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KARYA AKHIR

THE ANALYSIS OF MARKETING STRATEGY  
FOR PT ASURANSI X SME TAKAFUL PRODUCT

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UNTUK MEMENUHI SEBAGIAN DARI SYARAT-SYARAT  
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2. Every idea or quotation from other people's work in forms of publication or other forms in this thesis has been admitted in accordance to the standard of reference procedure in the Master of Management Program Faculty of Economics, University of Indonesia.
3. I also declare that this thesis was written by full guidance and support from my advising supervisor **Dr Firman Djunasien**

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Jakarta, March 24<sup>th</sup>, 2008



(Dian Karina Paramita)

## PREFACE

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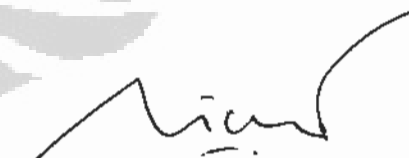
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Though this final report may be far from perfection, I hope that it can provide useful feedback to others.

Jakarta, March 24<sup>th</sup> 2008



Dian Karina Paramita

## EXECUTIVE SUMMARY

PT Asuransi X is one of the major general insurance players in Indonesia. It has an extensive experience in underwriting the broad range of general insurance product for different targeted segment. When the *takaful* products started to be recognized in Indonesia, PT Asuransi X decided to tap in the *takaful* industry. The portfolio of the *takaful* products will be started from the Consumer Lines' product (Personal Lines and Accidental & Health Products) and followed by the small to medium Commercial Lines' related businesses

As the newcomer in the industry, PT Asuransi X will require marketing strategies to market the *takaful* products. To develop the marketing strategies, there are several issues that should be addressed. In this paper, we are going to find the optimal marketing strategy (product, price, distribution, promotion) that is useful for PT Asuransi X in marketing the small to medium Commercial Lines' related businesses *takaful* products.

One of the significant findings in the analysis is the importance for PT Asuransi X to manage the distribution channel because the nature of insurance service is low-contact service which emphasizes the encounter with service personnel. Other finding is about the low involvement consumer buying behavior that makes it more challenging for PT Asuransi X to develop the *takaful* products.

Positioning is necessary to differentiate PT Asuransi X *takaful* product with others. In addition to that, it is suggested that PT Asuransi X does not only sell the name of *takaful* which can be easily associated to the Islamic principles. The marketing strategy should emphasize the benefit offered so it can be consumed by people from different religion background.

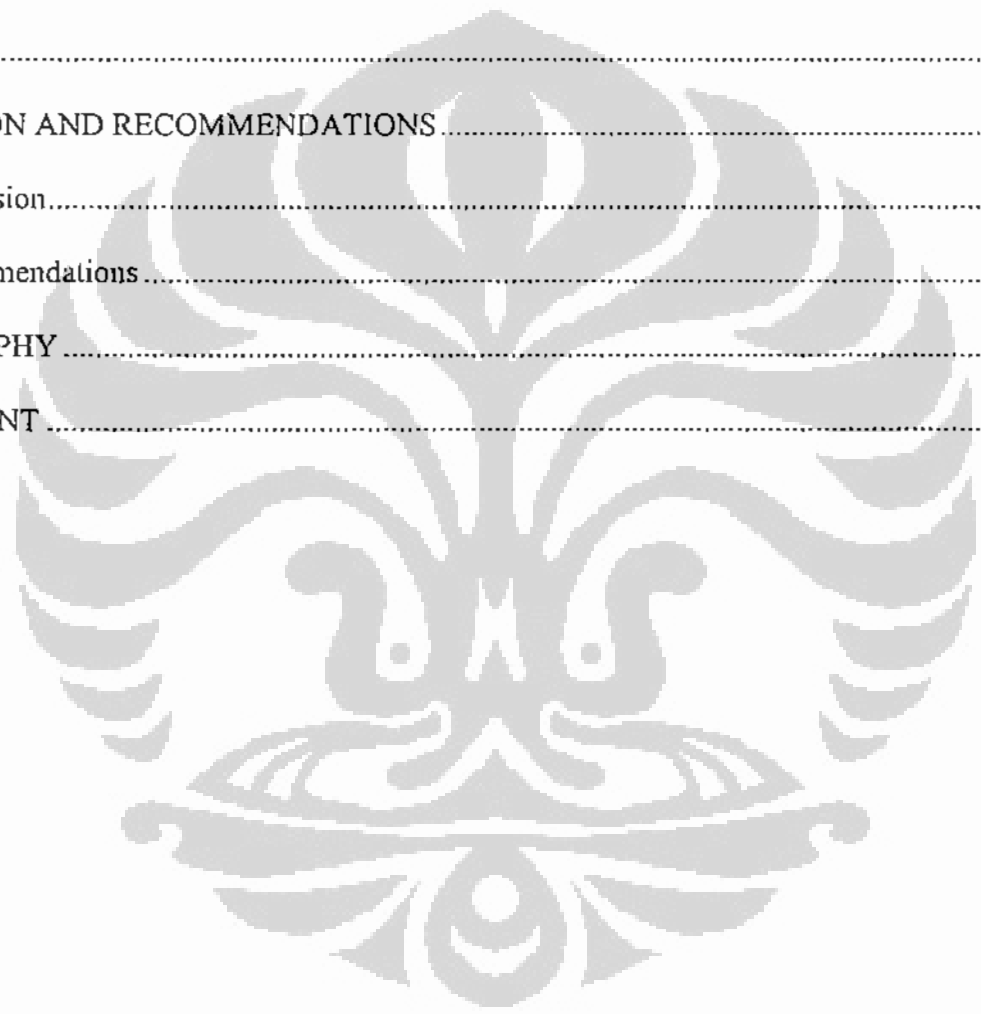
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# CHAPTER 1

## INTRODUCTION

### 1.1 Background

Risk is an integral part of our daily lives. There are a lot of ways to manage the risk. Insurance is a special form of the risk management technique which can be defined as an economic or social institution designed to perform certain function and as a legal contract between two parties, the insured and the insurer.

In Constitution of The Republic of Indonesia No.2 Anno 1992, the government has defined insurance as an agreement between two or more parties which the insurer bound itself to the insured by accepting insurance premium to give reimbursement to the insured due to loss, damage, or loss of expected profit, or third party liability which may be suffered by the insured which arise from uncertain event, or reimbursement based on death or life of the insured. In the economics point of view, insurance can be defined as a financial institution that collecting fund from public and insure the insured against the unexpected event (Hansel, 1985, p.10). In Indonesia, when we talk about the insurance, people will refer to the life insurance which the service is related to the life or death of the insured. However, there is another kind of insurance called the general (non-life) insurance which the service takes care of the loss, consequential loss, and the third party liability which are caused by uncertain event.

Due to the commonly known of life insurance, it contributes the biggest share (49.6%) of the Indonesian gross premium in Indonesia in 2005, followed by general insurance (35.5%), administer insurance for Civil Servants and Armed Forces (10.1%); administer

insurance for Social Program & Worker's Social Security Program (5.2%) (Indonesian Insurance 2005, page 3).

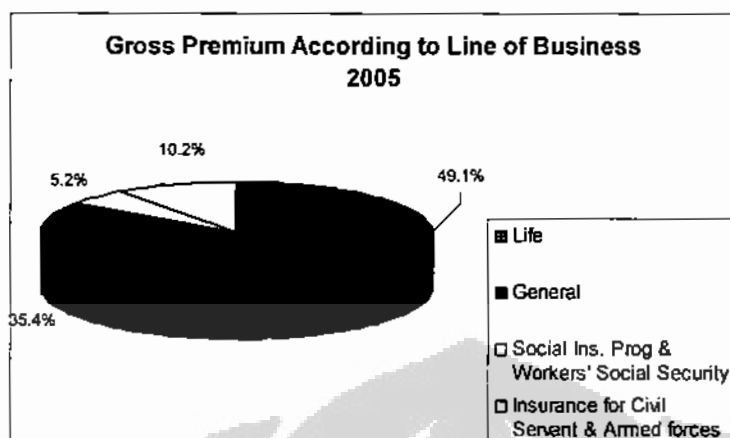


Figure 1. 1 Gross premium according to line of business 2005

However, in overall, insurance industry does not have a big share in the Indonesian market. In 2005, the gross premium is only 1.66% of the Indonesian gross domestic product (*ibid*, page 1). From year to year, the percentage of gross premium to the Indonesian GDP remains constant as shows in the table 1.1 :

Table 1. 1 Gross premium and gross domestic product

in billion rupiah

Year	Gross Premium 1)		Gross Domestic Product 2)		Gross Premium / Gross Domestic Product (%)
	Total	Growth (%)	Total	Growth (%)	
2001	23,448.10	41.00	1,684,280.50	15.52	1.57
2002	30,184.20	28.73	1,863,274.80	10.63	1.87
2003	34,138.50	13.10	2,036,351.90	9.29	1.64
2004	41,403.30	21.28	2,261,724.50	11.07	1.83
2005	45,359.60	9.56	2,729,708.20	20.69	1.66

Notes :

1) Gross premium (included premium of pension benefits) = direct premium + reinsurance premium inward from abroad

2) Central of bureau of statistics (BPS) using current market price

Source : Indonesian Insurance, 2005

In this paper, we are going to focus only on the general insurance. To have a better picture about the general insurance, please refer to the table below which shows us the line of business under general insurance and also the growth of gross premium from 2001 to 2005.

Table 1. 2 Gross premium of general insurance business

in billion rupiah

Description	2001	2002	2003	2004	2005
Property	3,512.30	4,797.60	4,935.80	5,766.80	5,410.40
Motor Car	2,354.60	2,834.40	3,276.20	4,049.00	4,625.00
Marine Cargo	926.10	960.60	919.40	1,134.60	1,335.60
Marine Hull	294.40	352.60	340.30	417.50	455.90
Aviation	1,160.30	553.60	445.60	519.70	899.10
Satelite	50.00	84.70	54.80	-	-
Energy Onshore	149.50	145.60	154.50	248.30	178.10
Energy Offshore	202.90	524.30	582.20	497.70	733.80
Engineering	506.90	710.20	517.50	577.90	617.74
Liability	162.20	184.30	181.60	253.90	306.40
Personal Accident & Health	381.90	422.00	528.70	633.20	778.10
Credit & Surety	172.00	194.40	221.70	259.10	324.00
Others	440.90	544.40	775.90	574.40	776.20
TOTAL	10,330.90	12,308.70	12,934.20	14,932.10	16,440.34

1) Gross premium = direct premium + reinsurance premium inward from abroad

Source : Indonesian Insurance 2005

Property and Motor Car Insurance has the biggest share on general insurance industry.

The number of insurance company in Indonesia also remains constant in this past five years, as seen in the table 1.3 :

Table 1. 3 The growth of total insurance companies

Description	2002	2003	2004	2005	August 2006
Life Insurance	60	60	57	51	51
State-Owned	1	1	1	1	1
Private National	36	38	38	34	34
Joint Venture	23	21	18	16	16
General Insurance	104	104	101	97	97
State-Owned	3	3	3	3	3
Private National	79	80	79	75	75
Joint Venture	22	21	19	19	19
Reinsurance	4	4	4	4	4
State-Owned	0	0	0	0	0
Private National	4	4	4	4	4
Companies which administer Insurance Social Program & Worker's Social Security Program	2	2	2	2	2
Companies which administer Insurance for Civil Servants and Armed Forces	3	3	3	3	3
<b>TOTAL (1 to 5)</b>	<b>173</b>	<b>173</b>	<b>167</b>	<b>157</b>	<b>157</b>
Insurance brokers	104	120	128	134	154
Reinsurance brokers	19	21	19	21	29
Loss Adjuster	25	25	30	30	30
Actuarial Consultants	19	20	23	28	34
Insurance Agents	0	0	5	6	9

Source : Indonesian Insurance 2005

In table 1.3 above, we can also see that beside the insurance company, in insurance industry we also have the industry those supports the insurance industry. Those insurance industry supporters can be classified into brokers, loss adjusters, actuarial consultants, and insurance agents.

Among the number of insurance companies above, most of the private national and state-owned insurance companies derive the premium. The total production of private national and state-owned insurance companies is 78.9% of the national gross premium for the general insurance while the joint ventures companies only derive 21.1% of national gross premium for the general insurance. The top ten key players in Indonesian general insurance industry for 2005 are :

Table 1. 4Top ten key players in Indonesian general insurance industry for 2005

in million rupiah

Rank	Name	Status	Gross Premium	Market Share
1	PT Asuransi Jasa Indonesia	State-owned enterprise	2,161,513.00	13.15%
2	PT Asuransi Sinar Mas	Private national	1,271,633.10	7.73%
3	PT Tugu Pratama Indonesia	Private national	1,256,522.90	7.64%
4	PT Asuransi Astra Buana	Private national	1,206,959.90	7.34%
5	PT Asuransi Central Asia	Private national	720,301.00	4.38%
6	PT Asuransi Wahana Tata	Private national	674,979.70	4.11%
7	PT Asuransi Allianz Utama	Joint Venture	581,485.00	3.54%
8	PT Asuransi Mitsui Sumitomo	Joint Venture	567,002.50	3.45%
9	PT Asuransi AIU Indonesia	Joint Venture	533,928.00	3.25%
10	PT Asuransi Raksa Patikara	Private national	408,786.80	2.49%
11	Others	Others	7,057,334.70	42.93%
	TOTAL		16,440,446.60	

1) Gross premium = direct premium + reinsurance premium inward from abroad

Previously, we talk about the general insurance as a whole. Now, we will take a look on the *takaful* which has different principle in running the business compared to the common insurance practice (conventional insurance). *Takaful* is a method to manage risk which involving the sharia practice in running the business. *Takaful* is an insurance contract through mutual or joint guarantee. To some extent, the risk management in *takaful* is the same with the risk management in conventional insurance. However, the different between *takaful* and conventional insurance is regarding how the risk is managed and insured and how the *takaful* fund is managed. One of the critical differences between conventional insurance and *takaful* is



the participant's right to receive surplus profits. The participants in a given solidarity *mudharabah* have the right to share the surplus profits generated but at the same time they are liable, in addition to the premiums, for amounts they have already distributed, if the initial premiums paid during a period are not sufficient to meet all the losses and risks incurred during that period. In overall, the major difference between *takaful* and the conventional insurance is that in the business practice, the *gharar* (speculation), *maisir* (gambling), and *riba* (interest) are not allowed.

The existence of *takaful* in Indonesia is quite late. In Luxemburg, Geneva, and Bahama, for example, *takaful* has existed starting from 1983. *Takaful* is also known in the countries where most of the people are Moslem : Sudan (1979), Saudi Arabia (1979), Bahrain (1983), Malaysia (1984) dan Brunei Darussalam (1992). In Indonesia, however, *takaful* was marketed starting from 1994.

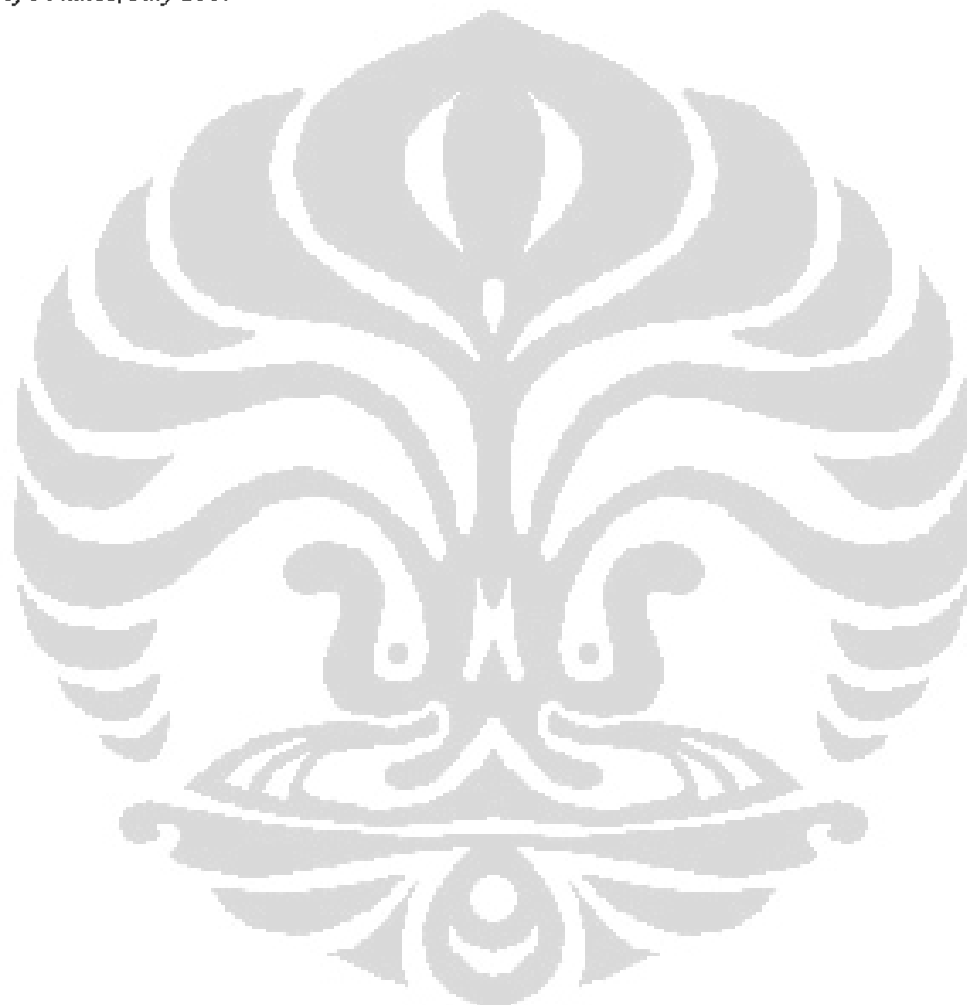
According to the data provided by Indonesian *Takaful* Association, in 2006, *takaful* gross premium only contribute 1.11% of the Indonesian insurance gross premium. However, *takaful* gross premium per December 31, 2006 had increased significantly compared to same period in 2005. The gross premium was increased from IDR 326.30 billion to IDR 523.78 billion or by 60.52%. The gross premium of general insurance showed a remarkable increase as the gross premium in 2006 is doubled the 2005 premium. Although there is a huge discrepancy when we compare conventional insurance and *takaful* production, *takaful* practitioners believe that the wide insurance market (only 3% of Indonesian people are policyholders) and the number of Moslem in Indonesia can be a good potency in the future *takaful* market.

From year to year, the number of *takaful* company increases. The growth of the number of general insurance company which run the sharia principle is shown in the table 1.5:

Table 1. 5 The growth of *takaful* and *takaful* reinsurance

	2002	2003	2004	2005	2006
<i>Takaful</i> general insurance company	1	1	1	1	1
General insurance company which has <i>takaful</i> branch	1	6	11	13	15
General reinsurance company which has <i>takaful</i> branch			1	2	3

Source : Ministry of Finance, July 2007



The financial figure for general insurance companies which have *takaful* branch can be seen in table 1.6.

**Table 1. 6 Financial Figure of General insurance Company Which has Takaful Branch**

In million rupiah

Company Name	Status	Asset		Investment Income		Underwriting Expense		Operating Expense	
		2006	2005	2006	2005	2006	2005	2006	2005
PT Asuransi Astra Buana	Private National	104,977	8,855	3,002	53	5,270	-	22,325	197
PT Asuransi Jasa Indonesia	State-Owned	11,299	11,612	780	305	9,773	4,739	-	-
PT Asuransi Tri Pakarta	Private National	9,779	8,165	504	216	1,510	1,678	2,214	1,928
PT Asuransi Adira Dinamika	Private National	7,736	3,212	433	172	619	234	192	174
PT Tugu Pratama Indonesia	Private National	7,576	5,888	478	162	840	-	109	294
PT Asuransi Tokio Marine Indonesia	Joint Venture	7,375	3,747	187	104	1,645	545	691	475
PT Asuransi Sinar Mas	Private National	6,865	4,754	410	171	1,888	722	735	608
PT Asuransi Bringin Sejahtera Artamakmur	Private National	6,432	3,510	161	74	1,755	320	1,014	481
PT Asuransi Umum Bumiputeramuda 1967	Private National	4,695	4,782	196	103	813	203	872	594
PT Asuransi Central Asia	Private National	4,233	3,970	171	90	401	131	1,124	947
PT Staco Jasapratama	Private National	3,929	6,569	110	97	726	12	373	294
PT Asuransi Binagriya Upakarsa	Private National	3,740	2,847	84	31	2,032	2,596	1,374	964
PT MAA General Assurance	Joint Venture	3,003	3,088	182	127	129	83	410	415
PT Asuransi Ramayana Tbk	Private National	2,217	-	128	-	-	-	449	-
PT Asuransi Allianz Utama Indonesia	Joint Venture	2,074	-	15	-	41	-	239	-
<b>TOTAL</b>		<b>185,930</b>	<b>71,000</b>	<b>6,840</b>	<b>1,705</b>	<b>27,442</b>	<b>11,262</b>	<b>32,121</b>	<b>7,371</b>

Source : Indonesian Insurance 2005

**Table 1. 7 Financial Figure of Takaful General Insurance Company**

In million rupiah

Company Name	Status	Asset		Underwriting Surplus		Net Profit	
		2006	2005	2006	2005	2006	2005
Asuransi Takaful Umum	State-Owned	90,065	78,929	28,977	25,120	1,281	2,166

Source : Indonesian Insurance 2005

PT Asuransi X is one of the major players in the general insurance industry. In the mid 2007, the management decided to launch a *takaful* general insurance business unit. At the initial step, PT Asuransi X plans to tap in the accident & health, personal insurance, and small-medium sized property *takaful*. Just like another kind of products and services, the products provided by the insurance companies also need marketing strategy to market their product.

