2

The future is getting old(er)

Researching the facts and figures to write this chapter was easy. Any article or book about older consumers contains a section, littered with data, proving their marketing importance. Paradoxically, the more charts and tables that are used to prove the point, the less effect they seem to have.

Health warnings on cigarette packets is another example of where confronting people with abstract facts results in the opposite reaction from that intended. Cigarette packets, in the UK, contain warnings covering 30 per cent of the front and 40 per cent of the back with gory statements such as 'smoking kills' or 'smokers die younger' or, more clinically, 'smoking clogs the arteries and causes heart attacks and stroke'. What result have these dire warnings had on young people? In 2002, more 20–24-year-olds smoked than did in 1988. If you can't change a 24-year-old's behaviour by telling them that they are killing themselves, what chance do you stand of convincing them to take notice of the over-50s with a litany of facts and figures?

Marketing's equivalent to the health warnings on cigarettes is the 'boiler plate' sentences that appear in most commentaries about marketing and the over-50s. Here are examples from the US, Canada and the UK (see tinted text on page 18).

I sense that when younger marketers see these statistics, they filter them out and pigeonhole whatever follows as something that will be banging on about old people. The numbers blur into each other, lose their meaning and are ignored. Marketers continue as before, aware, but ignorant of the facts.

It is a sad indictment of marketing, but when I come to evaluating and using statistics about demographics and consumer spending, the prevailing attitude is, 'Don't confuse me with the facts, I am happy with my prejudices.'

The 78 million Americans who were 50 or older as of 2001 controlled 67 per cent of the country's wealth, equivalent to $28 trillion. Households headed by someone in the 55–64 age group had a median net worth of $112,048 in 2000 – 15 times the $7,240 reported for the under-35 age group. And within five years, about a third of the population is going to be at least 50 years old.

The over-50s increased from 5.4 million in 1991 to nearly 7.3 million in 2001. By 2013 it will reach 9.5 million, one-third of all Canadians. People over 50 are responsible for more expenditure than any other group in Canada – some $35 billion a year.

The over-50s hold 80 per cent of the nation's wealth (£280 billion), 40 per cent of its disposable income and spend £240 million on consumer goods each year. They represent 42 per cent of the UK adult population and by 2011 this will have increased to 22 million people.

MARKETING 101

The following two questions have been taken from the first lesson of a course about marketing fundamentals.

- Question 1 What is the most attractive segment of a matrix that represents the growth of consumer numbers and amount of consumer wealth? Do you choose a fast- or slow-growing group of consumers? Do you choose consumers with low or high wealth?
- Question 2 What is the most attractive segment of a matrix that represents the level of consumers' disposable income and the degree of competition for their business? Do you choose consumers with low or high disposable income? Do you choose sectors where the competition is low or high?

The collected responses to these questions from the world's marketers are shown in Figures 2.1 and 2.2.

Of course there are numerous other factors that affect the answers to these simplistic questions, but, in the absence of any other information, you would have expected the answers to be:

- Answer to question 1 High growth in consumer numbers and high consumer wealth (the top right-hand corner).
- Answer to question 2 Low level of competition and high disposable income (bottom right-hand corner).

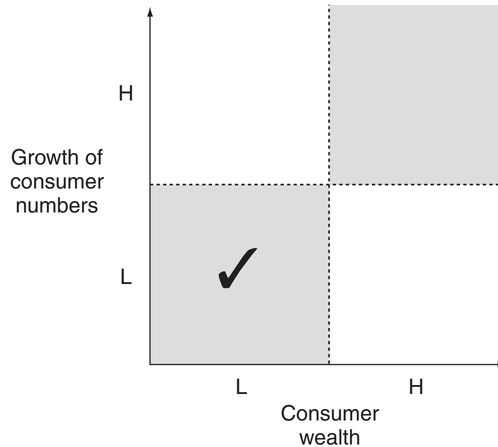

Figure 2.1 *Matrix showing growth in consumer numbers and level of consumer wealth (H = high, L = low)*
Source: 20plus30, 2004

