

Megatrends and the West Midlands 2021: Adjusting Business Models and Operations



Alice Pugh, City-REDI/ WMREDI, University of Birmingham –
2021

West Midlands Regional Economic Development Institute

FOR THE WEST MIDLANDS COMBINED AUTHORITY



UNIVERSITY OF
BIRMINGHAM

BIRMINGHAM
BUSINESS
SCHOOL



Research
England



Introduction

This theme encompasses the challenges posed by megatrends, including the impact that Covid-19 and Brexit have had on business models and operations. It considers how these challenges should be seen in the context of longer-term trends, the case for change, and the consequences of inaction.

The need for businesses to respond to the challenges posed by megatrends and external shocks, such as Covid-19, is paramount. Covid-19 has accelerated a number of trends, and some businesses adapted and adjusted their business models and operations quickly in order to deal with the new demand and disruptions in supply chains. However, there has been large scale disruption due to Covid-19 this has accelerated the speed of a number of megatrends in an extremely short period of time.

Key Issues and rationale for intervention

1. The **environmental sustainability** of firms has become a necessity to the [longevity of a firm's life](#). If businesses across the world fail to become more environmentally friendly, then eventually climate change disruptions and the loss of finite resources such as coal, will lead to the collapse of the majority of business across the world by 2060.
2. **Work environments are changing** - in recent years there has been a shift towards more and more people in [professional services starting to work from home](#). This has been accelerated in recent months, following workplace restrictions after the spread of Covid-19. Additionally, growing online sales are changing the face of retail and manufacturing services across the world.
3. **Rapid urbanisation** is a growing issue. By [2050](#) more than two-thirds of the world's population is projected to be living in urban areas. This will potentially create a range of issues including, [security and defence issues](#), overcrowding, [rising property prices](#), [poverty](#) and increased health issues such as obesity and greater likelihood of pandemics due to population density.
4. **Digitisation and automation** have been a rapidly growing megatrend for a number of years; however, in the last 10 years it has significantly increased, and has been highly accelerated by the Covid-19 pandemic. Whilst this may be good for productivity, firms are increasingly vulnerable to advanced cyber-attacks. [Airmic](#) published a report that found that in 2020 the biggest risk to business operations was cyber events.
5. **Consumer tastes** in recent years have been changing dramatically: drivers include an ageing population, a rapid growth in [sustainable purchasing](#) and the growing importance of retail experience.
6. **Logistics and supply chains** are set to undergo rapid change as Brexit creates challenges for old logistics and supply chains, consumer tastes are changing to prefer more local sustainable goods and services and as well as [increased reshoring](#).

Possible Future Scenarios

What if we do nothing?

1. **Environmental sustainability**

- If globally, businesses, governments, institutions and individuals fail to combat climate change then the effects of climate change will increasingly get worse, in both frequency and scale. [Climate change](#) is already severely impacting supply and production processes all over the world. This may be climate change disasters such as floods or wildfires, [causing disruption](#), or due to the [increasing scarcity of infinite resources](#). Firms may also struggle to find insurance companies that will provide them with insurance. For example, if flooding continues in some parts of the West Midlands, firms may struggle to find affordable insurance, as the risk for insurance firms increases.
- Desertification, floods, wildfire and other climate change impacts will lead to much land (usually in Lower Economically Developed (LED's) countries) becoming unliveable and the International Organisation for Migration that there will be [200 million](#) climate change migrants by 2050. It is likely that this mass migration from unliveable areas will put greater and greater pressure on cities and mega-cities, as climate change refugees seek refuge.
- [Consumers](#) are also driving the trend towards greater commitment from firms to produce and source environmentally sustainable goals. Consumers are not only [demanding more sustainability](#) in the products they buy off the shelf but sustainability along the entire supply chain as well. Thus, businesses across the world are having to change their business operations, in order to capture this growing demand or risk losing custom, especially amongst [GenZ and Millennials](#).
- The topic of [sustainability is relevant to business districts](#), which also need strategies as their local governments and regulators are looking to impose stricter conditions and environmental controls. In the UK for example, the Minimum Energy Efficiency Standard is being used to implement higher efficiency standards for commercial buildings. It is also an [important factor](#) when [attracting young professionals](#) to business districts.