### 1.2 Problem Statement

Just like another kind of product, the *takaful* product will need marketing effort to boost up the sales. In this paper, we will exercise PT Asuransi X's strategy in marketing its *takaful* products. Although PT Asuransi X has been working the conventional insurance in this past two decades, it is still a new player in the *takaful*. PT Asuransi X needs the optimal marketing strategy to support the company's mission to be the insurer of choice that penetrates all segments and dominate the area that it chooses to play.

### 1.3 Objective

The objective of the research are finding the optimal strategy in marketing mix for PT Asuransi X *takaful* products

This result of the paper can be used by PT Asuransi as its reference in developing and marketing its *takaful* products.

## 1.4 Scope of Analysis

In the paper, we will analyze the marketing strategy (product, price, distribution, and promotion) for small-medium enterprise (SME) *takaful* products. To support the analysis, we will also review the macro condition of the insurance industry, macro condition of general insurance industry, macro condition of sharia general insurance, PT Asuransi X's position in the general insurance industry, PT Asuransi X position in the SME general insurance industry, and how PT Asuransi X can market its SME *takaful* products to increase the company's gross premium.

The paper was written in the late 2007. Therefore, the data used in this paper is up to 2006.

## 1.5 Methodology

The steps taken by the writer from the beginning to the end of the paper can be seen below :

- Together with the lecturer, determining the problem which will be analyze in the paper
- Determining the objective of the research
- Determining and studying the theoretical background which can be used to analyze the problem, such as the macro data of the insurance industry, macro data of the general insurance industry, government regulation in entering the insurance business, product development, and new product marketing. The literature are taken from the government regulation, Indonesian Insurance review which are published by the Ministry of Finance's Bureau of Insurance, books, internet, journals, and articles.
- Working with PT Asuransi X's *Takaful* Team to be involved with the development of the sharia product. While working with the team, the writer will also conduct the interview

with PT Asuransi X's directors to gather information about PT Asuransi X's current marketing strategy for the *takaful* products.

- Reviewing and analyzing the development of the *takaful* products and also the development of the insurance industry
- Providing the marketing recommendation for PT Asuransi X based on the result of the analysis

### 1.6 Writing Systematic

The writing systematic of the paper will follow the standard of the academic paper. The paper will be divided into five big chapters : introduction, theoretical background, overview, analysis, and conclusion and recommendations.

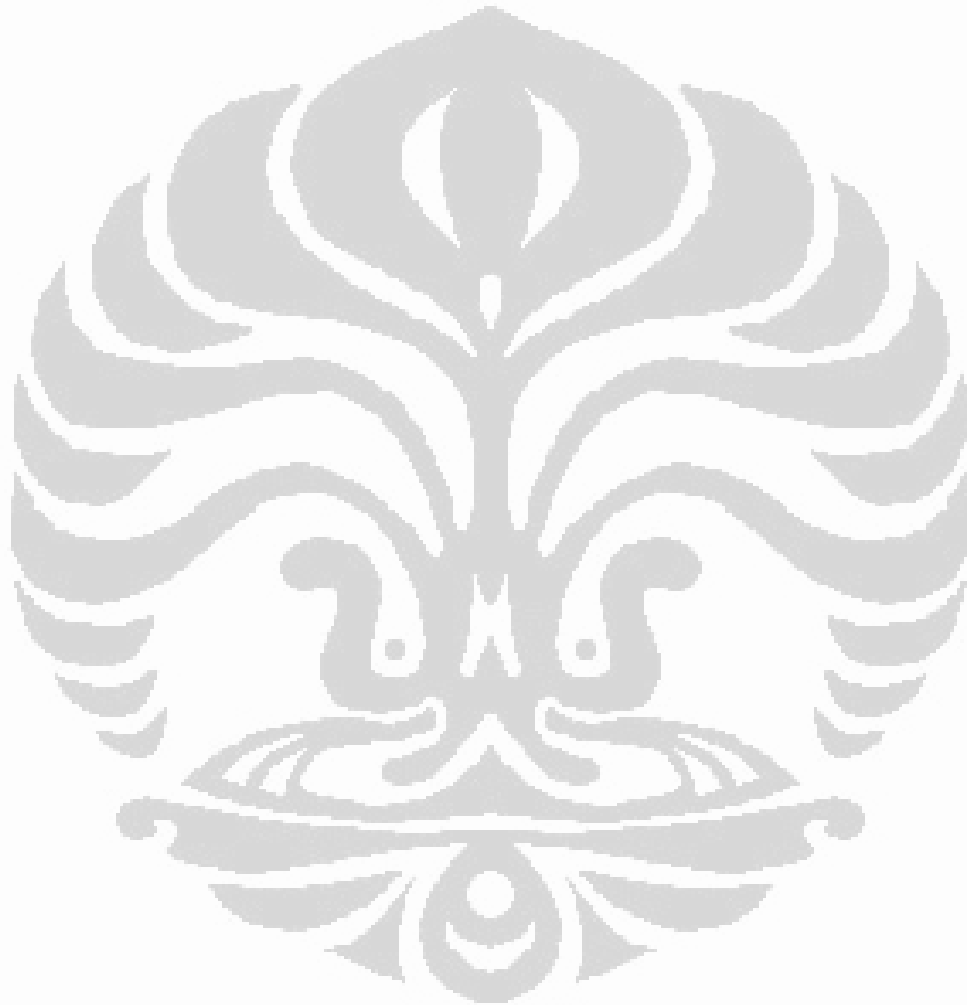
The paper will be started with the introduction where the writer tells about the background of the topic of the paper. The background of the topic will be underlined by the problem statement, objective of the paper, and the result which is wanted from the analysis. In this chapter the methodology and the systematic are also explained so that the reader will get the brief description of the whole paper.

In chapter two, the writer will advise the reader about the theory from the literature about the general description of insurance and general insurance, and new product marketing strategy.

In chapter three, the writer will write about the current competition in the insurance market, competition in the *takaful* industry, the development of the *takaful* industry, PT Asuransi X's position in the insurance market, PT Asuransi X's development of the *takaful* products, and PT Asuransi X's current strategy in marketing the *takaful* products.

In chapter four, the writer will analyze the condition stated in the chapter three with the theory gathered in the chapter two.

The paper will be ended by the conclusion and recommendation in chapter five.



## CHAPTER 2

### THEORETICAL BACKGROUND

Marketing deals with identifying and meeting human and social needs. Marketing attempts to measure and anticipate the needs and wants of a group of customers and respond with a flow of need-satisfying goods and services. The most important characteristic of marketing as a business function is its focus on customers and their needs.

The American Marketing offers the following formal definition : Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders (Kotler and Keller, 2006, p.6).

Marketing strategy refers to the position that a company takes with regards to pricing, promotion, advertising, product design, and distribution (Hill and Jones, 2004, p.120). Some of the steps lead to greater efficiency. Marketing strategy that a company adopts can have a major impact on efficiency and cost structure.

Marketing also plays an important role in the broader context of the global economy. It helps facilitate exchange relationship among people, organizations, and nations. Exchange is the core concept of marketing. It is the process of obtaining a designed product from someone by offering something in return. Hence, marketing can be defined as a social process involving the activities necessary to enable individuals and organizations to obtain what they need and want through exchanges with others and to develop ongoing exchange relationship (Mullins et al, 2008, p.6).

The conditions for a successful exchange transaction can be met only after the parties themselves – or marketing intermediaries such as wholesale distributors or a retailer – have



performed several tasks including identifying potential exchange partners, developing offering, communicating information, delivering products, and collecting payments. It is a marketer's responsibility to analyze what each party expects from the transaction. Before we take a closer look at specific marketing activities, let's examine these following question.

1. Who are the parties involved in exchange relationship?

Customers both individual and organizations seeks goods and services obtained through exchange transaction. We can define customers into(*ibid*, p.7) :

- a. Consumer goods and services. They are ultimate customers who buy goods and services for their own personal use or the use of others in their immediate household.
- b. Industrial goods and services. They are organizational customers who buy goods and services for resale, or as inputs to the production of other goods or service, or for use in the day-to-day operations of the organization.

2. Which needs and wants do parties try to satisfy through exchange?

Needs are the basic forces that drive customers to take action and engage in exchange. An unsatisfied need is a gap between a person's actual and desired states on some physical or psychological dimension.

Wants reflect a person's desires or preferences for specific ways of satisfying a basic need. Thus, a person wants particular products, brands, or services to satisfy a need.

Marketer does not create needs. Need preexists marketer. Marketer influences wants.

Understanding customers' needs and wants is not simple. Many customers do not know what they want in a product or service.

By knowing the different between needs and wants, a marketer can develop a new product or service and then stimulate customer wants for it by convincing people it can help them better satisfy one or more of their needs.

### 3. What is exchanged?

Products and services are being exchanged. Products are tangible physical objects while services are less tangible. Kotler and Keller (2006) define the entities exchanged as goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.

### 4. How does exchange create value ?

Value reflects the perceived tangible and intangible benefits and costs to customer. Value can be seen as primarily a combination of quality, service, and price. Value increases with quality and service and decreases with price, although other factors can also play an important role. There are several points we need to remember regarding the value creating in marketing. They are :

- Customer buys benefits, not products. Different customers seek different benefits. They use different criteria and attach different importance to product features when choosing models and brands within a product category.
- Product benefits, service, and price determine value
- Value is a function of intrinsic product features, service, and price and it means different things to different people. A customer's ultimate satisfaction with a purchase depends on whether the product actually lives up the expectation and delivers the anticipated benefits
- The value of long-term customers relationships. The companies are taking action to increase lifetime customer value because it costs more to attract a new customer that to keep an existing one.
- Brand equity. Brand equity reflects the value of the brand name and logo as promotional tools for attracting future buyers and building market share and

profitability. A brand's value to the company depends on how much value customers think that the brand provides for them.

5. How do potential exchange partners become a market for a particular good or service?

Market consists of individuals and organizations that are interested and willing to buy a particular good or service to obtain benefits that will satisfy a specific need or want. Market also consists of individuals and organizations which have the resources (time, money) to engage in such a transaction (*ibid*, p.13). The market can be fragmented into several segments. Each segment consists of people who has similar needs, wants, and benefits those are been looking for.

To determine the target market, we need to know what customers' needs and wants which are currently not being satisfied, customers desired benefits and choice criteria, segments to target, and how to position the product to be different from competitors.

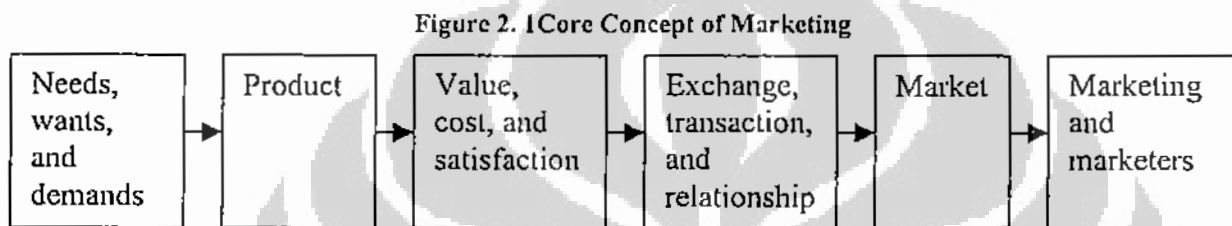
## 2.1 Marketing Management

Marketing management occurs whenever one party wants to exchange with another. Marketing management can help the exchange process to occur. Hence, marketing management can be defined as the process of analyzing, planning, implementing, coordinating, and controlling programs involving the conception, pricing, promotion, and distribution of products, services, and ideas designed to create and maintain beneficial exchange with target markets for the purpose of achieving organizational objectives (*ibid*).

We see marketing management as the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value. The aim of marketing is to know and understand the customer well so that the product or service fits the customer and sells itself. Ideally, marketing should result

in a customer who is ready to buy. All that should be needed then is to make the product or service available.

The tasks under the marketing management include developing marketing strategies and plan, capturing marketing insights, connecting with customers, building strong brands, shaping the market offerings, delivering value, communicating value, and creating long-term growth (Kotler and Keller, 2006, p.29-30). The core concept of marketing can be seen in the figure 2.1



*Source : Kotler et al, 1999,p.7*

Nowadays, we live in the service economy. The size of service sector is increasing in the world, both in emerging and developed countries. Service has the form of rental which customers obtain benefits by renting the right to use a physical object, to hire the labor and expertise of personnel, or to pay access to facilities and networks. Services can be defined as economic activities offered by one party to another, most commonly employing time-based performances to bring about desired results in recipients themselves or in object or other assets for which purchasers have responsibility. In exchange for their money, time, and effort, service customers expect to obtain value from access to goods, labor, professional skills, facilities, networks, and systems; but they do not normally take ownership of any of the physical elements involved (Lovelock and Wirt, 2007, p.15).

The marketing concept we use in the manufacturing products can not be applied in the service sector because the expectation and decision criteria in buying services are different from the expectation and decision the consumers' have in buying manufacturing products.

The common differences between services and goods and the marketing implication can be seen in the table 2.1

**Table 2. 1 Marketing Implications of Eight Common Differences Between Services and Goods**

Difference	Implications	Marketing-Related Tasks
<ul style="list-style-type: none"> <li>Most service product cannot be inventoried</li> </ul>	<ul style="list-style-type: none"> <li>Customers may be turned away or have to wait</li> </ul>	<ul style="list-style-type: none"> <li>Smooth demand through promotions, dynamics pricing, and reservations</li> <li>Work with operations to adjust capacity</li> </ul>
<ul style="list-style-type: none"> <li>Intangible elements usually dominate value creation</li> </ul>	<ul style="list-style-type: none"> <li>Customers can't taste, smell, or touch these elements and may not be able to see or hear them</li> <li>Harder to evaluate service and distinguish from competitors</li> </ul>	<ul style="list-style-type: none"> <li>Make services tangible through emphasis on physical clues</li> <li>Employ concrete metaphors and vivid images in advertising branding</li> </ul>
<ul style="list-style-type: none"> <li>Services are often difficult to visualize and understand</li> </ul>	<ul style="list-style-type: none"> <li>Customers perceive greater risk and uncertainty</li> </ul>	<ul style="list-style-type: none"> <li>Educate customers to make good choices, explain what to look for, document performance, offer guarantees</li> </ul>
<ul style="list-style-type: none"> <li>Customers may be involved in co-production</li> </ul>	<ul style="list-style-type: none"> <li>Customers interact with provider's equipment, facilities, and systems</li> <li>Poor task execution by customers may hurt productivity, spoil service experience, curtail benefits</li> </ul>	<ul style="list-style-type: none"> <li>Develop user-friendly equipment, facilities, and systems</li> <li>Train customers to perform effectively; provide customer support</li> </ul>
<ul style="list-style-type: none"> <li>People may be part of the service experience</li> </ul>	<ul style="list-style-type: none"> <li>Appearance, attitude, and behavior of service personnel and other customers can shape the experience and affect satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>Recruit, train, and reward employees to reinforce the planned service concept</li> <li>Target the right customers at the right times, shape their behavior</li> </ul>

**Table 2. 1 Marketing Implications of Eight Common Differences Between Services and Goods (continued)**

Difference	Implications	Marketing-Related Tasks
<ul style="list-style-type: none"> <li>Operational inputs and outputs tend to vary more widely</li> </ul>	<ul style="list-style-type: none"> <li>Harder to maintain consistency, reliability, and service quality or to lower costs through higher productivity</li> <li>Difficult to shield customers from results of service failures</li> </ul>	<ul style="list-style-type: none"> <li>Set quality standard based on customer expectations; redesign product elements for simplicity and failure-proofing</li> <li>Institute good service recovery procedure</li> <li>Automate customer-provider interaction; perform work while customers are absent</li> </ul>
<ul style="list-style-type: none"> <li>The time factor often assumes great importance</li> </ul>	<ul style="list-style-type: none"> <li>Customers see time as a scarce resource to be spent wisely; dislike wasting time waiting, want service at times that are convenient</li> </ul>	<ul style="list-style-type: none"> <li>Find ways to compete on speed of delivery, minimize burden of waiting, offer extended service hours</li> </ul>
<ul style="list-style-type: none"> <li>Distribution may take place through nonphysical channels</li> </ul>	<ul style="list-style-type: none"> <li>Information-based services can be delivered through electronic channels such as internet or voice telecommunications, but core products involving physical activities or products cannot</li> </ul>	<ul style="list-style-type: none"> <li>Seek to create user-friendly, secure web sites and free access by telephone</li> <li>Ensure that all information-based service elements can be downloaded from site</li> </ul>

Source : Christopher Lovelock, Jochen Wirt, 2008, p.17

## 2.2 Market Opportunities

Sometimes, we often overlook the distinction between market and industry. Market consists of buyers while industry consists of sellers. Both market and industry must be assessed at both macro and micro level. At macro level, the analysis is based on the environmental conditions that affects the market or industry and in the micro level, the analysis is based on the individuals that comprise the market or industry that is the specific target customers and companies themselves respectively.

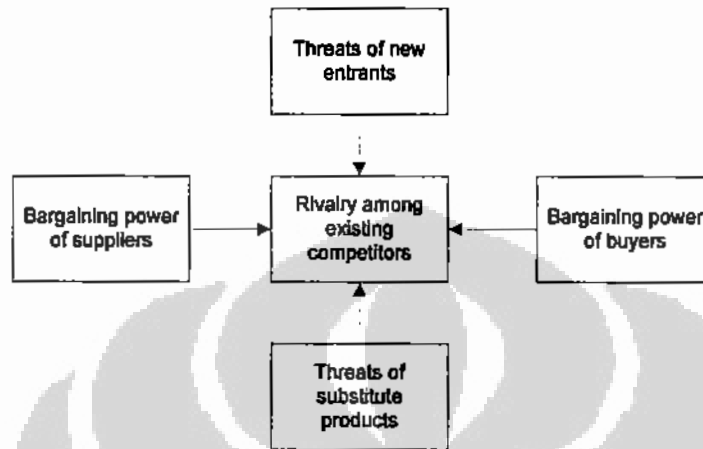
### 2.2.1 Macro Trend Analysis

To see the market attractiveness, we need to understand the macro environmental trends or macro trends. Six major components of macro environment are :

1. Demographic environment. Demographic trends are highly reliable for the short and intermediate run. All sales are governed to a significant extent by demographic changes. The main demographic force that marketer needs to monitor is population because people make up markets. Marketers are keenly interested in the size and growth rate of population in cities, regions, and nations; age distribution and ethnic mix; educational levels; household patterns; and regional characteristics and movements (*ibid*, p.75)
2. Sociocultural environment. Sociocultural trends are related to the values, attitudes, and behavior in the society. Sociocultural trends tend to be stable. However, sociocultural trends can and do apply powerful effect because purchasing power is directed toward certain goods and services and away from others according to people's tastes and preferences.
3. Economic environment. The economic environment can affect the consumer spending. The effect of economic environment can be dramatic and subtler. The availability of purchasing power in an economy depends of current income, price, saving, debt, and credit availability.
4. Regulatory environment. Regulation and deregulation have powerful impact on market attractiveness. Deregulation, for example, has changed the structure of the affected industries as well as lowered prices creating rapid growth in some markets as a result.
5. Technological environment. New technologies have created new market for such products. Technology can also change how business operate, how goods, services, and ideas are exchanged, and how individuals learn, earn, and interact with others.
6. Natural environment. It refers to the changes in the earth's resources and climate. Problem in the natural environment had stressed in threats and penalties facing business.

