MARKETING AND INSURANCE: THE NEXUS

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Abstract
The paper seeks to inculcate the culture of risk-consciousness in marketing theory and practice in recognition of the inseparable link between marketing and risks. Further, the paper advances the case for insurance as a tool for managing risks. It briefly reviews the concepts of risk and this is quickly followed by an x-ray of the risks of a marketing enterprise. Insurance products that benefit marketing are also discussed. The paper concludes with a stress on the practical role of insurance to marketing management which includes encouragement of entrepreneurial spirit and translation of uncertainty to certainty through purchase of insurance.

Keywords*:* Risk, insurance, risk management, kidnap risk and marketing risk.

Introduction

A search through the body of existing marketing literature hardly indicates the role of insurance to the practice of marketing management. This palpable silence on the role of insurance has been hypothesized to originate from a cause, namely, lack of or refusal to acknowledge the close association between the practice of marketing and risk (Odo, 2010). The development of a risk-conscious culture in marketing therefore will enable marketers benefit from the risk management techniques available, of which insurance is a subset. It is to be observed that the use of insurance as a risk management tool helps to translate uncertainty to certainty.

Concept of risk

Risk is a universal phenomenon. No race of human society is shielded from its ubiquity. Only recently, the global community woke up to the rude shock of the incidence of the worst case of earthquake in the history of Haiti (Sun, 2010). Again, and had providence not prevented the bombing attempt of a US bound air craft on 25th December, 2009 by Mutalab Jr. (Akande, 2010), the world could have witnessed a brutal dramatization of one of the risks
of undertaking a journey by air. Just at the home front, a religious violence was reported in Jos, Nigeria, in which hundreds of human beings were killed and properties worth millions of Naira lost (Chukwulaka, and Aleshinloye-Agboola, 2010). Many more instances of risk could be cited but these three serve to lend credence to its all pervading presence. What then is risk?

There exists a plethora of definitions of risk in literatures. As a multi-dimensional concept the drive for a single definition that captures its many-sidedness remains elusive. This section of the paper attempts a presentation of the common definitions found in literature.

Risk may refer to a situation where there is uncertainty about what outcome will be (Harrington and Niehaus, 1999). According to Mordi (1990) an investor (a marketer) who is a speculator opens himself to any of three possible outcomes namely, gain (profit), loss and break-even. Profit motive remains the dominant economic rational for undertaking a business venture. The business man is however aware that he might lose his stake instead of making a profit or that he just recovers what he has ploughed into the venture and no more i.e. break-even position. What therefore the marketer-investor fears is the prospects of losing his stake (loss). From this another definition of risk emerges: the probability of an unwanted outcome. Death, accidents, fire, loss of wealth etc constitute cases of unwanted outcomes for both individuals and business. Irukwu (1991) rather offers a dictionary rendering of risk as "hazard, chance of loss, or chance of bad consequences or exposure to mischance".

It seems that the common thread that runs through the definitions, overtly or covertly, is the element of uncertainty. Uncertainty, some argue, exists because of lack of knowledge or insufficient knowledge (Giarini, 1999). Perhaps, this quest for knowledge might be the notion that undergirds the elusive goal for science of achieving complete knowledge of man and his environment, so that in the end insurance becomes unnecessary. This is what defines the mind-set of deterministic philosophers (Giarini, 1999). The counterpoise to this school is the indeterministic philosophy where

essentially, lack of information, and uncertainty are inevitable and incomprehensible part of any living system, simply due to the fact that the future is open and not necessarily determined (Giarini, 1999).

And to this agrees the viewpoint of Redlick (1968) who states that uncertainty is like a fluid that surrounds us, our habitat and our creations both material and immaterial.

Further, he argues that uncertainty results from unpredictability or imperfect knowledge, concerning the future.

The whole argument comes to this: man and business are embedded in uncertainty (which defines the character of risk) and he cannot know the future perfectly. He then constantly deals with uncertainty since most of the consequence (outcomes) of present business decisions are hidden in the folds of the future. Some of these outcomes may be against his interest; this therefore creates the need for risk management.

Mordi (1990) in his lecture note further categorized uncertainty into two namely, measurable and unmeasurable uncertainty. Those that can be studied statistically i.e. measure them in terms of their outcomes and associated probabilities are called risk while those that are incapable of statistical investigation are called true uncertainty.

Risks in a marketing enterprise

To bring to the force the diverse nature of marketing risks a perusal at a definition of marketing offers a convenient staring point.

Kotler (1988) holds that marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.