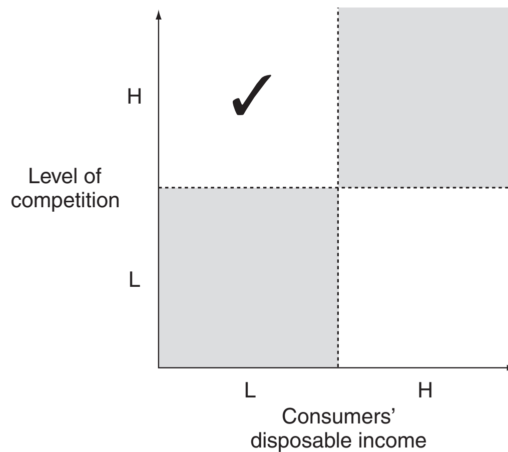

Figure 2.2 *Matrix showing level of competition and degree of consumers' disposable income (H = high, L = low)*
Source: 20plus30, 2004

No, there is not a misprint in the figures – the ticks are in the right places as marketers actually prefer to concentrate their resources on market sectors where the:

- growth in consumer numbers is *low*;
- consumer wealth is *low*;
- disposable income is *low*;
- level of competition is *high*.

Time and time again, companies ignore a group of consumers that is rapidly growing in number, has a high level of wealth and income and attracts little competition. If you haven't already guessed, this paradox occurs due to the obsession with younger rather than older people.

Surely there must be some extremely powerful arguments to justify this bizarre situation? Well, not really powerful arguments, more a collection of hunches, anecdotes and undisguised prejudices, which are the subject of the next chapter. What follows next here is the evidence that proves, categorically, that the future is getting older.

THE OLDIES ARE COMING

Marketing's prized group of consumers is the 15–34-year-olds. Their parents and grandparents – the 50–69-year-olds – are invariably of secondary interest. Figure 2.3 shows how the numbers of people in these groups will change over the next decade and a half. I don't think the conclusion from this graph needs too much explaining. There are going to be a lot more oldies and only a few more youngsters. For those wanting the actual predicted figures, 3,000,000 more 50–69-year-olds and 160,000 more 15–34-year-olds.

An alternative way of expressing these numbers is to see the age groups that increase in size and those that decline during the next 15 years. Again, the chart (Figure 2.4) doesn't need a great deal of explanation. There are a lot of tall black bars among the older age groups and as many negative white (declining) ones in the age groups from 0 to 49 years.

A similar, but less pronounced, trend is occurring in the US. Figures 2.5 and 2.6 show the US's equivalents of Figures 2.3 and 2.4. In the US, the 50–69 age group grows three times faster than the 15–34, but not at the same rate as in the UK. All age categories, with the exception of the 40–49-year-olds, grow during this period, but none so fast as the 50 plus.

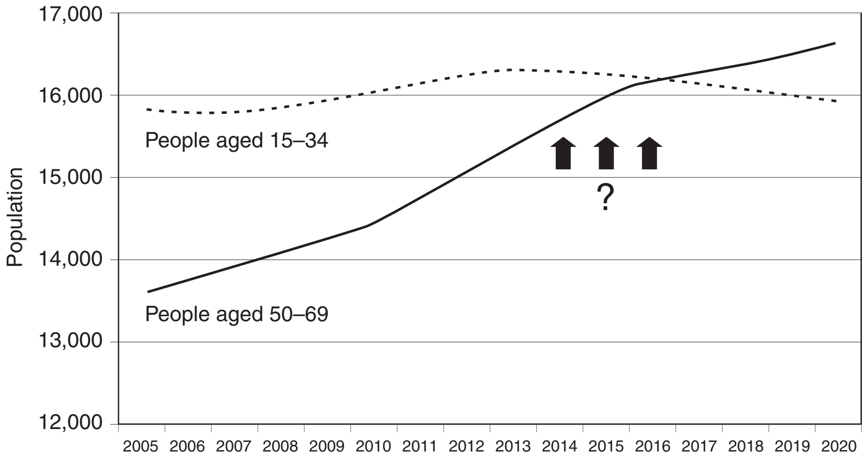

Figure 2.3 *Graphs showing the predicted numbers of the UK population aged 15–34 and 50–69*
Source: Government Actuary's Department, 2000