Business can do a lot of works to turn problem into opportunities. The macro trend analysis also needs to be done on the industry itself. Industry attractiveness can be judged through Porter's Five Competitive Forces as seen in the figure below.

Figure 2. 2 The major forces that determine industry attractiveness



1. Rivalry among existing competitors. The higher the rivalry, the less attractive the industry will be. Rivalry is greater under these conditions :
  - High investment intensity
  - A lot of small firms exist and no dominant firms
  - There is little product differentiation
  - Customer can switch from one seller's products to others' easily
2. Threat of new entrants. The competition can be more intense if new entrants come to the market. The greater the threat of new entrants, the less will be the attractiveness of the industry. Entry will be more difficult under these circumstances :
  - The presence of strong economies of scale and learning effect
  - The requirement of strong capital
  - The existence of product differentiation among current players
  - The difficulty in gaining distribution



3. Bargaining power of suppliers. The impact can be highly significant if there is a limited number of suppliers in the industry. The power is increased due to
- High cost of switching supplier from one to another
  - High price of substitute
  - Supplier's threat over forward integration
  - Supplier's product is a large part of the buyer's value added
4. Bargaining power of buyers. The greater the power of the high-volume customers served by an industry, the less attractive the industry will be. Buyer's power depends on several factors including
- The extent of buyer concentration
  - Switching cost that reduce the buyer's bargaining power
  - The threat of backward integration
  - The importance of products to the performance of the buyer's product
  - Buyer profitability
5. Threat of substitute products. Substitute products are alternative product types that have the same function. Substitute products limit the price that can be charged to the product especially when the supply exceeds demand.

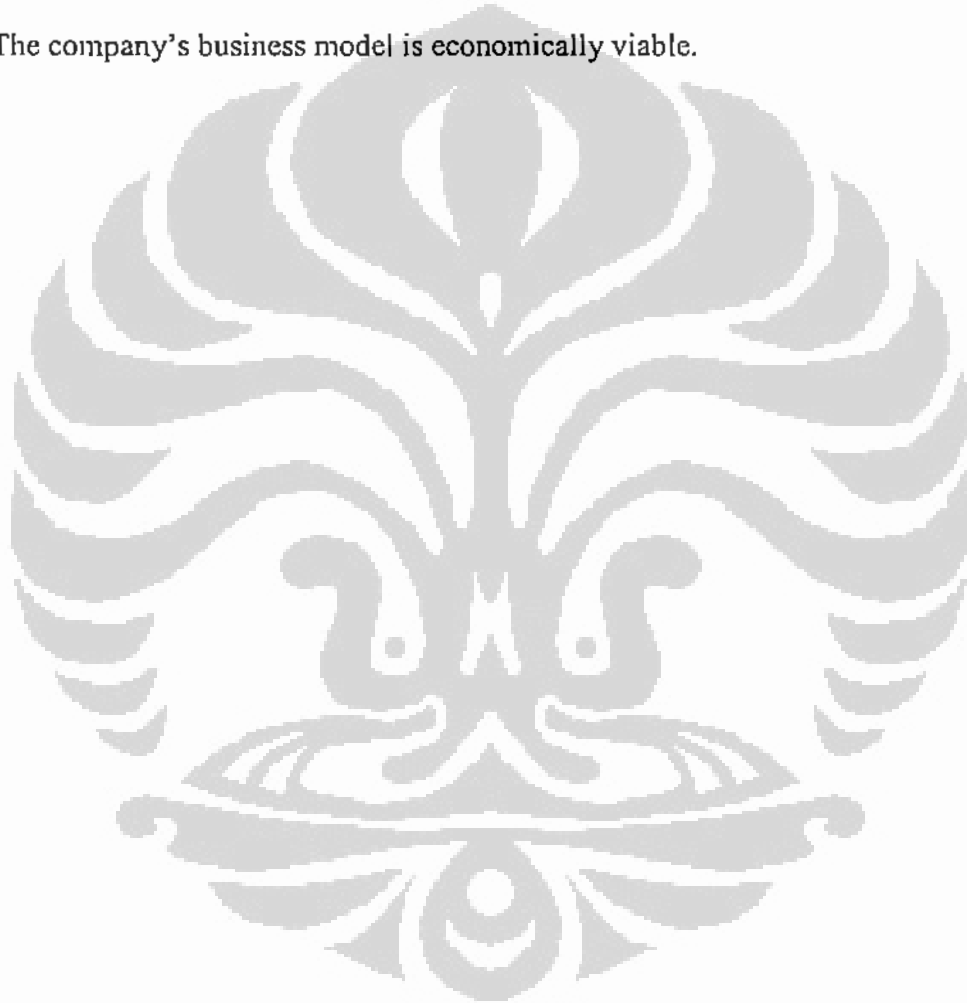
### 2.2.2 Micro Level Analysis

On the market side, the opportunities are attractive when market offering meets the following test

- Customers need is established
- Customers are likely to buy our solution
- The target segment is likely to grow
- There are other segments for which the currently targeted segment may provide a facilitator for following entry

On the industry side, the key question is whether the competitive advantage can be sustained over a significant period of time. The opportunities are attractive when the company meets most or all the following test

- The company has something proprietary that can not easily be imitated
- The business has or can develop superior organizational process, capabilities, or resources that is difficult to imitate
- The company's business model is economically viable.



## 2.3 Consumer Buying Behavior

Some purchase decisions are perceived to be more important compared to others. The more important the purchase decision, the more psychological involvement needed. The extent of involvement can be divided into high-involvement and low-involvement. High-involvement is addressed when the product or service is psychologically important to a buyer.

**Table 2. 2High-involvement Versus Low-Involvement Consumer Behavior**

<b>High-involvement consumer behavior</b>	<b>Low-involvement consumer behavior</b>
Consumers are information processors	Consumers learn information at random
Consumers are information seekers	Consumers are information gatherers
Consumers represent an active audience for advertising	Consumers represent a passive audience for advertising
Consumers evaluate brands before buying	Consumers buy first. If they do evaluate the brands, it is done after the purchase
Consumers seek to maximize expected satisfaction. They compare brands to see which provides the most benefits related to their needs and buy based on a multiattribute comparison of brands	Consumers seek an acceptable level of satisfaction. They buy the brand least likely to give them problems and buy based on a few attributes. Familiarities is the key.
Personality and lifestyle characteristics are related to consumer behavior because the product is closely tied to the person's self-identity and belief system	Personality and lifestyle are not related to consumer behavior because the product is not closely tight to the person's self-identity and beliefs.
Reference groups influence consumer behavior because of the importance of the product to group norms and values	Reference group exert little influence on consumer behavior because products are not strongly related to their norms and values

Source : [www.thomsonrights.com](http://www.thomsonrights.com)

The decision process which is involved in purchasing high and low-involvement products and services is quite different. Hence, they will also need different kind of marketing strategy.

**Table 2.3 Marketing Decision for High-involvement versus Low-involvement Products or Services**

<b>Marketing Mix Element</b>	<b>Marketing decisions where the consumer exhibits high involvement</b>	<b>Marketing decisions where the consumer exhibits low involvement</b>
Product Decisions	For long term success, one or more compelling product benefits are necessary, regardless of the level of consumer involvement.	For long term success, one or more compelling product benefits are necessary, regardless of the level of consumer involvement.
Pricing Decisions	Price, unless substantially lower, is likely to be of secondary importance to performance criteria. High price may suggest high quality of status, to the seller's benefit. Demonstrable consumer benefits are more likely than price to drive consumer choice.	Price offers can be effective in gaining trial. A sustained low price, compared to competitors (such as for private-label goods in supermarkets) may provide sufficient inertia for repeat purchase.
Promotional Decisions	Consumers are interested in the information that sellers provide. Promotional vehicles that communicate in greater detail (e.g. print advertising, internet, infomercials, personal selling) are likely to be effective.	Consumers are not interested in the information that sellers provide. Large advertising budgets and a clear focus on single demonstrable consumer benefits are probably necessary to get the message focus.
Distribution Decisions	Consumers will be relatively less concerned with convenience in purchasing. Relatively less extensive distribution is necessary.	Consumer will be relatively more concerned with convenience in purchasing. Relatively more extensive distribution is necessary.

Source : J.W. Mullins, Orville C. Walker, Jr, and Harper W. Boyd, Jr, 2008, p.108

Some psychological variables those affect consumer decision making process include perception, memory, needs, and attitude. These psychological factors are affected by personal characteristics such as demographic and lifestyle. Particularly in the high-involvement purchase, social influences such as culture, social class, reference group, and family also take part.

In the manufacturing goods products, the marketer might not have the specific knowledge about how the products are manufactured. However, the situation is different under the services because the customers are often involved in the service production and may have certain preferences about method of the service delivery. From the operational perspectives, we can categorize services into :

- **People processing** : Services are directed at people's bodies. To receive the benefit of the services, customers must physically enter the service system and cooperate actively with the service operation. The marketer should think about the benefits perceived by the customers during the process and also nonfinancial cost incurred in terms of time, mental and physical effort, fear, or pain. Example : health care, beauty salons, fitness centers, restaurants
- **Possession processing** : Services are directed at physical possessions. In this type, the customers are less physically involved compared to customers in the people processing type. Example : laundry and dry cleaning, warehousing, office cleaning service
- **Mental stimulus processing** : Services are directed at people's mind. To gain the full benefits of the services, the customers need to invest time and mental efforts. However, the customers do not necessarily need to physically present in the service factory. The core content of services is information. It thus can be inventoried for later or repeated consumption. Example : education, news and information, professional advices, and entertainment.
- **Information process** : Services are directed at intangible assets. Information is one of the services output which is most intangibles. It can be transferred into more tangible forms such as letters, books, reports, etc. Examples : accounting, banking, insurance, legal services.

### 2.3.1 Customer Decision Making : The Three-Stage Model of Service Consumption

This model was introduced by Lovelock and Wirt in 2007. The three-stage model of service consumption help us to understand how individual recognize their needs, address perceived risk, search for alternative solutions, choose and use services, and then evaluate their experiences against their prior expectation. The three-stage model consists of :

#### 1. Pre-purchase stage

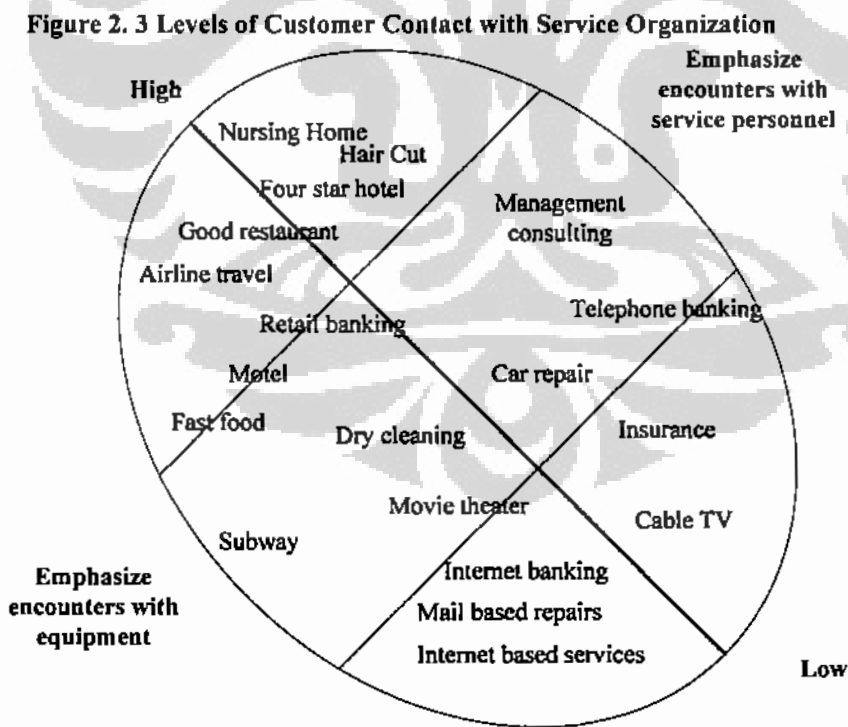
- a. Awareness of need and solution seeking. As consumer review and clarify their needs, they can start to explore potential solutions and suppliers.
- b. Evaluation of alternatives (solutions and suppliers). Evaluating a service may be difficult so the customers may worry about the risk of buying decision, which lead to disappointment. The ease or difficulty in evaluating service is a function of products attributes which are
  - Search attributes : those that can be accurately evaluated prior to making a choice (Srinivasan and Till, 2002). Example : the attributes assessed before visiting a particular restaurant are type of food, location, availability of parking, etc.
  - Experience attributes : those characteristics or qualities that need to be experienced (consumption experience). Example : in the restaurant example, the customers will know how much they like the food, the service provided by the waiter, and the atmosphere of the restaurant until they actually consuming the service.
  - Credence attributes : those characteristics or qualities that cannot be judged even with product use because the customers is forced to trust that certain tasks have been performed from which benefits will result. Example : in the restaurant example, the credence attribute includes the hygiene conditions of the kitchen and the healthiness of the cooking ingredients.

One thing that we should remember is : for the services which are difficult to evaluate before purchase or consumption, the perceived risk is relevant. The customers concerns about the negative outcome as a result of choosing and using an unfamiliar service.

c. Make decision of service purchase. Having evaluated possible alternatives, the customer may now be ready to make a decision, selecting one option in preferences to the others.

2. Service encounter stage.

Service encounter is a period of time during a customer interacts directly with a service provider i.e. customer’s phone conversation with the call center staff, several hours of meal at the restaurant, a day visit on a theme park. The encounter may take only few steps or extended over a longer time frame. The degree of complexity of the encounter can also differ one to another. The range of service encounter can be described by the figure 2.3:



Source : Christopher Lovelock, Jochen Wirt, 2008, p.51

High contact service entails interaction throughout service delivery between customers and the organization. The customer's exposure to the service provider takes on a physical and tangible nature. The industries which are classified under the high contact service provide people processing process rather than inanimate objects. Hence, the marketing challenge is to make the experience an appealing one for customers in terms of both the physical environment and their interactions with service personnel.

Low contact service involves little physical contact between customers and service providers. The contact may take place at arm's length medium such as electronic or physical distribution channels.

### 3. Post-encounter stage

In this stage, the customer will evaluate the service performance they have received and compare it with their prior expectation.

## 2.4 Market Segmentation, Target Marketing, and Positioning

Market segmentation, target marketing, and positioning are closely linked and have strong interdependence. Market segmentation attempts to divide the market into distinct subsets of customers with similar needs and characteristics that lead them to respond in similar ways to a particular product offering and marketing program. The evaluation to the attractiveness of various segments and the firm's mission and capabilities to deliver what each segment wants in order to choose which segment to choose is called target marketing. We need to make sure that the company's competitive advantage will endure in the long run, the company needs to position their products and service in their target market by creating image or position in the customer's mind.



## 2.4.1 Market Segmentation

Segmentation decisions are made in one of three ways

1. Based on who they are : segmenting demographically. Some attributes use in the segmentation are:

- a. Age
- b. Sex
- c. Income
- d. Occupation
- e. Education
- f. Race and ethnic origins

In the industrial market, the segmentation is divided into two stage : macrosegmentation which divides the market into the characteristics of the buying organization behavior using the attributes such as age of firm, firm size, and industry affiliation / trade category code and microsegmentation which are groups of customers by characteristics of the individuals who influence the purchasing decision such as age, sex, and position within the organization

2. Based on where they are : segmenting geographically. Different locations vary in their sales potential, growth rates, customer needs, cultures, climates, service needs, competitive structures, and purchase rates for a variety of goods.

3. Based on how they behave : segmenting behaviorally. This segmentation divides the market by what they do. The attributes are

- a. Consumer needs : how the consumers perceive the benefits sought from a particular product or service.
- b. Product usage and purchase influence.
- c. Lifestyle : segmentation based on what they do or believe i.e. consumers' activities, interest, and opinion.
- d. Organizational behavioral attributes. To the organizational markets, purchasing structure, and buying situation are unique. Purchasing structure is the degree to

which the purchasing activity is centered. Some marketers segment their markets accordingly and target consumers whose purchasing structure is similar (companies who buy centrally from one location to meet their global needs, for example). The buying situation includes : straight rebuy (recurring situation handled on a routine basis); modified rebuy (modification occurs when some elements has changed in a client-supplier relationship), and a new buying situation (may require the gathering of considerable information and evaluation of alternative supplier)

#### **2.4.2 Differentiation and Positioning**

Positioning consists of competitive and customer's need considerations. It is concerned with differentiation. The competition recently is really fierce. If your product and service are indifferent from your competitors, nobody will be interested in buying your product and service. Differentiation is why people buy. Creating both physical and perceptual differences using all the element of marketing mix – product, pricing, promotion, and distribution decisions- is what effective positioning seeks to accomplish (Mullins, et al, 2006, p.193).

1. Physical positioning. It focuses on the physical characteristics. A comparison of physical dimensions usually does not bring the complete picture of relative position because the positioning exists in the customer's minds. Consequently, perceptual positioning analysis is needed.
2. Perceptual positioning. Many customers do not really care about the physical properties of a products or services because they focus on the benefits of products and services. The evaluation of products and services is subjective because it is affected by factors other than physical properties such as past experiences, opinions from other, etc.

Physically similar products and services might be perceived differently because of the histories, names, and advertising campaigns.

The comparison between physical and perceptual positioning can be seen in the table below

**Table 2. 4 Comparison of Physical and Perceptual Positioning Analyses**

<b>Physical Positioning</b>	<b>Perceptual Positioning</b>
Technical orientation	Consumer orientation
Physical characteristics	Perceptual attributes
Objective measures	Perceptual measures
Data readily available	Need for marketing research
Physical brand properties	Perceptual brand positions and positioning intensities
Large Number of Dimensions	Limited number of dimensions
Represents impact of product specs	Represents impact of production specs and communication
Direct R&D implications	R&D implications need to be interpreted

To win a particular position in customer's mind, the company will try to give various kind of attribute to their products or service. Those attributes are :

- Simple physically based attributes. Single dimension attributes such as quality, power, size.
- Complex physically based attributes. Because there are a lot of physical attributes, the customer will evaluate products and services using the composite attribute, for example the speed of computer system, user-friendliness of computer system, etc.
- Essentially abstract attributes. These attributes are highly subjective and difficult to relate to physical characteristics other than by experience. The examples are the sexiness of perfume, the prestige of car, etc.
- Price. The price may infer other attributes such as high or low quality.

## 2.5 Marketing Mix

In manufacturing product, we are familiar with the concept of 4 P's (product, price, place (or distribution), and promotion (or communication)). Using the same concept, we will apply it to the service products.

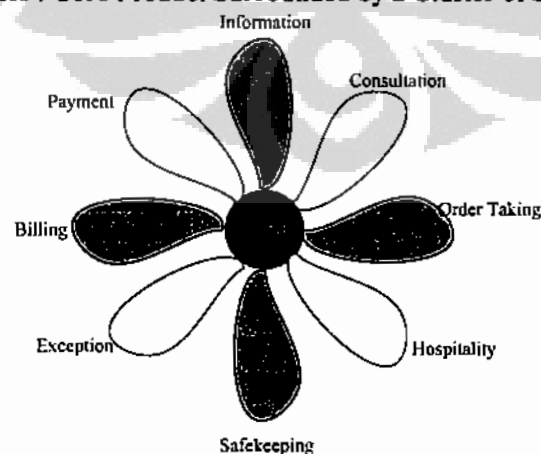
### 2.5.1 Product

A well developed positioning statement or value proposition plays an important role in designing products, whether goods or services. It tells the product's designer what benefits are to be delivered so designers can fill the product with necessary features or other attributes.

Service products are the focus of firm's marketing strategy. Though the rest of 4Ps are well executed, the flaw design of service products will not create meaningful value of customers.

To plan and create service, we need to understand the concept of core product and supplementary service. The core product is the central component which supplies the problem solving benefits customers seek. The supplementary service augments the core product by facilitating its use and enhancing its value and appeal. The supplementary services are displayed as petals surrounding the center of a flower, the core product. This concept is known as the flower of service.

