

Module 3: Change

Organisations with clear objectives and an efficient organisation need to be able to adapt to changes, sometimes rapid and unexpected. The need to adjust affects businesses, individuals and governments. Sometimes the forces of change are international in scope.

Module 3.1: What are the challenges?

The nature of likely changes is examined in detail. Businesses can be affected by change in the market place. This may come from the development of new markets or the shrinking of old ones, or it may come from the activities of other businesses. Overall, everyone in the economy is affected by fluctuations in demand: the business cycle causes demand and output to rise and fall over time. A fourth major influence comes from international trade and the relationships which trade creates.

Enquiry 1: How do markets change?

Enquiry 2: Rivalry or collaboration?

Enquiry 3: Will total output change?

Enquiry 4: Unemployment or inflation?

Enquiry 5: Why trade?

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What are the challenges?

Enquiry 1: How do markets change?

1 What drives demand?

Spending trends

Spending Trends	1992		2002	
	Amount £	% of total	Amount £	% of total
Housing	47.4	17.4	66.7	16.5
Fuel and power	13.0	4.8	11.7	2.9
Food	47.7	17.5	64.3	15.9
Alcoholic drink	11.1	4.1	14.8	3.7
Tobacco	5.4	2.0	5.4	1.3
Clothing and Footwear	16.4	6.0	22.0	5.4
Household goods	21.9	8.0	33.8	8.4
Household services	13.4	4.9	23.3	5.8
Personal goods and services	10.2	3.7	15.2	3.8
Motoring expenses	35.7	13.1	61.7	15.2
Fares and other travel costs	7.2	2.6	9.7	2.4
Leisure goods	13.3	4.9	20.5	5.1
Leisure services	27.6	10.1	53.6	13.2
Other	1.8	0.7	2.0	0.5
Totals	272.1	100.0	404.7	100.0

Figure M3.1 Average weekly spending on specific categories of goods/services per household

Source: ONS, Annual Abstract 2004

Your agenda



- 1 What specific changes in expenditure patterns took place between 1992–2002?
- 2 For each change, what reason(s) can you suggest?
- 3 The changes you have identified have something in common. What was the general trend?

Is it worth sacrificing a holiday in order to have a car? Or is it better to buy some more shoes or get a camera? Ultimately, the answers to questions like these shape the pattern of demand for goods and services.

Although every individual is different, there are many ways in which people are similar. For example, most people want to eat at midday, be entertained in the evening and take a holiday in the summer. The result is profitable sandwich bars, video hire and package holidays. Wherever and whenever people have needs and wants, a market exists and with it the potential for profit.

Over time, people change their minds about what to consume. For all kinds of reasons, they make

changes in their purchasing habits. Producers have to adapt. As they do, levels of output adjust. This is known as a change in the structure of production, or structural change. It means that businesses must cut back production of the items people want less of, and expand output of the items for which demand is increasing. They have an incentive to do this because they can get a better price for the latter, but the process is not always easy.

Shifts in personal preferences and growing incomes are not the only cause of change. Sometimes the cause stems from an influence on supply.

- ◆ Technologies change – often businesses adopt a new and better technology, which is more capital intensive. People are made redundant.
- ◆ Location may also change. It means change in the whole structure of economic activity, for example when a coastline develops a tourist industry or when a region loses its main industries to foreign competitors or a new technology.

Structural change in any economy is inevitable and necessary. It reflects the operation of market forces as the pattern of demand changes or as producers in new locations find ways of meeting demand more efficiently and more cheaply. Ideally, a region that loses an industry will adapt its resources to become competitive in meeting new patterns of demand. In the long run, structural change should benefit everyone.

Essentials



Structural change is the process by which resources move from one industry to another.

What makes demand change?

Some changes happen solely because of personal preferences. Other changes are brought about by broad economic and social trends that involve all or large parts of society.

- ◆ *Population change* bears directly on demand. Total population is only increasing slowly, but important changes in the age structure and the regional distribution of the population are continuously taking place.
- ◆ *Educational opportunity* has expanded rapidly, especially for women and some minority groups. Culture, taste and lifestyle are all directly affected by education. These, in turn, affect the pattern of demand.
- ◆ *Social change* has been dramatic. House-moving and daily travel have increased, far more women pursue careers and new models for family life have emerged.
- ◆ *Tastes and fashions* cause people to change their choices.
- ◆ *Rising or falling incomes* can have a big impact on the pattern of demand. All consumers have to work within a budget. Given more or less income, they will change their pattern of spending.
- ◆ *New products, new technologies* – competing substitutes may attract customers. Sometimes very similar products become available from a new source at a lower price and cause falling demand for a product that previously sold well. Completely new products also attract customers at the expense of existing products. The impact of these changes is discussed in the next enquiry.

