External and internal audit of zurich

The scope of the report is a comprehensive external and internal audit of the company Zurich Insurance, providing a base for formulation of its new 5-year marketing plan.

The company, Zurich Financial Services (Zurich Insurance) is a global insurance-based financial services provider, which offers life insurance, non-life insurance, risk management and other related products. Group headquarters are in Zurich, Switzerland, it employs 60, 000 people, while its main markets are in Europe and North America. The group operates thought three main units targeting three main segments (Zurich Insurance 2010):

General insurance – targeting the non-life insurance segment;

Global life – targeting the life insurance segment; and

Farmer's – that targets the life and non-life segment in US.

The analysis in the report identified several key issues of importance for the further activities of the company.

Key emerging issues

The current external and internal situational impact as provided with the audit identifies several important opportunities for development of the company in the period to come. In line with its current corporate objectives, these directions include:

Expansion on emerging insurance market especially the non-life market;

Capitalisation on its position at the mature markets for a better positioning in the new segment (ageing population) at the mature markets

Improve its operational profit margin; and

Placing Corporate Social Responsibility at the core of its strategic positioning reinforcing its brand and working towards decreasing the high level of group's risks.

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Vision, Mission and Corporate Objectives

The concept of vision and mission comes from the influence of the rationalists approaches towards strategy promoted by Chandler and Ansoff and the famous hierarchy of plans (Linstead et. al. 2004, p. 501). Within the hierarchy of plans, there are four levels of strategy: enterprise, corporate, business and functional plans, while at the top of the pyramid is the enterprise strategy. The enterprise strategy is the broadest level of strategy that articulates the role of the business entity in the society. Its main aim is to answer two questions " why does the company exist" and " what does it serve for the society". In contemporary management language it seeks to provide the Mission and the Vision of the company as a whole.

1. 1 Vision

The Zurich Way or the Zurich vision is to become the best global insurer as defined by its customers, its shareholders and its people (Zurich Insurance 2010) in serving its three target segments.

1. 2 Mission Statement

Zurich's mission is to ' deliver help when it matters so that customers feel valued and taken care of" (TheTimes100 2010, p121) is reflected in its comprehensive range of general and life insurance products and services accustomed to the needs of all of its customers, accompanied with an in-depth customer knowledge, a global network and local expertise, high-quality service and ease of doing business, backed by strong capital and talented employees (Zurich Insurance 2010).

1. 3 Corporate Objectives

According to Linstead et. al. (2004, p. 502) , the corporate objectives should be specific, realistic considering the internal and external environment, achievable with a reasonable amount of effort, and must reflect the expected reality, or in short SMART. For Zurich Insurance they are (Zurich Insurance 2009a):

1. 3. 1 Profitable growth

The company seeks to identify and exploit opportunities for profitable growth. These opportunities arise when there are strategic gaps in offer at target markets or locations. It is either achieved though the existing business of the company or through acquisition of new business. Key performance indicators (KPI) for this objective are group's operating profit margin and its net profits.

1. 3. 2 Operational transformation

The operational transformation objective aims at building strength at core areas as risk management, investment management, underwriting and claims, measured through the level of quality of services.

1. 3. 3 Customer centricity

The customer centricity is the centre of company's mission achieved through five specific indicators as presented in Figure 2.

People management

The company's objectives are to employ the best talent, and to provide opportunities for its further professional development.

Situational Analysis

A situational analysis in the strategic management, consists of analysis of the external and internal context of the company, and serves to identify possible gaps in the strategic positioning of the company that can be a strategic opportunity or threat, and in identifying its internal strengths and weakness. In essence, it is what practitioners call a marketing audit. " A marketing audit is a comprehensive, systematic, independent, and periodic examination of a company's or business unit's marketing environment, objectives, strategies, and activities with a view to determining problem areas and opportunities and recommending a plan of action to improve the company's marketing performance" (Kotler and Keller 2006, p. 719). Thus it is a tool that assists the management in describing current activities and their outcomes, performed for setting new strategic direction of the company, or as in the case of Zurich Insurance for setting a new marketing plan.

2. 1 External Analysis

The analysis of the business environment is a significant step in understanding the external concept in which the company functions. According to Johnson et. al (2005, p. 64) this understanding is built on several levels: the macro environment, the micro environment-the industry, the competitors (strategic groups) and the markets (segments).

