

# Five forces analysis of more than insurers



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In August 2010, the organisation implemented a new Motor Aggregator Product known as echoice. The key objective was to deliver a motor product, specifically targeted and priced for the aggregator market. echoice offers core coverage at competitive prices, with a range of add-on services promoted throughout the product lifecycle. This product was developed to enable RSA to improve profitability in a highly price-sensitive channel. This e-self service product was introduced to avoid increase in operation costs and to improve customer service and expediency.

This product is still a relatively new proposition to the market. This was a product that the organisation had to be aware of how the competitors would react, but also customer feedback was also something that had to be considered moving to a self service product. Although echoice are less than two years old, the business is now growing rapidly and predicted to be on target for the forecasted growth intended. Part of the echoice strategy is to have a Core Operating Ratio (COR) of 96.5%.

This means, if the company achieves the COR target they will be effectively growing the business at the right cost. To do this the organisation must “ Create a competitive strategy that must establish a profitable and sustainable position against the forces that determine industry competition “(De Wit Meyer, M 1999) SWOT Analysis As a starting point for developing strategic options a SWOT analysis is used, Appendix 1 (SWOT) has highlighted the areas that could potentially increase profit or have the opposite effect.

A SWOT can invite decision makers to consider important aspects of their organisations environment and help them organise their thoughts. Business Strategy Review, 2003, Volume 14 Issue 2 pp 8-10 The SWOT table does show a lot of information and highlights key issues, however it does not show any priority issues or opportunities. It also demonstrates a lack of strategic judgement about what is really important about the business. With its lack of any explanation it can be misleading on any of the points.

A Shortlist with each point well argued is more likely to be convincing. A business always needs to stay ahead of the game or be aware what weakness they have and what competitor threats could damage the business. There is no doubt this is a valuable tool in the field of business strategy because it invites decision makers to consider important aspects of their organisation's environment and helps them organise their thoughts. The idea that managers should be thinking about their organisation's SWOT based variables is very important in the process of decision making.

They key area that RSA has been particularly aware of, is the new echoice product has been an opportunity for the organisation as it has been targeted as a price orientated product and being able to get a foothold in the market. This falls into the opportunities however a threat for insurance overall is the threat of new entrants due to the return of an underwriting profit through tactical fraud prevention and the internet which may open up large competitors to come into the market. Porters Five Forces Model " The essence of formulating competitive strategy is relating a company to its environment.

Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm's environment is the industry or industries in which it competes. "(Porter, M. E 1980) This type of model of analysis is often undertaken using the structure proposed by Michael E Porter (1980), as per Fig 1. 0. This is often called Porters Five Forces Model because he identifies five basic forces that can act on the organisation: 1. The bargaining power of suppliers; 2. The bargaining power of buyers; 3. The threat of potential new entrants; 4.

The threat of substitutes; 5. The extent of competitive rivalry. The objective of such an analysis is to investigate how the organisation needs to form its strategy in order to develop opportunities in its environment and protects itself against competition and other threats. (Lynch 2000) Fig 1. 0

Porters(1980) Five Forces Model Source: [http://www. smartkpis. com/blog/2010/11/01/marketing-performance-%E2%80%93-the-five-forces-model-by-michael-porter/](http://www.smartkpis.com/blog/2010/11/01/marketing-performance-%E2%80%93-the-five-forces-model-by-michael-porter/) For the purpose of this report, the five forces model has been used to analyse personal car insurance within RSA, (Appendix 3).

This model is a strategy tool and should help the business when used, linking this in with the analysis from SWOT. RSA have established a key area to be looked at istechology; this will enable the business to stay ahead of its competitors. The five forces section that this fits into is " The extent of competitive rivalry". The business is in high competition at present with other competitors within the marketplace. They also need to have fast growth to help stay in the game as more consumers are starting to look around at their renewal for a more competitive premium.

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Aggregators (Intel 2011) and customer behaviour has been a key driver for this change within the business; the organisation required a product that would ensure that they remain competitive within this arena. Table 2. 1 Industry stages <http://www.investopedia.com/articles/basics/04/030504.asp> In terms of ebusiness within the direct business of purchasing car insurance this is now at the growth phase of the ' industry growth stages' or life cycle. (This is confirmed through the Quarter one echoice sales figures for 2012).

It is still quite a new initiative to customers, doing business directly through the Internet and able to self serve rather than speaking to a customer manager. Where as Insurance brokers would be classed as in the declining phase, this is due to the increased amount of usage of comparison sites. Brokers cannot keep up with the demands of the customer or offer more competitive prices. The Intel Report (2011) states that around half of all car insurance policyholders arranged their car insurance online. Compared to five percent using a traditional broker.