2 Population changes

Does age matter?

Age Groups	1981	1991	2002
under 5	3456	3867	3414
5 - 14	8147	7142	7601
15 - 19	4735	3719	3761
20 - 29	8113	9138	7401
30 - 44	10,956	12,125	13,499
45 - 59	9540	9500	11,316
60 - 74	8130	7955	7859
75 - 84	2677	3119	3345
over 85	603	873	1127
Totals	56,357	57,439	59,322

Figure M3.2 UK population (000s), by age structure

Source: ONS, Annual Abstract, 1999 & 2004

Your agenda



- 1 Which age groups in Figure M3.2 appear to be growing in number, and which declining?
- 2 Analyse carefully the changes in numbers in the different age categories shown in Figure M3.2. How would you expect these changes to affect a UK manufacturer of bicycles?
- 3 What changes would you expect to have taken place in the market for residential homes for the elderly?

The total population in most high income economies is now either stable or increasing only slowly. As an influence on demand, therefore, total population is a small factor. By contrast, the 1960s in Britain saw population growth of over 6 per cent – a significant force behind expansion in mass markets at that time.

Changes in the age distribution of population are caused by historical trends and fluctuations in the birth and death rates. Age distribution has a major impact on demand. For example, the number of babies under 12 months fell by over 10 per cent in the ten years between 1991 and 2001. This was a serious factor at the high street retailers Mothercare, meaning less

emphasis on the needs of very young children. By contrast, the number of people over 84 increased by nearly 30 per cent over the same period. Sharp changes in the birth rate ‘ripple’ through the age structure of the population creating a quite uneven age structure and changes over time.

Age provides a natural criterion for market segmentation. People within certain age groups tend to have similar needs and tastes. For example, Barretts Sherbet Fountain sells mainly to people under 15, while Shearings coach tours appeal to those over 65.

3 Education, cultural and social changes

Education changes people. It opens up new possibilities for them: magazines written for people with particular hobbies have been a huge growth area in recent years. At the time of writing, the circulation figures for tabloid newspapers are falling. Broadsheets, on the other hand, are selling well. It is too early to be sure, but these changes probably reflect the huge increase in the numbers of young people in education in the 16-25 age group that took place in the 1990s.

The pattern of demand, changes in education and the social structure, are all linked. Marketing specialists make extensive use of social data because market segmentation involves identifying and grouping together people who have some key features in common.

Social grade	Occupation type	% of adult population over 15 years
A	Higher professional, managerial or administrative	3.5
B	Intermediate professional, managerial or administrative	21.6
C1	Supervisory or clerical, junior administrative	28.5
C2	Skilled manual	20.7
D	Semi or unskilled manual	16.5
E	State pensioners or unwaged, casual work	9.2

Figure M3.3 Socio-economic groups

Source: Marketing Pocket Book, 2004

The data in Figure M3.3 are often equated with social class, but they are really a breakdown of occupational types with well known links to ways of life and patterns of demand. Striking correlations can be found between socio-economic grade and consumption of product types – see Figure M3.4.

Socio-economic grade	% of socio-economic group who – go to to bars or clubs once a week	– visit the theatre
A	} 12.8	} 56.6 (A & B)
B		
C1	12.1	44.3
C2	9.7	30.2
D	} 7.4	21.9
E		19.4

Figure M3.4 Demand and social class

Source: Marketing Pocket Book, 2004

The impact of culture on tastes

Changing food choices

	percentages	
	1984	2001
Non-meat eaters	4	4
Eat meat only occasionally	21	33
Avoid red meat only	1.9	9

Figure M3.5 Vegetarians

Source: *The Vegetarian Society, Real Eat Surveys*

Your agenda



- 1 What kinds of changes do these data suggest?
- 2 How might these changes affect businesses?