2. 1. 1. Macroeconomic Analysis-PESTEL

The PESTEL tool helps in identifying the factors that determine the external strategic opportunities and threats of companies operating in a certain industry (Johnson et. al 2005, p. 57). Thomson and Strickland (2003, p. 93) regard these factors as key drivers of change, shaping the strategic environment of the industry (Lynch 2009, p. 79), and significant in the process of building scenarios of possible futures (Johnson et. al 2005, p. 57).

In the case of Zurich Insurance, these factors are given as follows.

Political environment

The more conditions which globalisation brings to businesses and their operations as are the openness of trade and easier movement of capital, the impact of the lack of more structured global governance represents a high systematic risk for the insurance sector. According to the Global Risk Report (WEF 2010), in most of the cases of risk identification, the experts identified weak or inadequate institutions or agreements in almost all of the risks covered. This is why global governance gap emerged as a systematic risk crucial in addressing many critical global issues over the coming years of importance for the insurance industry as are the climate change effects and the natural disasters.

Economic environment

The GDP growth is one of the most important pre-conditions for the profitability in the insurance sector. The global economy is a contrast of the stagnant growth in the developed countries (2-3% projected growth in the next 5 years) and a stronger positive growth in the developing regions (7% growth by 2015) (IMF 2010, p. 4). This slowdown, negatively affects the insurance business in the areas of property and casualties, as the market is not growing causing a fierce competition pressuring margins.

Many countries, especially the ones from the developed world as a response to the financial crisis from 2007, responded with overextending their fiscal positions, endangering unsustainable levels of debt which, in turn, may lead to full-fledged sovereign debt crises (WDF 2010). Based on IMF data, WEF (2010) reports of G20 budget deficits at 7. 9% of their combined GDP. Although necessary these costs created a mountain of debt, that will have to be serviced on behalf of reduction in government spending on health and pensions, increasing the opportunities for the private life and pension insurance.

Socio-cultural environment

A key socio-economic driver influencing the environment of the insurance industry and thus Zurich Insurance is the ageing of the population in the developed countries. At the moment, many public health are not designed for meeting these needs, and will contract pushing the population towards the private insurers (WEF 2010).

Technological environment

Technology as a key driver of change, in particular affected the insurance sales channels, enabling transparency for the end buyers and a possibility to compare prices. In some target markets this possibility affected and still affects insurance premiums. From the aspect of the fast penetration of the IT/IS in the operations of companies, the risks of a major failure which could jeopardise the operations of the industry on a global scale are small, as the financial industry in general is very conservative towards the new trends of use of IT, while cloud computing is still out of industry comprehension.

Environmental environment

A key driver of change for the insurance industry coming from the environment is the global climate change. The severity of extreme weather accompanied global catastrophes in the form of natural disasters as hurricanes, wildfires and floods, may result in greater damage of the environment, infrastructure and property, even loss of life, increasing insurance claims (WEF 2010).

Legal environment

The financial industry in general, and the insurance sector is particular is one of the most regulated areas in the world that penetrates all its operations. In many cases, insurance is obligatory as is the motor-insurance, and in some countries the prices are set. As a result, it can be argued that the industry products in general are price inelastic.

2. 1. 2. Industry Analysis

Economic theory defines an industry as “ a group of firms producing the same principal product” (Rutherford 1985 as cited in Johnson et. al 2005, p. 77) or, more broadly, “ a group of firms producing products that are close substitutes for each other” (Porter 1980, p. 5). From a strategic management perspective, analysing the attractiveness of the insurance means determining the profit potential through understanding the competitive forces in that industry and the way in which Zurich Insurance chooses to compete (Johnson et. al. 2005, p78).

2. 1. 2. 1. Key Strategic Groups

The insurance industry is characterised with two specific market segments, life and non-life insurance. The industry is highly fragmented with large number of players (Datamonitor 2010b, p.) of which most function in the both markets, and the markets are heavily regulated, as a result there are no specific strategic groups within this industry.

2. 1. 2. 2. Five Forces Analysis

While many times put on test, challenged and questioned, for almost three decades Porter's five forces model (1980, 1985), is the dominant model accepted for analyzing the attractiveness of industries. Porter's analysis shows that in the insurance industry the competitive rivalry is high and intensive. It is an industry in the shakeout phase of its cycle, characterised with small annual growth (Johnson et. al. 2005, p. 86). The industry phase is characterised with a shakeout of the weakest competitors, encouraging acquisitions and consolidation. The main buyers in the industry are the policy holders, individuals and corporations, while the main suppliers are seen in the IT companies. Although the switching costs for the buyers are high due to contract obligations, the overall buyer power is assessed as moderate due to the large number of individual customers, which devaluates the meaning of the choice of an individual buyer. Within the business segment, the buyer power is lowered further due to the fact that businesses actually require insurance to protect their companies from risk; however, large companies excursive stronger negotiating power compared to the individuals.

