PRODUCT ELIMINATION IN THE NIGERIAN INSURANCE INDUSTRY

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ABSTRACT

Traditionally, organizations have focused their attention on new product development giving little or no consideration to product elimination. However, there is a growing interest in the way products are eliminated in order to prevent purchase discontinuity. This study presented empirically the ways products should be eliminated in the Nigerian insurance industry. Specifically, it examined the factors normally considered before elimination decisions are taken, and the key problems encountered during elimination processes. The data obtained through a structured questionnaire were analyzed and provided a ranking of the variables relevant to the elimination process. As observed, government policies and regulations as well as operational problems are the most important factors leading to elimination process in insurance industry. The paper also reported that the most difficult problem encountered during the elimination process is maintaining customer's goodwill.

Keywords: *Product elimination, Insurance products, financial services.*

INTRODUCTION

As the literature on new product and service development grows at an impressive rate, the research on product elimination remains remarkably limited. The available literature on product elimination reveals a manufacturing orientation (Argouslidis and Baltas, 2007), in what ranks to be one of the earliest works on product elimination. Many researchers and practitioners have focused attention on major considerations for the research and development for the introductory stage of a product life cycle, while research on the product elimination theory has received minimal attention (Banville and Pletcher (1974). Product deletion is an uninspiring and depressing process. Putting products to death, or letting them die is a drab business.

Despite the paucity of research based contributions to the understanding of the product elimination process, Alexander (1964) argues that in a changing market, product deletion is as vital as addition of new products. Product elimination is an integral part of a company's innovation process, and plays a significant role in determining the overall profitability of an individual company. Although, much limited in comparison with that of manufacturing sector, there is a growing body of literature on product elimination in financial institutions (Harness, 2004; Harness D. and Harness T., 2000; Argouslidis and Baltas, 2007). A study in the UK retail financial service

sector reveals how product elimination can be handled without creating customer purchasing discontinuity (Harness D. and Harness T., 2000). In Nigeria, factual knowledge in such an important area of product management as this is limited. And to our best knowledge, no known work has been carried out in this country on product elimination in the insurance industry.

THE NIGERIAN INSURANCE INDUSTRY

According to Agusto & Coy in its 2009 Insurance Industry Report, Nigeria has one of the lowest levels of insurance patronage in the world put at as some 2% (Ayeleso, 2009). In Nigeria, insurance gross premium in relation to the gross domestic product (GDP) as at 2004 was 0.98% as against 14.38% in South Africa. Life insurance premium per capita in Nigeria stood at $0.7 as against $545 in South Africa, and non life insurance premium per capita stood at $3.3 as against $141 in South Africa. This clearly reveals the level of underdevelopment of the Nigerian insurance market (Nigeria Investments.com, 2009). In a recent survey carried out among randomly selected Nigerians such as university students, civil and public servants, business owners and clerics, the National Insurance Commission (NAICOM) reported that the majority had no form of insurance such as life, health, education, burglary/theft, and fire policies. Only one per cent of the respondents had an insurance policy which was the compulsory third party insurance for car owners. It shows further that people seem to lack confidence in the local insurance industry. Majority of Nigerians consisting of junior workers in both public and private sectors were ignorant of insurance.

The year 2008 was quite remarkable in the history of the Nigerian insurance industry, as the first year of the post-consolidation exercise which produced 49 insurance companies and 2 reinsurance companies, with a total market capitalization of over N600billion. This report calls on the insurer to translate not only the customers' needs into product and service requirements but also to deliver the products at competitive rates with the right quality. It also emphasizes the importance of product features and strategy, which will involve significant level of innovations in order to meet changing customers' needs. In most cases, the insurers in the country take actions to terminate policies of certain insures rather than eliminated a particular product in the event of unfavourable claims experience. For example, between 2002 and 2007 the Nigerian insurance industry lost N75.8 billion on the Nigeria National Petroleum Corporation group insurance account alone. Subsequently, many of the participating insurers were no longer willing to continue as the level of risk exposure for oil workers appears to be increasing by the day "due to the activities of the kidnappers in the Niger Delta". While the issue of product elimination is virtually given no attention, often, discussions among the practitioners normally revolve around marketing of insurance products (Okehi, 2007; Chilekezi, 2006).