In recent years marketing experts have been keen to analyse cultural trends. Culture means the patterns of behaviour and values among a population. Values in this sense refer to the levels of approval or disapproval attached to particular beliefs and practices within a culture.

Cultural changes and shifts in taste and lifestyle are not easy to measure, although many pointers exist.

- ◆ Short-term changes in fashion (for example colour or style gaining or losing popularity) are different from long-term changes in culture and values (for example a rise in concern for animal rights).
- ◆ Fashion is difficult to track or predict, but changes lead abruptly to huge increases or decreases in demand.

Changes in culture and value usually happen rather slowly but can be quite fundamental. One example of a cultural change is the rise in environmental awareness, especially among younger people. This has increased demand for all kinds of 'green' products and altered the supply policy of many firms. But sometimes culture changes more quickly for economic reasons. For example, reduced employment in manufacturing industries in many parts of northern England, the Midlands and South Wales has altered ways of life and patterns of demand.

Changes in tastes and fashions can be rooted in wider social change. Quite often, though, they are a matter of simple preference. Or are they? You might argue that they are created by businesses, deliberately.

Point of view



Chicken or egg?

Which comes first? The out-of-town supermarket or the demand for out-of-town supermarkets? Supermarkets tell us that they are only responding to demand as many people now live in housing developments on the fringes of town and find it more convenient to go shopping on the bypass instead of in the town centre. The cost of land is cheaper, parking is easier and the location is more accessible.

There is evidence to show that new out-of-town stores lead to the closure of smaller stores in the town centre and result in a reduction in consumer choice. It also appears that the opening of superstores leads to a fall in local employment levels.

Your agenda



- 1 How could it be argued that a new superstore actually brings – or keeps – trade in a town?
- 2 Disregarding any legal requirements, on what grounds could council planners decide to refuse planning permission for an out-of-town superstore? How far might these arguments be supported by economic and business concepts?
- 3 Suppose that a superstore opens on the edge of a country town. Soon after, an established butcher in the town centre is forced by falling sales to close his business. Do you think he is primarily a victim of:
 - a the changing preferences of consumers; or
 - b the expansion programme of the superstore?

4 Incomes

Will you want more?

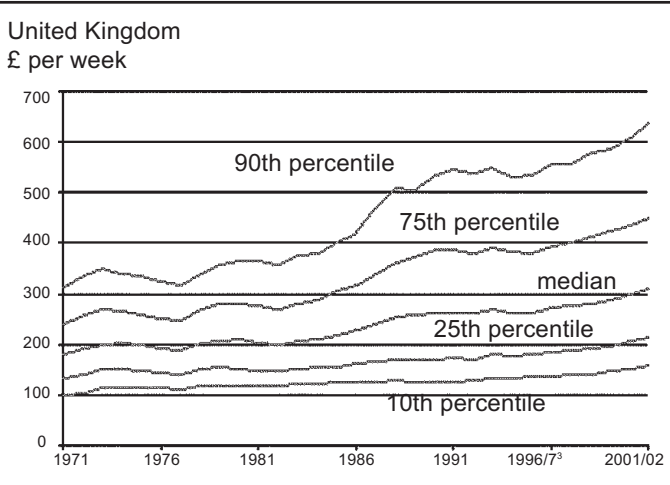


Figure 3.6 Distribution of real household disposable income²

- 1 Data adjusted to 2001/02 prices using the retail price index less local taxes.
- 2 Equivalised household disposable income before housing costs.
- 3 Data from 1996 onwards are for financial years.

Source: Institute for Fiscal Studies

Your agenda



- 1 a Which income groups in the population will be most likely to travel regularly by local bus?
b How might the demand for bus travel be affected by a 5 per cent increase in real income?
- 2 How might these data be useful to the operator of a luxury cruise ship?
- 3 Give three examples of products that are likely to face increasing demand when incomes rise.

It has already become clear that rising incomes can lead to rising demand for many products. If income elasticity of demand is greater than 1, then demand will rise proportionately more than the increase in income. The crucial measure of income here is disposable income, since it is that income which consumers can spend as they please.

plus Gross income
less state benefits
equals taxes
disposable income (i.e, income available to spend)

Since the Second World War, there has been an overall upward trend in real **gross and disposable incomes** of around 2 per cent per year. Figure M3.7 shows what this means – constant prices give us the real increase in incomes.

