

Marketing of Professional and Financial Services in Croatia

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Abstract: Based on sample survey of professional and financial service companies in Croatia, in this article, the authors try to analyse their marketing orientation in business practices. With the help of the data they assess the extent of companies' understanding of usefulness of marketing — concepts, methods and techniques — in their daily operations.

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Introduction

The service sector in Croatia has been going through a significant change during the last few years. Specific changes in macro and micro environment, in the post aggression years, have been extremely favourable for the emergence of new companies in general and services in particular. The demand for variety of services has been on the rise primarily because of the development of a free enterprise system. Although, the service sector in Croatia has yet to reach the stage of environment of highly industrialised countries (e.g. tough competition, surplus of highly qualified professionals, recession etc.), the service companies in general are facing increased competition in the local market, resulting in careful consideration of alternatives so as to achieve and maintain their competitive edge.

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Since, many new businesses have emerged on the market, increasing the need for services such as accounting, auditing, legal consultancies, financial, marketing and/or management consulting etc. has significantly increased. As this field develops fast and becomes mature, professional service companies would need to consider and apply organised, planned and structured approach to the market.

As far as the macro environment is concerned, it is a fact that Croatian economy has been one of the most stable economies in the region for the last few years. In spite of the war of independence, during the last three years, the level of inflation has been as low as 3 per cent and GNP growth rate is stabilised at around 5 per cent. The trend is likely to continue. The per capita incomes are on constant rise, ensuring higher standards of living of the people. Per capita income in 1993 was US\$2,079 and stands at approximately US\$ 4,757 in 1998. In spite of such results, the overall situation of Croatian economy can hardly be called satisfactory. External and internal debt is extremely high running into billions of dollars. Only 1.3 million people are employed out of a population of 4.2 million, the black market economy is sizeable (some claim it to be around 30 per cent, others think this figure could be higher), and so on.

From micro stand point it is heartening to note that today more than 50 per cent of total GNP is being created in the private sector, with a tendency of growth in middle and small sized companies. According to the Croatian Bureau of Statistics, in July 1998 there were 113,504¹ registered companies .

Professional Services: Accounting and Auditing

Professional service companies vary in significant ways from most other service businesses and face different, particular set of management problems (Maister, 1982). The traditional difficulties associated with the management of services are exacerbated in the case of professional services by their highly intangible, labour intensive nature and the significant role played by clients in the production process as the supplier of information (Harte and Dale, 1995). On the other side, clients may perceive the risk involved with the purchase of professional services to be higher than that associated with other services (Hill and Neely, 1988). Because of simultaneous production and consumption - even without taking into consideration the intensity of contacts between the service provider and the client - marketing is often key element which determines how the clients perceive service delivery (Harris, 1989). Especially in professional service companies, many marketing activities are neglected, uncoordinated and not managed properly. Marketing is seen as an investment which requires hours of work that cannot be charged to clients, and results are not certain (Maister, 1993). Professional service quality is a subjective and elusive concept, so that defining and measuring is particularly difficult (Gummeson, 1978). Having

overcome numerous barriers, primarily legal and ethical ones, marketing has recently become an integral part of the management and the strategy of the professional service companies, even in the most developed countries. The traditional 'marketing mix' concept is no longer sufficient and should be expanded to include human resources, political power, public opinion, presentation etc., in order to solve problems arising from specific characteristics of services – intangibility, inseparability of production and consumption, perishability and heterogeneity.

In 1997, a survey was conducted by the authors with the aim to study² the marketing orientation of professional services in Croatia. Since, this study was the first of its kind, the focus was only on two of professional services - accounting and auditing.

