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UNIVERSITY OF SWAZILAND

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS ADMINISTRATION

MAIN EXAMINATION PAPER

MAY 2014

TITLE OF PAPER	:	SERVICE MARKETING
COURSE CODE	:	BA 424 I.D.E.
TIME ALLOWED	:	THREE (3) HOURS

INSTRUCTIONS :

1. TOTAL NUMBER OF QUESTIONS IN THIS PAPER (6)
2. SECTION A IS COMPULSORY
3. ANSWER ANY (3) QUESTIONS IN SECTION B
4. THE MARKS TO BE AWARDED FOR EACH QUESTION ARE INDICATED ALONGSIDE THE QUESTION.

NOTE:

MARKS WILL BE AWARDED FOR GOOD COMMUNICATION IN ENGLISH, AND FOR ORDERLY AND NEAT PRESENTATION OF WORK. FURTHER MARKS WILL BE AWARDED FOR USE OF RELEVANT EXAMPLES.

SPECIAL REQUIREMENTS: NONE

THIS PAPER SHOULD NOT TO BE OPENED UNTIL PERMISSION TO DO SO HAS BEEN GRANTED BY THE INVIGILATOR.

'DINOSAUR' LEWIS SET FOR INSURANCE SHOCK

CREDIT INSURANCE PREMIUS 'TOO HIGH'

Lewis the JSE listed furniture retailer may be set to lose more than R100 million a year in profit after severely overcharging its low in come consumers for credit life insurance.

Regulators are in the final stages of implementing measures to curb exploitation of consumers through excessive insurance fees, which tend to be sold alongside retail credit agreements.

Two thirds of Lewis roughly R1 billion in annual insurance revenue comes from these insurance products, and Lewis CEO Johan Enslin confirmed this week that the new rules could see the furniture retailer lose 10% -12% of annual earnings or just over R100 million.

However, investigation by the Sunday Times reveals that the furniture retailer might be underestimating the hit it will take which could work out to be hundreds of millions of rands.

This could put further pressure on its share price.

So far this year, the share price has fallen about 1% while the JSE overall has climbed about 15%.

The National Credit Regulator (NCR) has now proposed a fee cap curbing the amount that retailers will be able to charge for credit life insurance to R4 for every R1 000 in credit covered. A credit agreement to fund a lounge suite costing R3 000 for example will cost customers an initial R12 in credit life per month. This covers the retailer should the customer die or get retrenched or disabled before paying off the debt.

NCR company secretary Lesiba Mashapa said the new fee proposals could come into effect early next year after a consultation phase.

Lewis currently charges nearly double that for credit life insurance R8.75 for every R1 000 spent for its premium product, according to Enslin. Enslin's figure appears to be based on a very conservative cost calculation.

By contrast the Business Times has calculated Lewis insurance charges to be closer to an effective R15/R1 000 spent, which is significantly higher than charges imposed by other providers of credit insurance and also above the already excessive market average of about R6.50/ R1 000.

This places Lewis at a far greater loss risk as a result of potential regulatory action.

Critics say that Lewis has been unethically profiting from the financial illiteracy of its customers, apart from the regulator's lack of teeth.

Now a financial wellbeing company, Summit Financial Partners, says it plans to launch a lawsuit against Lewis to force the retailer to refund customers who have been ripped off by Lewis credit insurance policies.

Should it succeed Lewis may be forced to repay between R1 billion and R2 billion a hefty knock considering the business only made profit of R907 million for its financial year end March.

The furniture credit industry is a dinosaur fed on a diet of extremely high credit revenues and countless additional compulsory charges and burdened by the weight of a bloated distribution network and inefficient cost base, says Dave Woollam a director of Summit and a former financial director of African Bank.

I would have thought that the National Credit Act would have brought greater competition and value offerings to this sector, but it appears not to be the case.

It is a tragedy that ordinary South Africans are induced into paying three times the ticket price of furniture in total debt installments over 36 months, Woollam says.

Summit argues that Lewis has operated in direct breach of the NCA which requires that insurance costs remain reasonable calculating that Lewis insurance fees, including product insurance, exceed R20 per R1 000 far higher than its competitors.

Summit CEO Clark Gardner says Lewis customers need to be refunded as happened in he United Kingdom, where the regulators intervened. This is not only about changing their future practices, this is about addressing past indiscretions we are going to fight for the refunding of these consumers ourselves as we cannot wait for regulators to respond to our complaints any longer says Gadner.

Lewis insurance charges contribute to massive costs incurred by its mostly low income customers when purchasing its merchandise .

When credit insurance charges are combined with a range of additional costs including a standard 21% interest charge and mandatory product insurance customers acquiring Lewis products on installment could find themselves incurring an all in cost of credit in excess of 80% per annum.

Not only is this expensive, it seems Lewis insurance products offer very little value to customers, considering how few actually make claims based on this insurance.

All these premiums are paid to Monarch, Lewis wholly owned insurance arm. For the year to March, Monarch collected gross insurance premiums of R992.7 million, yet paid out only R193.1 million in claims a ratio of 19%. This implies that customers are likey to receive about R1.50 – R2.00 in benefit for every R10 they pay in insurance.

By comparison, the industry insurance claims average is in excess of 60%.

Enslin's argument that Lewis credit insurance is charged at R8.75 per R1 000 credit would bring the retailer roughly into line although still more pricey than the already expensive insurance products offered by major competitors including African Bank and the JD Group.

Yet a report by brokerage UBS this year casts doubts on that figure.

In March, UBS placed the cost of Lewis insurance at R16.60 per R1 000 while Business Times own calculations suggest that the company's credit life insurance is costing customers R14.96/R1 000 spent.

The difference appears to be the result of Lewis practice of charging for credit insurance on a straight line basis which means it charges fixed monthly premiums without reducing the insurance charge as the customer pays off the balance.

Woollam describes this as a rip off and says "It would appear that this method of charging premiums is not in accordance with the NCA."

Lewis, however, maintain that to the best of our knowledge it is common practice in the credit retail industry to have a constant premium over the life of the contract.

The Big Read. Malcolm Rees. Sunday Times. November 17,2014.

SECTION A

Q. 1 Lewis is not making money on its core business. Discuss with examples.
(5 marks)

Q. 2 Fundamentally what's wrong is that Lewis furniture credit, like the furniture credit industry in general is outdated and exploitative. Discuss with examples.
(10 marks)

Q. 3 What is even more interesting is that all Lewis premiums are paid to Monarch, Lewis wholly owned insurance arm. What is your opinion of this situation.
(10 marks)

Q. 4 South Africa has the option of the UK model to implement. Discuss this option.
(10 marks)

Q. 5 In Swaziland we witness daily repossessions of furniture from payment defaulters, yet they pay all these insurance fees which cover defaulters due to certain conditions.
(5 marks)

SECTION B

Q. 1 In the last two decades the study of services has been growing in importance world over. Discuss with examples.
(20 marks)

Q. 2 Positioning is about articulating a desired position for the Company in the market place. It therefore calls for specific principles. Discuss with examples.
(20 marks)

Q. 3 Employees are the service, the brand, and the Company. However conflicts arise in the day to day role of boundary spanners. Discuss with examples.
(20 marks)

Q. 4 One of the most important features of services is the participation of Customers in the production of the service, and the same time consumption. Customer management issues are therefore critical. discuss with examples.
(20 marks)

Q. 5 Customer Relationship Management (CRM) is the process of carefully managing detailed information about individual Customers to maximize Customer loyalty. Hence CRM outcomes are key. Discuss with examples.
(20 marks)