Causes and Effects of Change

Specification requirements—
Causes of change, e.g. new technology; market changes; consumer tastes; legislation; changes in the workforce.
Effects of change, e.g. shorter product lifecycles; skills mismatch; obsolescent equipment.

Causes of Change.
Change in business can be gradual, with small, incremental changes made to the way a firm operates year after year, with an evolution rather than a revolution in production methods, management styles and marketing techniques. This sort of change is adapted to by all involved. But there are factors that can cause rapid change, totally altering the way a firm operates in a relatively short period of time. In this circumstances firms must often adapt or die.

Major causes of abrupt change include:
- Introduction of New Technology.
- Changes in Competition.
- Changing Consumer Tastes
- New Legislation
- Labour Market
- Changes in Economic Conditions.

Introduction of New Technology.
New technology can affect both the pattern of consumer demand and methods of production. The current move to web based applications is putting pressure on Microsoft, forcing tie ins with companies such as Yahoo, to try to stay ahead of Google.
Changes in Competition.
Existing competitors can change their behaviour, or new competitors can enter the market place. BT used to have the home phone market to itself, a generation ago ITV was the only alternative to the BBC. Hoover were the market leaders in vacuum cleaners for decades until Dyson came along.
Change in Consumer Tastes.
Tastes can change abruptly, completely altering demand patterns. We see this with toys coming into and going out of fashion within months. A few years ago wallpaper manufacturers were blaming home make-over programs for consumers switching to painting walls instead of wallpapering them. Carpet manufactures have been hit by the fashion for laminate flooring.
New Legislation.
Governments can change legislation both to limit business activity and alternatively to free up activity. The mortgage market was once only open to building societies, legislation in the 80's opened up the market to a whole range of new competitors. Free Trade policies opens up home markets to overseas competition. Firms now have to consider their carbon imprint, and the high costs of waste disposal.
Labour Market.
Legislation affects the labour market and so does economic conditions. The minimum wage, greater employment protection, increased maternity pay etc have pushed up costs, whilst the recession increase supply of labour so pushes down costs. Immigration policy has increased supply of migrant workers, keeping wages of unskilled workers lower than they would have been without the high levels of labour mobility.
Changes in Economic Conditions
As we have seen over the last two years the economic or business cycle is still with us. The

continued growth of the UK economy between 1994 and 2007 saw the end of down market retailers such as KwikSave. Shortages of commercial finance meant the end for Woolworths. How have house builders reacted to the collapse of the housing market and the shortage of mortgage finance? LDV (the van maker) saw sales plummet which forced them into administration.

Effects of Change

Shorter Product Life Cycles

One major impact of many of the causes of changes is that Product Life Cycles have become shorter. This applies right across the range of consumer goods, from electronics to cars, from holidays to clothes. This trend brings both threats and opportunities to retailers and manufactures.

- Lower Brand Loyalty. New entrants into the market find it easier to grab market share, existing players have to fight harder to maintain sales
- Goods seen as more disposable. This means people will change their sofas every 3 or 4 years instead of every 10 or 15, TVs were kept for as long as they continued working, now people are continually upgrading to flatter and wider screens
- Pressure for immediate returns. With a shorter life cycle products must pay immediately, there is little incentive for long term investment,
- Advertising Costs. Marketing costs are increased, to maintain brands and to introduce new products
- Need for spending on Research and Development. With new products needed continually, spending on new ideas and improving existing products must be funded. this spending comes from profits of existing products.

Skills Mismatch.

The skills mismatch problem is one for firms and for governments.

For firms, existing employees may not be able to adapt to new ways of working or new technologies—training and recruitment costs increase.

For the government major problems occur when a particular industry declines, and the skills of the labour force are no longer needed. Large scale regional / structural unemployment is likely.

Obsolescent equipment.

Who in the world now makes TV tubes? What happened to the factories and all the machines? In the 1980s Bosch built a factory in the north of England to make RAM memory chips, by the time it was complete, the technology had been replaced—the factory never opened. This pressure on returns from large scale capital investment encourages firms to contract out manufacturing, letting firms in low cost countries take the risks.

Notes.