2. Changing work environments

- A [WISERD report](#) has found that 88.2% of employees who worked at home during lockdown would like to continue working at home in some capacity in the future. Before the lockdown, strong city centres with many higher-skilled office jobs also had the fewest vacant properties on the high street. Cities like [Birmingham](#), where offices take up almost half of the [commercial city centre floorspace](#), had stronger economies, as well as a greater number of premium stores. [City centre workers](#) are more likely to be highly skilled and therefore, have a larger disposable income, that they are likely to spend in the amenities surrounding their workplace. The [Institute of Directors](#) has reported that nearly three quarters (74%) of businesses said they would be keeping increased home-working after Covid-19. Such a move would heavily impact surrounding retail, food and entertainment industries that rely on office workers, as a substantial part of their sales.
- Increasing online sales are changing working environments for retail stores. Retail stores are having to compete with fast, easy and convenient services online. As a result, working environments are changing, the number of physical retail stores across the [UK's top 500 high streets](#) have been in decline over the last years, while the number of [distribution centres](#) across the UK have steadily increased. This suggests that in the future there may be fewer physical stores in city centres, and

more businesses will have a greater online presence. Hence, businesses will have to change their operations and have a greater number of distribution hubs and fewer physical stores.

- An [ageing population](#) will also impact the working environment as the UK population increases there will be a larger growing dependant population. The two main drivers of the increasing ageing population are [rising life expectancy](#) and [declining fertility rates](#). As a result, it is like that the Government will increase state pension age, in order to ease the public spending burdens such as pensions. However, whilst life expectancy is increasing the number of healthy years we can expect is [not growing at the same rate](#). The other issue is that older members of society may only be able to work part-time, as [according to the ONS](#), one in four older female workers and one in eight older male workers will have caring responsibilities. If nothing is done, then businesses and governments will miss out on the significant benefits that comes from harnessing the power of older more experienced workers. [PWC](#) produces a Golden Age Index (Figure 1) which analyses how well OECD economies are harnessing the power of the older workforce, the diagram below exhibits key performance indicators of the UK. The UK is currently significantly missing out on the

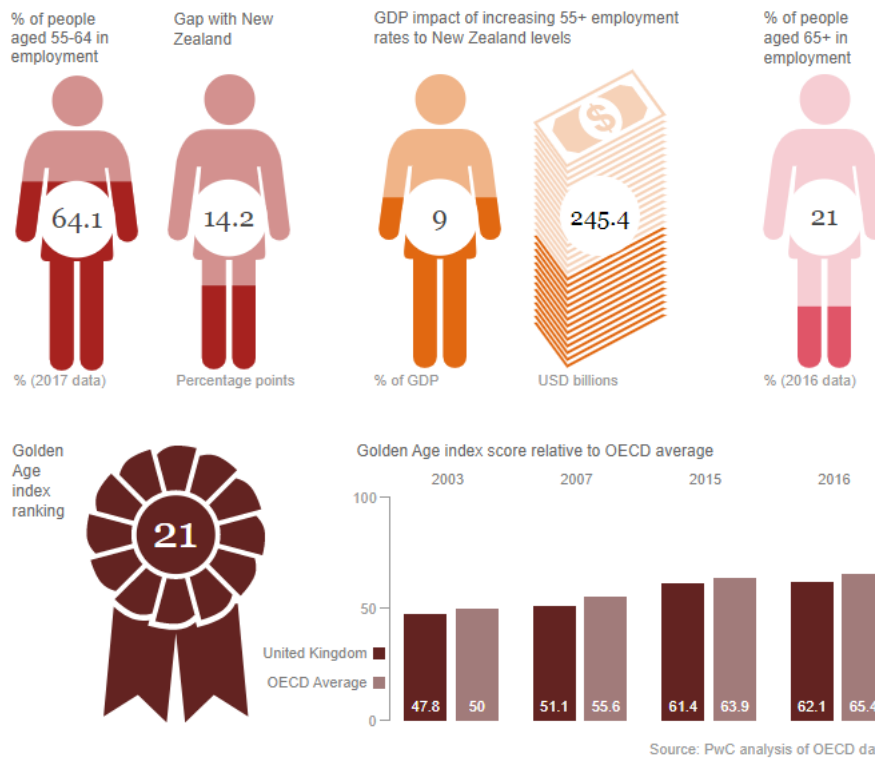


Figure 1 - A comparison between the UK and New Zealand using the Golden Age Index