Changes in the economic, political, technological, cultural and ethical environment of accounting and auditing in Croatia ask for a continuous reshaping of business strategies. Operations, marketing and human resource management, as well as a global emphasis on the customer service is influencing more and more the accounting profession, which is increasingly viewing its operations as a professional service. Clients notice changes, such as increased sensitivity to their specific needs and/or introducing innovation (new products – e.g. courses and seminars for specialisation; different forms of promotion – direct mail service, newsletters, public relations etc). As a result, the professional – client relationship offers a new, a somewhat unique service experience, which deserves to be studied and considered thoroughly. From the perspective of provider of accounting and/or auditing services, the challenge lies in successful managing those relationship and experiences, which lead to satisfaction or dissatisfaction of the clients.

The sample frame consisted of 206 companies, of which 91 were auditing and 115 accounting. 71 responses were received (the response rate being 34.4 per cent — 53.5 per cent from auditing and 46.5 per cent accounting companies). Respondents were directors and/or owners. 78.9 per cent of the companies are based in Zagreb — the capital of the country and a major industrial centre. Most firms offer services within the country in which they are located (66.2 per cent), 25.4 per cent appear on the national market, 8.5 per cent offer their services on the domestic market as well as on foreign markets. Only 15.5 per cent of the companies have a foreign partner, while 84.5 per cent of them do not have a foreign partner in the same business. The oldest company was set up in 1988, the youngest one in 1996, which means that all the companies are 3-4 years old.

Respondents were given 18 statements with which they were supposed to agree or disagree. Five point scale was used to measure agreement (or disagreement) with the statements (anchors: 1= strongly disagree, 5 = strongly agree).

The results show that the co-ordination of the marketing activities is primarily the duty and right of the director and/or owner (where these functions are embodied in

one person). All companies responding to the survey, find marketing useful and have been applying some methods and forms of marketing activities. They obviously feel a need to continuously create, develop and maintain competitive advantage on the market. However, they still do not sufficiently consider marketing to be worth investing in, as is evident from their cautious and conservative views on the need to 'build in' and implement marketing in their professional services. Their profession-oriented approach continues and there is a certain neglect towards acknowledging the service requirements of the clients. It appears that not only the managers and/or partners who manage those firms have little time to devote on marketing issues, but they also lack the necessary marketing knowledge and skill. Authors believe that one of the reasons for this is that the marketing activities in the respondents' companies are not planned and considered to be an investment, but rather a cost. Besides, the companies in the sample have been newly established and have not yet fully developed their own business philosophy.

Auditing firms view marketing more positively than do the firms that deliver only accounting services. We believe that the difference arises from different formal educational and suitability requirements for providing these two types of services, e.g. auditors need more professional training, the requirements for providing auditing services are much more demanding as stipulated by international standards and laws etc. Respondents' answers to the posed questions are indicated by the average score, as shown in the Table 1.

There is a substantial disparity between the number of marketing courses the respondents covered during their formal education and the usual method of acquiring the marketing knowledge and skills (i.e. job experience). This indicates that university curricula and syllabuses are inadequately adjusted to the professional needs of the respondents. Their wish to deepen their knowledge of marketing and developing their skills through seminars and courses, as stressed by the auditing firms, support this view.

As is evident from the average score shown in the above table highest degree consensus among respondents was on the following statements:

- Reputation acquired through expert, quality work is more important than specific, additional marketing activities (4.4);
- Marketing will play an important role in the future of accounting firms (3.93);
- The result of successful marketing is higher client satisfaction (3.89);
- Modern marketing techniques and methods are indispensable to accounting firms (3.86);
- Students graduating in Accountancy should take up marketing courses to prepare themselves better for their future (3.83).

