

BROKER-CLIENT RELATIONSHIP: A CONCEPTUAL FRAMEWORK

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ABSTRACT

In an attempt to identify the dimensions that exist to sustain a long-term business-to business relationship in the fiercely competitive insurance industry, a conceptual framework has been developed to examine how brokers interact with their clients. Moreover, this paper aims to contribute to the understanding of how such an application can allow financial services organisations to obtain distinct competitive advantage.

STUDY BACKGROUND

A growing body of literature deals with long term buyer-seller relationships, which is seen by many as a pre-requisite for competitive advantage (Juttner and Wherli, 1994; Reichheld and Sasser, 1990; Payne, 1995; and Ballantyne, 1996). Other works have examined the relationship development process (Halinen, 1995; Gronroos, 1993; and Cram, 1994), and more specifically, there are also a number of buyer-seller models (York, 1990; Gummesson, 1979; Gronroos, 1980, 1982; Edvinsson, 1985 and Halinen, 1994).

Like other business-to-business relationships, the relationship between an insurance broker and its corporate clients can be broken down into stages. Further, each stage can be examined through identifiable components, thus allowing the management to focus on the ones that help to obtain and sustain a long-term relationship with its clients.

Although the buyer seller models mentioned above have identified different relationship types, none appear to be suitable or appropriate for the broker-client relationship, which is cyclical in nature. Therefore, from a practical perspective, an explanatory model is developed to allow an understanding of the relationship between an insurance broker and its corporate clients.

THE CONCEPTUAL FRAMEWORK

The broker-client conceptual framework (figure 1) contains two distinct phases. The first is known as the information-gathering phase and the latter, the formal relationship phase.

The characteristics that apply and distinguish each stage, along with the relevant management, service and relationship quality issues are discussed in this paper.

Information Gathering -Phase I-

The first phase of the “relationship” comprises of two stages, (1) the pre-relationship stage and (2) the new business or marketing stage. The timescale involved can vary from a very short period in time but may last several months.

Stage One - Like other professional services, new clients are obtained principally by referrals or recommendations from an existing client or by personal initiation or networking. This stage is also described as the pre-relationship phase (Halinen, 1994), pre-stage (Gummesson, 1979) or initial stage (Gronroos, 1980 & 1982).

The broker is generally concerned with ensuring certain issues are addressed. Amongst these issues, a number of questions might be raised:

- i. How are details of the broker organisation obtained?
- ii. Has the client been referred to the broker? And by whom?
- iii. What are the reasons of relationship breakdown with the previous broker?
- iv. If there has been a change of management personnel will there be any conflict of interests?
- v. What type of service the client is looking for?
- vi. What are the requirements for a new business?
- vii. Does the broker has the expertise (technical advice) available within the organisation?

At this stage, once the above criteria and issues have been addressed, the decision is made regarding the continuity of the relationship with the prospective client. A letter is issued to the ‘prospect’ advising the outcome (i.e., initiating a programme discussion or ending the process).

This stage can appear very informal, and the prospective client organisation is referred to as a ‘prospect’.

Stage Two - is known as the new business or marketing stage. It is part of the information-gathering phase. To be completed effectively it must commence at least one or two months prior to the expiry of any existing arrangements (if any are in force). Halinen (1994) describes this stage as the initial phase.

The initial programme design is discussed with the prospect. Factors include business type, size of the organisation and its risk profile. The ‘prospect’ financial and operational informations are reviewed. Amongst these information are gross profit, turnover and wagheroll

projections. Appropriate insurers are contacted for quotations such as Lloyds. Amendments are made, a time-scale for tender presentation, and service standards are discussed and agreed. It is made clear at this stage, that the broker is acting as the intermediary between the prospective buyer (client) and the insurance carrier. The appropriate insurance carriers are contacted for quotations. Regular contact may be made to obtain any pertinent information. Overall activity by the broker is intense.

Once the broker has carried out its marketing stage, the tender is presented to the prospective client. The 'prospect' may be obtaining quotations from several other sources, therefore, the broker must await their decision on whether they will go ahead with proposals. If the broker is unsuccessful, management must endeavour to establish the reasons for this.

If the tender is accepted then the formal business relationship commences (i.e., stage three), and conversely if rejected then the tentative relationship ends here.

Formal Trading Relationship -Phase II-

Stage Three - The formal relationship is seen to commence at this stage. This is termed "the development stage." The development stage includes the time period of the first two to six months of the developing relationship between the insurance broker and its respective client. Here the broker is given specific instructions to proceed with the tendered proposal and it is at this point that any indicative changes to the programme and premium financing arrangements are agreed.