benefits of having a higher number of older workers within their workforce comparative to New Zealand which has the second-best golden age index ranking after Iceland. This is worrying as by 2030 Britain will join 13 other countries which have '[super-ageing populations](#)', with more than one in five citizens over 65. It will also mean a growing strength of the '[silver pound](#)' with a larger market for goods and services linked to the elderly. Also, there is a growing trend in the number of [multi-generational households](#) in the UK, as it has many [financial and practical benefits](#). Thereby, housing designs will have to change to suit multi-generational households, adjusting for larger families living within one household.

3. Rapid urbanisation

- A major issue for businesses going forward is [rising property prices](#) as the scarcity of land in city centres, due to rising demand for business and living accommodation, drive prices upwards. The [West Midlands](#) saw the third largest population growth between 2011 and 2015 at 3.4%, second outside of Greater London. If nothing is done, then property costs will continue to rise, especially as there is an already growing affordable property crisis in the UK. This may [deter high skilled labour](#) from moving to urban areas as the rising property prices would be a hefty financial burden, that may impact their standard of living.
- A second major issue is the link between rapid urbanisation and pandemics. As [cities](#) become more densely populated it becomes less and less feasible to maintain social distancing. During, the Covid-19 pandemic the places which reported the [highest number of confirmed cases](#) were the mega-cities such as Delhi, New York and Sao Paulo. This implies that there is a direct link between population density and transmission rate: thus, the larger the city the more likely they are to have a higher transmission rate. The worry is that increasing pandemics will continuously impact the operations of business into the future and become more frequent as the size of cities and mega-cities grows worldwide.

4. Digitalisation and Automation

- If businesses do not build a robust cyber-security system to guard against cyber-attacks, then they will be vulnerable to [external enemy attacks](#) in the form of ransomware or other kinds of malware that can cripple or even destroy the business of entire companies. Identification and protection against cyber risks therefore, should be a main priority for firms, especially SME's, [65%](#) of which suffered a cyber attack from 2019-20 compared to 40% of all businesses on average. As technology gets more advanced and cheaper in the future it will be more and more easy for hackers to attempt cyber-attacks. [City centres](#) are increasing facing attack, the inherent [interconnectivity and transparency](#) of smart cities such as [Birmingham](#), makes them more vulnerable to cyber-attacks. For instance, a Walsall based building company [RMD Kwikform](#), faced a large security breach after supporting the NHS in building the Nightingale Hospital in Birmingham.
- The next wave of [disruptive technologies](#), which are rapidly coming of age, are driving this change. They include AI, augmented reality (AR), virtual reality (VR), sensors and [blockchain](#). These breakthroughs are in turn generating new products and services, such as AVs, drones, robots and wearables. AI already assists humans with the collating of large data sets that humans would struggle to process. Human augmentation technologies will soon assume even more agency as they drive cars, automate jobs and make retail purchases. In doing so, they will blur the line between humans and machines, realigning societal norms and challenging entrenched perceptions of ourselves.

5. Consumer Tastes

- Bricks-and-mortar stores are quickly losing custom to a rapid growing online market. So instead bricks-and-mortar stores are competing by creating an [experience](#) - preferably a personalised one. In recent years, there has been a blur between

leisure and retail in bricks-and-mortar stores, creating destination shopping that provides an [experience](#). This has been done in order to [entice consumers away from the convenience of online retail](#). It is also partially driven by the 'Instagram generation' who want to be able to [document their experiences](#) as well. For instance, Primark in the centre of Birmingham, has had a complete revamp and now provides additional services that you can only get in person, such as a [beauty studio](#), as well as creating additional experiences such as the [Disney themed café](#). High Street retailers who fail to innovate their stores and create an immersive customer experience will likely see their footfall decreasing in the future. Covid-19 has also accelerated the desire for experiences, as many people over the last year are beginning to place more value on experiences than goods, having been in lockdown conditions and social distancing for a prolonged period of time.

