

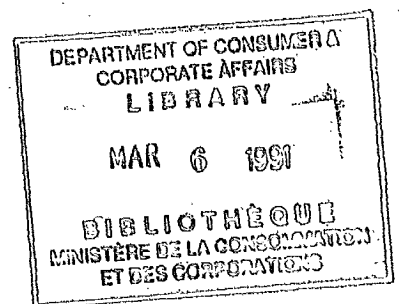
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THE MARKETPLACE OF THE FUTURE

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## The Marketplace of the Future

### Introduction

The purpose of this paper is to look at the changes that might occur in the marketplace in the next 10-15 years and the consequent impact on consumers. In the absence of any superhuman insight, the approach taken has been to look at existing trends and concerns and estimate which of these will have a significant and lasting effect. The trends have been analyzed in a separate paper. The sources of information for this paper are listed in Annex B.

### General Trends

Three general trends occur repeatedly when reviewing the literature and in interviews with business representatives:

1. demographics and, specifically, the increase in the mean age of the population
2. increased competition and the globalization of trade
3. increasing concern for the safety of the environment

Changes in demographics are the most predictable of the three issues. The aging of the population and the resultant modifications in purchasing habits can be foreseen but changes in immigration patterns are less clear being dependent on other government policies. Technological advances will stimulate many of the marketplace changes and are implicit in a large number of the predictions quoted in this paper. Progress in the speed and application of computers is likely to be the most obvious of these advances, but others in the fields of biotechnology and genetic engineering could also have significant effects.

From these three principal trends flow many general predictions and some that are more specific. The most feasible are discussed below, but these are by no means exhaustive -- clairvoyance is an inexact science.

### Demographics (and other socio-economic trends)

The most powerful influence on the marketplace in the next 10-15 years is likely to be the changing demographic profile of Canadians.

The average age of the population is increasing as the baby boom generation moves into middle age. The spending patterns of people in their forties differ markedly from those of people 10-15 years younger. These changes in spending patterns are predictable and business is adapting to the new order. There will be more disposable income available for leisure activities, the savings rate is likely to increase, and expenditures on health care are

expected to grow. On the other side expenditures on appliances and household furnishings are forecast to decrease, and also on housing itself as mortgages are paid off. Other characteristics of the baby-boom generation may give rise to "consumer backlash" and resistance to conspicuous consumption.

In addition to the average age increase of the population, the changing pattern of immigrants will also be reflected in the marketplace. Forecasts are that more immigrants will come from third world countries and that will inevitably change the range of products sold. An increasing availability of ethnic products, particularly foods, is likely, as is an expansion of travel arrangements back to the "home" country. The greeting card industry is also expected to expand; and the number of international telephone calls is forecast to increase significantly.

The proportion of expenditure on services will continue to increase and new services will be introduced. It is likely that consumers of the 90s will trade money for time, paying contractors instead of "do-it-yourself" and using innovative services such as (perhaps) computerized meal-planning services. The speed and direction of expansion in the use of computers and telecommunications into the marketplace is uncertain; the only definite conclusion is that there will be expansion. The information explosion of the latter part of the 20th century has been compared with the transportation revolution that occurred in the earlier years of the century. "Predictions" of where and how the influence of micro-computers will influence the marketplace are currently a little better than guesswork.

A third demographic trend, after aging and immigration, is towards smaller family units. This will have significant impact on the housing market and, indirectly, on financial services. More, smaller homes will be required and an expansion of the rental market is forecast. Single-parent families will be looking for day care facilities and convenience foods. Smaller (and older) cars are also likely to become even more popular with this section of the population although the more affluent baby-boomer market is likely to be buying "luxury" models. For governments, these trends imply i) greater demands on health care system; ii) greater consideration of the special needs for new immigrants (particularly those from the third world); iii) requests for improved daycare services; and iv) more emphasis on problems related to services.