A professional and account handler is assigned. The criteria for this include experience and existing workload. The client is advised of contact(s) within the organisation, and the insurance carriers are instructed to go on cover at the agreed time and cost.

Once the documentation is received from insurers, checks for any errors or omissions against any instructions given take place. Then, costs are presented to the client. It is to note that standard of documentation varies dramatically from insurer to insurer.

The 'prospect' is now referred to as a client and their name is used in full (no abbreviations have yet developed). This is also known as the growth phase (Halinen, 1994) or the initiation stage (Yorke, 1990).

Stage Four - The involvement stage describes the final six months of the twelve month cycle of the relationship, and is described as the constant phase (Halinen, 1994) or the involvement phase (Yorke, 1990). The frequency of contact between the broker and the client can vary, depending on the size and type of the client organisation; however, the level of communication is much less than that experienced in stages one and two.

If claims are much higher than anticipated risk management issues can be assessed. The broker adopts a proactive approach with the client who is reassured about the quality of service.

During this time the client's name soon becomes abbreviated, with everyone in the organisation using the same abbreviation. Use of TLA is common.

Stage Five - This known as the pre-renewal stage, and it commences approximately two months prior to the expiry of the insurance contracts. None of the earlier buyer-seller

relationship models mentioned in this paper have been able to describe this phase. The broking organisation makes contact with the client to obtain updated financial and operational projections for the forthcoming twelve months. Then, the updated and pertinent information is given to insurers to allow the renewal tender to be presented on the correct basis. The results of the terms/tender presented by the insurance carriers will determine whether a further marketing exercise is carried out.

The tender submission is made to the client. This usually takes place through a face-to-face meeting, which also provides the opportunity to review of premium financing options. However, 'small size organisations have a tendency to use correspondence (i.e., letters) rather than one-to-one meetings.

If at this stage, the client rejects the tender the relationship will be terminated. However, if accepted, the relationship returns to the development stage and the subsequent stages thereafter. Stages three, four, and five-combined last for 12 months. This represents the duration of the insurance contract. At any time during these three stages, the broker might contemplate the opportunity to cross-sell to their client. Before the pre-renewal contract takes place, the broker might use his last chance to cross-sell other services.

Problem Claims or Complaints

Once the formal trading has begun at Stage Three there is now the ongoing potential for a further stage, the problem or troubled stage (Halinen, 1994). This stage may last for a very short period (one day) or could last for several years, but it does not necessarily mean this leads to the termination of the relationship, indeed, if handled correctly could enhance and strengthen the business-to-business relationship.

During this stage, the frequency of communication between the two organisations increases dramatically. One-to-one relationships can be enhanced or indeed damaged, depending on how effectively the claim or complaint is handled. This stage can be used by the broker as an opportunity to cross sell or put in place policy-covers that the client was reluctant to put into effect previously.

SERVICE AND RELATIONSHIP QUALITY

Although the definition and discussion of each stage is helpful in describing the relationship process, it does not provide any insight into the key components (trust, commitment and satisfaction) that exist within the relationship itself. These components are examined through service and relationship quality as follows:

Service quality (functional and technical) is of paramount importance in the management of any business-to-business relationship (Gronroos, 1993; Jobber, 1995 and Woodruffe, 1995). Thereafter, relationship quality can be used as a gauge or a measure of how successful or indeed unsuccessful the relationship is. The principal components being trust, commitment and satisfaction (Dwyer, Schurr and Oh, 1987; Evans and Cowles, 1990; Gronroos, 1993 and Morgan and Hunt, 1994).

During the information-gathering phase, the service quality issues will include establishing:

- i. Whether or not there is enough capacity within the broking organisation to deal with the prospect as a client?

- ii. Can existing quality standards be maintained?
- iii. Is there enough expertise to deal with the prospective client's needs?
- iv. Can the tender be provided in time and does it meet the agreed objectives?
- v. Is there a suitable carrier for the risk?
- vi. Will the 'prospect' be profitable?

However, at this early phase, and before any formal relationship has been entered into, the level of technical quality is paramount. The broking organisation must ensure that the correct advice is given and that the required level of knowledge is made available to deal with the prospect.

Very early on in the 'relationship' confidential financial and operational information about the prospective client is required. Therefore, of the relationship quality components perhaps trust is the dominant element at this early stage, however, the broker must ensure that they make the prospective client aware that they will be committed to sustain a long term relationship once formal trading has commenced.

