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# Customer Perception on Mutual Fund Product: A Technical Analysis

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**Abstract** - In this context, prioritization, preference building and close monitoring of mutual funds are essentials for fund managers to make this the strongest and most preferred instrument in Indian capital market for the coming years. With the decline in the bank interest rates, frequent fluctuations in the secondary market and the inherent attitude of Indian small investors to avoid risk, it is important on the part of fund managers and mutual fund product designers to combine various elements of liquidity, return and security in making mutual fund products the best possible alternative for the small investors in Indian market.

Researchers have attempted to study various need expectations of small investors from different types of mutual funds available in Indian market and identify the risk return perception with the purchase of mutual funds<sup>(1)</sup>. Various sophisticated multivariate techniques are applied to identify important characteristics being considered by the Indian investors in the purchase decision, the paper also suggests a product design of an optimum mutual fund and track the positioning gap available in Indian mutual fund market. SPSS version 17 is used for data analysis.

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## I. INTRODUCTION

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money collected & invested by the fund manager in different types of securities depending upon the objective of the scheme. These could range from shares to debentures to money market instruments. The income earned through these investments and its unit holders in proportion to the number of units owned by them (pro rata) shares the capital appreciation realized by the scheme. Thus, a Mutual Fund is the most suitable investment for the common person as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. Anybody with an investible surplus of as little as a few thousand rupees can invest in Mutual Funds. Each Mutual Fund scheme has a defined investment objective and strategy.

### *Comparison of Mutual Funds with 'Other Instrument'*

Alone UTI with just one scheme in 1964 now competes with as many as 400 odd products and 34 players in the market. In spite of the stiff competition and losing market share, last six years have been the most turbulent as well as exiting ones for the industry. New players have come in, while others have decided to close shop by either selling off or merging with others. Product innovation is now passé with the game shifting to performance delivery in fund management as well as

service. Those directly associated with the fund management industry like distributors, registrars and transfer agents, and even the regulators have become more mature and responsible.

Funds have shifted their focus to the recession free sectors like pharmaceuticals, FMCG and Technology sector. Funds performances are improving. Funds collection, which averaged at less than Rs. 100 billion per annum over five-year period spanning 1993-98 doubled to Rs. 210 billion in 1998-99. Total collection for the current financial year from the year 2005 is expected to reach the level of Rs. 450 billion to 1 trillion.

What is particularly noteworthy is that bulk of the mobilization has been done by the private sector mutual funds rather than public sector mutual funds.

### *Potential of Returns*

Returns in the mutual funds are generally better than any other option in any other avenue over a reasonable period. People can pick their investment horizon and stay put in the chosen fund for the duration. Equity funds can outperform most other investments over long periods by placing long-term calls on fundamentally good stocks<sup>(2)</sup>. The debt funds too will outperform other options such as banks, though they are affected by the interest rate risk in general.

*Restrictions on Investments*

A mutual fund scheme shall not invest more than 15% of its NAV in debt instruments issued by a single issuer, which are rated not below investment grade by a credit rating agency authorized to carry out such activity under the Act. Such investment limit may be extended to 20% of the NAV of the scheme with the prior approval of the Board of Trustees and the Board of asset Management Company.

**II. STATEMENT OF THE PROBLEM**

The investors do not evaluate all possible product attributes while making a choice, but the marketer’s search is for identification of ‘*The key buying criteria*’ or ‘*The key choice criteria*’ or ‘*Determinant attributes*’ which are defined as certain features of a product offering that are closely associated with preferences. This study aims at tracking investor’s preferences and priorities towards different types of mutual fund products and for identifying key features of a mutual fund for deciphering sustainable marketing variables in the design of a new mutual fund product. Taking a lead from this, an attempt is also made to find out the important mutual fund product attributes that are essential in influencing the purchase decision of the investors.

*Need or Importance of the Study*

At present, the investors in India prefer to invest in mutual fund as a substitute of fixed deposits in Banks; About 75 percent of the investors are not willing to invest in mutual funds unless there was a promise of a minimum return,

Sponsorship of mutual funds has a bearing on the integrity and efficiency of fund management which is being used as key to establish investor’s confidence. So far, only public sector sponsorship or ownership of mutual fund organizations had taken care of this need.

Many small companies did very well last year, by schemes without adequate imbalance in the market but mutual funds can’t reap their benefits because they are not allowed to invest in smaller companies.

