Lecture Notes: Module 6 Private Sector Business Development and Entrepreneurship

Slide 1: Introduction

In this module offers an outline of the critical issues facing the private sector as a result of demographic change. We will be discussing:

- How older clients interact with and perceive products
- Sectors primed for growth as a result of demand from older consumers
- Wealth distribution and the purchasing power of older consumers
- The impact of the global recession on elderly consumers

Slide 2: Aging and Trends in Private Wealth

This chart displays the mean and median household wealth of UK households by age group. As you can see wealth peaks slightly before retirement and trends downwards with increase in age. Organizations that fail to design and market products with the interests of consumers 65 and older in mind are missing the most affluent share of the market.

This is also true in the United States where age 65+ consumers are the most affluent of any age segment, with many having multiple income sources. With 80 million baby boomers and 75 million “traditionalist” consumers (those born between 1900-1945) in America, the economic power of the age 50+ population is already driving major shifts in product and service consumption across industries: Consumers over 50 account for almost half the total consumer spending in the United States. Americans aged 50+ also account for nearly half of the market share in personal insurance and pensions, transportation, health, housing and food.

While the numbers are impressive, tapping effectively into the opportunities of emerging age 50+ markets will not be easy. Like other markets, senior markets can vary by country or region, age, income and lifestyle. Age 50+ consumers can be more complex in their preferences than their younger counterparts. Moreover, the widespread use of technology by retiring baby boomers makes it likely that they will exhibit dramatically different technology use and consumption patterns when they turn 80 than current seniors do today.
Aging boomers clearly represent a significant market growth opportunity for today’s age-savvy technology providers. Similarly, Generation X (consumers born 1965-1980) differs from boomers and Generation Y (consumers born 1981-2000), making it difficult to predict the consumption preferences of future age 50+ individuals. Navigating these subtle differences to tap into the potential of emerging senior markets requires a deeper understanding of aging and its impacts on consumers.


Slide 3: The Numbers on Old Money

The Surging Power of the Age 50+ Consumer: According to a U.S. Consumer Expenditure Survey, consumers age 50+ have accumulated more wealth and have more spending power than any other age group in history. In addition, they spend more than $1.7 trillion on goods and services each year; control 50 percent of all discretionary income; are responsible for 75 percent of all prescription and drug spending; own 65 percent of the net worth of all U.S. households; and are responsible for 60 percent of all health care spending. Other analysts say that the numbers for this particular consumer category will only grow exponentially in the years ahead.


Slide 4: Consumption Patterns and Age:

1)  
- Decline in attention contributes to problems ignoring “noise” or irrelevant stimuli
- The rate (but not the ability) at which new information is learned declines with age
- Unfamiliar settings elicit more cautious behavior

2) Age 50+ consumers confront numerous biological changes as they age. These changes in mobility, flexibility, elasticity, strength, vision and hearing can have a major impact on how seniors interact with businesses and their products and services. For businesses, these changes can undermine traditional approaches to promotion and even affect how consumers interact safely with products or services. Certain vision and hearing challenges can be remedied with better and more strategically placed lighting and larger signage or with relatively common technologies such as speaking kiosks, white noise dampeners or multimedia advertising. However, more complex biological changes associated with aging will require more complex adaptations of communications to customers. Finally, the elasticity and external appearance of the skin of age 50+ individuals can change with time. While hundreds, if not thousands, of products already exist to address this consumer concern, the market for such products
and related services is expected to continue to grow. The techniques and strategies used to market these products will need to take into account the preferences and tendencies of the emerging age 50+ consumers, which may vary from those we see today.

- Reduction in pupil size limits the amount of light entering the eye
- Yellowing of the lens contributes to problems in color vision
- Reduction in hearing interferes with communication
- Loss of elasticity in joints, muscles and skin creates changes in range of motion and in overall body shape

3)
- The changes in economic resources and status over time require planning and management of money and assets
- Those who continue to work past retirement age face other challenges, like intergenerational collaboration
- Retirement creates shifts in resource pools like time and income

4)
- Grandparenting, caregiving, empty nests, and retirement reflect some of the role shifts that occur as people age.
- These role shifts create ripples of change in lifestyles, like locale (urban vs. rural or suburban), travel patterns, daily routines, and attendance at social gatherings


Slide 5: Marketing to the Elderly

Older Americans control more than half of the consumer economy, but individually they face a variety of obstacles as shoppers or personal financial managers. In a 2004 study the American Association of Retired Persons (AARP) noted:
- Many Seniors lack knowledge of basic financial and investment terms
- Individuals age 65+ are less likely than all other adults to have checked their credit card reports
- Older persons cite experience, family and friends as key information sources for financial information and money management

Slide 6: Where’s the Money Going?