Year	Amount (£)
1960	14,038
1970	16,228
1980	18,833
1990	21,995
2000	27,184
2002	28,525

Figure 3.7 Average disposable income per household, 1997 prices

Source: Marketing Pocket Book, 2004 NTC Publications

Essentials



Gross income is the total amount of income paid before any deductions.

Essentials



Disposable income gives the amount paid after deduction of tax and addition of any benefits payable.

Work in progress

- 1 What impact would you expect the long run rise in real incomes to have on the general pattern of demand?
- 2 How might businesses find a knowledge of income elasticity of demand for their products useful?
- 3 If the income elasticity of demand for long-haul holiday destinations is 3.0, what will be the impact on demand of a real economic growth rate of 3.5 per cent?
- 4 Figure M3.8 gives some indications of sales of consumer durables. Clearly, rising incomes have affected these figures. Are there any other factors that might have been important in determining the growth of sales shown?

**Percentage of households
owning/renting durable goods**

	1992	1997	2002
Washing machine	88	91	94
Home computer	19	29	55
Cars	68	70	74

Figure M3.8 Social indicators

Source: ONS, Annual Abstract, 2004

The changing distribution of incomes

Besides growing overall, gross and disposable incomes in the UK have become increasingly unevenly distributed since 1980. This trend has been caused by a strong rise in earnings among the most highly skilled and a much slower rate of growth in real earnings in the least skilled occupations. Tax changes have also had some impact. The data are shown in Figure M3.6.

There is clear inequality in the distribution of incomes and a very significant gap between the highest and lowest levels of income. Increasing inequality has brought additional spending power into the hands of the better-off. This further segments markets and creates demand both for luxury products and for cheap substitutes.

Essentials



The **distribution of incomes** refers to the extent to which incomes vary, with some people receiving very much more income than others.

5 What is the regional pattern of demand?

Where?

Region	Average gross annual income £	Leisure goods +services as % of weekly		Clothing and footwear as % of weekly	
		£ per week	household expenditure	£ per week	household expenditure
North East	16,250	53.5	17	19.6	6
North West	17,500	63.1	18	22.9	7
Yorkshire and the Humber	16,850	60.0	18	19.4	6
East Midlands	17,550	64.8	18	19.2	5
West Midlands	17,650	63.2	18	20.7	6
East	21,000	69.2	17	20.8	5
London	21,550	86.6	19	27.2	6
South East	22,800	84.9	19	22.5	5
South West	17,900	64.5	18	17.7	5

Figure M3.9 English regional spending patterns

Source: ONS, Regional Trends. 1998

Your agenda



- 1 Why do the regional figures above vary? (Average income for the UK is £14,600.)
- 2 How might the data in Figure M3.9 assist the marketing director of a sports wear chain planning to expand outside London?

Just as countries vary widely in patterns of performance and levels of income, so do regions within countries. They are affected by geographical, cultural and other differences.

Geographical factors place the Highlands of Scotland at a disadvantage in distance from major population centres; south-east England has an advantage in its proximity to markets in London and continental Europe.

Natural resources may give special advantages to a region. For example, eastern Scotland has benefited from the North Sea oilfields.

Human resources vary by region. A pool of skilled labour is a real asset provided that the skills are appropriate to new business activities.

Cultural factors influence the relative attractiveness of regions. To some extent, success breeds success. A reputation for a cooperative workforce, an attractive lifestyle and cultural excellence draws successful firms. Lack of these qualities is a negative influence.

When structural changes take place, some businesses close down and jobs are lost. This can mean that incomes fall locally. Other businesses in turn are affected by falling sales and a general loss of prosperity is experienced. In some regions this has become a vicious circle because a depressed area is often not an attractive business location. These factors interact with those described above. Changes in the pattern of demand affect regional incomes. This process is shown in Figure M3.10.