The customers both competitors are attracting can be found in Appendix 2 It states on investopia (2012) that " During this period of rapid growth, companies will eventually begin to lower prices in response to competitive pressures and the decline of costs of production, which is often referred to as economies of scale. But costs decrease at a higher rate than prices, so companies entrenched in growth industries often experience growth in profits as their product or service becomes fully accepted in the marketplace. " <http://www.investopedia.com/articles/basics/04/030504.asp>

Competitive Rivalry

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Lynch (2000) states that it is difficult to differentiate products or services, than competition is essentially price based and it is difficult to ensure customer loyalty. echoice was initially branded from RSA on its launch in 2009 but then late 2011 changed to More Than, this was to relate to the More Than branding a well known direct insurer and to enhance the Brand Strategy to be more appealing and competitive on the aggregator market. A key initiative within More Than is to drive Brilliant Service and to be set aside from other insurers not just as being competitive but also for the service the customer receive.

It is reported on the Investopia website (2012) that “ The insurance industry is becoming highly competitive. The difference between one insurance company and another is usually not that great. As a result, insurance has become more like a commodity - an area in which the insurance company with the low cost structure, greater efficiency and better customer service will beat out competitors. Insurance companies also use higher investment returns and a variety of insurance investment products to try to lure in customers. In the long run, we're likely to see more consolidation in the insurance industry.

Larger companies prefer to take over or merge with other companies rather than spend the money to market and advertise to people. ” Brilliant Service is a key theme within the quadrants of the strategy wheel (Appendix 4). Think Customer is a key priority to the organisation; recently they have taken steps of how they can bring the Senior Leadership Team towards the people that drive the business closer to the customer. A new initiative known as Customer Connections has been implemented where they have recruited

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516 people within the business that deal with the customers daily across all channels and deal with every type of customer.

A series of meetings is currently taking place to discuss customer stories, an insight into the customer journey and the service that is provided. From this key actions are being driven to increase the customer journey to ensure all that deal with the organisation tell a positive story and enable More Than /echoice to be differentiated from other insurers. The expectation is that the customer must be at the heart of everything that is done. A new vision has been launched within RSA, which will embed this within the organisation.

“ To be the team that redefines customer trust and value and embeds it into the DNA of the business. This will lead to a behavioural change within the organisation across all areas of the business. ” Development of Technology RSA have recently changed their internal systems, this was to drive the ebusiness strategy from echoice across into More Than, enabling the motor product to be a product that will be used as a channel of choice, being adaptable and to be innovative like echoice.

Customer behaviour is changing and customers are becoming self sufficient, through the Internet. (Journal of Interactive Marketing 2000) Therefore the RSA Motor Product has to change due to the demands of the customer. The system was already within echoice; therefore RSA looked at the cost advantages and produced a new system that would be more individual and cost effective. D. Boddy (2002) states barriers to entry can be if there are high entry costs, where significant capital investment is required. This is the case when looking at a new system in the insurance sector.

This new system enables the employer to input all customer data and behind the scenes look at thousands of different pricing scopes that are more individual to the customer. The new system also meant that if changes in the market required the business to increase or decrease premium, it could be done with ease, as the system was now adaptable and quick to implement changes. Finally it stood out to highlight the businesses Brand Values, been modern, clear and keeping things on the move. Overall the business had come up with an easy to use system whilst been able to keep the costs low, as well as been fast and efficient.

Restrictions of this model when applying to RSA Although this tool is a useful early step in analysing the environment, it is initially static, where as the competitive environment in practice is constantly changing, forces can vary more rapidly than the model can show. The model of Porter's 5 forces is suitable for analysing an industry in general. You can get a good overview about the main factors of the external environment and with the aid of other strategic tools it can be helpful for making decisions concerning the entry in the business or for further expansion.

But, like all economic tools, there are limitations. This model helps to simplify the view to this industry but every personal situation is too complex to analyse it with such a tool. There are always many other factors to take into consideration. If you combine this tool with other common external environment tools like PESTLE (Appendix 5 ), SWOT and the Industry life cycle, you get a very detailed overview about the opportunities and the threats of an industry. In the early 1980s the competitive situation was completely different to today's situation.

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There was no thinking about globalization and competitors who force their way into a market. Changes are more rapid because of the information age. Porter had not even thought about selling products through the Internet without seeing them. Before starting the analysis of the industry, how important each force in the current sector is has to be worked out because not all the five forces have the same significance. The model assumes that there are no changes in the environment but in fact the market is very flexible.

This is shown for example on the enormous growth of the e-commerce sector. Although this tool is a useful early step in analysing the environment, it is initially static, whereas the competitive environment in practice is constantly changing, forces can vary more rapidly than the model can show. Conclusion Using the five force model can help a useful early step to help a business become more effective. It is especially useful to look at competitors when customers have a change of habit and need to have something new in the market for example web/direct insurance.

Competitive Rivalry is good for customers as it means there is always a battle to keep costs low. Porter's analysis proceeds on the basis that, once such analysis has been undertaken, then the organisation can formulate a strategy to handle results: predictive rather than emergent. (Lynch, R 2000) Barriers to entry are unique characteristics that define the industry; they reduce the rate of entry to new firms, maintaining a level of profit for those already in the industry.

In the Insurance industry you just have to view adverts on the TV. Other insurers offer unique advantages to take insurance out with them. Although echoice and More Than have updated their internal systems they are unaware what competitors have as their next barrier to entry. Therefore this is a continuous process the organisation needs to do looking at new initiatives of how they can continue to grow the business at the right cost and differentiate themselves from others.