As the insurance industry works with information and stores huge amounts of data, the IT companies and software houses are its main supplier. It usually is a larger company as IBM, while the software systems are complex and interlinked, which increases supplier power and the switching costs. In recent years there have been trends of outsourcing the tasks to off-shore companies; however, this is not the dominant trend in this industry, which is why the supplier power is assessed as strong.

It is a capital incentive industry which serves as a major entry barrier to newcomers; however, competitors from within the large financial industry as Banks, wherever the legislation allows them, can easily enter at the market. The overall treat coming from newcomers is assessed as moderate. There are no real substitutes to insurance. Many insurance products are legally required in many countries, which is why the threat coming from the substitutes is assessed as weak.

Overall, the attractiveness of the industry in combination with its life cycle stage is assessed as moderate (Datamonitor 2010b).

2. 1. 3. Market Analysis

The insurance market consists of two very important segments: the life and non-life insurance. Zurich insurance operates in the both segments. The life insurance segment participates with 57% in the total value at the market. The non-life segment has a significant growth potential in the emerging markets as China where this rate is very low (Datamonitor 2010c), where the state still covers the life-insurance. According to the estimations of Datamonitor (2010b), the market had a compound annual growth rate of 2. 7% for the period 2005-2009 with an anticipated annual growth of 6. 7% for the period 2009-2014, with a higher market growth expected on the Asian market.

2. 1. 4. Opportunities and Threats

The external analysis presented in the preceding sections identifies the existence of several external strategic opportunities and threats for Zurich Insurance. The opportunities come from the process of consolidation and geographic expansion in the emerging markets, from the ageing population at the developed markets and the good developments at the assets management market. The industry faces tough times due to the slow recovery of the global economy and the increasing environmental risks for the only risk taker in the society. The risks from a catastrophe, either from a severe weather, or a major natural disaster, are high, and the insurance industry is the only one taking accountability for these occurrences on a global level – thus there is a global governance gap that threatens the industry.

Table 1. Telescopic ObservationFramework

Technological considerations

Economic considerations

Legal and regulatory requirements

Ecological and Environmental issues

Sociological Trends

Competition

Organisational Culture

Portfolio analysis

International issues

Cost efficiencies and cost structures

New technology and fast penetration of IT in the insurance channels

Slow growth of the global economy,

Heavily regulated industry in almost all countries.

Climate Change causing severe weather and catastrophes

Ageing population in the mature markets; longer life expectations;

Population growth at the emerging markets

Intensive rivalry, many players

Strong and unique

Life and non-life products, and products for global companies

Global governance gap – a major risk for the insurance industry

Strengths

Zurich is successful in IT implementation.

Zurich is 5thglobal player

Unique Culture Proposition UPS

Strong

Weaknesses

Needs more security

Opportunity

Increased demand for new life insurance products; Penetration at the emerging markets

Opportunity to acquire competitors

Threats

It will decrease company revenues

It will increase insurance claims

No strong global governance increases global risks

. 2. Internal Analysis

In the contemporary strategic management, the analysis of internal business environment covers a wide range of issues that developed in the past two decades mainly as a result of the emergence of the resource based view on strategy (Barney 1991, Rumelt 1991). Unfortunately, as Herrmann (2005) argues, since the RBV did not produce a dominant design, it developed in many different ways identifying key company resources, capacities, core capabilities, dynamic capabilities, ending with the knowledge-based competitive advantages (Johnson et. al 2005, Lynch 2009). At the end it got merged with the positioning school providing a strong academic background to the use of SWOT (used by companies from 1960s) (Linstaed et. al. 2004, p. 502). Today there are several models available for the internal analysis. This report will use the Porter’s value chain (1985), which explains how the company is internally organised to reach its objectives. The chain further serves as a good base for identifying company’s core capabilities and competencies (Hamel and Phrahald 1990), while the use of the Balance Scorecard (Kaplan and Norton 1996) as a tool, complements Porter’s Value chain as it provides the measures and the benchmarks against which the company’s internal performance is measured in line with corporate goals.

2. 2. 1. Value Chain Analysis

Zurich Financial is one of the largest insurance groups in the world serving approximately 60, 000 people in more than 170 countries (Zurich Insurance 2010). Its value chain is developed using information from company’s Annual reports.