The above definition essentially paints a picture of a marketer as an investor who in the pursuit of wealth-maximizing role in society creates products or values that satisfy the needs of a target market. This is basically the economic path that has transformed global economy from its rudimentary cottage industrial base with few assets to large industrial giants with assets worth billions of naira and whose activities or operations can trigger unintended events (risks) of immense consequence. The said unintended actions of marketing as a poignant dramatization of risks of marketing can sometimes assume frightening cost dimension. For instance, Pfizer International Incorporated, a multinational pharmaceutical giant was compelled to pay in compensation a total sum of $75m in judgment debt to Kano[1] victims of its failed illegal drug tests (Sun, 2010 and Muanya, 2010).

The facts of the case are as follows. In 1996, there was an outbreak of meningitis epidemic in Kano. Pfizer, as part of its clinical trial, administered untested drug, Travafloxavin (Trovan), without authorization, to more than 2010 infected children.11 Children died and the rest were incapacitated. Civil and criminal proceedings were instituted against Pfizer. An out of court settlement was reached in which the company has to pay $75m. This indeed is illustrative of an aspect of risks in marketing. Others shall be raised later.

One aspect of risks embodied in marketing as made bare in the definition of marketing offered by Kotler is the risk element that investment in long-lived assets entails. This is aside from business operations already discussed.

Take Innoson Plastic Factory located at Emene Industrial Estate in Enugu, Nigeria, for instance. This giant-sized factory has several product lines including plastic tables and chairs, water storage tanks, domestic utensils such as plates, water filter, hand operated mops, gift items, tricycles, etc.

To manufacture these items there were installed heavy machinery that are managed by expatriates and local staff. The ware houses are stocked full with array of company products.

Besides, there could be found on any day large trucks belonging to the business either on the road conveying large stacks of items to customers, distributors or at the factory premises being loaded by designated staff for onward delivery. Since risk is concerned with what could go wrong, we could, using Innoson as an example, point out the nature of risks a marketer faces, as follows:

a. **On- premises risks**

i. There is the risk of fire accident in the premises that could damage machinery and products.
ii. Death or injury to factory workers.
iii. Prospects of embezzlement of company fund by staff.
iv. Theft of other company assets such as air conditioners, cars, products of the company etc.
v. Kidnapping[3] of company directors and key men with the associated ransom thereof.
vi. Breach of statutory provision that could attract sanction from appropriate government agency e.g. failure to pay sanitation fees as required by local law can attract sanction from Enugu State Waste Management Agency, ESWAMA, in Enugu State.

b) **Off premises risks**

i. Product – related risks e.g. product failure.
ii. Accident caused by company vehicles to third parties and their properties.
iii. Loss of products in the event of accidents involving the trucks conveying company products.
iv. Loss of cash-in-transit to and from banks.
v. Break down of company vehicles

As the company of our illustration shows, no economic development is possible without investment in capital durable assets that embody irreversible decisions, and there is no such thing as irreversible decision without risk (Giariru, 1999).

Other forms of risks incidental to marketing can be identified from the viewpoint of consumers. In this regard, we have two aspects, namely functional risks and psychological risks.

a) **Functional risk**

This relates to the risk associated with failure of products to live up to expectation (Sturdivant et al, 1970).

b) **Psychological risks** This risk focuses on what people would think of ones' purchase decision (either approving or disapproving as the case may be). It is the psychological bout that every buyer encounters, technically called dissonance that constitutes the psychological risks.

Products vary on the basis of whether they are high on functional or psychological risks or both combined. Drug products, for example, are perceived to be high in functional risk while automobile is perceived as being high in both functional and psychological risks (Ibid 171).

What is done above may not have highlighted all conceivable elements of risks in marketing. Rather, primary intention is to spotlight the presence of risks at all levels of the marketing process and to encourage risk consciousness and risk thinking among marketers. This will produce the beneficial effect of enthronement of risk management culture at all levels of the marketing process. The visible benefit of the risk thinking and risk management culture is loss minimization and improved profitability for business.

Insurance and insurance products

1. **Insurance as a tool of risks management**

Insurance is presented as a risk transfer mechanism. And being a risk transfer mechanism it is a risk management tool. That is, that insurance is one way, among several others, by which a business owner can use to manage his risks.

What then is insurance? What types of insurance are available to aid marketers in the management of their risks? Is it every risk that the marketer faces that could be insured? These are the questions that will be tackled in this segment of the paper. The last question will be treated first followed by the first while the second comes last.

a) **Insurability of risks:**

Theoretically all risks are regarded as insurable. However, practical considerations render theoretical position improbable. From an operational point of view insurability comes down to a discussion of why insurers may accept some risks and yet reject others (Redlick, 1968).