Perhaps due to its nature, insurance product is subject to regulations all over the world. In India, development of insurance products is governed by three tier model: regulation of designing of the product, regulation of pricing of the product,

and regulation of marketing of the product. For example, Rule 2 of the IRDA (Protection of Policyholders Interests) Regulation 2002 gives the IRDA power to instruct insurance companies to either withdrawal a product or suspend the marketing of the product till the defects found in the products are rectified, if such a product is found to be detrimental to the interest of the policyholders (Veena, 2009).

Product elimination, formerly, was perceived as a negative activity concerned with removing products that no longer add to the objectives of an organisation, and no longer meet the need of the customer (Harness D. and Harness T., 2000). This may lead to a discontinuity that can negatively affect the purchasing relationship and ultimately lead to customers exiting the organisation (Stewart, 1998). Although, while not much has been written on product deletion compared with other aspects of product management, over the years, questions relating to why products should be deleted, which products should be deleted, and when products should be deleted have caused managers numerous headaches. On why products should be deleted, this author states that weak products tend to consume a disproportionate share of a manager's time, tie up production on short runs, and generally require more attention than healthy products.

In studying the past works of some researchers like Avlonitis (1985); Avlonitis and Papastathopoulu (2006), it appears that the research which has been conducted on elimination decision can be divided into two groups: (1) normative works, replete with checklists and sequential actions to guide the decision-maker, and (2) empirical works, which focus on specific components of the decision-making process. Regarding the first group, some empirical researches have repudiated the earlier normative assumption that all decisions to drop a product from the range are based on unsatisfactory sales and profits. And that not all weak products or mature products are suitable for withdrawal, and not all withdrawal candidates are weak or mature products. From the body of research, products may be deleted for a number of reasons. Product may be deleted, either due to factors inherent in the product, or through external stimuli, such as the development of a new product. The study of Banville and Pletcher (1974) indicates that profitability and financial variables are most significant in the elimination decision process.

The work of Varadarajan, Defanti and Busch (2006) focuses on the organizational and environmental drivers of brand deletion propensity. They find out that brand deletion can be critical from the standpoint of a firm being able to free up resources to redeploy toward enhancing the competitive standing and financial performance of brands in its portfolio with the greatest potential to positively affect its image and reputation. Product elimination needs to be planned carefully to prevent damage to the company's image. While some products can be eliminated immediately, others may have to be withdrawn over a period of time so that customers will have time to adjust to the replacement. The company may continue to provide service for a discontinued product for a certain period of time to retain customer goodwill (Marketing Education Resource Center, 2009).

Product discontinuation, according to Argouslidis (2007) provides service practitioners evidence about the factors that financial institutions consider in order to evaluate the impact on the entire company of an eventual decision to eliminate a financial service from the range; the degree of influence that these factors exert on management; and the contextual conditions that shape the above degree of influence. The study is interesting because a decade earlier, points had been made that recognition of customer value drivers was important in relationship marketing. For example, when Intel refused to address customers concerns, the customer rebellion forced Intel into a product recall that cost the company over $500 million and its relationships with the customers (Harmon and Laird, 1997). Mowen (1987) describe customer value drivers as the decision related attributes that are perceived by the customer to be the most important to the choice process.