Table 2. Zurich Insurance Value Chain Analysis

PROFIT MARGIN

Firm Infrastructure (ZI Annual report 2009a)

Successful integration of activities in a strong international value-chain with highly developed IT infrastructure;

Centralised organisational structure, but with strong local adaptation decision making as products depends on national legal requirements and culture (EB 2008);

Companywide culture emphasising “ customer centric” behaviour.

Human Resource Management (ZI Annual report 2009, ZI Business Review 2009, EB 2008)

Recruitment and selection of the best – high qualified teams of employees;

Succession planning structures;

Global approach to leadership development;

Continuous training and development;

Global performance management,;

Global learning management system;

Compensation programs with variable remuneration designed to encourage customer centric behaviour and creativity, but discourage risk-taking (ZI Annual report 2009, p. 99);

Innovative benefits scheme encouraging employee collaboration;

Technology development

Heavy investments in technology deployment 0 needs a good security (Insley 2010)

Procurement (ZI Annual report 2009)

Long-term contracts with major IT suppliers;

Procurement systems in place for the other minor suppliers.

Inbound logistics

Information technology and internet

Operations

New Product development;

Underwriting,

Risk management, Investment management;

Outbound logistics

Forms, design management, filling and printing of the insurance policies.

Marketing and sales

Strong CRM build on a unique proposition – – deep customer understanding;

Frequent promotional activities;

Use of many sales channels and different compensation schemes of third party agents to reach customers but avoiding cannibalisation.

After Sale Service

Technology driven claims handling and servicing which enable easy fast way to deal with the company (ZI BR 2009b, p. 27);

Following up the client and its needs;

Increasing knowledge on the client needs – deep customer understanding;

It is important to note, that Porter’s Value chain is designed to focus on a business unit, rather than on a group comprising of three core business units as Zurich; however, due to the merge of many of its core operations, the value chain can be simplified as provided in the Table above.

2. 2. 2. The Balance Scorecard

The application of the Balance Scorecard propositions (Kaplan and Norton 1996), provides for the capability of measuring the financial and non-financial impact of the operations of the company, seen through measuring four thematic areas: Financial, Customers, Processes and People (Competence). It indicates that Zurich Insurance operating model as presented with the Porte’s Value chain, resulted in the 5th global rank of the Company in 2009 with an annual increase of the operating profit margin of 8% (target at 10%) (Zurich Insurance 2009b). The company in 2005, had a significant improvement in company’s operations from 2007, when the group reported a decrease of 64. 9% with a decrease in net profits of 46. 8% . In the more mature countries, UK, US, Switzerland and Japan, it is among the top three insurers on every service (Zurich Insurance 2009b).

Zurich strongest business unit is the general insurance, which brings the highest revenues and profits ((Zurich Insurance 2009b p. 13), and with USD 34, 157 million in premium fees, reflects the immense scale of company’s global operations.

Zurich Insurance employees more than 60 000 employees globally are one of its main stakeholder groups. Employees receive trainings and developments, while a sophisticated annually survey measures employee satisfaction

(Zurich Insurance 2009b, p. 35). The group as well implements annual customer feedback surveys.

2. 2. 3. Core Competences and Capabilities

The core capability of Zurich lies in its right combination of tangible (finances, people, premises) and intangible resources (knowledge, expertise, culture and brand) (Grant 2005, p. 140). Zurich's strong risk management knowledge combined with its social capital, supported with strong company's culture based on trust and knowledge-sharing, and its innovative, but risk-averse provision of new solutions, differentiates the company from the rest at the market and is the essence of its core competency and competitive advantage (Zurich Insurance 2009b). The strong customer relationship and customer dependability increase Zurich Insurance ability to introduce new products, charge premium price on certain products and cross-sell on others. It as well builds on the strong and unique Culture, which as Kingl (2010) argues is Zurich's Unique Selling Proposition, or Unique Culture Proposition.

2. 2. 4. Zurich Insurance Culture Web

To better understand the premise of Zurich's UCP, we will use the culture web tool as recommended by Johnson et. al. (2005 p. 202), based on the preceding analysis Zurich Insuranc and on the findings of Kingl (2010) case study

2. 2. 5. Identified Strengths and Weaknesses

The company is characterised with a strong market position, a strong brand, a unique, value delivering culture and an impressive financial performance in terms of profits and revenues (compared to the results from 2008).

Moreover, the company has an impressive record of successful integrations with acquisitions which indicates that it is using the opportunities presented from the shakeout phase of the industry business cycle (Zurich Insurance 2010).