Mordi (1990) explained that generally pure risks are insurable. This is so because their outcomes are known with their associated probabilities. Thus, insurable risks are those risks that can be investigated statistically. These will include some aspects of business risks (though speculative) that can be investigated statistically, such as business interruption risks.

b). **What is insurance?**

There are several views of insurance. It is viewed as a collective system or social device for pooling of risks and sharing of losses. A legal view of insurance exists. As a contract, it is an agreement between two parties, the insurer and the insured whereby the insurer agrees to indemnify the insured on the happening of a specified event, say fire, provided that the insured pays a service charge called premium in exchange for promised indemnity.

As could be inferred from the above insurance being a risk transfer mechanism merely allows the insured to transfer the financial consequences of business operations to the insurer while he retains control of his business operations.

Types of insurance products available to marketers

i. Whole life assurance:

This is a life **assurance** protection. The contingency covered is the risk of death. Mortality risk is a universal experience everybody faces on daily basis. Man is kept humble by the knowledge of the fact of his own mortality. He is further humbled because he does not even know for certain the very day and hour of his demise. Important to him is the fact that his demise may create some economic hardship for the family. This hardship can be mitigated through whole life policy.

In its basic form, the cover provides a stated sum assured to be paid to the legal representative (s) pf the marketer assured at the event of death. Payment of the benefit can be made only when the life assured expires and not before it does.

ii. Endowment assurance:

This is essentially a modification of the whole life policy. It promises payment of a stated sum assured to the life assured if he survives till a stated date or to a named beneficiary in case he is deceased before the date. The policy offers both a protection and an investment windows. As an investment it can be employed to provide a future business capital being a savings instrument. Or it may be useful towards providing for pension for staff.

iii. Workmen's compensation insurance:

Accidental injury or diseases at work place leading to physical incapacity or death are the perils that the employee faces. The rise in the level of social responsibility of employers, overtime, made them assume the financial consequences of these perils on behalf of the employees. The costs involved are provided for by the employer through Workmen's Compensation Insurance. It is arranged for the benefit of employees at the expense of the employer.

iv. Product liability insurance:

Makers or producers of products may be held liable in law for the defects that may be inherent in their products. For instance, a gardener who markets his tomatoes or garden eggs may be taken to court by a customer on charges of food poisoning. In countries where strict adherence to product quality is upheld, the marketer may be held to pay heavy damages awarded by the court. These probable judgment debts can be provided for by taking out product liability insurance.

v. Public liability insurance

In law, a business owner is assumed to have given invitation to members of the public who may be on his business premises for lawful reasons. He is therefore obliged to provide a safe business environment for those who come to his premises (factory) for business ends. Any accidental injury to be traceable to his failure to provide a safe environment is actionable by any member of the public who happens to sustain such an injury. Again, this contingency can be insured against by the purchase of public liability insurance.

vi. Good – in – transit insurance

This policy covers the possible loss of business assets occasioned by accident while transporting them from point to another. Goods-in-transit may also be subject to the activities of armed bandits leading to their expropriation.

vii. Cash – in – transit insurance

This policy protects the marketer against the risks of losing his money in transit to and fro bank, say. It may happen that money withdrawn from bank to pay staff salary is stolen during transit by armed robbers as is common nowadays.

viii. Fidelity guarantee insurance

Such acts of employee leading to loss of business assets are covered by the policy. Business movable assets such as motor vehicle, fixtures and fittings, and furniture may be expropriated by staff. Funds belonging to the enterprise may also be embezzled. To protect himself against these perils, the employer secures a cover called Fidelity Guarantee Policy.

ix. Plants, machinery and motor vehicle

The policies to be obtained are intended to cover all risks that attach from ownership of plants, machinery and motor vehicle. The risks covered span the gamut, the marine risks involved in the importation of these machinery and other risks incidental on their use. Consequently, the following policies are usually arranged.

a. Marine policies
b. Machinery Breakdown Insurance
c. Fire and Special Perils Insurance
d. Theft/Burglary Insurance
e. Road Traffic Insurance

Conclusion

The paper provides ample illustrations to the effect that to think of marketing is to think of risks. Both are Siamese twins. Risks, being inevitable in marketing operations, need be managed. Insurance which should be a natural choice for risk management, has hitherto remained unexploited. This derives from a near total absence of risk management culture in marketing theory and practice. The fact that insurance is a risk management tool provides the nexus between it and marketing.

This paper therefore recommends that insurance to be extensively deployed to manage marketing risks. The benefits include translation of uncertainty into certainty, encouragement of entrepreneurial spirit, release of capital funds for investment, among others.

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