A Study on Marketing Strategies for Mutual Funds

Abstract

This paper attempts to find out the marketing strategies followed in the various organizations providing financial services. In order to study the marketing strategies of financial services one of the area which is “MUTUAL Fund” being chosen. In this paper it has been tried to find out the various tricks for marketing Mutual Fund, competitive landscape of Mutual Funds, one of the important area of study chosen is the credit rating of Mutual Funds. For Which Some Secondary data has been used.For complete analysis the Promotion Strategy& the Influence of ICRA Rating on Cash Inflow is been studied

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Introduction

Financial services are any service or product of a financial nature that is traded in financial markets; specifically, they are financial instruments – for example, treasury bills and government bonds. There are a number of ways that financial instruments can be classified. Do they have a fixed or variable interest rate? How long to they take to mature? Are they offered by a deposit-taking or non-deposit taking intermediary? Financial services cover an extensive range of instruments and in the United Kingdom the Financial Services Authority (FSA) provides information to the consumer marketplace on bank accounts, equity release schemes and long-term care. The marketplace for financial services is extensive, as banks, insurers and investment banks operate in a global marketplace and have a wide range of customers, including retail consumers, business customers of all sizes and other financial institutions. Other examples of financial services can be seen in Figure 1.1, which also shows services offered to businesses, domestic and global, for profit and not for profit. From a marketing perspective, there are some important points to remember about financial services. Looking at Figure 1.1, it is clear that none of the products is very desirable, especially when compared with other things that money can be spent on, such as cars, designer handbags or holidays. In fact, several of the examples are downright unattractive,

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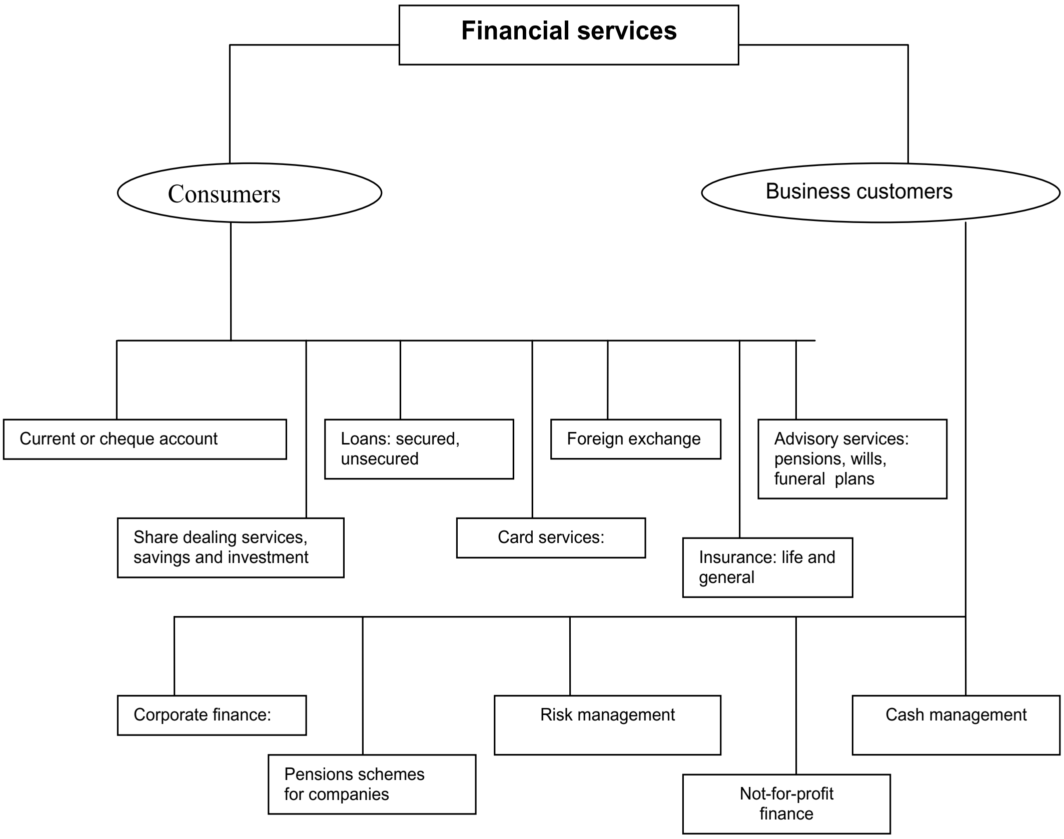
such as pensions and funeral plans. This lack of intrinsic desirability is key in the marketing of financial services. Marketers of these products have to be aware that customers, whether retail consumers or business customers, do not purchase these items because they are in themselves desirable or 'must have' products. What financial services generally do allow customers to do is to purchase or acquire those products and other services that *are* desired, such as holidays, or indeed the 'must have' handbag; or, for business customers, these products offer the possibility.