Figure 2. 4 The Flower of Service : Core Product Surrounded by a Cluster of Supplementary Services



Source : Christopher Lovelock, Jochen Wirt, 2008, p.77

The set of facilitating services are shown by the pink colored-petals and the enhancing services are shown by the orange colored-petals. The eight categories of supplementary services those form the flower of service collectively provide may option for enhancing core products. Not every core product is surrounded by a large number of supplementary services from all eight petals. People processing, for example, demands the highest level of supplementary elements especially the hospitality elements because it involves close and extended interaction with customers. The example of each elements can be seen in the table 2.5

**Table 2. 5 Supplementary Service Element Examples**

Elements	Examples
Information	<ul style="list-style-type: none"> <li>• Direction to the service sites, schedule / service hours, prices, instruction on using core product / supplementary service</li> </ul>
Consultation	<ul style="list-style-type: none"> <li>• Customized advice, personal counseling, tutoring / training in product use, management or technical consulting</li> </ul>
Order taking	<p>Application</p> <ul style="list-style-type: none"> <li>• Membership in clubs or program, subscription services, prerequisite-based service</li> </ul> <p>Order Entry</p> <ul style="list-style-type: none"> <li>• On-site order fulfillment, mail / telephone order placement, email / website order placement</li> </ul> <p>Reservation and Check-in</p> <ul style="list-style-type: none"> <li>• Seats / tables / rooms, vehicle or equipment rental, professional appointments, admission to restricted facilities</li> </ul>
Hospitality	<ul style="list-style-type: none"> <li>• Greetings</li> <li>• Food and beverages</li> <li>• Security</li> </ul>
Safekeeping	<p>Caring for Possessions Customers Bring with Them</p> <ul style="list-style-type: none"> <li>• Child care, parking facilities for vehicles, baggage handling, storage space, safe deposit boxes, security personnel</li> </ul> <p>Caring for Goods Purchased (or Rented) by Customers</p> <ul style="list-style-type: none"> <li>• Packaging, pickup, transportation and delivery, installation, inspection and diagnosis, cleaning, refueling, preventive maintenance, repairs and renovation, upgrade</li> </ul>

Table 2. 5 Supplementary Service Element Examples (continued)	
Elements	Examples
Exception	<p>Special Requests in Advance of Service Delivery</p> <ul style="list-style-type: none"> <li>Children's needs, dietary requirement, medical or disability needs, religious observance, deviation from standard operating procedures</li> </ul> <p>Handling Special Communication</p> <ul style="list-style-type: none"> <li>Complaints, compliments, suggestion</li> </ul> <p>Problem Solving</p> <ul style="list-style-type: none"> <li>Warranties and guarantees against product malfunction, resolving difficulties that arise from using the product, resolving difficulties caused by accidents, service failures, and problems with staff or other customers, assisting customers who have suffered an accident or medical emergency</li> </ul> <p>Restitution</p> <ul style="list-style-type: none"> <li>Refunds, compensation in kind for unsatisfactory goods and services, free repair of defective goods</li> </ul>
Billing	<ul style="list-style-type: none"> <li>Periodic statements of account activity, invoices for individual transactions, verbal statements of amount due, machine display of amount due, self-billing (computed by customer)</li> </ul>
Payment	<p>Self Service</p> <ul style="list-style-type: none"> <li>Insert card, cash, or token in machine, electronic funds transfer, mail a check, enter credit card number online</li> </ul> <p>Direct to Payee or Intermediary</p> <ul style="list-style-type: none"> <li>Cash handling and change giving, check handling, credit / charge / debit card handling, coupon redemption, token, vouchers, etc</li> </ul> <p>Automatic Deduction from Financial Deposits (e.g. bank charges) Control and Verification</p> <ul style="list-style-type: none"> <li>Automated system (e.g. machine-readable tickets that operates entry gates), human systems (e.g. toll collectors, ticket inspectors)</li> </ul>

Source : Christopher Lovelock, Jochen Wirt, 2008, p.78-85

### 2.5.2 Pricing

Pricing decisions involve an inherent conflict between the need to win customers by allowing them to retain a portion of the value inherent in a product or service and the need to maintain profit margin sufficient to compensate employees, fund growth, and satisfy the

firm's various stakeholders. The price of a good or service must be high enough to cover per unit costs but can not exceed its value perceived by the customer.

There are three aspects that a company should consider in determining an effective pricing strategy. Those aspects are : costs, the value created for customers, and competitor pricing.

### **2.5.3 Distribution**

The customer will not buy our product or service unless it is conveniently available when and where they want to buy it. The elements in the distribution can be classified into:

- Information and promotion flow : To get the customer's interest in buying the service, the company should distribute the information and promotion materials related to the service offer.
- Negotiation flow : to close the purchase contract, both customer and company should reach an agreement on the service features and configuration and the terms of the offer.
- Product flow : this is the media which enable the service delivery. People processing and possession processing services require a physical facilities for delivery which requires the development of a network of local sites. However, the information processing services can undertake the product flow through electronic channel, employing one or more centralized sites.

Many service organizations find it cost-effective to outsource certain tasks. Usually, the supplementary service elements are the ones being outsourced.

Intermediaries are part of the marketing channel (distribution channel). Marketing channel are sets of interdependent organization involved in the process of making a product or service available for consumption (Stern and El-Ansary, 1996, p.14). In addition to that, intermediaries smooth the flow of goods and services. This procedure is necessary in order to bridge the discrepancy between the assortments of goods and services generated by producers

and assortment demanded by consumers. The discrepancy result from the fact that manufacturers typically produce a large quantity of a limited variety goods, whereas consumers usually desire only a limited quantity of a wide variety of goods (*ibid*).

### 2.5.4 Promotion

To promote the products or services, the company should choose which promotional tools to use and with whom they wish to communicate. The basic promotional tools are advertising, personal selling, sales promotion, and public relations.

Table 2. 6 The Marketing Communications Mix for Services

PERSONAL COMMUNICATION	ADVERTISING	SALES PROMOTION	PUBLICITY AND PUBLIC RELATION	INSTRUCTION MATERIALS	CORPORATE DESIGN
Selling	Broadcast	Sampling	Press Releases / Kits	Websites	Image
Customer service	Print	Coupons	Press conferences	Manuals	Interior décor
Training	Internet	Gifts	Special events	Brochures	Vehicles
Telemarketing	Outdoor	Sign-up rebates	Sponsorship	Interactive software	Equipment
Word of mouth (other customers) *	Direct Mail	Prize promotion	Trade shows, exhibitions	Voice mail	Stationery
			Media-initiated coverage *		Uniforms

\* Denotes communications originating from outside the organization

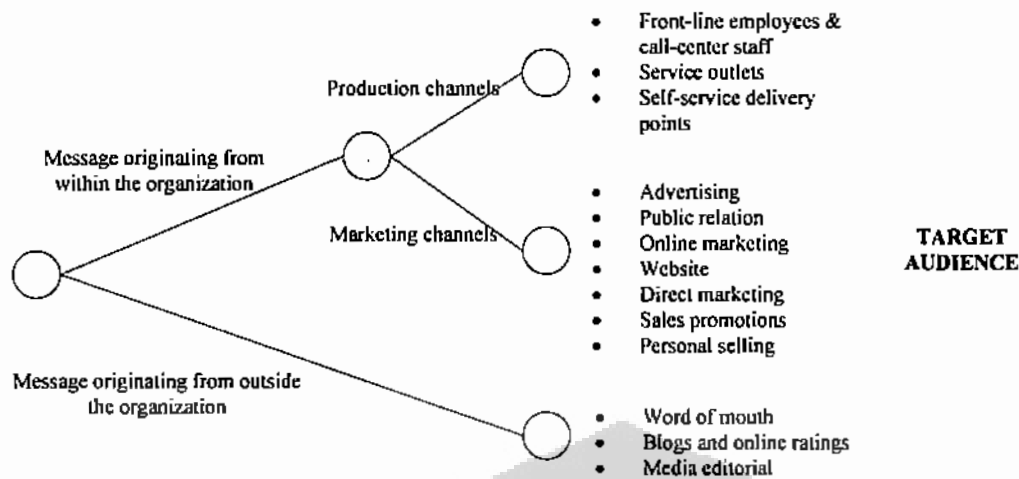
Source : Christopher Lovelock, Jochen Wirt, 2008, p.165

The decision in the promotion requires an examination about the target audience, objectives, and budget. A clear understanding on the target market is important for planning and implementing an effective promotional program. Without it, money is likely to be wasted.

Communications originate from different sources as shown in the figure 2.5



**Figure 2. 5 Sources of Messages Received by a Target Audience**



Source : Christopher Lovelock, Jochen Wirt, 2008, p.167

Message transmitted through production channels comprises communication developed with the organization and transmitted through the production channels that deliver the service itself. They are primarily service outlets and front line staff.

Message transmitted through marketing channels consists of

- **Personal selling** : this is the interpersonal encounter in which efforts are made to educate customers and promote preference for a particular brand or product. For insurance industry, the personal selling is taken care by the company's agent who plays role as a consultant to help the customers to make an appropriate decision.
- **Trade shows** : trade shows are popular form of publicity that also includes important personal selling opportunities. Trade shows can stimulate extensive media coverage and offer business customers an opportunity to find out about the latest offerings from a wide array of suppliers in the field. Trade shows can be very productive because large numbers of prospective buyers can come to marketer's place rather than the other way around.
- **Advertising** : advertising is a dominant form of communication in consumer marketing. As a matter of fact, it is often the first point of contact between service marketers and their customers. One of the challenges faced by the marketers is how to get their messages

noticed because high amount of advertisement is bombarding the customers recently. The marketer should find a way to stand out of the crowd.

- **Direct marketing** : direct marketing utilizes mailings, recorded telephone message, faxes, and email. These channels offer the potential to send personalized messages to highly targeted microsegments. Direct strategies are most likely to be successful when marketers possess a detailed database of information about customers and prospects.
- **Sales promotion** : sales promotion is a communication attached to an incentive. The objective is to accelerate the purchasing decision or motivate customers to use a specific service sooner, in greater volume, or more frequently. In service firms, sales promotion can take form such as samples, coupons, and other discounts, gifts, and competitions with prizes. Sales promotions can boost sales when the demand is weak, speed up the introduction and acceptance of new services, and generally get customers to act faster than they would in the absence of any promotional incentives.
- **Public relation** : it involves efforts to stimulate positive interest in an organization and its products by sending out news releases, holding press conferences, staging special event, and sponsoring newsworthy activities. A basic element in public relation strategy is the preparation and distribution of press releases that feature stories about the company, its products, and its employee.

Message which is originating from outside of the organization is also powerful but it can not be controlled by the marketer. The message can be distributed through word of mouth, blogs, or editorial coverage. Word of mouth and blogs are basically the testimonial of customers which can influence others in the decision to use (or avoid using) a service. The greater the risk of purchasing, the customer will rely more on the testimonials. The editorial coverage is an effort done by broadcaster or publisher to write a story about a company (the profile of company and its services). In spite of telling the good stories about a company, the

broadcaster or publisher can assign a reporter to investigate or take an in depth study about the company if they think that the company is in the position of putting customers at risk.

## 2.6 Takaful

*Takaful* is the closest Islamic instrument to the system of insurance. It literary means “mutual or joint guarantee”. The implementation of *takaful* is conducted through the form of solidarity where the participants mutually agree to share their losses by contributing or donating periodic premium.

According to Sharia Supervisory Board of Indonesia (Dewan Syariah Nasional) fatwa No.21/DSN-MUI/X/2001, *takaful* is an effort to protect and help each other through investment in asset and/or *tabarru'* which give a reimbursement method in order to deal with certain risk through *aqad* (contract) which is in line with sharia.

*Tabarru'* is a certain proportion of the *takaful* installments or *takaful* contributions that is agreed or undertaken to pay thus enabling him to fulfill his obligation of mutual help and joint guarantee should any of his fellow participants suffer a defined loss.

*Aqad* (contract) which is in line with sharia means a bond which does not contain *gharar* (any uncertainty or ambiguity created by the lack of information or control in a contract), *maysur* (impermissible games of chance), *riba* (the premium (interest) that must be paid by the borrower to the lender along with the principal amount as a condition for the loan or for an extension), *zhulm* (ruthless), *risywah* (bribery), *haram*(illicit) and *maksiat*. *Aqad* must not be a commercial contract between the insured and the insurer.

The form of *aqads* which are commonly used in *takaful* are :

- *Mudharabah* : the partnership model between the insured and the insurer with the agreement to share profits and losses. The formula which is used to calculate the amount of contribution is as follow :

$$C_1 = \frac{P_1}{1 - (W_i + E + X + P_f)}$$

$C_1$  : *takaful* contribution

$P_1$  : pure risk

$W_i$  : acquisition cost for intermediaries (brokers, agents, banks, etc)

$E$  : management cost

$X$  : excess of loss cost / technical reserve

$P_f$  : profit margin

- *Wakalah* : the representation model. The insured entrusts the insurer to represent the insured or act on behalf of the insured. The insurer will receive fee called *ujrah*. The formula which is used to calculate the amount of contribution is as follow :

$$C_1 = \frac{P_1}{1 - (W_i + W_o + X)}$$

$C_1$  : *takaful* contribution

$P_1$  : pure risk

$W_i$  : acquisition cost for intermediaries (brokers, agents, banks, etc)

$W_o$  : fee for the insurer (*ujrah*)

$X$  : excess of loss cost / technical reserve

### 2.6.1 The Differences between *Takaful* and Conventional Insurance

While the risk is being transferred in conventional insurance from the insured to the insūrer, the risk sharing is done in the *takaful*. Other differences between conventional insurance and *takaful* are :

- *Aqad* : the *aqad* in *takaful* is for non commercial purpose while the *aqad* in conventional insurance is for commercial purpose
- Premium ownership : the premium gathered from the insured belongs to the insured themselves. The insurance company only has the authority to manage the funds. In the conventional insurance, the premium belongs to the insurance company. Hence, the insurance company has the right to determine the investment.
- Investment : The investment done in *takaful* is allocated in the sharia instruments while the investment done in conventional insurance is done in the profit seeking instruments
- Claim reimbursement : In the *takaful*, the claim reimbursement is paid through the *tabarru'* accounts while in the conventional insurance the claim will be paid through company's fund
- Profits : In the *takaful*, the profits will be shared between the insurance company (operator) and the participants. On the other hand, the profit in the conventional insurance will be kept for the insurance company only.

## CHAPTER 3

### OVERVIEW

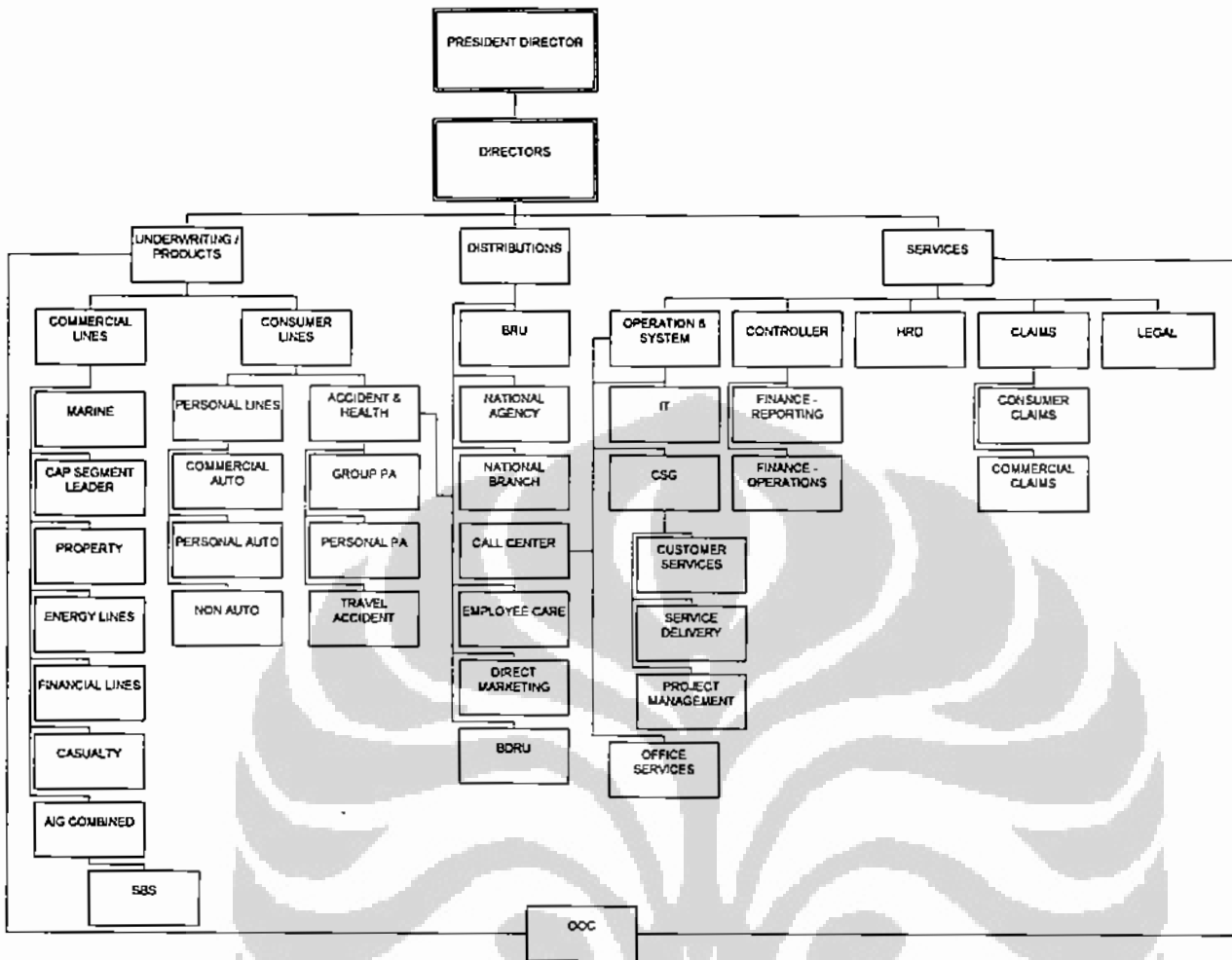
#### 3.1 Company Profile

PT Asuransi X, a member of an American financial service group, commenced operations on April 1, 1970. With over 30 years of service to both local and foreign policy holders, it is one of the most respected and experienced insurance providers in the Indonesia market place. PT Asuransi X has branches and marketing offices in Bandung, Semarang, Yogyakarta, Surabaya, Medan, and Bali.

PT Asuransi X's group is the world leading U.S.-based international insurance and financial service organizations, the largest underwriter of commercial and industrial insurance in the United States, and among the top ranked U.S. life insurers. Its member companies write a wide range of general insurance and life insurance products for commercial, institutional, and individual customers through a variety of distribution channels in approximately 130 countries and jurisdiction throughout the world. Group's global business also includes Financial services, retirement saving, and asset management. Group's financial services business includes aircraft leasing, financial products, trading and market making, and consumer finance. The group has one of the largest retirements saving business in the United States and is a leader in asset management for the individual and institutional markets, with specialized investment management capabilities in equities, fixed income, alternative investment and real estate. The group's common stock is listed on the New York Stock Exchange, as well as the stock exchanges in London, Paris, Switzerland, and Tokyo.

Organization structure of PT Asuransi X can be seen in the figure below

Figure 3. 1 PT Asuransi X Organization Structure



In general, the organization is divided into three major divisions namely Underwriting/Products, Distributions, and Services. The Underwriting/Products division is the profit center in the company which is divided into two subdivisions namely Commercial Lines and Consumer Lines. The separation between Commercial Lines and Consumer Lines is based on the target market which is corporate for Commercial Lines and personal for Consumer Lines.

**Table 3.1 Products Offered by Commercial Lines and Consumer Lines**

Subdivision	Line of Business	Products
Commercial Lines	Marine	<ul style="list-style-type: none"> <li>• Marine Cargo</li> </ul>
Commercial Lines	Property	<ul style="list-style-type: none"> <li>• Property All Risk Insurance, Machinery Breakdown Insurance, and Electronic Equipment Insurance for industries other than : Utility, Chemical, Oil and Petrochemical, Oil rig, and Process Industries</li> <li>• Money Insurance</li> </ul>
Commercial Lines	Energy Lines	<ul style="list-style-type: none"> <li>• Contractor All Risk Insurance</li> <li>• Erection All Risk Insurance</li> <li>• Property All Risk Insurance, Machinery Breakdown Insurance, and Electronic Equipment Insurance for industries : Utility, Chemical, Oil and Petrochemical, Oil rig, and Process Industries</li> <li>• Terrorism Insurance</li> </ul>
Commercial Lines	Financial Lines	<ul style="list-style-type: none"> <li>• Professional Indemnity</li> <li>• Director &amp; Officer</li> <li>• Fidelity Guarantee</li> </ul>
Commercial Lines	Casualty	<ul style="list-style-type: none"> <li>• Comprehensive General Liability</li> <li>• Workmen Compensation</li> <li>• Employer's Liability</li> <li>• Product Liability</li> </ul>
Commercial Lines	Smart Business Solution (SBS)	
Consumer Lines	Personal Lines	<ul style="list-style-type: none"> <li>• Auto Insurance</li> <li>• Non Auto Insurance : Disaster Cash Insurance and Property All Risk Insurance and Standard Fire Insurance for dwelling house / condominium</li> </ul>



**Table 3.1 Products Offered by Commercial Lines and Consumer Lines (continued)**

Subdivision	Line of Business	Products
Consumer Lines	Accident & Health	<ul style="list-style-type: none"> <li>▪ Personal Accident                             <ul style="list-style-type: none"> <li>• Hospital income and surgical benefits insurance</li> <li>• Group personal accident insurance</li> <li>• Family care</li> <li>• Hospital care plus</li> <li>• Critical care</li> <li>• Female care</li> <li>• General personal accident and personal accident for driver / maid</li> <li>• Medicare plus</li> <li>• Kids care</li> <li>• Sports care</li> </ul> </li> <li>▪ Travel Accident                             <ul style="list-style-type: none"> <li>• Single Trip Program (domestic, international, student, hajj and umroh)</li> <li>• Annual Trip Program (domestic and international)</li> </ul> </li> </ul>

The activity of the company is supported by the Distributions and Services function. Distributions function is responsible for supporting the marketing effort of the Underwriting/Products Division while the Services function is responsible for the daily operational activity in the company.