#### Increased competition

Increasingly fierce competition for market share is a common prediction. In part this arises from the globalization of trade and in part from technological developments. For consumers the effects are much the same. The immediate conclusion is that there will be a greater choice of products at better value but there may be problems arising from a more complex marketplace. For example, businesses may counter increased competition by offering services along with commodities (or vice-versa). This has been seen for a number of years with extended warranties that can be purchased with new cars. Other examples are

appearing almost daily: credit cards that give special privileges (for a price), free gifts with investment opportunities, reduced rate ski passes with a package of ski equipment, the list is endless. This combination of goods and services and, particularly, the increase in imports, could lead to problems in enforcing product safety standards, and for consumers in obtaining comparative information or redress.

In the early 1980s, Alvin Toffler coined the word "demassification" to describe how "the mass market has split into ever-multiplying, ever-changing sets of mini-markets that demand a continually expanding range of options, models, types, sizes, colours and customizations" (Marketing 90.01.08). This trend towards specialization and "custom-made" products will continue and most observers predict "niche" marketing and a profusion of small entrepreneurs concentrating on focused segments. Very large retailers and the major chains will likely remain secure, but medium-sized chains will be vulnerable to the competition offered by the small, specialty stores. The implications for consumers are, again, greater choice of products but there are threats to individual privacy as companies become dependent on databases to support their specific marketing strategies. New communications and data-handling techniques will enable personal profiles to be built-up and rapidly accessed, with little or no control by the person listed.

The preservation of the confidentiality of information provided to governments or other agencies is a matter of concern to both business and consumers. Business is worried that vital information will be divulged to competitors; consumers fear that details of their private lives will become public property. Many companies, large and small, depend for at least part of their income on the sale of personal information. The subscription list of Maclean's magazine can be bought, Bell Telephone sells telephone numbers classified by subdivision or postal code, any organization with a membership list has the potential to make money in this way.

At the retail level, self-service is forecast to increase and it will become even harder to find sales staff in department stores. Some chains are planning to provide information through computer terminals placed in the store but there are observers who suggest that this may reinforce the trend towards specialty stores where "real people" are there to help consumers. In-store information may be harder to obtain in the future, but more stores will produce catalogues to enable consumers to make a selection at home. At present, this trend is most obvious with hardware stores but the steady increase in volume and detail of advertising flyers suggests that other sectors will not be far behind. The future of shopping from catalogues (mail-order, or telephone order) has mixed predictions. Some say that improved communications techniques and competing demands for consumers' time will lead to an expansion of, for example, catalogue sales accessed through a TV set, or those associated with very specific markets, while others maintain that the decreasing trend of catalogue shopping will continue because this type of purchasing appeals only to those unable to visit stores, whose numbers are diminishing as Canada's population concentrates in the cities. Whatever the outcome, it does not seem likely that consumers will find it easy to locate reliable, unbiased pre-purchase information.

The predictions of the impact of regional free trade blocs on business (and consumers) in Canada are far from unanimous. The Free Trade Agreement has been welcomed by some companies who see opportunities for exports to the United States, while other companies fear the tougher competition. Consumers should benefit from the increased choice but may face problems in getting complete information or, possibly, redress from American companies. More consumers will realize the savings that can be made by shopping in the United States, even when the current duty is added. This could become a serious threat to retailers. Mail-order shopping from the U.S. could also pose problems for Canadian consumers in relation to information or redress. The total abolition of subsidies and other protectionist measures in North America for food and agricultural products could significantly lower prices to consumers of, for example, dairy products and chickens.

Some observers predict that Europe will become the dominant world trading group in the 1990s, but others suggest that protectionist trends in Europe will allow Japan to retain that position. From the consumer's point of view, it matters more that there is free trade and a competitive market than which group is predominant. Consumer input into national and international trade policy formulation is almost non-existent, in spite of a general recognition that consumers play a vital economic role.

For governments, these trends imply:

- i) controlling the privacy of information
- ii) consideration of redress from foreign companies
- iii) enabling the consumer view to be heard in trade policy formulation
- iv) taking appropriate action re - transborder shopping.

### Environmental concerns

Most market surveys suggest that consumers believe that preservation of the environment should be the first priority of business and government. Consumers also say they are willing to make some sacrifices in effort or price to achieve this end. This increasing social responsibility towards the environment has led marketers to introduce "green" products, and has caused a minor boom for organic food stores. Predictions are that these trends will continue through the decade although, as time goes on, the growth will be less spectacular.

Standards for the criteria to define "environmentally-friendly" products need to be developed, and the current concentration on waste disposal problems will likely expand to a more comprehensive view of environmental protection including energy conservation and, perhaps, consumption limitation. The latter could arise from a realization that the simplest way to reduce waste is to reduce consumption. Clearly, the impact on business of such a philosophy is significant -- but a reduction in consumption would mean a reversal of current trends.

Business also has concerns regarding possible government regulations to preserve the environment. For many companies, the implementation of such regulations could be costly and they are reluctant to initiate action in the absence of any real governmental direction, and in the hope of potential financial inducement. In an environmentally conscious society, however, companies with a "clean" record may gain advantages if they take early action and publicize their achievements. The impact on consumers of these concerns is fairly clear -- government subsidies for clean-up will be paid for from taxes, or prices will rise. Either way consumers/taxpayers will foot the bill.

It should be recognized that there is a minority opinion that concern with the environment is a passing fad, and the comparison is made with the concern about energy conservation that was prevalent in the mid-70s. Recent opinion polls (e.g. Globe and Mail, October 30, 1990) tend to confirm that environmental issues are now less important than economic ones relating to recession. But the trend may only be as temporary as the recession.

For governments, these trends imply:

- i) the need to develop standards for environmentally-friendly products
- ii) clear guidelines to business regarding environmental responsibility.

### Sectoral Changes (by Family Expenditure Categories)

#### Shelter

An increase in demand for smaller homes is forecast. Will the supply be adequate? The answer to this question will largely be left to market forces but, to the extent that the increase results from more single-parent families who, traditionally, have limited incomes, there could be demands for government intervention. Demand for rental units is forecast to be strong and the market for large "executive" homes relatively weak. Maintenance and renovation of houses is forecast to be a growth industry. Currently, the quality of work done by home renovation contractors is high on the list of consumer complaints and this is likely to be an area of future concern. There are no indications that the private sector is proposing to take any action to help consumers with problems, largely because of the fragmented and somewhat transient nature of the entrepreneurs.

The insurance industry forecasts no extraordinary rises in premiums for house insurance - smaller homes are generally regarded as safer than larger ones, and older owners pose less risks than younger ones. Expenditures on mortgages will likely decrease and this may cause lending institutions to look elsewhere for business. No obvious alternatives have been suggested.



The implications for governments are potentially considerable if intervention in the housing market is considered politically desirable. Financial institutions could be at some risk if house prices fall significantly and the Canada Deposit Insurance Corporation could be called upon to support investors.

#### Household, Operations, Furnishings and Clothing

The changing demographics will likely lead to less fashion-conscious clothing and a greater influence of more enduring styles. Global competition will increase the pressure on Canadian manufacturers, and textile imports are expected to continue to increase. The response of business to these trends is likely, initially, to be a call for tariff protection but, in a free trade environment, government would probably turn a deaf ear. Consumers could benefit from relatively lower prices and increased choice.

Very little information is available on specific trends in furnishings but, with the trend to smaller homes, it is likely that smaller furniture will also become popular. Appliance sales will largely be replacements for existing equipment and any increases are expected to be in small appliances (specialized mixers, choppers or blenders) and in microwaves.

An expansion of telephone services and the facilities offered by telephone companies is a certainty. This could lead to problems for consumers in obtaining reliable information on what options are most suitable for their purposes. Also, in this semi-monopolistic market, the regulation of pricing practices may become contentious and the intervention of public interest groups particularly important.

The implications for governments are:

- i) response to the predictable demand for tariff protection for the textile and clothing industries
- ii) to ensure that the user view is adequately represented in price adjustment hearings for telephone service.

#### Food

As one of the essentials of life, food will continue to make up a large proportion of family expenditure, but the market for food is constantly changing. Socio-economic changes, including demographics and individual life-styles, are contributing to significant trends in new products and innovative marketing techniques. A comprehensive analysis of these trends and their implications was published by Agriculture Canada in April 1990 with the title "Consumer Food Trends for the 1990's". A summary of the findings is attached as Annex C. Product innovations,

smaller package sizes, more "healthy" foods, and faster preparation are the dominant themes.

The marketing of food is very competitive and industry response to these trends is likely to be rapid in most cases. Some problems may occur if the production sector reacts more slowly than the processing sector. For example, the supply of chickens may be inadequate if some new chicken-based product becomes very popular. In areas such as this where supply management controls the market, a strong consumer voice to combat the producer lobby would be desirable.

There is considerable emphasis in the Agriculture Canada study on the appearance of food and much less on informative labelling. The trend towards "healthy" foods suggests that consumers will want to know more "best before" dates and better ingredient labelling so that they can make a rational pre-purchase judgement.

The implication for government is to ensure that a consumer view is adequately represented when decisions are being made concerning safety, availability, price and labelling of food.

#### Health Care

It is anticipated that the market for health care products and services will expand as the average age of the population increases. Business will respond to market demands for products such as eyeglasses, dentures and pharmaceuticals, but the major expense for consumers will be for professional services. This is an area in which many complaints are already made to professional bodies and the number is likely to increase. New, specialised services are likely to appear, particularly in the paramedical and diagnostic fields, which may be outside the accepted scope of Medicare. Consumers will then be faced with additional payments and possible problems of lack of information regarding the quality and extent of the services being offered. Difficulties in obtaining redress may also arise.

Personal care products are also forecast to increase in volume as a result of the changing demographics. New products which are advertised to slow down the effects of aging are already on the market and more will undoubtedly appear. Some predictions suggest that homeopathic medicines and herbal cures will gain in popularity along with organic foods. In this innovative market consumers will need guidance regarding the efficacy of products as well as advice on possible side-effects.

It would be naive in the extreme to assume that no unscrupulous companies would take advantage of the potential growth in the market for health care products and services caused by the changing demographic profile. There are strong indications that health care will be a major preoccupation of consumers in the coming years. Apart from an increased demand for all types of health services, governments will

also be under pressure to ensure that additional information and/or protection is provided to consumers, particularly in the areas of:

- non-prescription drugs and patent medicines;
- medical services outside Medicare;
- mechanisms for obtaining redress from the medical profession.

### Transportation

According to the 1986 Family Expenditure Survey, approximately \$10 was spent on private transportation for every \$1 on public transportation. There is no indication whether this proportion will change in the near future and, if so, in which direction. For every prediction that says that government cuts in public transport will force people to drive their own cars, there is another that forecasts a resurgence of public transport because of rising fuel prices. Certainly, the market for private cars will be affected by globalization and by concern for the environment. The automobile industry is likely to respond to the latter by increasing the number of computerized devices in vehicles which, in turn, will make owner servicing even more difficult than it is today. Professional servicing will become more expensive because of the increased complexity. On a more positive note, the reliability of the vehicle and the length of time between services will likely increase.

The effects of globalization are already evident in the automobile industry. Similar models can be found in all countries of the world, and a "Japanese" car could have been assembled in North America while a "North American" car may have very few parts that were actually created on that continent. The profitability of the automobile industry in the 1990's depends on such global flexibility and the trend is likely to continue. There is some speculation that the pressure to reduce costs will lead to greater standardization of parts between manufacturers and there are indications that this is already happening as relationships between manufacturers become closer. In the short term, these moves should benefit consumers through lower prices, but the point may be reached where there is virtually only one world-wide manufacturer of some vital part who will then take advantage of the monopoly situation. A global monopoly is difficult to combat with national laws and it will be necessary to rely on competitive market forces to resolve any problems.