Financial Services Fig1.1

One of the area for discussing the marketing strategies of the Financial Services is "Mutual Funds". "Mutual Funds" refers to the meaning of Mutual Fund, which is a fund, managed by an investment company with the financial objective of generating high Rate of Returns. These asset management or investment management companies collects money from the investors and invests those money in different Stocks, Bonds and other financial securities in a diversified manner. Before investing they carry out thorough research and detailed analysis on the market conditions and market trends of stock and bond prices. These things help the fund mangers to speculate properly in the right direction. The investors who invest their money in the Mutual fund of any **Investment Management Company**, receive an Equity Position in that particular mutual fund. When after certain period of time, whether long term or short term, the investors sell the Shares of the Mutual Fund, they receive the return according to the market conditions.

Marketing Strategies for Mutual Funds

Mutual fund marketing is regulated strictly to curb misleading marketing. Mutual funds are baskets of stocks that are actively managed by a professional investor. You can choose from more than as Charles Schwab, Fidelity and Vanguard offer these funds to individuals using a number of different marketing strategies. In fact, Fidelity has been so successful that it has surpassed $1 trillion in assets under management. The Strategies can be Studied under these following points:

Business Accounts

For business accounts, fund representatives will stress ease of use and compatibility with the company's present systems.

Consumer Marketing

Consumer marketing of mutual funds is similar to the way other financial products are sold. Marketers emphasize safety, reliability and performance.

Performance

Mutual funds must be very careful about how they market their performance, as this is heavily regulated. Mutual funds must market their short, medium and long-term average returns to give the prospective investor a good idea of the actual performance.

Marketing Fees

Mutual funds must be very clear about their fees and report them in all of their marketing materials. The main types of fees include the sales fee (load) and the management fee. The load is an upfront charge that a mutual fund charges as soon as the investment is made. The management fee is a percentage of assets each year, usually 1 to 2 percent.

Mutual Fund Competition

The competitive landscape of the mutual fund (MF) industry has undergone a tremendous change in the past few years.Earlier studies (Morningstar[2]) carried out on the effect of fund performance on the inflows of new money into the fund have shown that top-performing funds receive net inflows of new money, yet funds that perform poorly do not lose many assets.A high correlation between the rating and the subsequent cash inflow into the fund is one such standard that investors consider and such ratings are what MF houses would want to use for promoting their schemes.

Growth of Mutual Funds in India[3]

The performance of mutual funds (MFs) in India was initially, not even close to satisfactory levels. But 24 million shareholders got accustomed to MFs with guaranteed high returns by the beginning of liberalization era in 1992.The MF industry in India today has come a long way in offering a wide variety of products, backed by stringent monitoring. The number of funds operating in the country and the schemes offered by them have increased manifold. The MFs not only serve as a savings scheme but also offer several investment objectives to prospective investors.

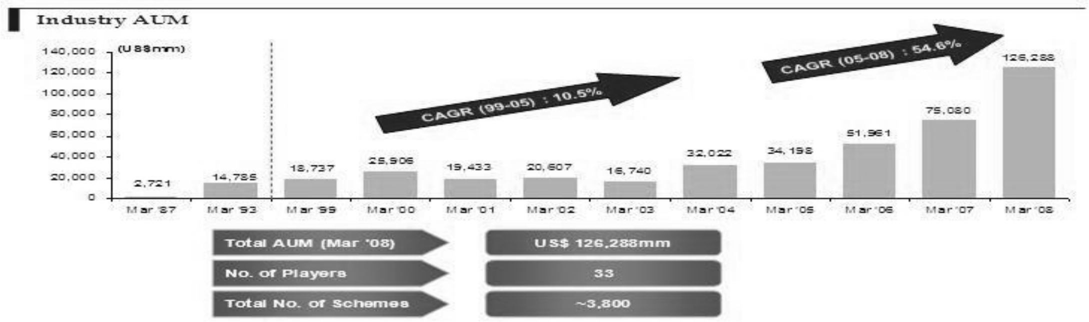


Exhibit 1. Growth of Mutual Funds in India

Deregulation of the sector, allowing up to 100% FDI has permitted the industry to grow rapidly (Exhibit 1).