- Businesses and governments continue to [underestimate the power of the elderly](#) in their later life, especially as older people are more likely to spend and hold a [greater amount of wealth](#) within the UK, with [one in five baby boomers being millionaires](#). They also make up around [23% of the UK's population](#), even though only 5% of advertising is aimed at them. Especially, as [71% of baby boomers](#) have a smart phone in the UK, and are just as equally capable as their millennial counterparts at online shopping. Businesses need to cater more to the demands of this growing group, or face missing a significant opportunity.

6. Logistics and supply chains

- There has been a [reshoring trend](#), as businesses have realised how fragile supply chains can be to external shocks such as Covid-19 and Brexit. Thereby in the future there may be increasing reshoring as it will allow for more flexible adjustment to changing demand, mitigating firms' risks in the event of a pandemic or other external shocks. It may be that [governments](#) begin reshoring sectors, in order to protect them. Medical equipment and drugs are key candidates here.
- Many customers have also changed their tastes and are now willing to pay higher prices to ensure that the goods and services they purchase are sustainably grown, sourced and have a [low carbon footprint](#).
- [Glocalisation](#) will likely increase as it has been recognised that long supply chains are extremely vulnerable to external shocks. The result will be shorter value chains, where the physical flow is organised relatively locally, comparative to historic long physical flows which are easily subject to shocks.

Evidence of What Works:

1. Environmental Sustainability

- Adapting business models to be [authentic](#) and [transparent](#) about a business's intention as to their sustainability goals has been extremely beneficial at retaining and capturing consumer demand. [Researchers at Henley Business School](#) found that the mere act of corporate carbon emissions disclosures improved share price performance for UK companies.
- Committing to the [UN's Sustainable Development Goals](#) (SDGs) within business strategies would help firms, governments, institutions and cities create a [well-constructed environment strategy, as](#) well as demonstrating to the environmental conscious public how they are committing to environment sustainability. The [Better Business, Better World report](#) has found that achieving the SDGs in just four

sectors—food and agriculture, cities, energy and materials, and health and well-being—would create \$12 trillion of new market opportunities by 2030. Moreover, the report finds that if we consider the savings from reduced carbon emissions, water use and other resource consumption, the overall profit could be as [high as \\$17 trillion](#).

2. Changing work environments

- One way for businesses to adapt to the new working environments where some employees prefer to work at home is to offer ‘[flexible working](#)’. [Research](#) shows that flexible workers have a higher level of job satisfaction, commitment and are more likely to increase discretionary effort compared to those who do not work flexibly. Flexible working can also reduce absence rates and allows employees to manage disability and long-term health conditions, as well as [supporting their mental health and stress](#). It can also provide employees with the option of either working from home or the office, which will be easier for employees to adapt to following the end of Covid-19 lockdowns.
- For businesses across the world the importance of ecommerce online sales has become vitally important to [growth and success in a globalised world](#). There have been numerous businesses for which the internet become a life-line for the survival of their business under the pandemic lockdown conditions. One way in which retail stores can build online presence relatively easily is through [online marketplaces](#), which retailers can sell through in order to capture [as large an audience as possible](#). For instance, many food fast retailers have joined marketing platforms such as Uber eats or Just Eat, or small SMEs and sole-traders have started trading on platforms, such as eBay and Etsy, enabling businesses both to sell both in-store and online relatively easily.
- Despite the rapidly increasing ageing population, a recent [survey of 500 UK employers](#) found only one in five are actively discussing the ageing workforce as part of their business strategy. With nearly one in four saying their organization was unprepared for this demographic shift. In order to develop effective health and wellbeing strategies, businesses should first ensure they [fully understand the structure of their workforce](#). Businesses should utilize sources of information to help them tailor their health and wellbeing strategies. For example, it has [been found](#) that the use of employee wellbeing and/or satisfaction surveys, occupational health and sickness absence trends, as well as personal development reviews, can provide actionable insights to improve employees' working experiences. Older employees may also need to be supported with caring responsibilities, providing [flexible working hours](#) can be extremely helpful in these circumstances.