**III. PROPOSED METHODOLOGY**

The study is based on a survey of 1057 respondents through a questionnaire covering different groups of investors but the researcher could collect 28 complete questionnaire from investors out of which 28 were taken as an effective sample after taking various statistical measure. The data obtained from the study were analyzed by using ‘*T*’ test for identification of the key features preferred by the respondents in a mutual fund product. ‘*T*’ test analysis identifies common dimensions

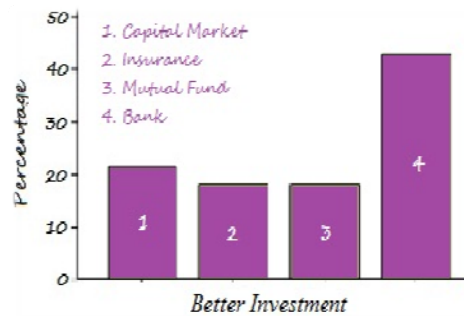
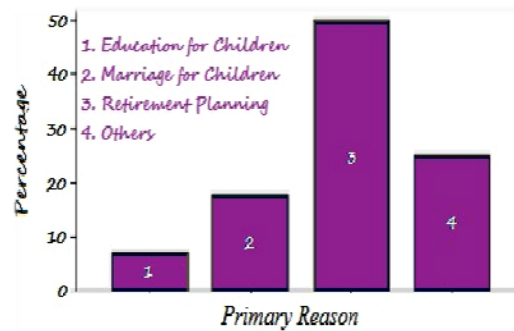
of factors from the observed variables that have a high correlation with the observed and seemingly unrelated variables but no correlation among the factors. Principal Component Analysis is the commonly used method for grouping the variables under few unrelated factors. A factor loading is the correlation between the original variable with the specified factor and the key to understanding the nature of that particular factor. When developing new products marketers would like to be able to judge the consumer’s response to their offer before it is introduced. One way to deal with the situation is to perform concept tests. Here the customer is presented with a description for a new product and is asked about the likelihood of purchase<sup>(3)</sup>. The various attributes of a mutual fund product are broken down in to levels. Once the utilities of the attribute levels are known, it is possible to specify a new product that should have a maximum desirability.

**IV. RESULT AND DISCUSSION**

An investor takes into account various factors while deciding about buying of a mutual fund. These ranges of factors begin with investor perception, the promised return and to the attractiveness of the offer.

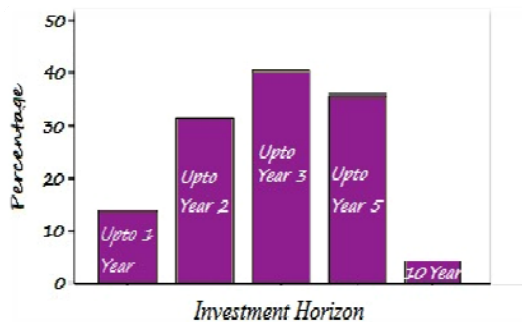
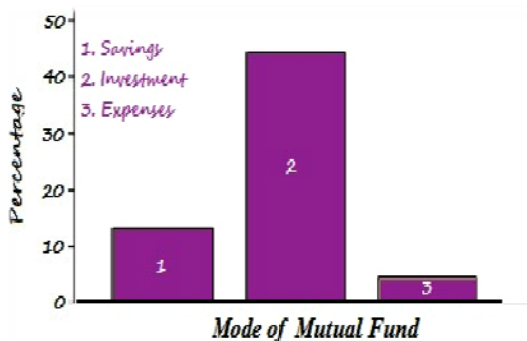
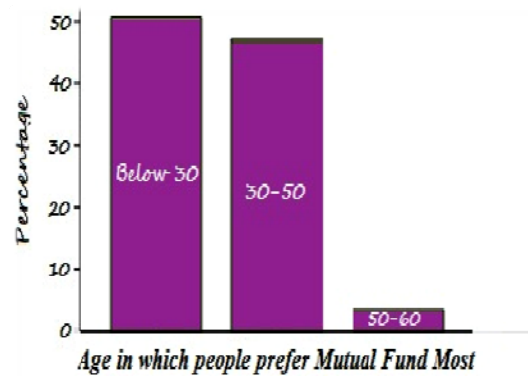
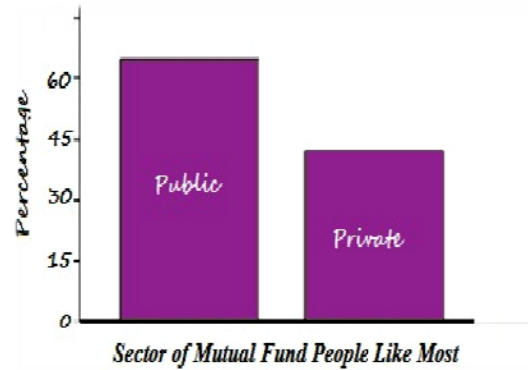
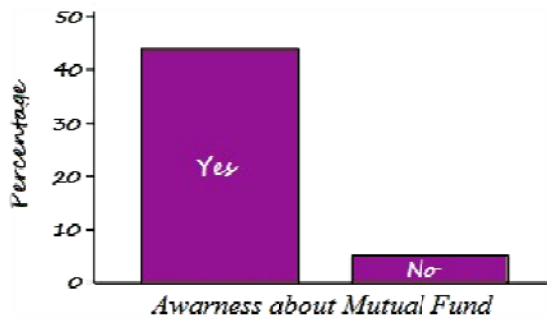
So from informal discussions with mutual fund agents and from references to earlier studies, all the relevant variables in the purchase of a mutual fund were included in the study.