From empirical evidence, product recalls can adversely affect a firm's performance if not handled properly. Boatwright, Kadane, Nunes and Shmueli (2005) find out that the reduction in product assortment actually reduces overall sales. With avalanche of products pouring into the market, it is now easier for the customers to shift to other brands at the slightest provocation. Evidence shows that product elimination provides a customer with a purchasing discontinuity that may allow them to migrate to other brands. Martins (2004) has increased our understanding of consumer responses to product discontinuance events, with particular attention given to emotional and behavioural responses and judgments of responsibility. In that study, 145 subjects responded to a series of open-ended questions about a memorable discontinuance experience. In product line contraction situations, consumers' reactions to the withdrawal of the discontinued alternative may influence future evaluation of and loyalty towards the brand. Martins (2004) found out that after discontinuance of a preferred product alternative, subjects in the study selected an alternative from a different brand more often than they selected another alternative within the remainder, exiting the category or switching between brands with no reported preference. One learned that it would be helpful for marketers to understand the impact of marketing communications when discontinuing a product on consumers' judgments of motives and intent, and subsequent brand loyalty.

Managing product recalls is a high responsibility that is often handled by the top management. Harness, Marr and Goy (1998) argue that without the knowledge of when or why a product may become sick, it is doubtful that proactive product management can be successfully accomplished. Product line rationalization is even a top priority for financial institutions that face the burden of excessive product proliferation. The work of Argouslidis and Baltas (2007) puts forward the concept of product formalization in the process and implementation of product elimination decision. Although, little work has been done on product elimination in finance sector, common thread runs through its process. Harness (2004) provides an overview of different stages involved in eliminating a product in banks, building societies and insurance organizations, and how the elimination process can help in achieving

customer retention. In one of his previous works, Harness D. and Harness T. (2000) explains the two types of elimination existing in the financial services sector: partial elimination and full elimination. In the case of partial elimination, a product is removed from new sales but the existing customers still own the product, leaving support liability for the organization. In the case of full elimination, the product reaches a stage where support liability is ceased. According to him, in partial elimination, a firm may decide to make the product a closed issue so that no new customers could buy it, but keep the product open to the existing customers.

Alternatively, the firm may make the product less attractive to the existing customers to encourage migration to new products. Another strategy is to withdraw the product from new sales, while the existing customers are forced to migrate to an alternative product. One option is to withdraw certain product attributes, but leave core functions intact. It could even be that the nature and functions of the product is changed but the brand name is reused. Another strategy is to sell the core product entirely to another organization. The work of Argouslidis (2007) provides both the practitioners and the scholars some understanding regarding the elimination decision process in financial institutions. His study was based on 20 in-depth interviews with top managers of some UK financial institutions. He also used a mail survey of 112 specific elimination case histories from an equal number of UK banks, building societies and insurance companies. His findings reveal that the impact of a financial service's eventual elimination on the relationships of the company with its customers is rated as the most influential evaluation factor. Other influential evaluation factors are the impact on the public image of the financial institution and the impact on the sales and the profitability of other financial services in the range. However, the degree of influence is largely situation specific.

RESEARCH METHODOLOGY

This exploratory study is to find out the practice of product elimination in the Nigerian insurance industry. Factors normally considered before eliminating a product were also considered. The research design is the survey type which tries to unravel the experiences of the subject or variables under consideration without any attempt to control or manipulate them. The simple random sampling method was used in selecting sample of the insurance companies. Although, there are seventy-one recapitalized insurance companies in Nigeria, some sets of them still fall under the same ownership, use the same policy guidelines, and even occupy the same premises. The government had directed in 2005 that there should no longer be composite companies and that the existing ones should be split into life insurance companies and general insurance companies under separate management. We selected 40 insurance companies, 20 from running life insurance business and 20 running general insurance, and we tried to ensure that no two companies fall under the same ownership. Questionnaire was used as our data gathering instrument, and a copy each was sent to a company. The questions were such that it would elicit information on the way

products are being eliminated from the market, and factors that are normally considered before elimination decision is taken. Out of the 40 copies of questionnaire sent out, thirty-six were returned and thirty-four were correctly completed. These thirty-four serve as the basis for the following analysis.