- **Technology:** Boomers spend more on tech than anyone. They spent an average $850 for their latest home computer - $50 more than any other group, reports Forrester Research. "People presume that Gen Y is the most eager to adopt technology, but they don’t have the spending power of Boomers," says Jacqueline Anderson, consumer insights analyst.
• **Food:** While Boomers may eat less as they age, they'll pay for quality. After hearing consumers say they wanted P.F. Chang's food at home, Unilever in April teamed with the Asian-food casual-dining chain on P.F. Chang’s Home Menu meals for two. While they may seem a tad pricey for frozen meals at $7.99, Klauser says sales were nearly $14 million last month, so it's well on its way to becoming a $100 million-plus brand.

• **Cars:** From 2007 to 2010, the average age of a new car buyer rose from 52 to 56. Lincoln saw its average buyer shoot past 60 in that time. Lincoln's marketing challenge was to skew slightly younger — into the mid-50s — and also appeal to people in their 40s. So it brought in 48-year-old Mad Men star John Slattery to help pitch its tech-loaded 2011 Lincoln MKX crossover SUV. "Fiftysomethings can relate to him, but he's also cool to people in their 40s," says Matt VanDyke, marketing director for Lincoln. The ads avoid conspicuous consumption and any "over-the-top characterization of luxury," says VanDyke. Instead, they focus on the MKX’s Boomer-appealing intuitive technology. For example, ads show there's no volume knob on the radio — you slide your finger across a touch bar.

Slide 7: Comparative Analysis

The growth for the 60 and above age group within the OECD nations on this chart (Italy, France, UK, Germany, US, and Japan) is dramatically higher than the rapidly industrializing nations. Despite its historical 1 child policy China is still on track to have less than 20% of its population over the age of 60 by 2020.

Discuss Chart.

Slide 8: How Does this Affect Society?

• The global economy will require more workers with skills that are complimentary to the needs of seniors. We may see a future with more employment in healthcare and homecare than childcare.

• Nations with large youth populations will become growth drivers in the manufacturing and industrial sectors. Rapid growth in both India and China has been fed in large part by a steady crop of young well-educated professionals.

• Not all nations are affected equally. As has been pointed out in previous modules Europe, Japan, and the US will feel the effects of population aging before Africa, Latin, America, and South Asia. The private sectors in the rapidly aging nations will need to adjust quickly to structural changes.

Slide 9: Macro Trends

One statistic that summarizes the problem of the aging population is the dependency ratio: the ratio of the economically dependent part of the population—children (0-14 years) and the elderly (65+ years)—to the working-age population (15-65 years).
Discus Chart.

Slide 10: Macro Trends Continued...

What does a rise in dependency—and in particular old-age dependency—imply? Among other things, it potentially means a reduced labor supply, less consumption, slower economic growth and increased government spending but declining revenues, more regional disparities and new fiscal pressures. Consider just three of these potential impacts:

- **Reduced labor supply**: A rising old-age dependency ratio corresponds to a relative decline in the labor force as a percentage of the population, which in turn would lead to a decline in GDP.
- **Savings and investment**: In general, aging populations in the developed world could see net outflows of capital from their countries to developing countries with younger populations. This presents a window of opportunity for developing countries and risks for countries such as the United States, which sustain their large trade deficits with net capital inflows.
- **Fiscal pressure**: A key challenge is how to cover increased expenditures for social security, pension and health care benefits as revenues fall with a shrinking workforce as a percentage of the population. Typically, benefits for the elderly tend to cost substantially more on a per capita basis than benefits for children.


**Conclusion:**

- The major demographic trend toward increased longevity and larger age 50+ populations creates new opportunities across multiple industries
- Understanding the unique impacts of aging on various customer dimensions is the first step to reshaping businesses and tapping profitably into the opportunities of emerging age 50+ markets.