*Analysis*



A **primary reason** for investment of a person is retirement rather than others. There is a tales that 'Indian sees the future'. So for better living on post retirement age, they can sacrifice their present for better future<sup>(4)</sup>.

Due to current change in trend some people are focusing on capital market. But still banking sector plays a safe hand on behalf of the customer. People can afford low return but invested money should be secure. But in little span of time Mutual Fund made a strong appeal on public where return is high also invested money somehow secure than the capital market.



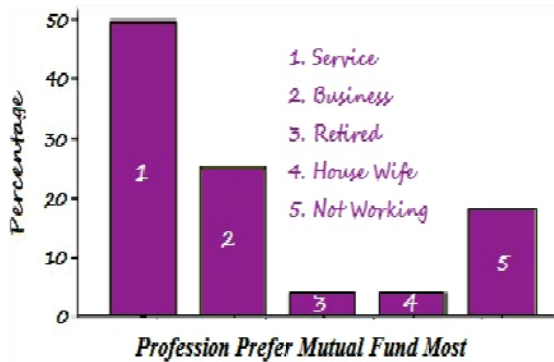
With a high return and a less risky investment mutual fund helps people to make better investment plan as well as good portfolio. Increasing number of agents and Dee mat A/C are increasing the awareness amongst them.

In capital market risk is high and return is also high and in mutual fund there is less risk but return is moderate, that's why people are investing in mutual fund not for savings. Nowadays most of the mutual funds are market linked or hybrid kind.

Due to afraid of market crash, instead of long term and one time investment, investors going wisely for mutual fund Systematic Investment Plan (SIP).

As UTI AMC is in business from 1964 so it is a psychometric effect that Public sector AMC is better than Private sector AMC. Now a day's companies like ICICI AMC, HDFC AMC are performing really good and providing far better return to the customer.

As previously said 'Indians sees the future', so it proves that the age below 50 wants to invest in the mutual fund to secure their future wealth.



As they have the source of regular investment service holders are seeking for more income from other investment more than the normal return derived from bank FD.

Case Processing Summary			
		N	%
Cases	Valid	28	100
	Excluded <sup>a</sup>	0	0
	Total	28	100
a. Leastwise deletion based on all variables in the procedure.			

Reliability Statistics		
Cronbach's Alpha <sup>a</sup>	Cronbach's Alpha Based on Standardized Items	N of Items
-0.118	0.169	25
a. The value is negative due to a negative average covariance among items. This violates reliability model assumptions.		

Cronbach's Alpha<sup>a</sup>

$$\alpha = \frac{K\bar{c}}{(\bar{v} + (K - 1)\bar{c})}$$

[Where K is As Above,  $\bar{v}$  The Average Variance, And  $\bar{c}$  The Average Of All Covariance Between The Components Across The Current Sample]

## V. CONCLUSIONS AND RECOMMENDATIONS

The present study looks at customer perception levels about mutual fund product. This kind of customer orientation is necessary in a market like India where the

market is turning competitive due to large number of players with varied financial muscle powers and expertise of reinvestment<sup>(5)</sup>. The small investors purchase behavior does not have a high level of coherence due to the influence of different purchase factors. The buying intent of a mutual fund product by a small investor can be due to multiple reasons depending upon customers risk return trade off. Due to the reduction in the bank interest rates and high degree of volatility in Indian stock market, investors are looking for an alternative for their small time investments which will provide them a higher return and also safety to their investments. The bond market is also passing through a recession due to its interest parity with bank instruments. So mutual funds offer the best alternative to the small investors in India. A prudent product design by adding the features expected by investors and spelt out in this research will make the new mutual fund products attractive for the Indian investors. The factors identified in the study provide key information inputs regarding investor's preferences and priorities that will guide future mutual fund product managers in designing attractive mutual fund products for the Indian market.

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