Table 1.: The degree of agreement with the statements on the role of marketing

Statements	The average score for the sample	Audit comp. Av. score	Acc. comp. Av. score	Statistical significance ($p < 0.05$)
I have a thorough knowledge of marketing	3.11	3.24	2.97	
I use marketing concepts in practice and organisation	3.03	3.24	2.39	.000
Modern marketing techniques and methods are indispensable to accounting firms	3.86	4.08	3.61	
Marketing is essentially sales	3.38	3.29	3.48	
I do not need marketing; our clients know what they need and they come when they need it	2.41	1.97	2.91	.002
Promotion and marketing are basically synonymous	2.52	2.11	3.00	.002
I am willing to attend programmes which will deepen my understanding of marketing	3.42	3.39	3.45	
Marketing increases the price a client has to pay for delivered accounting service	3.20	3.34	3.03	
Using marketing techniques in delivering accounting services are not cost-effective in relation to the time and effort spent	3.01	3.24	2.76	
The use of marketing techniques by large accountancy firms are detrimental to small firms because it takes away their clients	2.80	2.84	2.86	
Students graduating in accountancy should take up marketing courses to prepare themselves better for their future career	3.83	4.29	3.30	.000
The result of successful marketing is higher client satisfaction	3.89	4.00	3.76	
Marketing will play an important role in the future of accounting firms	3.93	3.97	3.88	
Students graduating in accountancy should take up more marketing courses at the university level and not just the 'basics of marketing', to prepare themselves better for their future career	3.62	4.05	3.12	.000
Reputation acquired through expert, quality work is more important than specific, additional marketing activities	4.14	3.87	4.45	.024
The marketing knowledge and skills I possess are sufficient	3.03	2.84	3.24	
I find most marketing activities to be unethical for real accountancy professionals	2.62	2.37	2.91	.045
Accountants should spend a certain percentage of revenue on marketing activities	3.67	3.87	3.45	

Note: Measures adapted according Gillet J., Hiltner A., Elbert, D. (1993).

The points of disagreement are evident from negative attitude of the respondents such as:

- I do not need marketing; clients know what they need and they come themselves when they need it (2.41);
- Promotion and marketing are basically synonymous (2.52);
- I find most marketing activities to be unethical for real accountancy professionals (2.62);
- The use of marketing techniques is not cost effective in relation to the time and effort spent (2.80).

Financial Services: The Insurance Industry

In the new market driven environment very few financial service companies can any longer afford to be all purpose. Differentiation with respect to 'marketing mix' has become a dire necessity. A major strategic goal should be to attract, maintain and enhance relationship with customers. Besides, the influence on banks as traditional type of financial institutions, changing environment that service industry faces nowadays in Croatia has provoked a fierce competition in insurance offerings.

A survey of insurance activities in Croatia is mostly connected with non-life insurance policies, primarily vehicle insurance, insurance of property etc. Croatian market had the first contact with life insurance in the late eighties/early nineties when representatives of some Austrian insurance companies started selling life insurance policies. Most of those insurance policies did not survive war of independence and people felt deceived. New insurance companies, most of which were established after 1991, started their business with such negative attitude of customers towards all kinds of insurance policies.

Life insurance is a very new product for most of the potential customers in Croatia and there is no influential group of people which has come to the end of their insurance term to propagate advantages of this type of saving.

The present pension system is very old and insecure. Government is looking for ways to overcome the existing problems of some 1 million retired people who, on an average, are still young. The system of health insurance is in a similar situation with the difference that all classes of people are not directly affected and some changes have already taken place. The demographic rates are important for the insurance business in general. These have had an adverse trend during the war of independence. Some of the indicators have shown minor improvements lately. For the time being, the practice is that company manager decides which insurance company will be chosen to cover part of the health insurance.

In Croatia there are 20 insurance companies. 1 ('Croatia') company dominates the total market with 71 per cent share. Influence of small companies has been only marginal, and the reason probably is that most of them were founded during the last few years. Total increase of insurance premiums in I-IX months of 1997 was 9 per cent, while gross margin fell by 4 per cent. It is important to note that life insurance, accident, health and transport insurance had the highest growth. Market share of 'Croatia' insurance company comprised 2/3 of total market (although constantly decreasing - 77.1 per cent in 1995), while all other 19 companies account for the rest of the market.