The Kolmogorov-Smirnov method was used to test the formulated hypotheses. Like Chi-Square method, it is a goodness of fit test. It is appropriate here because the data being measured are ordinal. The Kolmogorov-smirnov test looks at the degree of agreement between the distribution of the observed values and some specified theoretical distribution (expected frequencies). The test focuses on the largest value of the deviations among observed and theoretical proportions. This test treats individual observation separately and thus, unlike χ^2 test for one sample, need not lose information through the combining of categories. It is thus more powerful than

test (Siegel, 1956) The Kolmogorov-Smirnov test is given as:

$$D = max\ |F_o(X) - S_n(X)|$$

where:

F is the number of observations,

$F_o(X)$ is the specified (or theoretical) cumulative frequency distribution under H_o for any value of X,

$S_n(X)$ is the observed cumulative frequency distribution of a random sample of N observation for any value of X.

The procedure is as follows: specify the null hypothesis; specify the level of signification; and state the decision rule. The degree of freedom is measured against 5 percent level of significance. The critical value of D for sample size of $N = 34$ is 0.232, as can be deduced from the Kolmogorov-Smirnov Table. The decision rule is that H_o will be rejected if the calculated D (that is to say, D_{cal}) is greater than the tabulated D (D_{tab}) under the deviation level of 5 percent.

RESULTS AND DISCUSSION

Table1: Responses from the companies on their product elimination procedure N=34

Responses to Survey Questions	Agreed	(%)	Indifference	(%)	Disagreed	(%)
There is a formal procedure for elimination a product in this organization	24	70%	4	12%	6	18%
Elimination activities tend to be long and cumbersome	17	50%	5	15%	12	35%
The decision to eliminate a product is taken at the top management level	25	73%	6	18%	3	9%
Elimination activities are initiated when certain signals regarding a product appear	31	91%	1	3%	2	6%
There is a laid down procedure for the detection and evaluation of weak products	23	68%	7	20%	4	12%
Responsibilities for eliminating a product have been assigned to some staff	13	38%	3	9%	18	53%
Customers are communicated when a product is removed from the market	23	68%	4	12%	7	20%

Table 2: Number of products removed in the last three years N=34 (2007 - 2009)

Number of products	Companies cited	Percentage
0	6	18
1-5	27	79
6-10	1	3

From table 1, 70% of the companies sampled agreed that product elimination in their organizations follows a formal procedure; 73% agreed that elimination decision is taken by the top management; and 68% agreed that customers are communicated when product is removed from the market. From Table 2, 79% of the respondent companies have eliminated between 1 and 5 products from the market within the last five years.

Table 3: Length of time it takes to eliminate a weak product N=34

Length of time	Companies Cited	Percentage
No time frame	2	6
Within 6 months	15	44
7-12 months	11	33
13-18 months	2	6
19-24 months	4	1

Table 4: Strategies used in partial elimination N=34

Strategies used in partial elimination	CompaniesCited	Percentage
Remove the product from new sales, but made available to existing customers	15	44
Remove the product from certain segments of customers, but made available to other new and existing customers	6	18
Make the product less attractive to existing customers to encourage migration to new product	19	56

From table 3, 44% of the companies would eliminate products from the market within 6 months of the management decision, and 33% would do this between 7 and 12 months. Regarding partial elimination as shown on table 4, 56% of the companies use the strategy of making the product less attractive to existing customers to encourage migration to new product, while the most used strategy for full elimination as shown on Table 5 is to withdraw the product from new sales, and existing customers are forced to migrate to an alternate product.