3. Rapid Urbanisation

- In order to prevent highly skilled labour from leaving city centres, due to rising property prices, employers will have to offer a [wage premium](#). Another option that some businesses have taken to help with affordable housing is to [secure affordable housing themselves](#), ready to rent at a discount to new graduate employees who are struggling to get onto the property ladder.
- Rapid urbanisation tends to lead to greater ill health, as employees working in cities tend to have both worse mental and physical health, as well as greater exposure to

the rising number of pandemics. Protecting the health and well being of employees is paramount and as a result many workplaces are starting to use [health technologies](#) to track individuals' health whilst in work. The aim of this is to be able to improve working conditions based on the health reports received from health technologies used. For instance, [apps](#) where employees can input health data to allow their employer to check their health. This could be a vital tool to businesses and governments, whereby based off the app businesses can set hours based on employee health and governments can track the health of the public; however employees [may not be very receptive](#) to this level of surveillance.

4. Digitisation and Automation

- The best proven way of protecting against cyber-attacks is taking an active approach to protecting business and government institutes. In order to do this, businesses such build cyber-security as a target in the business strategy. Consequently, business operations will need to be adapted to deal with the new threat, especially as attacks on cyber-attacks on firms will continue to increase in the future. [Businesses](#) will need to invest in systems to which they can back up their data, strong antivirus software, tracking systems on devices such as laptops so they can be tracked if stolen, password protection and training staff in how to report and detect malware of phishing attacks. Currently, only [32%](#) of businesses in the UK are insured against cyber-attacks and only [50%](#) of businesses have conducted an internal audit into cyber-security in the last 12 months; the quality of this audits does however vary. If firms continue to undervalue the security risks that cyber-attacks pose then, in the future as hackers get more advanced and covert, business will fall behind and grow more and more vulnerable to malicious attacks.
- There was already a growing trend [towards increasing levels of digitalisation and automation](#), which has been sped up by the recent pandemic. The pandemic has highlighted the frailty of human employees or automated AI and other technologies. Between 2020 and 2025 it is predicted that [85 million jobs will be displaced](#).

5. Consumer Tastes

- In order to [keep customers returning](#) to bricks-and-mortar stores, retailers need to offer customers something valuable and relevant that isn't available online. For instance, the [House of Vans store](#) in London has a skate park in its basement allowing for customers to test products and socialise with friends; something that could never be offered by an online retailer. Many consumers view the high-street largely as a [destination](#) now, to meet friends and socialise, otherwise most the products they wish to buy are online. It's about creating a unique and relevant experience in-store, that customers are not provided online. The [evidence](#) can be seen in the types of shop closures that have been occurring in the UK, the top thriving businesses in recent years have been convenience stores, coffee shops, beauty salons, nail salons and restaurants and bars; whereas the most store closures have been amongst confectionary and news, fashion and clothing, music/games/DVDs, shoe shops and car and gift shops. The clear difference between these types of shops is the thriving shops offer experiences that cannot be obtained online.

- Baby boomers do have contrasting tastes to their younger counterparts, for instance whilst [6 in 10 millennials](#) agreed that they would choose a brand because it supports a cause they believe in, only 1 in 3 baby boomers said the same. Therefore, businesses need to ensure that they adapt their business models to the consumers' needs and tastes of baby boomers as well as other generations. Especially, as the reduced prices of online goods and services is becoming irresistible to all generations. Covid-19 may have also influenced the speed at which more elderly generation have adopted technology, especially in terms of online shopping for weekly grocery shops and retail items; in order to minimise their exposure to the pandemic. Brand trust, convenience and personalisation of services are key to attracting older consumers. Stores can help deliver a [highly personalised service](#) through the use of technology however, they need to train their staff on how to communicate with boomers in store, especially those who may only be in the process of adopting newer technologies. As [convenience](#) is also a major driver of consumption amongst baby boomers, businesses need to consider this when designing website and stores in order to create a smoother shopping journey. As older consumers are [less trusting of goods and services bought online](#), they are increasingly seeking assurances from a range of places such as family and friends' referrals and ratings by independent bodies. Therefore, businesses should ensure they are open about data usage and use suitable means to contact their clients.