On the Croatian market there is still no significant influence of foreign insurance companies, which will probably change soon since there are no restrictions on foreign competition. With the growth of the market, the influence of foreign companies is going to be the strongest competitive force on the domestic market. With that fact in mind, in order to protect their position and secure future growth, some of the Croatian insurance companies are considering alliances with foreign insurance companies.

It is noticeable that life insurance had the highest rate of growth – 61 per cent in 1997 over the previous year. In the second place comes the accidents and health insurance with a growth rate of 18 per cent and transport and credit insurance 14 per cent over the past year. Motor liability is slowly declining and it is expected that the trend will continue. On an average, growth rate for I-IX months in 1997 compared with the same period in 1996, was 10 per cent.

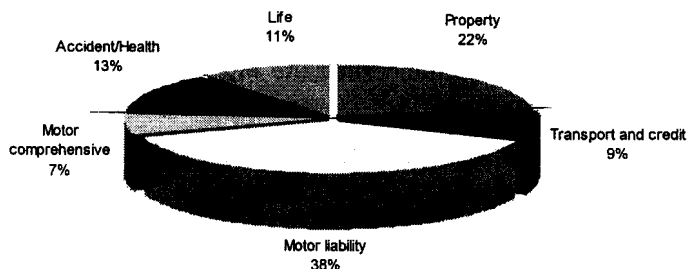
Most of insurance companies are registered for the following types of insurance:

- life insurance
- accident/health insurance
- obligatory vehicle liability
- comprehensive vehicle liability
- real estate
- transport and forwarding
- loans and rent insurance.

The proportionate share of different types of insurances in the market in 1997 is shown in Figure 1.

Results obtained from personal interviews of the CEOs of thirteen insurance companies are shown below. Interviews were conducted by the authors in individual company premises and a standard set of questions was used. Companies that took part in the research account for 97.7 per cent of total premium earnings in 1997 on the Croatian market. The conclusions drawn can be generalised for the entire insurance market.

Figure 1. Total premium of Croatian insurance companies according to types in 1997.



The main aim of the research was to find out as to what degree have insurance companies accepted contemporary business philosophies based on marketing. Two companies were founded before 1991 ('Croatia' and 'Sava'), and the rest 17 are newcomers. The two, still hold majority share of the market. 'Croatia' is the only insurance company with the government holding a majority share. All others are joint stock companies, founded during 1991-1997 (two companies per year on average). It is very likely that the number of insurance companies in next five to ten years will be stabilise around 10, of which 4 might dominate the market. This leads us to conclusion that the competition on the insurance market in the next decade will be intense. This is even more true since foreign competition will be present either independently or through domestic alliances. All these factors have influenced Croatian insurance companies to accept marketing as the main tool of their business expansion.

Answering the question about the strength of their present competition, seven companies said that it was 'very strong' and four found it 'strong'. The largest insurance companies are considered to be the strongest competitors ('Croatia', 'Zagreb', 'Euroherc' and 'Prima'). A few domestic companies are expected to be the strongest competitors in the future, and then foreign (or alliances). This leads us to believe that more new domestic companies are not expected to emerge in the near future.

'Prima', 'Euroherc', 'Adriatic', and 'Jadransko' insurance companies had the largest growth in the last year. A spectacular growth has been achieved by three very new insurance companies 'Merkur', 'Aurum' and 'Sunce'. 'Merkur' and 'Sunce' have so far the majority of their premium earnings from life insurance and 'Aurum'

from motor liability. However, a trend of diversification of their portfolio can be noticed.

In such market conditions our aim was to investigate as to what goals insurance companies have five-year hence, and which strategy they plan to pursue in order to reach the stated goals. Six surveyed companies want to become a leader in the market and five see themselves as the second best with leadership in a specific market segment. By the end of 2002, six companies expect 10 per cent market share, two 11-20 per cent and three want to reach more than 30 per cent. Only 'Croatia' plans to have 80 per cent of total market share. It is evident that some companies have set very unrealistic goals, but on the other hand it also shows that in future, competition is going to be very tough.