The distribution function is classified based on the distribution channels utilized by the company which are :

- BRU : market products through brokers through developing and maintaining good relationship with them, Up sell & cross-sell, Enhance relationships and service quality
- National Agency : recruit high quality of agent, develop and implement standardized training program for agent to boost their product knowledge, motivation and selling

skill, monitor agency's productivity, achievement and projection of next month, Design marketing campaign, up sell & cross sell to customers, organize marketing events / press conferences, extract and analyze customer data, and identify prospects

- National Branch : market product through branches, open new market, segmentation or line of business, increase distribution channels, balance the distribution channel share (not to depends only in one distribution channel), provide satisfactorily customer service include claim services, policy issuance, customer service handling, manage renewal portfolio
- Call Center : respond to customer simple inquiry regarding product, submission & payment, policy status, complaint, monitor submission aging which come through agency/e-mail/fax, coordinate with profit center in processing submission, refer customer's complex inquiry to profit center / finance and accounting / claims / Customer Service Group, manage renewal process, telemarketing outbound calls
- Direct Marketing : market the product by directly contacting customers through various Direct Marketing techniques, e.g. through mailing, telemarketing (inbound & outbound calls), establish the appropriate marketing campaign based on database analytical result, prepare a sponsor development strategy with profit centers, capture new market share
- BDRU : as a door opener to get new customer, create business development activity through product campaign that involves other distribution channel outside the agency and broker, liaise with other company that has a customer database to market our product to the customer. e.g : extended warranty in electronic appliances in Care Four.

In addition to the functional organization structure above, the company also has the matrix structure to the regional office which. The Energy Lines and Marine, for example, are also reporting to the Group's Global Marine and Energy.

### 3.1.1 Vision and Values

PT Asuransi X vision is to be the Insurer of choice that penetrates all segments throughout Indonesia and to dominate where we choose to play. The company's values are :

- Teamwork
- Innovation
- Professionalism
- Customer Service Focus
- Empowerment

### 3.1.2 Financial Performance

As predicted by the PT Asuransi X's management, the insurance market in 2006 kept on softening. PT Asuransi X had a hard time to continue the previous performance. As a result, the total gross premium increased by 7.36% compared to the gross premium in 2005. However, the operating expense of the company in 2006 increased by 16.59%. This is due to PT Asuransi X decision to expand the business so that the cost of hiring people, salary paid, and the cost to occupy new branch offices are increasing. In addition to that other charges also increased significantly compared to 2005. This is due to the adjustment made to the company's asset. Most of PT Asuransi X's asset is written in USD. Because the IDR exchange rate is getting stronger in 2006, PT Asuransi X has to make an adjustment which is shown in the company's income statement. The effect of stronger IDR exchange rate compared to USD is also shown in the balance sheet. We can see that in 2006 PT Asuransi X's asset decreased significantly compared to 2005. Both increases in operating expense and other charges made the net income decreased drastically.

In 2006, the company decided to pay off the liabilities. That decision made a 26.64% decrease in liabilities. The figure of PT Asuransi X financial statement can be seen in the figure below.

Figure 3. 2 PT Asuransi X's Income Statement

<b>STATEMENT OF INCOME</b> <b>The Year Ended December 31, 2006</b> <b>With Comparative Figures for 2005</b> <b>(In Millions of Rupiah)</b>			
No.	ACCOUNT	2006	2005
1	<b>Net Premium Income</b>		
2	<b>Gross Premium</b>		
3	a. Direct Insurance Premium	507,279	533,928
4	b. Indirect Insurance Premium	111,951	32,966
5	c. Commission Paid	93,361	77,092
6	<b>Total Gross Premium (3+4-5)</b>	<b>525,869</b>	<b>489,802</b>
7	<b>Reinsurance Premium</b>		
8	a. Outward Reinsurance Premium	420,208	393,270
9	b. Commission Received	79,609	70,839
10	<b>Total Reinsurance Premium (8-9)</b>	<b>340,599</b>	<b>322,431</b>
11	<b>Net Premium (6-10)</b>	<b>185,270</b>	<b>167,371</b>
12	<b>Increase (Decrease) of Unearned Premium Reserve</b>		
13	a. Prior Year	54,206	70,728
14	b. Current Year	60,448	54,206
15	<b>Total Increase (Decrease) (13-14)</b>	<b>(6,242)</b>	<b>16,522</b>
16	<b>Total Net Premium Income (11+15)</b>	<b>179,028</b>	<b>183,893</b>
17	<b>Net Other Underwriting Income</b>		
18	<b>UNDERWRITING INCOME (16+17)</b>	<b>179,028</b>	<b>183,893</b>
19	<b>UNDERWRITING CHARGES</b>		
20	<b>Claims Charges</b>		
21	a. Gross Claim	235,885	410,191
22	b. Reinsurance Claim	137,861	308,606
23	c. Increase (Decrease) Claim Reserve		
24	c.1. Current Year	47,832	48,966
25	c.2. Prior Year	49,956	41,878
26	<b>Total Claim Charges (21-22+24-25)</b>	<b>96,890</b>	<b>108,673</b>
27	<b>Net Other Underwriter Charges</b>		
28	<b>UNDERWRITING CHARGES (26+27)</b>	<b>96,890</b>	<b>108,673</b>
29	<b>UNDERWRITING INCOME (18-28)</b>	<b>82,138</b>	<b>75,220</b>
30	<b>Investment Income</b>	3,419	17,173
31	<b>Operating Expenses</b>		
32	a. Marketing	3,307	1,632
33	b. General and Administration	59,983	52,652
34	<b>Total Operating Expenses (32+33)</b>	<b>63,290</b>	<b>54,284</b>
35	<b>INCOME FROM OPERATION (29+30-34)</b>	<b>27,267</b>	<b>38,109</b>
36	<b>Other Income (Charges)</b>	<b>(16,064)</b>	<b>(2,229)</b>
37	<b>INCOME BEFORE INCOME TAX (35+36)</b>	<b>11,203</b>	<b>35,880</b>
38	<b>Income Tax</b>	4,229	6,832
39	<b>NET INCOME (37 - 38)</b>	<b>6,974</b>	<b>29,048</b>

Source : PT Asuransi X Financial Report

Figure 3. 3 PT Asuransi X's Balance Sheet

<b>BALANCE SHEET NON CONSOLIDATION DECEMBER 31, 2006 AND 2005 (In Millions of Rupiah)</b>					
<b>ASSETS</b>	<b>2006</b>	<b>2005</b>	<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2006</b>	<b>2005</b>
<b>I. INVESTMENTS</b>			<b>I. LIABILITIES</b>		
1. Time Deposits & Certificate of Deposits	111,303	194,778	1. Claims Payable	7,266	19,049
2. Stocks	-	-	2. Reinsurance Payable	64,063	64,451
3. Bonds	24,256	25,541	3. Commission Payable	-	-
4. Securities Issued or Guaranteed by Government	26,839	39,076	4. Taxes Payable	2,937	4,021
5. Trust Fund	-	-	5. Accrued Expenses	6,021	7,523
6. Direct Participation	969	969	6. Other Payable	9,341	26,925
7. Building with Strata Titles or Real Estate for Investment	-	-	<b>7. Total Liabilities (1 s/d 6)</b>	<b>89,528</b>	<b>122,039</b>
8. Mortgage Loan	-	-	<b>II. TECHNICAL RESERVE</b>		
9. Other Investment	-	-	8. Unearned Premium Reserve	60,448	54,206
<b>10. Total Investments (1 s/d 9)</b>	<b>163,467</b>	<b>281,384</b>	9. Claims Reserve	47,832	43,966
<b>II. NON INVESTMENTS</b>			<b>10. Total Technical Reserve (8+9)</b>	<b>108,280</b>	<b>103,172</b>
11. Cash & Bank	46,974	54,794	<b>11. Total Liabilities (7+10)</b>	<b>197,808</b>	<b>225,211</b>
12. Direct Premium Receivable	86,465	57,324	12. Subordinated Loans	-	-
13. Reinsurance Receivable	59,017	24,152	<b>III. SHAREHOLDERS' EQUITY</b>		
14. Accrued Interest Receivable	2,935	2,494	13. Paid in Capital	15,000	15,000
15. Building with Strata Titles or Real Estate for Own Uses	-	-	14. Paid in Surplus	-	-
16. Computer Hardware	1,534	2,279	15. Reserve	-	-
17. Other Fixed Assets	16,962	18,592	16. Increase (Decrease) of Sources	-	-
18. Other Assets	44,924	41,792	17. Gain / (Loss) in Assets Revaluation	-	-
<b>19. Total Non Investments (11 s/d 18)</b>	<b>258,855</b>	<b>281,437</b>	18. Retained Earnings	202,554	222,580
<b>20. Total Assets (10+19)</b>	<b>422,362</b>	<b>462,791</b>	<b>19. Total Shareholders' Equity (13 s/d 18)</b>	<b>224,554</b>	<b>237,580</b>
			<b>20. Total Liabilities and Shareholders' Equity (11+12+19)</b>	<b>422,362</b>	<b>462,791</b>

Source : PT Asuransi X Financial Report

The growth of PT Asuransi X in the past five years be reviewed in the tables below :

Table 3. 2 Balance sheet figure

in million rupiah

<b>YEAR</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>ASSET</b>	422,362	462,791	441,567	357,094	325,315
<b>LIABILITIES</b>	89,528	122,039	85,429	87,360	80,808
<b>TECHNICAL RESERVE</b>	108,280	103,172	112,606	82,933	65,821
<b>SHAREHOLDER'S EQUITY</b>	224,554	237,580	243,532	186,801	178,686

Source : PT Asuransi X Financial Report

Table 3. 3 Statement of Income Figure

in million rupiah

YEAR	2006	2005	2004	2003	2002
UNDERWRITING INCOME	82,138	75,220	89,573	92,170	83,120
INVESTMENT INCOME	8,419	17,173	12,885	2,681	2,592
OPERATING EXPENSE	63,290	54,284	13,471	46,137	30,627
INCOME FROM OPERATION	27,267	38,109	88,987	48,714	55,085
OTHER INCOME (CHARGES)	(16,064)	(2,229)	12,108	(15,755)	(25,237)
INCOME BEFORE TAX	11,203	35,880	101,095	32,959	29,848
INCOME TAX	4,229	6,832	29,364	9,844	8,552
NET INCOME	6,974	29,048	71,731	23,115	21,296

Source : PT Asuransi X Financial Report

### 3.1.3 SME Insurance in PT Asuransi X

SME Insurance is handled by SBS Line of Business. SBS contributes about 5% of the company's gross premium in 2006. Most of the marketing effort is done through company's Agents.

SBS provides several products but in relation with the *takaful*, we will focus only on the My Business My Choice (MBMC) products which will be developed into one of PT Asuransi X' sharia products.

The occupancy covered under MBMC, including but not limited to, are :

- Retail : retail shops, photo studio, video rental, photo developing service, laundry & dry clean, car & motorcycle service center (without repair works), showroom (except car and motorcycle showroom)

- Service : office, clinics/doctor consultation room, tailor, beauty salon and hairdressing, dental service, barber shop, professional school / training center, bridal service, communication service (warnet / wartel)
- Food & Beverage : restaurant, cafeteria, café, eating house, coffee shop, eating place, fast food restaurant
- Gas Station

The insured can choose one of the packages which is suitable for their need. Those package are :

- Fire and Perils Insurance : fire, lightning, explosion, aircraft impact, smokes (FLEXAS), flood, riot, strike, malicious damage, civil commotion (RSMDC)
- Property All Risk Insurance
- Earthquake Insurance
- SBS Package : Property All Risk Insurance plus RMDCC and burglary and theft on content and stock

### 3.2 *Takaful* in Indonesia

There are 245 million folks in Indonesia. 88% of them, or 215 million, are Moslem, comprising the largest Moslem population on earth (Wheeler, 2006). The huge number of Moslem population should be a great opportunity to grow a business which holds sharia principles. However, sharia financial services i.e. bank and insurance in Indonesia have not played a major role in the national financial services business.

According to the data provided by Indonesian *Takaful* Association, in 2006, *takaful* gross premium only contribute 1.11% of the Indonesian insurance gross premium. However, *takaful* gross premium per December 31, 2006 had increased significantly compared to same period in 2005. The gross premium was increased from IDR 326.30 billion to IDR 523.78

billion or by 60.52%. The gross premium of general insurance showed a remarkable increase as the gross premium in 2006 is doubled the 2005 premium.

Table 3. 4 *Takaful* and *Takaful* Reinsurance Market Share

	No. of Policy		Gross premium (in billion IDR)		Claim (in billion IDR)		Asset (in billion IDR)	
	2006	2005	2006	2005	2006	2005	2006	2005
Life Insurance	32,108,953	31,388,261	29,198	22,294	15,167	11,217	70,926	53,940
<i>Takaful</i> Life Insurance	3,126,315	2,711,279	265	199	89	83	620	491
Percentage	9.74%	8.64%	0.91%	0.89%	0.59%	0.74%	0.87%	0.91%
General Insurance and Reinsurance			17,918	16,080	8,603	7,707	24,379	22,401
<i>Takaful</i> General Insurance and Reinsurance			258	127	106	35	344	194
Percentage			1.44%	0.79%	1.24%	0.45%	1.41%	0.87%
Total Life and General Insurance			47,116	38,374	23,770	18,924	95,305	76,342
Total <i>Takaful</i> Life and General Insurance			524	326	196	118	964	685
Percentage			1.11%	0.85%	0.82%	0.63%	1.01%	0.90%

Source : p.51, *Investor*, IX/172, October 2007



The growth of general *takaful* industry can be seen in table 3.5

Table 3.5 Growth of general *takaful* industry

	2006	2005	2004	2003	2002
Premium	250.48	127.2	66.31	45.88	48.53
Increase / decrease	96.92%	91.83%	44.53%	-5.46%	17.68%
Investment	216.58	117.6	77.67	27.99	26.97
Increase / decrease	84.17%	51.41%	177.49%	3.78%	3.33%
Claim	88.48	35	19.04	20.74	23.6
Increase / decrease	152.80%	83.82%	-8.20%	-12.12%	234.75%
Asset	336.05	194	117.1	50.01	51.44
Increase / decrease	73.22%	65.67%	134.15%	-2.78%	18.44%

Source : Ministry of Finance, 2007

Malaysia, regarded as a successful country in implementing *takaful*, only started in the early 1980s, but in 2000 said to generate USD 143 million in premium which is about 27% of the sharia premium worldwide. For comparison, in year 2000 other Asia Pacific countries generated \$50m (9%), Europe and USA \$6m (1%), and Arab countries \$340m (63%). (Proteksi no. 178 Nov 2005)

Despite of common perception that *takaful* is only applicable to Moslem buyers, it has been reported in many instances that significant number of buyers are actually non Moslem. In Malaysia, it is said that 50%-60% of sharia bank customers are non Moslem, and HSBC Amanah Malaysia claimed that 70% of their customers are non-Moslem Chinese.

Although there is a huge discrepancy when we compare conventional insurance and *takaful* production, *takaful* practitioners believe that the wide insurance market (only 3% of Indonesian people are policyholders) and the number of Moslem in Indonesia can be a good potency in the future *takaful* market. In International Muamalah Summit 2007 in Jakarta, Muhaimin Iqbal, the chief of Indonesian *Takaful* Association estimates that by the end of year 2007, *takaful* will contribute 1.33% of the national gross premium.

### 3.3 *Takaful* Products Outlook in PT Asuransi X

PT Asuransi X has prepared the business plan for sharia. Although it is still a draft, PT Asuransi X has mentioned several important points on their vision in developing the business.

The *takaful* product is developed in order to support the PT Asuransi X five year plan. *Takaful* product is a way that the company chooses to complement and enhance the conventional services in order to penetrate the customers better. Considering that the majority of Indonesian population is Moslem, PT Asuransi X believes that it can penetrate this emerging market that has enormous potential growth. PT Asuransi X realizes the fact that it is not the first general insurance company that opens the sharia branch. However, it has excellent team, distribution channels, and improving service capability that will accelerate growth in this market. Hence, PT Asuransi X needs to ensure that it is well-placed and well positioned.

In line with the company's vision, it will ensure the innovation in products, focus and awareness to the customer needs and wants, and highly efficiency in the product design, delivery, and service. At the initial stage, PT Asuransi X's *takaful* products will be distributed through the company's distribution channels : BDRU, National Agency, National Branch, Direct Marketing, and Call Center. In the future, PT Asuransi X will seek for the possibility to market the products through other alternative distribution channels.

The portfolio of the *takaful* product will be started from the Consumer Lines' product (Personal Lines and Accidental & Health Products) and followed by the small to medium Commercial Lines' related businesses. Once there is more investment coming from the Middle East countries, PT Asuransi X will seek for the opportunity to penetrate the large Commercial Lines' businesses.

### 3.4 *Takaful* Products in PT Asuransi Allianz Utama Indonesia as Benchmarking

PT Asuransi Allianz Utama Indonesia is the PT Asuransi X's closest competitor. It is a joint venture company which has been competing in the general insurance industry aggressively in this past three years. PT Asuransi Allianz Utama Indonesia has the similar range of products with PT Asuransi X so that both of them are usually compared head to head. In second quarter of 2006, PT Asuransi Allianz Utama Indonesia opened a sharia business unit. Considering the early age of its sharia business unit and the similarities of products offered in general, we would like to review PT Asuransi Allianz Utama Indonesia's strategy in marketing the *takaful* products.

#### 3.4.1 PT Asuransi Allianz Utama Indonesia Profile

Allianz first established its presence in Indonesia in 1981, by setting up a representative office in Jakarta. On December 21, 1989, PT Asuransi Allianz Utama Indonesia was established, a non-life joint venture insurance company between Allianz Asia Pacific & Africa GmbH and the local partners, PT Asuransi Jasa Indonesia and PT Asuransi Wuwungan.

On November 15, 1991, PT Asuransi Allianz Utama Indonesia opened its first branch in Surabaya, the capital of East Java, and subsequently its second branch on July 7, 1994, in Bandung, West Java. Three years later, a representative office was opened in Medan to serve customers in northern Sumatera. Through steady expansion, PT Asuransi Allianz Utama Indonesia was by 1998 among Indonesia's top five general insurers by gross premium income.

Soon after, PT Asuransi Allianz Utama Indonesia opened its next branch office in Semarang, Central Java, on January 28, 2000. This branch office complements the first two established in East and West Java, thereby cementing the company's reach in the strategic market of Java.

The Makassar branch, located in South Sulawesi province, was launched on October 9, 2000, marking the development of PT Asuransi Allianz Utama Indonesia in the growing markets in eastern Indonesia. Together with the Denpasar branch, which started its operation on 2 February, 2001, the branch offices marked the expansion of PT Asuransi Allianz Utama Indonesia in the growing market of the eastern region of Indonesia.

Apart from the six branch offices outside Jakarta, PT Asuransi Allianz Utama Indonesia has also established smaller service centers called Points of Sales (PoS) to cater to clients located in a certain city or area. 20 Point of Sales are currently ready to serve our customers in specific areas in Jakarta, Tasikmalaya, Medan, Pekanbaru, Tegal, Solo, Yogyakarta, Purwokerto, Jember, Malang, Surabaya, Kuta, Mataram, Balikpapan, Manado, Bekasi, Cirebon and Palembang.

