

The microeconomic factors affecting a uk business organisation

[Economics](#), [Microeconomics](#)



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Introduction

The aim of this report is to assess the microeconomic factors affecting a UK business organisation and a product within their range. The company highlighted is Panasonic UK Ltd and the product this report has been based around is the Viera 3DTV. Panasonic entered the fray of the 3D revolution in June 2010 with the world's first 3D plasma model. This product currently retails at an average price of £1500. In this report I will make some assumptions, as due to the technology being new, there are no reliable figures available for analysis at this time.

COMPANY PROFILE

Panasonic began life as Matsushita Electric Housewares Manufacturing Works. It was founded by Konosuke Matsushita in 1918 and has expanded to a global corporation. Panasonic UK Ltd was established in 1972 and has its

headquarters in Bracknell, Berkshire. The company in the UK employs in excess of 500 staff and has an annual turnover of more than £700m. The company is a major supplier of consumer and business electronic goods ranging from cameras to kitchen appliances.

DEMAND

The definition of demand is the amount of goods or service that a consumer or group of consumers will want to purchase at a given price.

The Law of Demand states that there is an inverse relationship between price and the quantity that will be demanded, which in essence refers to the fact that if prices rise then demand falls and if prices fall then demand rises. Due to this negative relationship, when illustrating this by way of a graph the demand curve will always slope downwards.

There are two main reasons for the theory behind this law:

Income effect – as peoples income change they will have more or less disposable income to spend on goods and services

Substitution effect – if the price of a product or service increases it is more likely that consumers will purchase alternative (substitute) goods and services and if the price of a product or service decreases then consumers are less likely to purchase alternatives (substitutes).

This theory has been challenged however by a UK economist Sir Robert Giffen (1837-1910) who first studied and reported the paradox that a product may experience an increased demand when the price rises and decreased

demand for when the price falls. This is mainly a theoretical concept, but there have arguably been goods with this property.

When discussing the principles of economics the term ‘ceteris paribus’ is regularly used which is Latin and means “all things being equal”. This is used to isolate a description of events from other variables.

In the case of the Panasonic 3DTV it has its own set of factors that will affect the demand for the product. In my opinion the main factors will be:

Consumer tastes and preferences – Due to recent increased publicity and high profile film developments in the cinema with the release of movies such as Avatar, I believe that this will have a big influence on the consumers ‘wants and desires’ for this new technology. A recent study saw a 20% increase in the size of the audience who said they are ready to buy a new TV to get the 3D experience since the release of the Avatar movie. This would have the effect of increasing demand. (graph line D1) 3d increase. jpg

Income- In my opinion the demand for Viera 3DTV will be being held back at the current time due to increasing macroeconomic pressures leaving consumers with less disposable income and therefore although they may desire the technology it will be more difficult to be able to afford the good at its current pricing levels therefore if this reduction in disposable income continues this will have the effect of decreasing demand.

Substitute Goods – I believe that the Viera 3DTV has many close substitutes that will affect its demand as all the major manufacturers develop their own

3DTV's in the attempt to get their market share. Pricing in this case is very important therefore if the price of other manufacturers' products decreases the demand for the Panasonic would decrease. Complementary Goods – the 3D technology has complementary goods associated with it such as 3D glasses and 3D blu-ray players. The price of these will affect the demand for the main technology as at the current time you cannot take advantage of the 3D benefits without these therefore if the prices of these decrease then the demand for the complementary television would also theoretically increase.

The Consumer expectations about future prices and product availability – some consumers may wait until the technology for 3D becomes established before purchasing as they expect the trend to be lowering in price.

The following graph will illustrate the effects of these factors on the demand for the Viera 3D television.

Increase in demand curve (shift to the right) increase supply curve. png

SUPPLY

The definition of supply is the amount of a good that producers are willing and able to offer for sale at various prices.

In contrast to the Law of Demand, the relationship between supply and price is a positive one. As supply increases then price decreases and as supply decreases price will increase, therefore for the purposes of illustrating supply the supply curve are upward sloping.

The point at which the demand and supply curve meet is called the market equilibrium and shows the optimum level at which the amount demanded is equal to the amount supplied.

Market equilibrium diagram Simple_supply_and_demand. png

There are again many factors that can have an influence on the supply of a good and in the context of the Viera HD 3D television I consider them to be as follows:

Cost of resources and raw materials- if the cost of such items is high then it is likely that the supply of 3DTV's will be restricted due to budgeting constraints of the company as they can only manufacture as much of the product as they have enough materials and labour to allocate to this.

Production technology - 3D technology has been around for many years however there has until now not been the technology in place to produce the products on a high consumer scale, therefore as the ways of manufacturing the goods gets easier it means that companies can increase their production.