Marketing strategy by which CEOs plan to reach their goals is selling specific types of insurance (5 companies) or by the sale of all types of insurance with differentiated 'marketing mix'. Five companies plan to use lower prices as a part of market strategy penetration, others envisage to use combination of two or more marketing strategies in order to reach their goals (increase the sales of present insurance products - 10 companies; penetrate the market with new insurance products - 9 companies; sales of new products - 6 companies; diversification - 6 companies, and entering international market - 1 company).

Most of CEOs see as their edge in having young educated people (7 companies), fast reactions to the market demand (5 companies), modern organisational structure (3 companies), 'marketing mix' adjusted to the market (3 companies) and image and reputation (2 companies). It is interesting to note that it is for the first time in Croatia that the insurance companies have started seeing the advantageous role of marketing.

Eleven of thirteen surveyed companies have marketing sector with majority of its functions. 11 companies have promotion and advertising, market research (5 companies), development of new products (4 companies), competition research (3) and price policy (2 companies). In 12 companies each type of product-insurance is regarded as a profit point. In majority of the companies, the management makes decision about introduction of new types of insurance along with marketing department based on research and development. For 2 companies marketing activities are outsourced to an outside agency.

The main goal of all surveyed companies, according to our survey, is to achieve customer satisfaction. They all claim that quality of their services is better than those of their competitors. The price is not a competitive element in most insurance companies (7), though 5 companies use lower prices as a weapon. This is especially true in case of motor liability insurance market and in obligatory car insurance since, lately, the living standard of the people is significantly low. However, we believe that in future (and particularly in case of life, health, and accident insurance) price will not be as important marketing tool as today. The competitive tools will definitely

be quality of services, trust, and image, which will distinguish some of the insurance companies from the others.

Acceptance of marketing philosophy can also be seen through the amount of investment made in promotion, as a percentage of premium. Six bigger companies invest 1-5 per cent, two 5-10 per cent, and 2 new small companies invest roughly 25 per cent. Most of the CEOs think that this percentage should be even higher. Seven managers think that investment in promotion increase the sales, while four relate it with other marketing elements.

Importance which insurance companies attach to marketing is also shown by the time that the board of management spends discussing marketing issues: 4 companies spend up to 10 per cent of time, 6 companies spend 10-20 per cent, and six companies more than 25 per cent of the time. This is probably the best sole figure on how important marketing strategy has become in a highly competitive insurance market.

The final question was how CEOs see marketing as chosen business tactic. Six of them see it as a 'long term relationship with buyer of insurance policies', five as a 'process of adjusting the whole insurance service to the needs and desires of customers', and only two as 'sales and promotion'.

Conclusion

It is a known fact that the service sector needs a relatively stable environment of economic growth with low inflation. Croatia seems to have fulfilled this precondition. Economic, political, cultural, ethical and technological environment in the country during the past five years has helped create a market driven and customer oriented service sector.

Croatian auditing and accounting companies are aware that marketing should be an integral part of their operations, but they still do not know how to make it an element of gaining and maintaining their competitive edge.

In the insurance market highest growth has been recorded in life, accident/health and transport insurance. This extremely competitive market has been influenced by the acceptance of marketing tactics in business orientation and business policy. It is expected that product differentiation within insurance companies will emerge into two directions: 1-2 big ones with most of products, 4-7 middle ones dominated by one product, and others probably disappearing in the next 5 - 10 years.

Although, marketing in the service sector in Croatia already exists, but it requires more commitment of top and senior management of service companies, as well as of all employees throughout and not only in marketing departments. It is evident that managers of service companies operating in Croatian market are aware of marketing

as a tool for managing and maintaining a competitive advantage, but their marketing activities need reshaping and fine tuning.

NOTES

¹ Data from statistical yearbooks "SLJH", Central Bureau of Statistics of the Republic of Croatia, 1995, 1996, 1997.

² See Ozretic Dosen D., Vranesevic T., Gulin D., Spajic F., Spremic I. (1997).

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