**Table 3. 6 The products offered by PT Asuransi Allianz Utama Indonesia**

Subdivision	Line of Business	Products
Corporate Insurance	Liability	<ul style="list-style-type: none"> <li>• Employers Liability</li> <li>• Professional Indemnity</li> <li>• Public Liability</li> <li>• Workmen Compensation</li> </ul>
Corporate Insurance	Engineering	<ul style="list-style-type: none"> <li>• Erection All Risk</li> <li>• Constructor All Risk</li> <li>• Machinery Breakdown</li> <li>• Electronic Equipment</li> </ul>
Corporate Insurance	Casualty	<ul style="list-style-type: none"> <li>• Money Insurance</li> <li>• Fidelity Guarantee</li> </ul>
Corporate Insurance	Marine	<ul style="list-style-type: none"> <li>• Marine Cargo</li> <li>• Inland Transit</li> <li>• Marine Hull</li> </ul>
Corporate Insurance	Motor Vehicle	
Corporate Insurance	Property	<ul style="list-style-type: none"> <li>• Business Interruption</li> <li>• Consequential Loss Insurance</li> <li>• Householder</li> <li>• Loss of Profit</li> </ul>

Corporate Insurance	SME Insurance	<ul style="list-style-type: none"> <li>AlliSya Usaha</li> <li>AlliSya Kantor</li> <li>Usahaku</li> </ul>
Personal Insurance	Mobilku (My Car)	<ul style="list-style-type: none"> <li>Mobilku Silver</li> <li>Mobilku Gold</li> </ul>
Personal Insurance	Proteksiku (My Protection)	
Personal Insurance	Profesi Dokter (Doctor's Profession)	
Personal Insurance	Rumahku (My House)	
	AlliSya Rumah	
Personal Insurance	AlliSya Mobil	<ul style="list-style-type: none"> <li>AlliSya Mobil Silver</li> <li>AlliSya Mobil Gold</li> </ul>
Personal Insurance	Mogeku (Big Motor Cycle Insurance)	

Source : [www.allianz.co.id](http://www.allianz.co.id)

### 3.4.2 PT Asuransi Allianz Utama Indonesia Financial Performance

PT Asuransi Allianz Utama Indonesia's asset in December 31, 2006 increased by 15.27% compared to December 31, 2005. However, PT Asuransi Allianz Utama Indonesia's liabilities also increased by 8%. The condition of increase in liabilities is a contradictory compared to PT Asuransi X where the liabilities decreased.

Figure 3. 4 PT Asuransi Allianz Utama Indonesia's Balance Sheet

**Balance Sheets, As Of 31 December 2006 And 2005**

ASSETS			LIABILITIES AND SHAREHOLDERS' EQUITY	
	31-Dec-08 (000' IDR)	31-Dec-2005 (000' IDR)	31-Dec-08 (000' IDR)	31-Dec-2005 (000' IDR)
<b>INVESTMENTS</b>			<b>LIABILITIES</b>	
Obligatory time deposits	6,200,000	6,200,000	Claims payable	9,455,160
Non-obligatory time deposits	48,789,244	132,383,909	Estimated claims retained	109,709,301
Marketable securities	337,206,501	229,966,623	Unearned premiums	114,533,854
Investment in shares	788,400	788,400	Reinsurance payables	56,012,911
Other investment	2,073,703	-	Taxes payable	1,951,323
<b>TOTAL INVESTMENTS</b>	<b>395,058,248</b>	<b>368,738,932</b>	Commissions payable	12,301,485
Cash on hand and in banks	7,528,688	12,788,151	Accrued expenses and other liabilities	19,612,721
Premiums receivable, net	95,195,666	57,109,709	<b>TOTAL LIABILITIES</b>	<b>323,776,755</b>
Reinsurance receivables	18,676,731	4,320,899	<b>SHAREHOLDERS' EQUITY</b>	
Interest receivable from investments	5,321,601	7,895,995	Share capital at par value of IDR 1,000 per share:	
Other receivables	1,144,744	636,452	Authorized share capital: 3,750 A shares and 22,250 B shares	
Employee loans	2,741,588	3,454,293	Issued and paid-up: 3,750 A shares and 16,250 B shares	20,000,000
Claim for tax refund	1,785,432	-	Additional paid-in capital	8,000,000
Fixed assets, net	8,751,613	10,502,897	Unrealized holding gain (loss) on available-for-sale securities	6,605,426
Deferred tax assets, net	10,477,703	8,541,231	Retained earnings	194,372,582
Other assets	4,073,171	3,844,267	<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>226,978,408</b>
<b>TOTAL ASSETS</b>	<b>650,765,163</b>	<b>477,832,626</b>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>650,765,163</b>

Source : [www.allianz.co.id](http://www.allianz.co.id)

PT Asuransi Allianz Utama Indonesia's total underwriting revenue for year 2006 is relatively maintained from previous year's total underwriting revenue. The operating income decreased by 3.63% which is mainly caused by the decrease in investment income. The underwriting expense and operating expense are relatively maintained from previous year's amount. However, PT Asuransi Allianz Utama Indonesia's net income decreased by 12% which is caused by the number of other expenses occurred in 2006.

Figure 3. 5 PT Asuransi Allianz Utama Indonesia's Income Statement

**Statements Of Income Years Ended 31 December  
2006 And 2005**

STATEMENTS OF INCOME		
	2006	2005
	(000' IDR)	(000' IDR)
<b>UNDERWRITING REVENUE</b>		
Gross premiums	614,876,476	603,580,645
Reinsurance premiums	-371,838,556	-347,053,281
Decrease (increase) in unearned premiums	140,873	-12,484,590
<b>Total underwriting revenue</b>	<b>243,178,793</b>	<b>244,042,774</b>
<b>UNDERWRITING EXPENSES</b>		
Claims expense:		
Gross claims	-250,783,602	-236,778,046
Reinsurance claims	96,801,305	106,823,933
Decrease (increase) in estimated claims retained	13,976,026	-10,085,750
<b>Total claims expense</b>	<b>-140,006,271</b>	<b>-140,039,863</b>
Commission expense, net	-18,628,305	-17,806,400
Other underwriting income (expense)	200,333	-4,392,378
<b>Total underwriting expenses</b>	<b>-158,434,243</b>	<b>-162,238,641</b>
<b>UNDERWRITING INCOME</b>	<b>84,744,550</b>	<b>81,804,133</b>
<b>INVESTMENT INCOME</b>	<b>26,157,778</b>	<b>41,832,265</b>
<b>OPERATING EXPENSES</b>	<b>-63,404,417</b>	<b>-63,970,571</b>
<b>OPERATING INCOME</b>	<b>57,497,911</b>	<b>59,665,827</b>
<b>OTHER (EXPENSES) INCOME, net</b>	<b>-219,096</b>	<b>2,658,141</b>
<b>INCOME BEFORE TAX</b>	<b>57,278,813</b>	<b>62,323,968</b>
<b>INCOME TAX EXPENSE</b>	<b>-15,443,651</b>	<b>-14,773,484</b>
<b>NET INCOME</b>	<b>41,835,162</b>	<b>47,550,504</b>

Source : [www.allianz.co.id](http://www.allianz.co.id)

### 3.4.3 Sharia Products Strategy in PT Asuransi Allianz Utama Indonesia

PT Asuransi Allianz Utama has a target of achieving 2000 non-life *takaful* and IDR 5 billion in Premium income within the first year from its non-life *takaful* business. The company expects growth of more than 30% in this segment over the next two years.

The first prime target market for PT Asuransi Allianz Utama Indonesia will be bancassurance business, with sharia-based consumer banking activities insured on a sharia basis. In addition to that, the company will also serve any direct requests from customers and brokers, although this is an area which is still being developed.

PT Asuransi Allianz Utama Indonesia has plans to grow its product range in the future through the development of new *takaful* products. One of the action plans taken by PT

Asuransi Allianz Utama Indonesia to increase production, is to further develop the concept of One Stop Solution. The great advantage for the customer is to be able to obtain all insurance package through one contact person or insurance agent. On the other hand, the concept enables all agents pertaining to both Allianz Life and PT Asuransi Allianz Utama Indonesia to sell both Allianz companies' products.

PT Asuransi Allianz Utama Indonesia is also developing new products, amongst others, a Personal Accident *takaful*. Local availability of products will be extended by reaching out to markets such as Padang and Aceh while at the same time giving extensive training programs for all Allianz agents, and winning new banking partners. One alternative distribution channel that PT Asuransi Allianz Utama Indonesia will develop is utilizing brokers and joining a consortium to insure Indonesians working abroad (TKI).

PT Asuransi Allianz Utama Indonesia understands that sharia is not yet widely known by the public. To address this issue, it plans to launch a two way communication advertisement, whereby it publicizes not solely to sell the products but to provide a deeper understanding of the benefits of a *takaful* product.

In 2006, PT Asuransi Allianz Utama Indonesia managed to issue nearly 200 property policies and 140 motor policies amounting to a total premium income of IDR 1.35 billion. The sales is concentrated on the largest cities of Indonesia, especially Jakarta and Balikpapan.

#### **3.4.5 PT Asuransi Allianz Utama Indonesia SME *Takaful* Product**

There are two products offered under PT Asuransi Allianz Utama Indonesia's SME *takaful* which cover businesses with total asset up to IDR 1 billion. Below are the details for each products :



### **AlliSya Usaha**

- Occupation: Office, Shops, Private warehouse, Telecommunication shops, Convection, Pharmacy store, Optical equipment store, Photography studio and more.
- Insured object: Buildings, Furnitures, Stocks, Raw materials, Machineries
- Building Construction: 1st class construction (made of concrete and steel)
- Coverage:
  - Fire, Lightning, Explosion, Falling Aircraft, Smoke (FLEXAS)
  - Riot, Strike, Malicious Damage (RSMD)
  - Impact of vehicle
  - Civil Commotion
  - Flood, Windstorm, Tempest, Water Damage
  - Burglary & Accidental Damage
  - Loss of Profit due to Business Interruption

### **AlliSya Kantor**

AlliSya Kantor protects the office that is located in high-rise office buildings, Apartments, Hotels, Home-office (Rukan).

- Coverage:
  - Fire, Lightning, Explosion, Falling Aircraft, Smoke (FLEXAS)
  - Riot, Strike, Malicious Damage (RSMD)
  - Civil Commotion
  - Flood, Windstorm, Tempest, Water Damage

## CHAPTER 4

### ANALYSIS

In this chapter, we are going to analyze the tools which are required to develop a marketing strategy. The result of the analysis will be our input in developing the marketing strategy (product, price, distribution, and promotion)

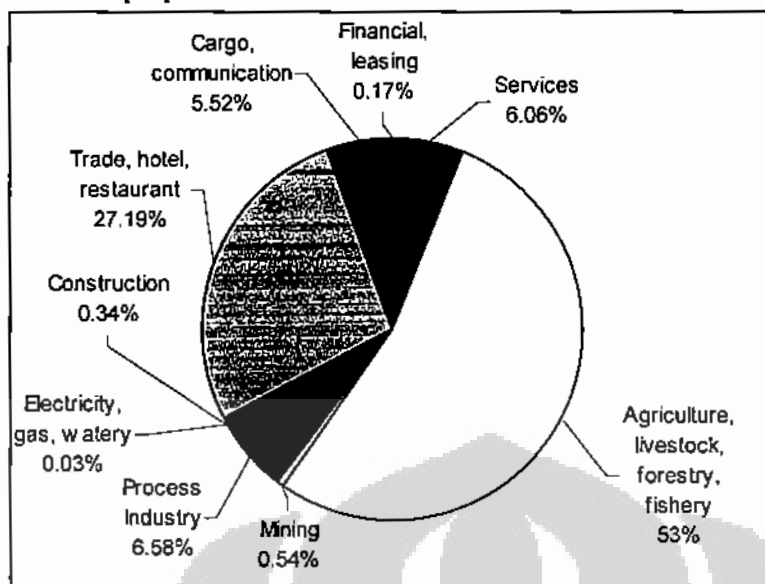
#### 4.1 Market Opportunities in SME *Takaful*

##### 4.1.1 Macro Trend Analysis at Market Attractiveness

Small medium enterprise (SME) is very strategic because of its potential as the motor of the society economics activity. SME is also the source of income for most of Indonesian to improve its wealth. The existence of SME in 2006 achieved 48.93 million business units and it was 99.9% of the national business. The business with less than IDR 1 billion revenue can be classified as small enterprise. Meanwhile, the business with more than IDR 1 billion revenue can be classified as medium enterprise

During the period 2005-2006, the number of SME grew by 3.88% from 47.10 million units in 2005 to 48.93 million units in 2006. The proportion of SME sector based on the number of business unit can be seen in the figure 4.1

**Figure 4. 1 The proportion of SME sector based on the number of business unit**



Source : *Kementerian Negara Koperasi dan Usaha Kecil dan Menengah, 2007, p.4*

The top five sector are (1) agriculture, livestock, forestry, and fishery, (2) trade, hotel, and restaurant, (3) process industry, (4) services, and (5) cargo, communication.

The growth of SME business units amount and the growth of each sector can be seen in the tables 4.1

**Table 4. 1 Growth of SME Business Unit**

	2006	2005	2004	2003	2002
<b>Small Enterprise</b>	48,822,925	47,006,889	43,158,468	42,475,756	40,705,676
<i>Growth</i>	3.86%	8.92%	1.61%	4.35%	4.77%
<b>Medium Enterprise</b>	106,711	95,855	63,361	59,580	58,992
<i>Growth</i>	11.33%	51.28%	6.35%	1.00%	15.16%
<b>Total Small Medium Enterprise</b>	48,929,636	47,102,744	43,221,829	42,535,336	40,764,668
<i>Growth</i>	3.88%	8.98%	1.61%	4.34%	4.78%

Source : [www.depkop.go.id](http://www.depkop.go.id)

The SME grows by 4.72% in average. However, the medium enterprise shows more favorable growth in this past 5 years.

In table 4.2, we can see the growth of SME starting from 2002 up to 2006 for each sector.

**Table 4. 2 Growth of SME Business Unit per Sector**

	2006	2005	2004	2003	2002
Agriculture, livestock, forestry, fishery	26,209,346	26,261,562	25,477,756	25,457,190	24,621,631
<i>Growth</i>	-0.20%	3.08%	0.08%	3.39%	2.53%
Mining	266,293	236,064	144,834	203,711	286,752
<i>Growth</i>	12.81%	62.99%	-28.90%	-28.96%	43.32%
Process Industry	3,217,506	2,808,949	2,743,858	2,711,522	2,563,923
<i>Growth</i>	14.54%	2.37%	1.19%	5.76%	0.19%
Electricity, gas, watery	15,460	14,844	4,111	4,423	8,939
<i>Growth</i>	4.15%	261.08%	-7.05%	-50.52%	85.26%
Construction	165,892	162,992	162,359	132,346	198,189
<i>Growth</i>	1.78%	0.39%	22.68%	-33.22%	68.74%
Trade, hotel, restaurant	13,304,939	12,223,397	9,845,682	9,071,331	8,487,945
<i>Growth</i>	8.85%	24.15%	8.54%	6.87%	-0.13%
Cargo, communication	2,701,937	2,606,849	2,551,727	2,488,161	2,298,785
<i>Growth</i>	3.65%	2.16%	2.55%	8.24%	29.05%
Financial, leasing	82,649	72,079	37,185	33,169	33,428
<i>Growth</i>	14.66%	93.84%	12.11%	-0.77%	6.72%
Services	2,965,614	2,716,008	2,254,317	2,433,483	2,265,076
<i>Growth</i>	9.19%	20.48%	-7.36%	7.43%	33.41%
<b>Total</b>	<b>48,929,637</b>	<b>47,102,749</b>	<b>43,221,829</b>	<b>42,535,335</b>	<b>40,764,670</b>
<i>Growth</i>	3.88%	8.98%	1.61%	4.34%	4.78%

Source : [www.dcpkop.go.id](http://www.dcpkop.go.id)

Year 2005 seems to be the golden year for SME growth in terms of number of business unit. We can see that the top five growths comes from (1) mining, (2) electricity, gas, and watery, (3) trade, hotel, and restaurant, (4) financial, leasing, and (5) services. However, the growth of those sectors in 2006 is not as well as 2005 which is mainly caused by the increase in gasoline price in October 2005 which impact still in force in 2006.

Although the inflation rate in 2006 is better compared to 2005 (6.6% in 2006 compared to 17.11% in 2005) and the exchange rate is more stable in 2006 compared to 2005 (IDR 9,100 / USD – IDR 9,200 / USD in 2006 compared to IDR 12,000 / USD in 2005), this combination can not boost up the investment factor to speed up the economic expansion. While the government targeted 6.2% economic growth in 2006, the actual growth can not achieve 5.8% for the whole 2006. Moreover, foreign and domestic investments weakened as compared to 2005. Investors and banking sector realized that public purchasing power has been exhausted because of the increase in gasoline price started October 1, 2005. Under this

situation, there will be no investor having courage to realize its approved investment. For the same reason, many banks did not want to expand credits. The banks, indeed, faced high non-performing loans so that they must be aware of the loan given to the debtors.

Economy in 2007 is expected to be better compared to 2006. 2007 has supportive condition because of the favorable 2006 inflation rate (2007 inflation rate is predicted 6.5%). Bank Indonesia (the central bank) is believed to decrease the rate but still higher than the inflation. Assuming the 6.5% inflation and 2% margin for depositors, BI still have room to decrease BI rate to 8.5%. In addition to that, foreign currency level can stay at USD 40 billion<sup>1</sup>. This condition can maintain the exchange rate to be IDR 9,100 / USD – IDR 9,500 / USD. The government has targeted 6.3% economic growth in 2007. However, we should also consider that the public purchasing power is still low and the increase of international oil price which can negatively impact the investment, including the investment in SME.

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<sup>1</sup> Balance of trade which the total exports accumulated to USD 64.63 billion, while only USD 39.93 for the total imports. It means that there was a surplus of USD 24.7 billion. By end of 2006 the surplus might come to USD 30 billion, and the export value to a new record of more than USD 95 billion). Strong capital inflows, which is reflected by the performance of Jakarta Stock Exchange (JSX) Composite Stock Price Index (JSI) which broke a new record of more than 1,700, have caused the foreign currency reserves to mount to USD 43 billion by the end of August 2006. Bank Indonesia (the central bank) was able to pay off Indonesia's debt from IMF as much as USD 7.5 billion in two installments, without endangering the reserves (USD 40 billion by end of 2006, as compared to the amount during the crisis time of 1997-1998 which was only USD 21 billion).

#### 4.1.2 Macro Trend Analysis at Industry Attractiveness

Porter's Five Competitive Forces collectively determine an industry's long-term attractiveness. The mix of forces explains why some industries are consistently more profitable than others and provides further insights into which resources are required and which strategies should be adopted to be successful.

##### 1. Rivalry among present competitors

The rivalry among present competitors is considered medium. So far, there is one *takaful* general insurance company and 15 general insurance companies those have *takaful* branch. The high investment intensity (amount of fixed and working capital) is owned by PT Asuransi Astra Buana, PT Asuransi Jasa Indonesia, and Asuransi Takaful Umum. These three companies dominate the *takaful* industry. Others are considered small to medium. The high investment capacity requires the firm to operate at or near capacity as much as possible, thereby putting strong downward pressure on prices when demand slackens. Thus, high-investment-intensity businesses are, on average, much less profitable than those with a lower level of investment.

There is not much product differentiation in the SME *takaful* products. What differ one *takaful* product from another are the range of benefits offered and the price.

The switching cost for buyers to switch from one company to another is low. Considering the soft market if insurance recently, the buyer will not be reluctant to engage another insurance company.

##### 2. Threat of new entrants

The threat of new entrants is medium. KMK No. 426/KMK.06/ 2003 stated that all parties is able to run a *takaful* business by developing a new *takaful* general insurance company, converting an existing general insurance company to a *takaful* general insurance

company, developing a new *takaful* branch in one general insurance company, or converting an existing conventional branch to a new *takaful* branch. To develop a *takaful* general insurance company or branch, one has to have IDR 2 billion in capital. Considering the small amount of capital required, it will be easy for one party to develop a *takaful* general insurance company or branch.

One of the ways that restrict the new comers is the Risk Based Capital requirement which is mentioned in KMK No.424/KMK.06/2003 and detailed in Keputusan Direktur Jendral Lembaga Keuangan No : Kep-3607/LK/2004. Insurance and reinsurance companies are obliged to have minimum 120% Risk Based Capital from the risk of loss which might appear due to the deviation of asset and liabilities management. This regulation will eliminate the insurance companies which have small amount of capital.