6. Logistics and supply chains

- In order to deal with outside shocks in the future such as covid-19, Brexit and dramatic consumer taste changes towards products with a lower carbon footprint, companies should consider [dual sourcing](#) - sourcing some supplies within or near the local market and then the rest further afield. This will mitigate risk against being exposed to these sorts of shocks again. Furthermore, now is the perfect time to reshore as there is the demand for sustainable low carbon goods, which can be achieved through using local supply chains. Whilst this may be an expensive venture, some of the cost can be passed onto the consumer as many consumers are now willing to higher prices for goods that are more sustainable. It will also sure-up supply chains, as shorter chains are less vulnerable to external shocks and diversifying supply source will also enable firms to protect against shocks that occur solely within the UK, as they would still have the overseas supply.

Implications of Trends and future monitoring indicators

- Tracking which firms have committed to the [UN's Sustainable Development Goals within their business strategy as key performance indicators](#) would help monitor which firms are making a commitment to tackle this [on-going crisis](#). It would also help to benchmark firms to better understand how different firms are innovating their business models to incorporate environmental sustainability.
- Currently [ONS](#) only tracks housing affordability by country within the UK, rather than by local authority (LA) or region. However, some councils have taken the initiative the track the [affordable housing within their own local authority](#). The service would

allow the local authority Council to know with confidence that it's meeting its commitment for a minimum of 35% of genuinely affordable housing. In the future it would be beneficial to forecasting and monitoring if this was scaled up to encompass all local authorities to better inform business as to wage premiums they have to pay employees to move to their area, especially in city centers.

- Continuing to update [the ONS Retail industry monitor](#) will reveal the strength of online sales across the UK, as well as tracking overall retail sales. Additionally, the [British Retail consortium dashboard](#) tracks UK retail sales across the region, tracking such as this will help with monitoring the health of city high streets.
- In the future it might be that employers or government health services use [health technologies](#) such as the tracking apps used under lockdown to [help monitor health](#). This could be extremely beneficial to cities as tracking the health of the workforce will enable data analysts to monitor future outbreaks of pandemics in cities. Regarding other health issues, such technologies could be potentially expanded to encompass pollution tracking, especially as the UK has had its first pollution related death in the UK.
- Having firms regularly and diligently reporting cybercrime to the National Cyber Security Centre will allow the government to continue their monitoring of cybercrime and ensure that they can protect business and the public from repeated attacks. Many firms are adapting a [pattern based approach to monitoring the cyber-attacks](#) on their business, which then allows them to predict and protect against cyber-attacks. [Any organization needs executive-level guidance on the top areas of cyber risk](#) about which the business should be concerned. Organizations that already have a cyber-aware board and have integrated cyber risk into their overall enterprise risk framework will likely have a clear advantage.
- In the future using the developing smart city technologies will improve the ability to monitor footfall in city centers, as well as monitoring the stores that these individuals visit to provide insights as to which stores on the high-street are the most successful, thus allowing businesses to adjust their business models to meet changes in demand at a much faster rate.
- It is likely that there may be growth in the manufacturing industry within the UK in the future as [37%](#) of companies are considering reshoring production at the current time. Thereby, it may be that the manufacturing sector in the UK picks up as British companies bring their manufacturing back to the UK. This may be especially good for the West Midlands as it has strong distribution centers and sits partly within the golden triangle, meaning West Midlands based supply chain companies can enjoy access to over [90%](#) of the UK population within a 4 hour drive.
- When considering [automation](#) businesses should view automation as a way to [enhance human productivity](#), rather than a way to replace manual labour. For example, using bots in contact centers allows employees to trigger automated data retrieval from different systems, thereby allowing them to focus on building relationships with customers. But before employees can work effectively with automation technologies, they must be taught how to do so. Companies should promote a culture of continuous learning while incorporating new technologies and should determine what skills people will need to help the organization meet its automation goals. Implementing automation programs typically requires creation of

new roles as well as modification of existing ones. That calls for a well-engineered talent-management and reskilling program.

- It may be that in the future there is greater monitoring of the health of workers, which maybe especially beneficial to the health of elderly workers. Companies may wish to mitigate the risk of health issues effecting their staff and invest in health monitoring technology, such as using '[digital twin avatars](#)' which could show individuals the long-term consequences of the health decisions.