Taxes and subsidies - if goods or raw materials are highly taxed the supply will be limited due to money constraints within a company however if a good is subsidised the company have greater funds to purchase materials etc... therefore they are able to produce more

Profitability of alternative goods - If other goods in a company's range are more profitable ie. Cameras instead of TV's then the supplier may

concentrate its operations on such products to increase their profit margins and limit production of others

Increase in supply curve (shift to the right)increase supply curve. 1. png

Decrease in supply curve (shift to the left)

decrease in supply curve. png

ELASTICITY

“ Elasticity measures the percentage reaction of a dependent variable to a percentage change in an independent variable.” Valentino Piana (2004)

Elasticity measures the extent to which demand will change.

There are three main measures of elasticity of demand that I will assess in the context of the Panasonic 3DTV.

Price elasticity of demand – (P. E. D) is calculated as the percentage change in quantity demanded divided by the percentage change in price. The results of this equation will indicate the responsiveness of the quantity demanded if the price changes, with a P. E. D. of less than one indicating an inelastic good and a P. E. D. of greater than one, concluding that a good is elastic.

In the context of the Panasonic 3DTV it is my opinion if figures were currently available then the P. E. D. would be greater than one showing that this particular good is elastic. My reasoning for this is that this product has close substitutes from other electronics manufacturers which consumers are likely to switch their preference to should the price of this good increase. Also this

type of television I believe to be a luxury item and a large proportion of consumer income would be used to purchase this technology. Due to this I believe an increase in price would potentially have an extensive negative effect on the demand for the good.

The information from this formula can also be very useful to a firm when deciding on its pricing strategy and its affect on the company's total revenue as highlighted in the graph below.

ELASTICITY

Cross elasticity of demand – (X. E. D.) is defined as “ the responsiveness of demand for one good to a change in price of another” (Sloman 2008: 56) is calculated as the percentage change in the quantity demanded of good Y divided by the percentage change in the quantity demanded of good X. The outcome of this equation will help to assess whether a good is a complementary good or a substitute good.

Below -1

-1 to 0

0

0 to 1

+1

Strong complementary good

Weak complementary good

No relation

Weak substitute good

Strong substitute good

For the purpose of relating this theory to my report I have chosen to assess the cross elasticity of demand between the Panasonic Viera 3DTV and a Sony Bravia 3DTV. In my opinion, if figures were available the result of the X. E. D. equation would be over 1 as I believe two 3DTVs are very similar in technology, size shape and function therefore if the price of one were to increase the demand for the other manufacturers product would increase suggesting a strong substitute relationship between the two products as highlighted above.

However I do believe that the Panasonic 3DTV has many compliments such as 3D satellite television, 3D glasses, 3D video games, 3D Blu-ray players which would result in a negative result. The extent to which these complements are yet to be seen however as the technology is still in the early development.

complement. jpg

Income elasticity of demand – (Y. E. D) is defined as “ the responsiveness of demand to a change in consumer incomes (Y)” which “ enables us to predict how much the demand curve will shift for a given change income” (Sloman

2008: 56) measured as the percentage change in the quantity demanded divided by the percentage change in income. “.

The result of this equation show the type of good and this table explains why.

-1

0-1

+1

Inferior good

Normal good

Superior good

Increase in income= decrease in demand

Increase in income = increase in demand

Increase in income = greater increase in demand

In the case of my chosen product in my opinion the outcome of the Y. E. D. equation would be that the 3DTV is currently a superior or luxury good. The new technology will be up there on a lot of consumers list of wants however the price of the good would mean a high proportion of income would need to be spent to acquire one. It could be said that in the current economic climate

the demand for these types of goods reduces as incomes reduce and people switch to necessities rather than luxuries.

COMPETITION

The extent to which a market or industry can be described as competitive depends on how many competitors it has and how this affects their pricing and also the ease with which new businesses can enter and exit a particular market or industry in the long run.

The three main descriptions are:

Perfect competition – an industry or market that has very few or no barriers to entry or exit, has many competitors and is a “price taker” as they do not dictate the price of their goods/services.

Oligopoly – an industry or market that is dominated by a small number of large firms, there are few barriers to entry and exit, few competitors and if one firm puts up the price others tend not to increase their prices, however if a firm drops its prices the other firms in this market will tend to lower their prices also, for example supermarkets.

Monopoly – is where the market is the firm or has more than a 25% share of a market. There are many barriers to entry and exit the market and monopoly is a “price maker” as they can dictate the price of goods and services as there are in theory no competitors, for example the Post Office.

In terms of Panasonic UK Ltd as a company, it is my opinion that the company operates within an oligopoly. My reasoning behind this is that

Panasonic does have competitors in the form of the likes of Sony, Samsung, LG, Toshiba and Sharp. There are a few barriers to the entry of the industry such as premises, quality and branding and a few barriers to exit also.

The most effective way of demonstrating the market structure and its effect on pricing is via the diagram below by plotting a kinked demand curve. This shows that Panasonic raises the prices of its 3DTV's above the going rate it will lose a lot of sales to its rivals i. e. Sony and Samsung. However if Panasonic reduced its price for the HD 3D television below the going rate it will not gain many customers because its competitors will be forced to match its price cuts to maintain their share of the market.