Gaining the distribution channels is not difficult. The insurance company can market the *takaful* products through banks, insurance agents, and brokers. The example of Sharia Banks and banks those have *takaful* branch are :

Bank Bukopin	Bank Rakyat Indonesia Tbk
Bank Danamon Tbk	Bank Tabungan Negara
Bank DKI	HSBC Ltd
Bank Negara Indonesia Tbk	PT Bank Muamalat Indonesia
Bank Niaga Tbk	PT Bank Syariah Mandiri
Bank Permata Tbk	PT Bank Syariah Mega Indonesia

Insurance company can cooperate with those banks to market their *takaful* products. In addition to banks, an insurance company can also engage insurance brokers as broker's preferred insurance company. The example of insurance and reinsurance brokers those are able to market *takaful* products are :

PT Fresnel Perdana Mandiri  
PT Asiare Binajasa  
PT Amanah Jamin Indonesia  
PT Asrinda Re-Brokers

AA Pialang Asuransi  
PT Madani Karsa Mandiri  
PT Aon Indonesia

### **3. Bargaining power of suppliers**

The bargaining power of suppliers is medium. The reinsurers can be considered as the supplier as they offer capacity to the insurance company. There are two Indonesian reinsurance company whose have sharia branch which are Reasuransi International Indonesia (Reindo) and Reasuransi Nasional Indonesia (Nasre). However, the international reinsurers can also offer their capacity to back up national insurer as long as they have the sharia branch.

Insurance company's good performance is the key to enhance the relationship between insurer and reinsurer. The good performance takes place in the good loss history of the reinsured account, the fair price of reinsurance, and the performance of the reinsured themselves i.e. punctuality on the premium payment, transparency in claim handling.

### **4. Bargaining power of buyers**

The bargaining power of buyer is high. SME insurance has a broad range of market which can be targeted. However, the market still has low insurance minded so they do not really understand about the benefits offered by an insurance product. The condition leads to a higher bargaining power of buyers because they perceive that the insurance products have less relevant importance to their overall performance. Like a two sided coin, the insurance company can consider a low insurance minded market as potency by educating the market about insurance at the first place.



The bargaining power of buyers is getting stronger since the price war also happens in the *takaful* products just like what happens in the conventional insurance. Thus, buyers can ask for lower price and switch to other insurance companies easily.

## 5. Threat of substitutes products

The threat of substitute products is medium. The substitute products for *takaful* is the conventional insurance products. If the buyers can not perceive the benefits of *takaful*, the buyer can prefer the conventional insurance to the *takaful*.

### 4.1.3 Understanding Market at the Micro Level

Consumers' need on risk management always exists. However, most of Indonesian believes that risk is a destiny from God. Hence, they prefer to accept the risk not manage the risk.

Insurance is one of the ways to manage the risk but the benefit of Insurance is not commonly known. In addition to that, consumers perceive that there is a gambling part in insurance because if no accident happens, they will lose the premium that has been invested. As we may aware, gambling is not allowed in *sharia*. Considering the high number of Moslem in Indonesia, insurance companies are offering insurance products those fits with the *sharia*. This is to ensure the consumers that risk can be managed in a way that is not contradictive with the principles they hold.

The *takaful* market is likely growing from year to year, although its gross premium amount is not comparable with the gross premium in the conventional insurance.

#### 4.1.4. Understanding Industry at the Micro Level

A sustainable competitive advantage is important in entering the *takaful* target market.

Source of sustainable competitive advantage in PT Asuransi X SME insurance are :

1. High capacity : PT Asuransi X can absorb mostly 100% of the value insured
2. One-stop insurance shopping : PT Asuransi X develops a one-stop insurance concept which allows consumers to buy broad range of insurance product for the SME through one channel (SBS). For example, SBS offers Erection All Risk Insurance and Property All Risk Insurance for Gas Station and BTS project. SBS also offers Liability Insurance when the Property All Risk Insurance is running. The one-stop insurance shopping requires SBS to work together with other departments i.e. Energy Lines and Casualty Division.
3. Pre-underwritten insurance package : pre-underwritten insurance package is dedicated for risk that has been analyzed before. The variables those are used to analyze the risk are occupancy of SME, total sum insured, risk location, loss history, etc. The pre-underwritten insurance package ensures that consumers will be served quickly.
4. Customized insurance products : SBS also offers insurance for a non-pre-underwritten risk
5. Risk management support : SBS is supported by company's risk engineer. The risk engineer will conduct a survey in the risk location to analyze the exposures. Risk engineer will give recommendations to the consumer how to manage risk on site as well as underwriting information to the SBS's underwriter.

#### 4.2 Consumer Buying Behavior in SME Market

Examining the needs, desires, and purchasing behavior of existing and potential customers is a critical step in analyzing market opportunity. Consumers buy good and services as the solution of their unsatisfied needs and wants. Based on table 2.2 we can

classify consumer buying behavior as low involvement consumer buying behavior. They select particular brands or deal with a specific supplier because they perceive them to offer desirable benefits and superior value.

Familiarity is also a key of consumers' buying decision in the SME market. The consumers choose one brand of insurance product because that brand is also used by their colleagues, family, or friends (word of mouth information).

One thing that PT Asuransi X needs to be aware is the repeat *inertial* purchasing. Though the consumers make a repeated purchasing of the insurance products, it does not mean that they already have a brand loyalty. The consumers make a repetitive purchasing to avoid making a purchasing decision. Should there is any better offers from competitor, the consumer will start buying the products from the competitor.

PT Asuransi X should also be aware of the impulse purchasing and variety seeking. It is when the consumers decide to buy products from the competitor based on their customary choice or some new variety of a product. The new brand is probably one they are familiar with through passive exposure to advertising or other information. Their motivation for switching usually is not dissatisfaction but a desire for change and variety.

#### **4.2.1 Analysis on Three Stage Model of Service Consumption**

##### **1. Pre-purchase stage**

In table 2.1, we have seen the differences between high-involvement consumers and low-involvement consumers. Unlike the customer in the large enterprise market which has a high-involvement consumer behavior, the customers of the SME show behavior of low-involvement consumers. As we may aware, the customers in SME have low level of insurance mind. They perceive that insurance is not very important for their daily performance. The condition is quite different when we compared the importance of insurance in the large

enterprise. A large independent power producer (IPP) in Indonesia, for example, has its own risk management division which is responsible for assessing their business risk and choosing the insurance company which is suitable for their needs. Another condition which makes an enterprise buy insurance products is when they have loan with banks. The bank will oblige them to buy insurance.

PT Asuransi X penetrates the SME market buy insurance product through the company's intermediaries i.e. company's insurance agents, brokers, banks. At first, the consumer might not aware about their need of insurance and company's intermediaries will advise them about their needs of insurance and the possible solutions to their needs. At this point, consumers' awareness of their need has been built. Through company's intermediaries, the consumers will seek for information and evaluate the alternative solution provided.

For the first time insurance buyer, it may be difficult for the consumers to take a decision of buying an insurance product. An insurance product has a strong experience attribute and credence attribute. The consumers will not gain the benefit of insurance before experiencing what insurance can do for them if they suffer a loss. If they buy an insurance product but they do not suffer any loss, they will not find out about how insurance claim department's can serve them professionally. The consumers will not take risk by scarifying sum amount of money that they can not enjoy what the benefits are.

## 2. Service encounter stage

As an information processing service, the direct and intensive contact between the consumers and PT Asuransi X might not be necessary. The contact between consumers and the service personnel can be done through the medium i.e. telephone, email, fax, etc. Thus, the insurance service can be classified as Low-Contact Service which emphasizes encounters with service personnel. The service personnel can be PT Asuransi X's employee or the intermediaries those work together with PT Asuransi X.

### 3. Post encounter stage

In this stage, the consumers will evaluate the service performance they have received and compare it with their prior expectation.

Based on the analysis on the stages above, we can find out that the PT Asuransi X's intermediaries are important to create consumers' awareness of their needs of insurance. It might be different from other forms of service which the consumers themselves realize their needs of insurance and actively seek for solutions suitable for their needs. In Indonesian insurance industry, where consumers' insurance mind is still low, PT Asuransi X, through its intermediaries, should intensively built consumers' awareness.

As the contact in insurance industry is classified as Low-Contact Service which emphasizes encounters with service personnel, PT Asuransi X should really take care of its intermediaries in term of how they can deal with the consumers i.e. how the intermediaries can explain about what PT Asuransi X's is, PT Asuransi X's product, PT Asuransi X's strong points compared to competitors. PT Asuransi X's intermediaries should also be equipped with brochure or booklet so the consumers can further preview PT Asuransi X's services.

The direct contact between consumer and PT Asuransi X can occur if at some point, PT Asuransi X's intermediaries are not able to answer consumer's questions i.e technical explanation about coverage or policy wording. The intermediaries can ask the underwriter to give a presentation about more detailed information about the product.

The direct contact between consumer and PT Asuransi X can also occur when the risk location needs to be surveyed. PT Asuransi X's engineer will come to the risk location, evaluate risk, and give recommendation to the consumer and the underwriter.

In both condition above, the personnel of service (the underwriter who does the presentation and the risk engineer who conducts risk survey) play important role in

convincing the prospective consumers to reduce their perceived risk. Hence, PT Asuransi X should train the employees to be respectful and empathetic in their dealings with consumers.

Managing the service personnel is one of the way that PT Asuransi X can add more search attribute on the service product. PT Asuransi X's representative, the underwriters, and the risk engineers themselves are PT Asuransi X's walking advertisement.

#### 4.3. Market Segmentation and Positioning

PT Asuransi X segments the SME market demographically. They first classified the SME market using the SIC (Standard Industry Classification) code. SIC code is a US government system for classifying industries by a four-digit code. The main classification of the industries in PT Asuransi X SME markets are:

- Retail, Service, Food & Beverage and Office
- Wholesale, including stand-alone warehouse without involving manufacturing.
- Manufacturing

PT Asuransi X also classified the market by the Property Value/Total Sum Insured (TSI) /Total Declared Value (TDV) /Total In-going Value (TIV) which is not exceeding USD 5mio, the physical building construction which is the first class construction only which detailed as follow

- Main structure / column : reinforced concrete / fire-proofed steel frame
- Wall : brick walls / concrete pre-cast
- Roof : concrete duct, metal sheet (zinc / galvanized steel / aluminum)  
/ ceramic roof tiles on wooden or metal trusses

, and the location of the risk which is detailed as follow :

- Insured location can not be inside or part of any traditional market place “pasar” or consortium risks and the building should not be adjoining or adjacent to a traditional market place or other consortium risks.
- Insured location which is located near by any traditional market place or consortium risk must have a minimum of 20 (twenty) meters of clear separation (clear area without any combustible / flammable objects). Concrete perimeter fence, park, and access road are allowed to be present in the clear separation area.
- Insured location could be reached by fire fighter through access road with minimum width of 6 meters.

PT Asuransi X positions itself through perceptual positioning. Following the group’s positioning strategy, PT Asuransi X establish the positioning through the abstract attributes which are the richness of international experience of the organization and the unique expertise within the organization. By doing so, PT Asuransi X is giving assurance to the consumers that they have been handled by an experienced and expert company in insurance services.

#### **4.4 Overall Marketing Strategies Compared to the Closest Competitor**

*SME Takaful* is a new product to PT Asuransi X but not new to the customer. The positive side of this condition is that PT Asuransi X can study and learn from the earlier design or competitor’s product. The primary marketing objective is to build selective demand and capture market share, convincing customer the new offering is better than existing competitive products.

As one of the market leaders, PT Asuransi X wants to maintain its leading share position in the face of increasing competition as the insurance market expands. The strategy taken by PT Asuransi might not be very aggressive as it is trying to stay rather than move

forward. Hence the marketing objective for PT Asuransi X are retaining the current customer and stimulating selective demand among later adopters to ensure that it captures a large share of the continuing growth in insurance industry.

PT Asuransi X's *takaful* product is the strategy to stimulate selective demand among later adopters by head-to-head positioning against competitive offerings and differentiated positioning against competitive offerings. PT Asuransi has the market expansion strategy by developing the new *takaful* product line and build distribution channel to reach the specific segment of potential customer effectively.

As the competition in the *takaful* increases, PT Asuransi X is trying to maintain its share in the insurance industry by opening the *takaful* line of business. To our closest competitor, PT Asuransi Allianz Utama Indonesia, PT Asuransi X's SME *takaful* product which is now being developed is the competitive offering to its AlliSya Usaha and AlliSya Kantor product.

In the insurance industry, PT Asuransi Allianz Utama Indonesia, as a whole, is now being very aggressive in every line of business they are playing including *takaful*. It is willing to cover risks at low terms and conditions (low premium rate, low deductible) and it is playing with the large amount of customer. On the other hand, PT Asuransi X's strategy is not as aggressive as PT Asuransi Allianz Utama Indonesia's. If it comes to the low premium rate and deductible, PT Asuransi X prefers to withdraw its participation in the competition. When PT Asuransi X can not beat PT Asuransi Allianz Utama Indonesia in terms of premium rate and deductible, PT Asuransi X offers better service i.e. claim handling and document issuance. In addition to the aggressive strategy, PT Asuransi Allianz Utama Indonesia allocates the budget for advertising purpose. On the contrary, PT Asuransi X management does not really believe in advertising. Thus, PT Asuransi X never advertise its products.



To market the SME *takaful* products at the initial steps, both PT Asuransi Allianz Utamâ Indonesia and PT Asuransi X prefer the same intermediary, which is bank. PT Asuransi Allianz Utama Indonesia and PT Asuransi X target the banks' customer to reduce the effort required to create a new customer base. In the following steps, both company will also develop other distribution channel i.e. broker and agent.

While PT Asuransi Allianz Utama Indonesia can only underwrite a business with maximum insured IDR 1 billion, PT Asuransi X offers the consumer with larger capacity up to IDR 5 billion. As a consequence, technically, PT Asuransi X has the resource to absorb the market better compared to PT Asuransi Allianz Utama Indonesia.

The detailed marketing strategy can be seen in the analysis of marketing mix below.

#### 4.5 Marketing Mix

Before analyzing the marketing mix, we should first find out the figure of the risk portfolio in the SME. The figure of the risk portfolio can be seen in the attachment 1. In the table, we have 3 years historical data started from 2006. The table summarizes the sum insured, the gross premium received, the loss history (including and excluding flood loss), and the pure risk rate (including and excluding flood loss) for each 12 segments in the SME. The segments are defined internally by PT Asuransi X.

We separate the gross loss incurred to include and exclude flood in order to get two kinds of pure risk rate which include and exclude flood. Pure risk rate is calculated by dividing the total gross loss incurred in the past 3 years with the total of sum insured in the past 3 years. We will come up with the percentage of actual loss happens against the certain amount of sum insured. The amount of flood loss in the past 3 years is enormous. About 55%

of loss amount is caused by flood. Hence, we should take more concern in detailing the coverage which include and exclude flood.

Now we have the pure risk rates. The next step is to find out whether or not the segment is making money. In doing so, we have to compare the pure risk rate with the average rate. It is obtained by dividing the total premium and the total sum insured for the whole 3 years. If the average rate is larger than the pure risk rate, it means that PT Asuransi X still make money after paying claim. If the average rate is smaller than the pure risk rate, it means that PT Asuransi X does not have any money left after paying claim. In this calculation we have two scenarios to include or exclude flood loss. If we include flood, we can find out that segment hotel/motel, manufacturing, and warehouse are not making money. But if we exclude flood, it is only the hotel/motel segment which are not making money. Based on this calculation, SME *takaful* should avoid underwriting these segments.

At the initial steps, it is understood that it might be difficult for PT Asuransi X's SME *takaful* to cover all segment of SME. Hence, we should prioritize the kind of segment PT Asuransi X can target. Considering the total sum insured, total gross premium, and the loss history, we suggest PT Asuransi X to target :

- Food and beverage segment : catering, restaurant
- Office segment : office, dwelling house or apartment which is utilized as office
- Retail segment : vehicle showroom, vehicle sparepart showroom, department store, dispensary, retailer, optic, etc
- Service segment : school, studio, warnet / wartel, spa, fitness center, museum, art gallery, laundry service, etc.

These segments have the biggest total sum insured and gross premium to the SME portfolio. They also have the fair pure risk rate.

In addition to the figure of the risk portfolio, the marketing mix should also tally with the kind of customer that PT Asuransi X has. Previously, we have figured out that the consumers have the low involvement buying behavior.

#### 4.5.1 Product

In the SME *takaful*, PT Asuransi X is able to underwrite a risk up to maximum IDR 5 billion sum insured. PT Asuransi X will provide Property All Risk (PAR) Policy with coverage as follow :

- a. Standard PAR policy extended with coverage against fire, lightning, explosion, aircraft impact, smokes, riot, strike, malicious damage, civil commotion, theft, burglary, vehicle impact, tempest, and windstorm
- b. Standard PAR policy extended with coverage against fire, lightning, explosion, aircraft impact, smokes, riot, strike, malicious damage, civil commotion, theft, burglary, vehicle impact, tempest, windstorm, flood, and water damage

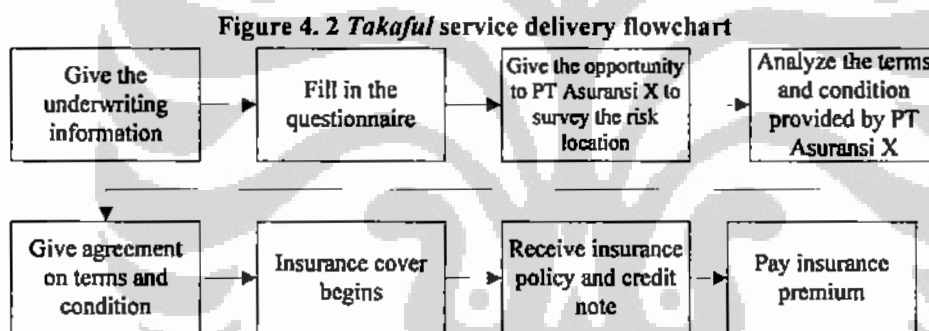
The difference between point a and b above is in the extension coverage against flood and water damage. Due to the high exposure to those perils, PT Asuransi X limits and takes care of accounts which are covered against them. The premium rate and deductible given to the accounts which are covered against flood and water damage are different from the accounts which are not covered against them. Both of a and b can also be extended to include loss of profit due to business interruption. The deductible of the policy is as follow :

- Fire, lightning, explosion, aircraft impact, smoke : nil
- Riot, strike, malicious damage : 10% of loss minimum Rp. 10,000,000
- Civil commotion : 15% of loss minimum Rp. 20,000,000
- Theft, burglary, and other losses : Rp 2,000,000
- Flood and water damage : 20% of loss minimum Rp. 20,000,000

- Tempest and windstorm : 20% of loss minimum Rp. 20,000,000

The policy wording will be based on the Munich Re standard. Munich Re wording is the common policy wording used in Indonesia. However, to underline that the policy is a *takaful* product, PT Asuransi X should add what so called the *takaful* clause. The clause will explain that sharia principles are used in the policy. PT Asuransi X should also mention that the *aqad* used in the policy is *wakalah bin ujah*.

Service performances are experienced rather than owned. To create value for customers, a service product consists of all the elements of the service performance both tangible and intangible. To clarify the product elements, we should develop flowchart which map the service delivery. By using the flowchart, we can analyze the consumers' role in getting the insurance coverage. Below is the figure of the flowchart



In order to obtain insurance coverage, the consumer should spend some time and mentalities to compile the underwriting information, fill in the questionnaire, give the opportunities to be surveyed, analyze the terms and condition, and wait until the insurance policy is issued and the coverage is begun.

The core product of *takaful* is the insurance cover. Based on the flowchart above, PT Asuransi X should add supplementary service as follow :

1. To facilitate service

- a. Information : prepare a brochure which include questionnaire about the consumer's data, consumer's income data (related with decree of MOF No.45/2003 on Know Your Customer

Principle), subject matter of insurance, surrounding properties information, and type of policy selected.

b. Order taking : the key is to reduce the time and effort required for the consumer and PT Asuransi X in order to finalize the service transaction. We already realize that service delivery in insurance industry does not require an intensive meeting between the consumer and the company's personnel. As long as the full information has been gathered, the next process i.e. quotation release, binding process can be done through media such as email or facsimile.

c. Billing : billing is generated by the company system. The copy of credit note can be send through email or fax. The original credit is sent together with the original policy document.

d. Payment : the consumer can pay the contribution through company's bank, check, or PT Asuransi X's cashier. The method of payment and the due date of payment it printed in the credit note.