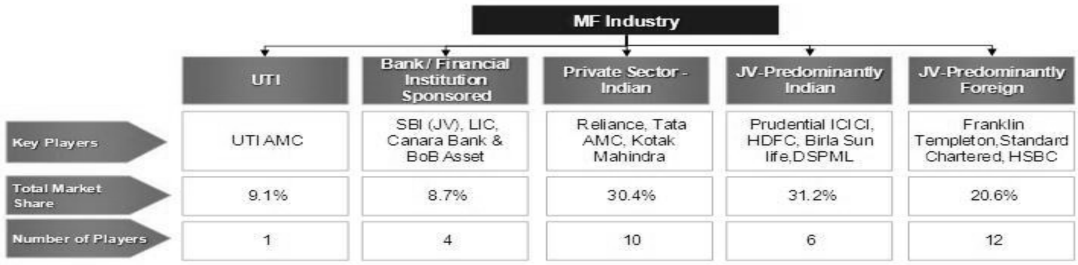


Exhibit 2. Overview of Indian Mutual Funds Industry

Conscious of the competition from the large number of fund houses and an even larger number of schemes operative in India, MF houses have strived to differentiate along the performance dimension. Several performance measures are looked at by the investors to evaluate the superiority of a fund. More than these measures, retail investors often base their investment decision on performance ratings (ICRA/CRISIL) as they provide easy guidance to a superior fund. Therefore, for MF houses it becomes important to identify the influential ratings and use it in promoting their funds. To prevent the erosion of investor confidence, it is also important that these ratings provide a certain degree of guidance regarding the fund's future performance.

The Data Collection Exercise

The arguments presented in this article have been based on secondary data that was limited to the choice of mutual fund schemes, tenure and performance ratings.

- *Only Growth equity schemes* were selected for the study because they represent the largest volume of funds transacted in India and hence the analysis is likely to reflect the average investor's choice. Moreover, several studies have shown that the performance predictability may be due to the style of fund rather than the skill. Therefore, it is necessary to stick to only one investment objective.
- *January'04 to December'07* was selected as the appropriate time window for the analysis because the data availability was lean before January'04 and ending Assets Under Management (AUM) were unavailable after December'07 at the time of this article was written.
- *ICRA rating* of MF schemes was selected as the performance rating on which the investors are expected to base their investment decision.

Analysis of Promotion Strategy: Influence of ICRA Rating on Cash Inflow

A thorough correlation analysis establishes the role played by the ICRA rating in influencing investors' investment decision. The effect of ICRA rating on the cash inflow was isolated in order to assess whether MF houses are justified in using this rating for promotion. A pictorial representation of the analyses carried out is shown in Exhibit 3.

Exhibit 3. Analysis Methodology A sample of the data set considered is presented in Exhibit 4.

Exhibit 6. Result of Regression Analysis

From the regression results, it can be inferred that ICRA ratings have little predictive power in terms of future fund performance. Although these ratings were not meant to be predictors of future performance, it is important to realize this distinction for they significantly influence investment decisions.However as a word of caution, we would like to highlight that this analysis is only valid as long as the fund manager has not rebalanced his portfolio in order to manipulate the performance measures. Secondary research[5] shows that mutual fund performance measures are susceptible to manipulation. Since the fund managers' incentives are often linked to such performance measures and the cash inflows that they attract, we cannot ignore its effect on the analysis.

Conclusions

Though, the mutual fund industry in India is currently in a nascent stage as compared to its global peers, it is attracting high amounts of investor cash flows by employing several marketing strategies, despite the very low levels of penetration. Correlation analysis of investor cash inflows suggests that while the assets under management under a particular mutual fund scheme explained the subsequent cash inflows to a great extent, the performance ratings as published by ICRA seem to have significant incremental role in influencing investors' decisions. This brings us to the conclusion that the use of ratings in promoting MF schemes is an effective strategy in use by the MF houses.

This brings us to the conclusion that the use of ICRA ratings in promoting MF schemes, though effective, might not be a sustainable strategy as it might erode investors' confidence in the long run. The mutual funds industry would be better off assessing the use of other measures/ ratings to promote their funds. The other Strategies may include the various strategies & tricks for marketing as discussed above.

As true for any analytical exercise, the accuracy and applicability of the above results is dependent on the data quality, breadth of the analysis as well as data availability. Any constraint on these can potentially have adverse impact on the output quality.

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