Table 5: Strategies used in full elimination N=34

Strategies used in full elimination %	Companies Cited	Percentage
Withdraw the product from new sales, and existing customers are forced to migrate to an alternate product	16	47
Withdraw the core product so that the organization is relieved of any liability for service support for customers	13	38
Sell or transfer the core product along with its customers or users to another organization	12	35

Table 6: Circumstances that warrant a review of a product for possible elimination N=34

Circumstances	Companies cited	Percentage
Government policies and regulations	29	85
Operational problems	21	62
Activities of the competitors	13	38
Development of a new product	8	23
Company's resources required elsewhere	2	6
Decline in market potential	16	47
Poor profit performance	17	50
Poor quality or design	13	38
Poor fit with company's capabilities or strategic plans	11	32
Rationalization due to mergers and acquisitions	12	35
Poor fit with company's image	7	20
Parent company's decision and policies	9	26

From table 6, the most cited reasons for elimination are government policies and regulations, operational problems, poor profit performance, and decline in market potential. From Table 7, the most cited problems encountered in the product elimination decision are maintaining customers' goodwill, and resistance by some staff in the organization. Thirty-eight percent of the respondents also cited lack of adequate information required for elimination decision, high product investment costs, and legal obstacles as some of the problems encountered.

Table 7: Problems encountered in the product elimination decision N=34

Problems encountered	Companies cited	Percentage
Lack of adequate information required for elimination decision	13	38
Resistance by some staff in the organization	15	44
Lack of interdepartmental cooperation during elimination stages	10	29
High product investment costs	13	38
Customer's resistance	8	23
Finding a replacement product	11	32
Maintaining customers' goodwill	20	59
Legal obstacles	13	38

Our sample size is N=34. From the Kolmohorov-Smirnov Frequency Table for Hypothesis H_o1, the calculated *D* value is the point of greatest divergence between the cumulative observed and cumulative theoretical distributions, which is 0.306. The tabulated *D* from the Kolmogorov-Smirnov Test Table at = 0.05 for sample size N=34 is 0.232. The decision rule is that the null hypothesis will be rejected if the computed *D* is greater than the tabulated *D*. Here, $D_{cal} > D_{tab}$ (that is, 0.306>0.232), the null hypothesis is rejected. Therefore, the null hypothesis that product elimination by the management of insurance companies in Nigeria does not follow a formal procedure is accepted.

From Kolmogorov-Smirnov Frequency Table for Hypothesis H_o2, the calculated *D* is the point of greatest divergence between cumulative observed and theoretical distributions. In this case, it is 0.247. At 5 percent level of significance, the tabulated value of *D*, with the sample size of 34 is 0.232, as shown in Hypothesis Ho2. The decision rule is that the null hypothesis will be rejected if the computed D

is greater than the tabulated *D*. Here, $D_{cal} > D_{tab}$ (that is, 0.247>0.232), the null hypothesis is rejected. hence, the null hypothesis that customers are not communicated when the insurers eliminate products from the market is rejected.

CONCLUSION

This study examines how products are being eliminated from the Nigerian insurance market. Since, no known work has been done on this subject in the Nigerian insurance industry, these findings would form a platform on which both researchers and business managers can do further works. Future research could focus on the effects of product elimination on such variables as purchase discontinuity, customer's loyalty, company's sales and profitability etc. Product elimination follows a formal procedure for eliminating a product in the organisation, although the procedure may be long and cumbersome, but the average response shows that it follows a formal procedure. It even takes up to six months in most organisations to reach elimination decision after identifying a weak product.

While the decision to eliminate a product is generally taken at the top management level, responsibilities for eliminating a product are not assigned to any specific staff in most organisations. Customers are notified when a product is removed from the market by the majority of the organisations. Both partial and full elimination strategies are being used which include making the product available to existing customers, and withdrawing the product from the market to force the existing customers to migrate to alternative products. Government policies and regulations, decline in market potentials, operational problems, poor, poor profit performance are the major reasons that most organisations considered in reviewing a product for possible elimination. The problems encountered by most organisations in product elimination activities is the maintenance of customer's goodwill, resistance by some staff in the organisation, lack of accurate information, high product investment cost and legal obstacles.

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