## 2. To enhance service

a. Consultation : PT Asuransi X's personnel should be able to give advise to the customer regarding their need of insurance. For example, the personnel should be able to give advise whether or not the customer should buy the coverage of loss of profit due to the business interruption because for certain circumstances, it will not be economical for the customer to have this kind of coverage. Consultation can also be given during the site survey while the risk engineer conduct the site visit in order to monitor the current risk profile and give recommendation to better manage the risk in the location.

b. Hospitality : PT Asuransi X has provided a training for company's personnel in dealing with customer directly or indirectly (through phone or email).

c. Exception : exception can be address to the non-packaged risk. It means that the risk can not be covered using the standard policy that has been developed above. For example, PT Asuransi X has provided 4 segments i.e. Food and beverage, Office, Retail, Service. If there is

a request comes from other segment like hotel/motel, PT Asuransi X should also accommodate the request as long as it is possible. The exception can also include the additional coverage i.e. sub limit for machinery breakdown.

#### 4.5.2 Pricing

As we have seen in the previous part, each segment in the SME *takaful* can be further classified. Although two classes are classified under the same segment, the price of the two classes can be different. For example, catering and restaurant are classified under Food and Beverage Segment but the price given to catering is usually higher than the price given to restaurant. This is due to the different risk that is faced by those classes. Cooking is the main activity in the catering class. The activity will impose high use of fire in the kitchen. However, cooking might not be the main activity in the restaurant class. For certain menu, restaurant can subcontract the cooking activity to the catering. Hence, the use of fire in the restaurant class' kitchen is relatively lower than catering class.

Due to the broad range of class which can be classified under one segment, we will only focus on the average price of the segment. The price, which is commonly known as contribution, that should be paid by the customer consists of two components : *tabarru'* and other costs.

Pure risk rate which we had previously is the based to calculate the *tabarru'*. To summarize, below is the calculation of *tabarru'*.

**Table 4.3 Summary of *tabarru'***

Segment	Pure risk rate	
	with Flood	without Flood
F & B	0.086%	0.054%
Office	0.159%	0.075%
Retail	0.167%	0.109%
Service	0.129%	0.048%

After calculating the *tabarru*, we should also calculate other costs. The composition of other costs can be classified as follow :

- 20% of 100% contribution for acquisition cost. Acquisition cost is the fee that PT Asuransi X pay to the intermediaries. The intermediaries here can be agents, broker, or bank. PT Asuransi X has determined the acquisition cost to be 20% of 100% contribution maximum.
- 10% of 100% contribution for other expense i.e. promotion, advertising, etc.
- 15% of 100% contribution for the excess of loss / technical reserve
- 10% of 100% contribution for the insurer's fee

The total contribution that has to be paid by the customer is as follow :

**Table 4. 4 The calculation of average contribution that should be paid by the customer**

	Pure risk rate (45%)		Other costs (55%)		Total Contribution (100%)	
	w/ Flood	w/o Flood	w/ Flood	w/o Flood	w/ Flood	w/o Flood
F & B	0.086%	0.054%	0.105%	0.066%	0.191%	0.119%
Office	0.159%	0.075%	0.194%	0.092%	0.353%	0.167%
Retail	0.167%	0.109%	0.204%	0.134%	0.371%	0.243%
Service	0.129%	0.048%	0.158%	0.059%	0.287%	0.106%

In addition to the amount of contribution paid above, the customers also have to pay the policy cost and stamp duty in the amount of Rp.20,000 which has been standardized by PT Asuransi X for SME policy making cost.

### 4.5.3 Distribution

In order to serve the customer's need on SME *takaful*, PT Asuransi X realizes that the delivery or transaction of service can be conducted remotely. Moreover, conveniences in purchasing and extensive distribution channel are the keys in the distribution. The customer

does not necessarily required to go to the office (example : a customer come to the barbershop) and on the other hand the company does not have to come to the customer (example : a mobile car wash which come to the customer's house). Considering the size of the business, at the initial steps, PT Asuransi X will only operate one service outlet. Therefore, PT Asuransi X will centralize the operational activities in the company's headquarter in Jakarta. The headquarter is located in the one of Jakarta's prime business location and operated 5 days a week. The strategic location and the service time will enable the customer to directly come to the company's office and facilitate the company's personnel to approach the targeted customers.

The use of intermediaries is important to outsource certain supplementary services. It is also a strategy to broaden the distribution channel. The intermediary which is utilized by PT Asuransi is bank. So far PT Asuransi X has worked with several banks to market the insurance product. Through the corporation with banks, PT Asuransi X can reach the banks' customer. For the customers who are looking for loan, banks are usually obliged them to insure their property. PT Asuransi X can offer its insurance products to the customers by being the banks' preferred insurance company.

The supplementary services those are outsourced are information and payment. The communication between customers and PT Asuransi X will mainly be done through the bank. The bank will give the information about PT Asuransi X's products which might be suitable for their needs. It, however, does not close the case that PT Asuransi X itself communicates with the customers to give a better detail about a product. Once the insurance coverage is bound, PT Asuransi X will prepare the necessary documentation (policy document and billing statement) and the customers will pay the insurance premium through bank rather than pay directly to PT Asuransi X's bank accounts.



Other alternative intermediary that can also be utilized is *sharia* insurance broker. The flow of business is similar to what we have in the case of bank. However, there are more supplementary services that can be outsourced to the broker such as information, order taking, billing, and payment. The broker can accelerate the order taking process because they also have insurance background so that they can provide PT Asuransi X with the proposed insurance terms and conditions and also the underwriting information required to underwrite a risk. Brokers are usually familiar with the insurance product so PT Asuransi X's involvement in binding an account is rarely required. Once the account is bound, the broker will inform PT Asuransi X to issue policy document. Other documents i.e. cover note or billing statement are provided by the broker.

#### 4.5.4 Promotion

To determine what promotion strategy suitable for *takaful* SME, we should answer these following question :

- Who is our target audience? PT Asuransi X target audience can be classified into the direct customer and the intermediaries.
- What do we need to communicate and achieve? The general objective of the promotion is to create audience's awareness of PT Asuransi X SME *takaful*. The specific objective to the direct customer, which should tally with the way that PT Asuransi X positions itself, is to build preference by communicating the strengths and benefits of a SME *takaful* product which is owned by an experienced and expert company in insurance services. The specific objective to the intermediaries is to ensure them that PT Asuransi X's SME *takaful* product is competitive compared to competitors' offers in terms of rate, deductible, service to the customer (i.e. policy making, claim handling), and also the commission paid.

- How should we communicate this? PT Asuransi X should promote the SME *takaful* to the intermediaries before to the direct customer so that in the product launching, PT Asuransi X can utilize the intermediaries optimally to market the product. The promotion to the intermediaries is the form of promotion which messages are originating from within the organization through the production channel. The promotion to the intermediaries can be done through personal communication. It means that PT Asuransi X personnel should conduct a road show to give presentation or training to the intermediaries' personnel. The materials of the presentation or training are basically what PT Asuransi X SME *takaful* is, the benefits of PT Asuransi X SME *takaful*, the limitations of PT Asuransi X SME *takaful*, and the price that should be paid by the customer to obtain the coverage. Considering the cost and benefit of promotion and in addition that PT Asuransi X has developed a strong distribution channel for other products which can also be utilized by *takaful* products, PT Asuransi X never utilizes advertising as a promotion channel. This is quite contradictive with the strategy stated in table 2.3. Hence, it is suggested that PT Asuransi X use the publicity and public relation i.e. news releases or press conference to promote the SME *takaful* product to the direct customers. Publicity and public relation is a form of promotion which messages are originating from within the organization through the marketing channel.

## CHAPTER 5

### CONCLUSION AND RECOMMENDATIONS

#### 5.1 Conclusion

The analysis of this paper is started with the analysis on the market and industry in the macro and micro point of view. The analysis shows the favorable result as the economic growth is expected to maintain the positive improvement on the economy that can also affect the improvement in the SME market, attractive SME *takaful* industry, and the sustainable competitive advantages which are owned by PT Asuransi X. However, in the market micro level analysis, we can figure out that although the need of risk management always exists in the market, insurance might not be the preferred tool to manage the risk. This is caused by several reasons:

- Financial difficulty. The insurance premium is perceived to be too expensive and more investment i.e. fire fighting facilities, safety facilities, etc, needed to improve the risk quality as recommended by the insurer.
- Low knowledge of insurance mechanism. The insured might find that insurance contains gambling because if no loss happen, they will lose the premium that has been paid. The insured might also find it difficult to understand the policy wording so if they miss something, there is an opportunity that the claim will not be paid.

Our finding in the market micro level analysis leads us to analyze the consumer buying behavior. The consumer's involvement is deemed to be low. The two points those are mentioned in the previous paragraph make the insurance seems to be unimportant in the consumer's mind. Hence, less psychological involvement needed.

The low involvement buying behavior leads to the low brand awareness. The consumers always look for the cheapest price. The worse part is that although the consumers do the repeated purchasing, it does not mean that the consumers have brand loyalty. They can switch to competitor easily and sometimes, it is not caused by dissatisfaction to the incumbent insurer but by the variety seeking.

The analysis on the market and industry and the buying behavior of the targeted market are our tools in developing the marketing strategy. However, before we go further on the marketing strategy, we should also have the insight on the basic nature of the product that we are going to sell. Subsequently, we can find out the effective marketing strategy which is suitable with the nature of the product itself.

SME *takaful* product is the form of information process service which the service is directed to the consumers' intangible asset. As discussed, it has the strong experience and credence attribute. SME *takaful* is also the form of low-contact service which emphasizes the encounter with service personnel. It is not necessary for the consumer to make a direct contact with PT Asuransi X in order to get the insurance coverage. The contact can take place at the medium such as intermediaries (bank, broker, insurance agent). Combining our analysis on the nature of SME *takaful* product, we can find out that PT Asuransi X has to make the consumers to buy the product first so that they can experience the benefit of insurance and make sure that PT Asuransi X intermediaries have the good quality (hospitality, good product knowledge, and extensive channel) to represent PT Asuransi X.

Now we have discussed all the tools those we have in preparing the marketing strategy. The result of those tools is the input that we should consider in developing the marketing strategy in terms of product, price, promotion, and distribution.

PAR policy is the product that PT Asuransi X will sell to the targeted market. Through the calculation of the pure risk, we have found out that the segments those can be targeted by

PT Asuransi X are food and beverage, office, retail, and service. One thing that should be noted is that these segments do not have the big proportion on the SME sector. It is only less than 30% of the whole sector. It would be too aggressive to target the whole 30% portion because of the low involvement of the consumer buying behavior. So, in the future, PT Asuransi X should also consider touching other sector in the SME to expand the business portfolio.

PAR policy is also offered by competitors. The extend of coverage of PAR policy will be more or less the same. Differentiation of PT Asuransi X's product to competitor's product is a challenge. Through our discussion in the nature of the product, we can find out that experience and credence attribute are strong. Hence, the differentiation can be addressed through these attributes by adding the supplementary services (information, order taking, billing, consultation, hospitality, and exception) to the SME *takaful* product offered by PT Asuransi X.

The pricing strategy should tally with the product strategy. The consumers are always looking for the right product at the right price. Using the calculation of the pure risk, we can obtain the proportion of contribution which have to be paid by the consumers. Because of the low involvement of the consumer buying behavior, it will be necessary for PT Asuransi X to keep the price competitive i.e. by offering soft launching discount to attract the consumer to experience the benefit of insurance. After that, PT Asuransi X can start to develop consumers' level of trust through the enhancing supplementary services (consultation, hospitality, and exception).

The good product design and competitive price should be promoted to the consumer. Since the product is the form of low-contact service which emphasizes the encounter with service personnel, the service encounter will be done through the intermediaries. The intermediaries are PT Asuransi X's representative which will promote PT Asuransi X product

and price. Therefore, the optimal marketing strategy which should be hold by PT Asuransi X is managing the intermediaries (distribution channel).

## 5.2 Recommendations

For PT Asuransi X :

- In addition to differentiation through the experience and credence attribute by adding the supplementary service, positioning will also be necessary. It is suggested for PT Asuransi X to position itself as an internationally experienced insurance company which is supported by the unique expertise which can give the services' at the right price.
- In the future, it is suggested that PT Asuransi X also develop the *takaful* product to combine the *wakalah aqad* with the *mudharabah aqad*. *Mudharabah aqad* enable the consumers to benefit the profit sharing at the end of policy period so the *takaful* product will be more attractive to the consumers.
- Although the concept of *takaful* comes from the Islamic principle, it is not suggested for PT Asuransi X to limit the marketing efforts only to the Moslem. In the future, PT Asuransi X should develop the more viable marketing strategy so that the SME *takaful* can be marketed to every consumer from the different religion background.

For future analysis :

- To keep the analysis relevant to the current market condition, it is necessary to use the most updated data.
- To make the more comprehensive analysis, it is also important to see the concept of *takaful* in the consumers' point of view through questionnaire or interview so that we can find out whether or not the consumer interested in *takaful* product.

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ATTACHMENT

Segment	Sum of Policy Count			Sum of AIU TSI in USD			Sum of AIU GPW in USD		
	2006	2005	2007	2006	2005	2007	2006	2005	2007
Agriculture	6	2	8	430,000	179,000	500,000	726	475	800
BTS	2	2	11	6,500,000	5,000,000	1,700,000	4,700	4,500	1,700
Construction	3	1	6	350,000	110,000	500,000	520	200	675
F & B	240	210	315	76,000,000	80,000,000	97,000,000	139,000	155,000	170,000
Hotel/Motel	40	50	90	34,000,000	36,000,000	70,000,000	45,000	52,000	97,000
manufacturing	400	360	430	145,000,000	100,000,000	136,000,000	290,000	245,000	270,000
Neosign/Billboard	15	6	30	650,000	390,000	12,000,000	1,200	1,000	25,000
Office	900	1,000	1,080	195,000,000	190,000,000	200,000,000	320,000	339,000	350,000
Retail	3,000	2,750	3,400	365,000,000	250,000,000	451,000,000	978,000	790,000	1,125,000
Service	550	620	635	130,000,000	200,000,000	175,000,000	240,000	370,000	325,000
vacant	20	3	8	2,200,000	1,600,000	638,000	2,500	2,080	1,000
Warehouse	1,000	1,050	1,075	320,000,000	280,000,000	330,000,000	663,000	625,000	685,000
Grand Total	6,176	6,054	7,088	1,275,130,000	1,143,279,000	1,474,338,000	2,684,646	2,584,255	3,051,175

Segment	Sum of AIG GLU in USD			Sum of AIG GLU in USD (w/o FLOOD)			Avg Rate		
	2006	2005	2007	2006	2005	2007	2006	2005	2007
Agriculture	215	90	250	86	36	100	0.1688%	0.2654%	0.1600%
BTS	3,250	2,500	850	1,300	1,000	340	0.0723%	0.0900%	0.1000%
Construction	175	55	250	70	22	100	0.1486%	0.1818%	0.1350%
F & B	135,000	57,000	25,000	65,000	57,000	14,000	0.1829%	0.1938%	0.1753%
Hotel/Motel	140,000	62,000	33,000	140,000	62,000	33,000	0.1324%	0.1444%	0.1386%
manufacturing	935,000	60,000	220,000	350,000	60,000	36,000	0.2000%	0.2450%	0.1985%
Neosign/Billboard	1,200	195	1,500	1,200	78	1,500	0.1846%	0.2564%	0.2083%
Office	510,000	175,000	245,000	160,000	175,000	105,000	0.1641%	0.1784%	0.1750%
Retail	835,000	345,000	600,000	545,000	345,000	275,000	0.2679%	0.3160%	0.2494%
Service	300,000	152,000	200,000	35,000	152,000	55,000	0.1846%	0.1850%	0.1857%
vacant	1,100	800	319	440	320	128	0.1136%	0.1300%	0.1567%
warehouse	1,775,000	200,000	400,000	425,000	200,000	16,000	0.2072%	0.2232%	0.2076%
Grand Total	4,635,940	1,054,640	1,726,169	1,723,096	1,052,456	536,168	0.2105%	0.2260%	0.2070%

Segment	Avg Premi			Loss Ratio w/ Flood			Loss Ratio w/o Flood		
	2006	2005	2007	2006	2005	2007	2006	2005	2007
Agriculture	121.00	237.50	100.00	29.61%	18.84%	31.25%	11.85%	7.54%	12.50%
BIS	2,350.00	2,250.00	154.55	69.15%	55.56%	50.00%	27.66%	22.22%	20.00%
Construction	173.33	200.00	112.50	33.65%	27.50%	37.04%	13.46%	11.00%	14.81%
F & B	579.17	738.10	539.68	97.12%	36.77%	14.71%	46.76%	36.77%	8.24%
Hotel/Motel	1,125.00	1,040.00	1,077.78	311.11%	119.23%	34.02%	311.11%	119.23%	34.02%
manufacturing	725.00	680.56	627.91	322.41%	24.49%	81.48%	120.69%	24.49%	13.33%
Neosign/Billboard	80.00	166.67	833.33	100.00%	19.50%	6.00%	100.00%	7.80%	6.00%
Office	355.56	339.00	324.07	159.38%	51.62%	70.00%	50.00%	51.62%	30.00%
Retail	326.00	287.27	330.88	85.38%	43.67%	53.33%	55.73%	43.67%	24.44%
Service	436.36	596.77	511.81	125.00%	41.08%	61.54%	14.58%	41.08%	16.92%
vacant	125.00	693.33	125.00	44.00%	38.46%	31.90%	17.60%	15.38%	12.76%
Warehouse	663.00	595.24	637.21	267.72%	32.00%	58.39%	64.10%	32.00%	2.34%
Grand Total	434.69	426.87	430.47	172.68%	40.81%	56.57%	64.18%	40.73%	17.57%

Segment	Total Sum of Policy Count	Total Sum of AIU TSI in USD	Total Sum of AIU GPW in USD	Total Sum of AIG GLI in USD
Agriculture	16	1,109,000	2,001	555
BTS	15	13,200,000	10,900	6,600
Construction	10	960,000	1,395	480
F & B	765	253,000,000	464,000	217,000
Hotel/Motel	180	140,000,000	194,000	235,000
manufacturing	1,190	381,000,000	805,000	1,215,000
Neosign/Billboard	51	13,040,000	27,200	2,895
Office	2,980	585,000,000	1,009,000	930,000
Retail	9,150	1,066,000,000	2,893,000	1,780,000
Service	1,805	505,000,000	935,000	652,000
vacant	31	4,438,000	5,580	2,219
Warehouse	3,125	930,000,000	1,973,000	2,375,000
Grand Total	19,318	3,892,747,000	8,320,076	7,416,749

Segment	Total Sum of AIG GLU in USD (w/o FLOOD)	Total Avg Rate	Total Avg Premi	Total Loss Ratio w/ Flood
Agriculture	222	0.1804%	125.06	27.71%
BTS	2,640	0.0826%	726.67	60.55%
Construction	192	0.1453%	139.50	34.41%
F & B	136,000	0.1834%	606.54	46.77%
Hotel/Motel	235,000	0.1386%	1,077.78	121.13%
manufacturing	446,000	0.2113%	676.47	150.93%
Neonsign/Billboard	2,778	0.2086%	533.33	10.64%
Office	440,000	0.1725%	338.59	92.17%
Retail	1,165,000	0.2714%	316.17	61.53%
Service	242,000	0.1851%	518.01	69.73%
vacant	888	0.1257%	180.00	39.77%
Warehouse	641,000	0.2122%	631.36	120.38%
Grand Total	3,311,719	0.2137%	430.69	89.14%

Segment	Total Loss Ratio w/o Flood	Pure risk rate		Below/fair price	
		w/ Flood	w/o Flood	w/ Flood	w/o Flood
Agriculture	11.08%	0.0500%	0.0200%	OK	OK
ITS	24.22%	0.0500%	0.0200%	OK	OK
Construction	13.76%	0.0500%	0.0200%	OK	OK
F & B	29.31%	0.0866%	0.0538%	OK	OK
Hotel/Motel	121.13%	0.1679%	0.1679%	NOT OK	NOT OK
manufacturing	55.40%	0.3189%	0.1171%	NOT OK	OK
Neonsign/Billboard	10.21%	0.0222%	0.0213%	OK	OK
Office	43.61%	0.1590%	0.0752%	OK	OK
Retail	40.27%	0.1670%	0.1093%	OK	OK
Service	25.88%	0.1291%	0.0479%	OK	OK
vacant	15.91%	0.0500%	0.0200%	OK	OK
Warehouse	32.49%	0.2554%	0.0689%	NOT OK	OK
Grand Total	39.80%	0.1905%	0.0851%	OK	OK