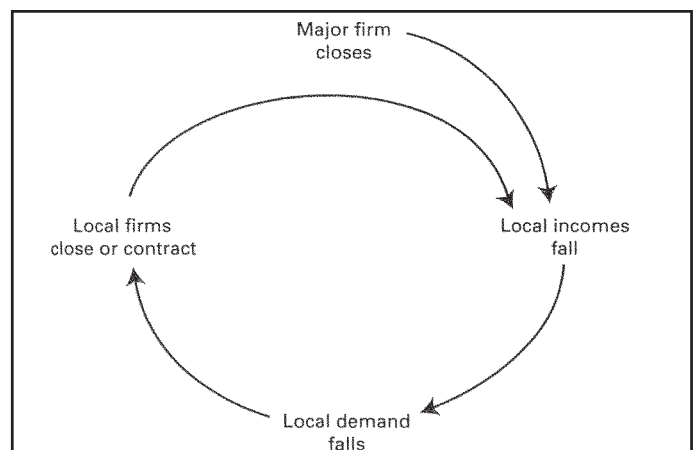


Figure M3.10 The circle of decline

Expanding firms create new jobs and incomes. They often pay higher wages and salaries. Their investment in new buildings and machinery creates orders for other firms, attracting more business to the area. As incomes rise, so households spend more and many local firms see demand rise again.

This process affects the pattern of demand. This upward 'spiral' of economic activity is self-reinforcing. A strengthening economy develops a better infrastructure, that then encourages further investment. Expanding regions are also likely to attract and build a skilled workforce. In addition, the culture of a region tends to reflect business confidence and the rising aspirations of local people.

Inevitably, all the same arguments and reasoning can work in the opposite direction. If major industries and key employees leave a region, it becomes very vulnerable to a downward economic spiral. As incomes fall, so demand contracts and more local firms face difficulties. Often the younger and best educated people migrate to more prosperous areas while the region concerned develops a poor 'image' as a place to live and work.

It is to counteract problems of this kind that the government and the European Union have a regional policy to attract new industries in areas with low incomes and business decline.

6 Public or private?

Who supplies the power?

17 September

Dear Consumer

Over the next few months you may well receive offers from a number of different companies to supply energy for your home.

After reading them, you may well wonder which energy supplier really offers the best value for money.

Clearly we think SWEB does, and we're prepared to back that up with a very simple promise. If you're a typical gas or electricity consumer, SWEB offers a better price for your home energy than British Gas. And that's a fact!

We appreciate your custom, and we hope you'll choose to remain with The Home Team. You'll have the peace of mind of staying with a supplier you know, at a competitive price you can count on.

Yours sincerely

John Davies Customer Service Manager

SWEB used to stand for South Western Electricity Board and until 1992 was part of the nationalised electricity supply industry. Deregulation in the late 1990s meant that other companies were free to use the supply grid and enter the industry to compete with regional firms such as SWEB.

Your agenda



- 1 How might a company such as SWEB gain a competitive advantage in the market for electricity supply?
- 2 In what ways might marketing strategies at SWEB be affected by the arrival of direct competitors?
- 3 How do you think the attitude of consumers might be influenced by this letter and any future offers to supply electricity?

Everyone needs business enterprise, but who should be its owners? In the classic view of a free market economy, these should be entrepreneurs and shareholders: those who have chosen to risk their capital in the business venture. In Britain this view was dominant until the 1930s. Then the business cycle became stuck in a worldwide depression or slump.

Key industries slashed output and employment and failed to invest. As the Second World War brought a kind of recovery, plans were laid for the nationalisation of such essential industries as gas, water, electricity, coal, steel and the railways. The Labour government elected in 1945 carried out this programme arguing that only the public sector could ensure adequate investment and take proper account of the social consequences of business decisions.

In practice, the experience of nationalisation was mixed at best. The heavy industries nationalised were in structural decline and lost large amounts of public money. Levels of investment did not increase significantly. State-owned firms were often immense in scale and unwieldy to manage. Lack of responsiveness to markets appeared to be the main consequence of government monopoly. Without competition, managers lacked any incentive to serve customers well.

The Conservative government elected in 1979 began a long process of privatization, transferring these industries back to the private sector. In most instances shares were sold direct to the general public. The aim was to achieve increased efficiency, better performance and wider share ownership. To help ensure fair play and some continuing public accountability, 'watchdog' bodies were set up for those industries that would continue for a time to have a monopoly, for example Ofgas and Oftel.

The regulators of privatised industries have to strike a balance between the interests of producers and consumers. In general, they try to simulate the action of a real competitive market, which would keep an upward pressure on quality and a restraining influence on price. So, appropriate standards of service are specified and increases in price are limited by some agreed formula. Meanwhile, privatisation itself may be only the first step towards creating a fully competitive market. Where government regulations actually impede competition, further deregulation may be needed so that more firms can enter the market and compete on equal terms.