There are only very few weaknesses. First, the operating profit margin is still bellow the target of 10%. Second, the group is highly dependent from the revenues coming from the general insurance segment – which participates with 53% in the operating profit. Third, the risk management system of the general insurance segment must improve to provide better capacity for accumulating larger number of claims in cases of natural or other type of disaster, having in mind that the main impact of the increased claims in these areas impacted the low financial results in 2007.

Summary of the current situation impact- SWOT

The current external and internal situational impact as provided with SWOT and with the telescopic Observation Framework (Panagiotou and Wijnen 2005) in the table below identifies several important areas of development for the company in the period to come. In line with its corporate objectives, Zurich should:

exploit the good opportunities that come from the growth in the emerging and the developed markets;

improve its operations, especially the operating profit margin.

In addition, as the company’s operations are extremely vulnerable to the effects of the climate change and the global governance gap, and as its interests are aligned with the interests of the majority of stakeholders (which is not the case in many industries as the oil or tobacco industry), it should make the CSR at the core of its strategic positioning in line with the model of Porter and Keller (2006). It can be done through promoting its knowledge, analysis and insightful perspective regarding the global risks as much as possible, and positioning in the minds of its current and potential customers as a business genuinely interested in reducing these effects.

Marketing Objectives – Five year plan

Marketing objectives are specific and quantitative benchmarks of marketing goals that guide the implementation of marketing plans (Ferrell and Hartline 2008, p. 140). Objectives exist because marketing goals without measurements are meaningless. Researchers and practitioners (Armstrong 2009 et. al., McDonald 2008, Kotler and Keller 2006) emphasise that they must reflect: (1) the corporate and business objectives; (2) the target market needs and company's competitive capability to serve these markets; (3) the industry and markets evolution, and be (4)SMART (Sustainable, Measurable, Achievable, Realistic and Time-bound).

In line with the findings of the preceding analysis, and the Telescopic Framework (Table 3) the following marketing objectives should guide the Zurich Insurance five year plan:

Increase its market share at the emerging markets, in all targeted segments, but in particular in the non-life segment which is underdeveloped;

Increase its penetration at the mature markets of the developing countries thorough targeting current and new segments (the ageing population needs);

Make Corporate Social Responsibility part of its positioning and tide it strongly to the word " help" associated with its customer " centric" culture and its strong brand. The CSR will reinforce the positioning of the brand across all segments.

Marketing Strategies

For accomplishing these objectives, the company's choice of market activities will depend on its choice of strategic development strategy.

4. 1 Ansoff' s Matrix

According to Johnson et. al. (2005, pp: 341-347) the Ansoff product/market can be used for identifying directions for strategic development, taking into account the product/market coverage and the strategic capabilities of the company.

Figure 6 Ainsoff Matrix of Zurich Insurance

Market Development – New capabilities

(existing products in new markets)

Life and non-life penetration into the emerging markets;

Market Development – New segments

Increasing the scope of existing life insurance policies to certain segment of the ageing population at the mature markets in the developing world.

Diversification – with new capabilities

(new products at new markets)

Not suggested at the moment, as the finances are required to fuel the growth in the mature and the emerging markets.

Market penetration

Penetration and market share accumulation on the existing markets through acquisitions.

Product development – with new capabilities

(new products at existing markets)

New products for the ageing population at the mature markets in the developing world.

6. Marketing Implementation – 7Ps

According to practitioners (Kotler and Keller 2006, p), the implementation of the marketing strategies is achieved through making decisions regarding the content of the offer (product), its price, how it will be delivered to the customers and what distribution channels will be used, i. e. the 4Ps of the marketing mix. The 4Ps of the marketing mix were introduced in the 70s of the past century, and since then dominate the methodology used in strategic marketing. As Kotler et. al. (2008) services have three very distinctive characteristics compared to the physical products as are intangibility, inseparability and perishability. These characteristics made it difficult for the service practitioners to adapt the 4Ps model to their offerings, which is why the model expended with three additional elements: People, Processes and Physical assets. In its essence the insurance industry is a service industry, which is why the designed marketing mix will have 7Ps and will aim at accomplishing company’s marketing objectives in terms of market share, development, or penetration.

The 7Ps implementation model for the three business units of Zurich Insurance is given in Table 4.

Table 3. 7Ps

Segments

General Insurance

(non-life)

Global Life

(life)

Farmer’s

Product/Service:

1. The traditional product offer, strengthened with new products at the mature markets;

2. New products for the needs of the emerging markets.

The traditional product offer, strengthened with new products in the pension insurance;

The traditional product offer, strengthened with new products due to the good prospects of the market;

Price:

Price reflects the regulatory requirements in each of the sectors and the intense rivalry in some segments.

Place: