12 Interaction Between Supply and Demand

This chapter explores consumers' demand for television and related new products with the aid of available statistics and the perceptions of the television industry. Theoretical treatments of the relationship between supply and demand were discussed in section four of each of chapters 1, 2 and 3.

The characteristics of demand change through time, requiring changes in firm strategy and altering the nature of industrial competition. Saturation is an important mechanism leading from the demand side to change on the supply side. However demand is not homogenous, and the differing propensities of categories of consumer to acquire goods provide suppliers not only with opportunities for market segmentation but also with ways to introduce new mass-consumption goods.

The acquisition of a durable good such as television does not correspond with final consumption, but represents a capital investment by a household leading to a flow of services which are themselves consumed. This investment aspect means that market saturation for a durable good does not have the same implications as non-durable good saturation. Additional factors, such as after-sales service and (perhaps to a greater degree than in non-durables) infrastructure such as broadcasting, come into play. The scope for experimental acquisition is reduced compared with non-durable goods both because durables remain in the home for a relatively longer period of time and because they are often expensive compared with non-durables, hence advertising and branding may play a different role.

Many analysts of family budgets have noted that there is a certain level of consumption for a particular commodity which tends not to be exceeded, however high the consumer’s income (Aitchison and Brown, 1954, p. 35). So-called Engel curves can be fitted to many of these data by plotting them on a graph showing income per unit time on one axis and expenditure on a particular good per unit time on the other. As family income rises, so consumption tends towards a saturation level (which varies between households because of varying tastes).
together, this saturation level and the prevailing distribution of incomes place a ceiling on the amount of the good in question that can be cleared from the market per unit time, *ceteris paribus*.

The Engel curve relates to goods which are luxuries at low income levels but which are necessities at high income levels. Curves for so-called 'inferior' goods, which are consumed only at low income levels and for which others are substituted at higher income levels, do not asymptote towards a saturation level of expenditure but fall from some maximum value. In either case, total demand for the good is constant per unit time, *ceteris paribus*.

Because the Engel curve approach is used in the analysis of budget surveys, it need not cope with dynamic aspects of expenditure (which firms' strategy may need to deal with), and budget surveys taken at different times may be analysed in a comparative static manner. Provided prices do not change within the survey period, expenditure data can reasonably be used (as they conventionally are) as a proxy for volume data. However the Engel curve phenomenon arises because of limits to consumption of quantities of goods, not because of inherent limits to expenditure on a good which apply irrespective of income, (thus, one's expenditure on bread is constrained not by the amount of money to be spent on the bread but by one's ability to eat it). When prices change (as they have done throughout the history of the television industry), in particular when the *relative* prices of goods change, Engel curve shapes and saturation levels may also change. The same is true for changes in real incomes and the pattern of income distribution in society. Again, these have changed through the period of existence of the radio and television industry. Over time, therefore, the purchasing behaviour of a given household may change with changing income and prices, but it is implicit in the Engel curve approach that the saturation level is a barrier to unlimited consumption, at least for a good whose characteristics are invariant.

If the strictures of Wasson (1968, p. 41) and Needleman (1960, pp. 29–30) about the need for consumers to learn to use new products are correct, then it will take some time before aggregate demand for a new non-durable good reaches a stable, mature pattern. In the intervening period, Engel curves fitted to family budget data will reflect this learning process as much as they reflect households' rational decision making about expenditure in the light of knowledge and familiarity with the properties of the new good. And if, as is often the case, the price of the new good has fallen relative to other goods in the mean time, Engel curves relating to the early phase of product introduction