channels are still expanding. The channels can be divided into the following heads:

- Direct Marketing
- Personal selling
- Telemarketing
- Direct Mail
- Selling through intermediaries like brokers, agents, banks, etc.
- Joint calls

Advertisement of Mutual Funds

Nowadays the Advertising content has changed. Now they are concept selling ads which used to be selling specific schemes that defined objectives /goals. Thus an advertising campaign must have the following elements present:

- Creating awareness of the product,
- Comparative advantage of the product,
- Future potential of the product,
- Past performance of similar products,
- and superiority of the fund in relation to others in the area of asset management and performance servicing.

However, one of the limiting factor that prevents Mutual Fund advertising is the regulatory framework. For instance, the MF are required to mention the fund objective in very clear terms in the offer document, and risk factor also to be mentioned. SEBI also prohibits any content that mislead the investors. All the Mutual fund have to first understand fund Marketing before designing he meaning and implications of the SEBI Guidelines pertaining to mutual a Marketing strategy.

Research methodology

Research is divided into two different studies:

Research 1: Primary Research to know the preference of mutual fund investors regarding their investment.

Research 2: Secondary Research to evaluate the performance of Mutual funds which are preferred by most of the investors is based upon Descriptive Research Design. Three mutual fund sectors viz. tax funds, diversified funds and sector funds are selected and top 5 companies based on NAV is selected from each sector for further analysis.

1. The primary research is based upon convenience sampling. Convenience sampling (sometimes known as grab or opportunity sampling) is a type of non-probability sampling which involves the sample being drawn from that part of the population which is close to hand.
2. The secondary Research is based upon Judgmental Sampling. Judgmental sampling is a no probability sampling technique where the researcher selects units to be sampled based on their knowledge and professional judgment. This type of sampling technique is also known as purposive sampling and authoritative sampling.

Sample Size

Primary research is conducted of 100 educated investors of Ahmadabad and Baroda city.

Data Collection Instrument

Research 1: The data collection instrument used for primary research is questionnaire. The type of questionnaire used is open and close ended structured questionnaire.

Research 2: The data collection instrument used for secondary research is various data available on websites like www.mutualfundindia.com and other various sources of secondary information.

Statistical Tools used for Analysis of data

Chi square test and Cramer's V (Testing for the Strength of Categorical Relationships)

?2 and Fisher's Exact Test only test whether or not there is a

relationship between categorical variables. To test the strength of such relationships we use correlation-like measures such as the Contingency Coefficient, the Phi coefficient or Cramer's V. These coefficients can be thought of as Pearson product moment correlations for categorical variables. However, unlike the Pearson r, which can assume negative values, these coefficients only range from 0 to +1 (you cannot have a 'negative' relationship between categorical variables). The choice of which statistic to employ in a given research situation is determined by the size of the data matrix and whether or not the two nominal variables under consideration have the same number of possible values. The Phi statistic is used when both of the nominal variables under consideration have exactly two possible values. When this is true, the data matrix will always have a simple 2x2 design. The Contingency Coefficient is used when there are 3 or more values for each nominal variable, as long as there are an equal number of possible values leading to the construction of a data matrix that has an equal number of rows and columns (3x3, 4x4, etc.). Cramer's V is used when the number of possible values for the two variables is unequal, yielding a different number of rows and columns in the data matrix (2x3, 3x5, etc.).

Analysis of the data

One of the most basic concepts in marketing is the marketing mix. Traditional marketing mix is composed of the four P's: product, price, place (distribution), and promotion¹. These elements appear as core decision variables in any marketing text or marketing plan. The essence of managing the marketing mix lies in providing each group of customers or segments of the market with a mix of products, price, place and promotion which most suits their needs Careful management of product, place, promotion and price will absolutely be essential to the successful marketing of services. However, the strategies for the four P's require some modifications when applied to services, because services are usually produced and consumed simultaneously. Some more facts like satisfaction, delivery of information, have led service marketers to conclude that they can use additional variables to communicate with and satisfy their investors. For example, in mutual fund industry the designing of products, working of the company, with the familiarity products and attitude of the employees will influence investor's perceptions and experiences. Acknowledgement of the importance of these additional communication variables has led service marketers to adopt the concept of an expanded marketing mix for services. In addition to the traditional four P's, the services marketing mix includes people, physical evidence, and process.