However, once the trading relationship has begun in earnest at the development and constant stages the emphasis is firmly placed on the functional element of service quality, because:

- i. Client must know how and who to contact;
- ii. Documentation must be handled effectively;
- iii. Agreed standards must now be maintained;
- iv. Correct advice must be given timelessly;
- v. Management must ensure that adequate personnel are available when the client makes contact.

Of the relationship quality elements trust and commitment are evident on early stages of relationship, however, evidence of satisfaction will arise if management addresses the functional quality issues.

The pre-renewal phase is an ideal opportunity for the broking organisation to establish whether the client is satisfied with the agreed, possibly informally, standards. If issues are not addressed properly by the broker the relationship may resort quickly to problem claims or complaints.

If during the last stages of relationship development, the claim/complaint is handled effectively then this can enhance the relationship. Conversely, if the claim/complaint is handled badly or the level of technical quality of the relationship has been questioned, the relationship could be damaged.

However, if the relationship is terminated it may not be as a result of any breakdown of service and functional quality. It could be the result of a business failure or because of the current mergers and acquisitions activity. This may lead to a referral situation as defined and discussed in stage one. It is also an opportunity for the management to investigate any issues raised so they can be dealt with for the future.

MANAGEMENT ISSUES

The management of the broking organisation will want to establish how the 'prospect' obtained details of their organisation, whether it is as a result of networking, a promotional exercise or by referral from an existing client. This will enable them to assess the effectiveness of each.

During the information gathering stage management must ensure that the appropriate level of technical quality is available is to ensure that the 'prospect' is given the correct advice thus ensuring the relationship foundations are firmly laid. Management must also ensure that the insurance carriers are providing an agreed level of service and wide product portfolio.

However, it is the management's responsibility, at this stage, to make sure that measures are in place to identify whether or not the prospective relationship will be profitable or not.

Once the relationship has been formally established, the emphasis shifts to the level of functional quality provided. Management must ensure that the appropriate team of professionals and account handlers is put in place, and that the agreed standards are met and maintained. Measures must also be put in place to assess the ongoing relationships, principally because the objective of a relationship marketing strategy is to establish and maintain long term profitable relationships. Yorke (1990) believes that clients will only retain their supplier if they perceive that their needs are being properly managed during the purchasing and consumption process. Others like Woodruffe (1995) points out that when organisations are striving to gain and maintain competitive advantage, both quality and production are of key importance. However, improvements in service production can lead to sacrifices in the level of quality; that is at its most sensitive when people are the service deliverers. Woodruffe summarises

“Total quality management (TQM) and marketing have very strong links within the organisation. Both share a customer directed philosophy and both focus on teamwork and commitment from all levels within the organisation. Managing service quality combines the aims of marketing within a framework for implementing quality, which has similarities with TQM. Developments in internal marketing and relationship marketing combine to provide an approach which foster integration and commitment to quality throughout the organisation”.

As part of managing service quality an organisation should design and operate an ongoing quality improvement programme that will monitor the level and consistency of service quality (Stanton, Etzel & Walker, 1991). Zeithamal, Parasuraman et al (1988) have developed a scale called SERVQUAL, which is used to aid the measurement of service quality in the consumer market. It aims to measure customer perceptions and expectations so any gaps can be identified.

It has been argued that when inspired leadership, a customer minded corporate culture, excellent service system design and effective IT are combined then superior service quality and services marketing should follow (Berry & Parasuraman, 1991). The focus should be on customer satisfaction through integration of service quality and the entire system.

To sum up, quality is difficult to define, measure, control and communicate. Yet in services marketing the quality of the service is critical to a firm's success. However difficult it may be to define the concept of service quality, management must understand that the consumer

and not the producer or the seller of a service defines quality. Moreover, it is important to note that management strives to maintain consistent quality at or above the level of customer expectations (Morgan and Hunt, 1994).

CONCLUSION

The exploratory model presented in figure 1 identifies the different phases, stages and components that exist in broker-client relationship.

This model can be used as an operational and marketing tool to identify which areas management should be concentrating on at any given time over each stage and phase of the relationship. Moreover, one of the benefits of the model is that it clearly identifies where opportunities exist within the relationship to 'cross-sell' and make the relationship even more profitable.

The problem claims or complaints should not be seen as the potential termination of the relationship. Indeed, if handled effectively by the management, can be taken as an opportunity to strengthen the relationship.

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