Essentials



Nationalisation means that the government takes an enterprise into public ownership. Then its investment finance comes from government sources and its profits become government revenue. The government (or taxpayer) is also liable to have to cover its losses.

Essentials



The **public sector** includes all activities undertaken directly or indirectly by local or national government.

Essentials



Privatisation returns public sector enterprise to private ownership. Usually, the shares in the enterprise have been offered for sale to the general public.

Essentials



Regulators require the privatised industries to comply with their controls on prices charged and services provided.

Essentials



Deregulation involves reducing the number and range of controls over individual businesses by the government.

What has been the effect of privatisation?

The effects of privatisation are still hotly debated. Most of the industries have seen large gains in productivity and improvements in their return on capital but these appear just as likely to have occurred in the years immediately before privatisation as in the years that followed. It is possible that a changing business culture in the industries and the expectation of privatisation had an effect.

Privatisation has generally increased competition and led to a rapid growth in market opportunity. In some cases, such as telecommunications, rapid technological advance has triggered a huge expansion in the range of services offered.

All political parties now agree that privatisation provided the way forward. In fact, it has become the accepted way all over the world.

Ways of increasing competition

Deregulating opportunity?

The Post Office has been used to holding a monopoly position on the delivery of mail to business and residential customers. It has got used to competition in the market for bulk mail with batches of more than 4,000 items but has been protected for the rest of its business.

Competition means that other businesses can collect and deliver mail to all customers. Only the Swedes and New Zealanders have tried this so far and in both countries 90% of mail is still in the hands of the original postal service. Other businesses might set up a whole new system but this hasn't happened yet.

There are parts of the Post Office's business which are tempting for competitors. It holds licences to collect business post in big conurbations like London and Manchester.

Guernsey Post is looking forward to change. It blames the Post Office for high charges that keep postal costs up in Guernsey as well as its failure to meet targets set by the regulator.

Your agenda



- 1 Why do you think rivals have not set up whole new postal services in Sweden and New Zealand?
- 2 Why is collecting post in large conurbations a tempting prospect for competitors?
- 3 Why does Guernsey Post think competition might help them to improve their service?

Deregulation involves removing legal regulations that:

- add to business costs without sufficient reason;
- prevent firms entering certain markets.

The aim has been to reduce business costs – especially for small and medium-sized enterprise – and to increase competition. Since 1985 a long series of government initiatives has tried to cut out any source of excessive regulation that adds to business costs. For small firms, for example, employment regulations have been relaxed, tax

procedures simplified and accounting requirements made less expensive.

Meanwhile, legal entry barriers to a number of industries, including telecoms, transport and financial services, have been scrapped. In an increasing range of cases this has led to new firms entering the market, an improvement in the variety and quality of products offered and a fall in real prices.

Another means by which markets have been created and then made competitive has been through **contracting out**. This involves organisations in the public sector identifying various non-core services that are then offered for contract to outside firms. Often the relevant operating unit within the organisation can also tender. The aim is to harness the benefits of competition.

Essentials



Contracting out means that the national or local government pays a private sector enterprise to provide services to the public. Street cleaning has been contracted out in many areas.

How have the markets of the public sector changed?

There have not only been huge changes in the ownership and structure of the pre-1980 public sector; major shifts of attitude and culture have also occurred. It was sometimes said of the old British Rail that 'it could run trains if only it wasn't for the passengers'. Users of the public sector sometimes felt that they were fortunate to be served at all or that the organisation existed to meet the demands of its employees before the needs of its customers. These impressions could also be unfair – the public sector was often underfunded and asked to pursue economic and social goals that could not be reconciled.

Certainly, there was a tendency towards product orientation in the public sector that has given way to a much more market-orientated style of management. Whereas the onus was once on the consumer to follow the required procedures, there is now more flexibility and greater effort to meet the needs of the consumer. While once the products of the public sector were slow to change, they are now more likely to be re-specified

as change takes place in the market. The NHS, for example, has changed greatly for the better in terms of its willingness to accommodate individuals' needs.

Consumers, too, have changed in attitude towards the public sector. People have tended to become more demanding and more aware that consumers have legal and market power. They are less likely to behave as mere 'recipients' of services and more likely to assume the status enjoyed by 'consumers' in the private sector.