Table 1

Traditional Ps Vs Service Marketing Mix.			
Product(P ₁)	Place(P ₂)	Promotion(P ₃)	Price(P ₄)
Physical good feature	Channel Type	Promotion Blend	Flexibility
Quality level	Exposure	Salespeople	Price level
Accessories	Intermediaries	Number	Teams
Packaging	Outlet locations	Selection	Differentiation
Warranties	Transportation	Training	Discounts
Product Lines	Storage	Incentives	Allowances
Branding	Managing	Advertising	

However, before going deeper in the marketing mix; it would be important to develop a little clarity of the product. Product occupies a unique place in the marketing mix of a mutual fund company. Due to product important role all other elements of marketing mix viz., pricing; promotion, distribution, physical evidence, people and process are taken in relation to product³. How well a product is sold in the market, is one of the basic criteria of judging the performance of a mutual fund company. Since the product is essentially a source of need satisfaction, every mutual fund company has to ensure that its offers to the investors should be accepted as soon as possible⁴. It should be the best not only as core product, but also as a formal product which is larger package referring to all such characteristics as amount limit, dividend rates options i.e. fixed or floating rates, repayment period, size of systematic investment plan (SIP) etc. When a mutual fund is viewed in the broader sense, the role of product planning becomes more significant in formulating an appropriate marketing strategy. In the present context researcher discusses how a mutual fund product is developed and finally offered for sale to investors, two basic issues which are most important for investors' affiliation and achieving greater market share. The scope of product planning becomes much wider and complex in situations where a mutual fund company is engaged in introducing new product and marketing of a number of services products belonging to one or more related schemes i.e. equity product, balanced product or debt product. Under these circumstances, overall product planning is more covered with deciding an appropriate product mix. Here researcher will bring out and analyze the general practices those are being followed by the mutual fund companies in respect of some important aspects of product mix, product development, product branding and classification. The emphasis is on identifying the similarities and differences in deploying, innovating and modifying the existing mutual fund scheme / products in terms of selected mutual fund companies. Analysis of the data has been made

keeping in view various parts on the basis of various Ps' in this chapter.

Conclusion

To study the current marketing practices of Mutual Funds is the first major Objective of the study. It reveals the overall growth of mutual fund as a financial product by adopting various marketing practices. During the period of the study, positive growth has been registered by mutual funds in terms of resource mobilization as well as marketing practices adopted by the marketers of mutual fund. As the mutual fund Industry started with Unit Trust of India under an Act of Parliament in 1963, which came out with its debut scheme named US-64, an open-end scheme, which is continuing till date. It mobilized net resources amounting to Rs. 4564.00 crores upto 1986-87 with the launching of 20 schemes. It was in 1986 that the Government of India mended banking Regulation Act and allowed Commercial banks in the public sector to set-up mutual funds. The Government of India further granted permission to Insurance corporations in the public sector to set-up mutual funds. On Jan. 31, 1992 government accorded a status of autonomous body to SEBI, as it was felt that existing mutual funds has failed to line up to the common Investors expectations in terms of after sales service, timely delivery of unit certificates and dividend warrants, promptness in grievance redressed, investors right adherence, adequate and timely disclosure of information and under performance of most of the mutual funds as against market performance, etc. These draw backs provided a platform to the launching of private sector mutual funds to grab the opportunity. Ensuring the general public by keeping above the public sector weaknesses as their debut slogan. New techniques and more frequent disclosure of Net. Asset Value (NAV) provided by them help in gaining appreciation by the common investors. These draw backs provided a platform to the launching of private sector mutual funds to grab the

opportunity. Ensuring the general public by keeping above the public sector weaknesses as their debut slogan. New techniques and more frequent disclosure of Net. Asset Value (NAV) provided by them help in gaining appreciation by the common investors. It has been further observed that various factors influence new product development decision. The relative importance of different influencing factors have been found materially different except 'Scheme operated' in the market by mutual funds. The factor 'growth/equity' oriented schemes have emerged as the most important scheme in every selected mutual fund. Infrastructure and Real estate has been rated and most preferred as the major thrust area and Power sector were least preferred by the Executives in which mutual fund specialized. Most of the investors preferred to make investment for medium term and majority of the investors invest to opt in Equity fund and least in balanced funds. "To increase market share", was ranked at first and "to earn profitability" was ranked fourth by most of the selected mutual funds for the factors which influence the mutual fund to introduce new-schemes products. There was found an equal proportion of response when asked about the return-orientation when private mutual fund was compared with public mutual fund. On the same executives' response over the weightage given to private mutual fund than public mutual fund, it was found favorable support in this regard. And also the neutrality also prevails in this condition.

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