Currently, problems of redress for faulty cars are among the most intractable for consumers. Longer warranty periods are of some assistance, but there are still many cases of consumers who do not get satisfaction even after extensive periods of time and considerable expense on their part. There is no sign of any move by industry to resolve this situation in the near future and government action may be required.

There are indications that the long-term trend in air travel will continue with more passengers flying to more destinations although, in the short-term, air travel is very

susceptible to the prevailing economic situation. The structure of the air transport industry is currently undergoing massive changes, and there are some predictions that suggest that there will be only one Canadian airline flying internationally in ten years' time, particularly if the Canadian market is opened up to American airlines. An open market could present a number of problems to consumers in obtaining information and redress, but the greater competition should result in lower prices. Safety standards must not be jeopardized.

Inter-city transportation by bus is forecast to increase with the demise of the rail network. The industry is likely to respond with better vehicles (more comfortable seats, improved suspensions, etc.) and greater frequency on well-travelled routes. The popularity of urban transportation is very dependent on local factors such as the cost of parking and the quality of service which, in turn, are dependent on the priorities of the local government.

The implications for governments are considerable, in particular in relation to the regulation of transport. For CCAC it is important for the consumer view to be represented in the discussions preceding the decisions. Also, there may be demands for "lemon laws" to resolve problems associated with faulty cars.

### Recreation

Expenditure on products and services associated with recreation are expected to increase as is the variety offered. It is much more difficult to predict exactly where the expansion will take place since the products and services offered are frequently passing "fads". Globalization of trade is likely to be particularly significant in this sector as most of the products are manufactured outside Canada. In this type of market, it is essential to have rapid progress from research to production to sales, which can mean poor quality control and inadequate consideration given to safety. Safety is of great importance in this sector since it includes toys, sports equipment and a wide range of electrical products. It is essential for the Department to maintain and perhaps increase vigilance in this area.

Home entertainment equipment (including computers and software) is forecast to have particularly strong growth, and consumers will be concerned about having compatible standards. Since there are, in general, set by business and the world market, Canadian governmental influence is limited.

Services related to recreational activities are many and varied ranging from photographic processing to spectator sports to golf club membership fees to package travel tours. The demographic trends suggest that more money and time will be available for these activities and consumers will need to have reliable sources of pre-purchase information. Redress, as for all services, can also present difficulties.

There is little evidence of any coordinated business reaction to the trends possibly because of the diversity of industries involved.

### Financial Security

Along with health care, consumer financial services are expected to be a growth industry in the next decade. The demographic changes as the "baby boomers" approach 50 years of age will mean a greater consciousness of the need for financial security together with an increase in disposable income. Results are likely to be increases in the savings rate, in retirement savings plans, and in life insurance. The banking industry is aware of the changes and their implications and will, no doubt, respond with an appropriate expansion of its services. The demand for reliable advice and protection from "scams" will be considerable as it cannot be assumed that all practitioners will be reputable. Consumers will need unbiased information and some assurance that "safe" institutions are indeed that. Since the market is expected to be extremely competitive, novel sales techniques are likely to be introduced which may create a demand for more protection from high power salesmanship.

No particularly original "products" are forecast to be marketed, but more emphasis is expected to be placed on tax shelters and international investments. This will increase the complexity of the decision process for consumers and strengthen the requirement for reliable and unbiased advice.

Government is likely to be called upon to ensure that consumers do not suffer in any collapses of major financial institutions and there is perhaps a role for CCAC in ensuring appropriate information is available.

### General Conclusions

Each section above includes some implications for federal or provincial governments with emphasis on CCAC and Annex A summarizes the business trends and impacts on consumers by expenditure sector. In addition, there are some general issues that will need consideration, which are discussed below (no solutions are offered at this time).

1. The increasingly competitive nature of the marketplace will not necessarily be beneficial to consumers. For a variety of reasons, sales of many products crucial to the national economy are likely to fall and, coupled with pressure from imports, marketing strategies will then become more aggressive. The potential for misleading representations will increase as the marketplace becomes more complex. Consumers cannot be expected to counter this onslaught without assistance.

2. The twin issues of privacy and confidentiality of information will be of increasing concern to both consumers and business. Codes of practice (standards) would ameliorate the problem, but legislation may eventually be necessary.
3. Consumers' need for reliable information will increase, but present trends indicate that they may drown in the deluge of flyers, catalogues, etc. before being able to distinguish the reliable from the not-so-reliable. Is there a need for government intervention?
4. Problems for consumers in the marketplace are not necessarily directly related to transactions. Many, if not most, governmental policy decisions have an indirect impact on consumers and individuals have very little influence on these macroeconomic directions. Marketing boards, GATT, the Free Trade Agreement are examples of policies that were developed with minimal consumer input and yet they significantly affect the marketplace. Business trends are heavily influenced by national and international trade policies; these same business trends can produce problems for consumers and yet consumers have little or no say in the development of the policies.
5. Consumers will continue to need protection from hidden physical hazards and, although some observers suggest that there is a move towards consumers accepting more risks, the evidence in Canada is that consumers expect government(s) to ensure that all products in the marketplace are "safe". The concept of risk is not well understood and there will be a procession of crises involving products perceived to be unsafe and consequent demands for government action.
6. Problems of redress may be faced by consumers with the expansion of smaller stores that traditionally have less generous return privileges. In addition, increased competition is likely to lead to more bankruptcies with consequent problems for consumers/investors. The closer inter-relationship between goods and services will also add to the complexities of redress.

Expenditure	Business Trends	Consumer Impact/Problems
Shelter	Smaller homes, single person families, increased rental market Financial arrangements, mortgage rates, warranties	Stability of finance companies Landlord/tenant problems Will appropriate property be available?
Food	More automation Innovative products (health care, fitness and food; imports) Environmentally friendly products; ethnic foods; organically-grown foods, "health" foods	Labelling (esp. nutrition) Information on what is <u>really</u> environmentally friendly (standards) Increasing concern with safety of food Marketing boards; free trade/protectionism
Transportation	Energy conservation (but no great improvement in public transportation) Keep cars longer; smaller cars More international travel	Combined goods and services contracts will make selection harder Protection from travel agency bankruptcies
Household and Clothing	Mergers will decrease number of large stores/groups Specialized "boutiques" will increase Innovation services (perhaps added to commodities) Less do-it-yourself; more contractors Long-distance telephone calls	Selection (and redress) may be harder Globalization will stimulate competition (price/quality/availability of styles and varieties)
Financial Security	Will increase in importance Availability of financial services will dramatically increase	More information will be needed to make good selections Protection from bankruptcies (safety)
Health	Care and safety of elderly will become more important Expansion of health care products (eyeglasses, home diagnostics, skin creams, hair colourants, etc.)	Availability of health care facilities may be a problem More information will be required to assess appropriate action or product
Personal and Recreation	Will increase in importance and complexity, particularly on recreation and leisure (arts, spectator sports, museums, home entertainment) Services will be sold with products	Information and redress as products (and services) become more complex Compatibility of standards

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- Transport 2000
- Energy Probe Research Foundation
- Canadian Textile Institute
- Electrical and Electronic Manufacturers' Association
- Canadian Bankers' Association
- Medical Devices Canada
- Tourism Industry Association of Canada
- Canadian Sporting Goods Association
- Retail Council of Canada
- Canadian Importers Association
- Canadian Manufacturers' Association
- Life Insurance Marketing Research Association