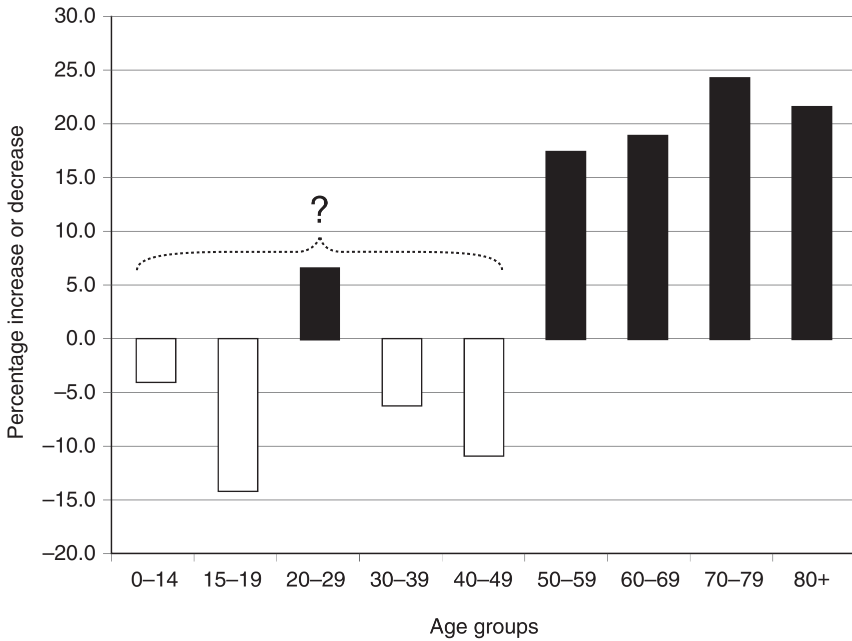

Figure 2.4 *Changes in the numbers of people in different age groups between 2005 and 2015 in the UK*
Source: Government Actuary's Department, 2000

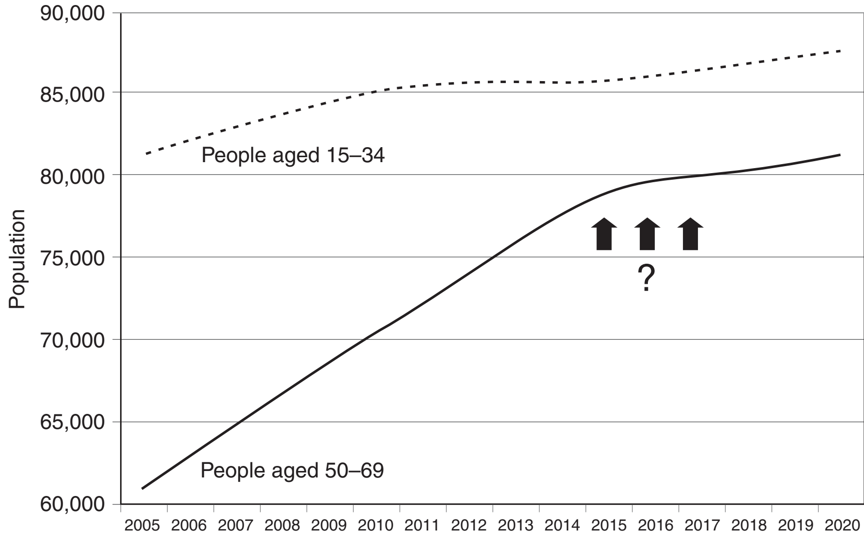

Figure 2.5 *Graphs showing the predicted numbers of the US population aged 15–34 and 50–69*
Source: Census Bureau, Department of Commerce, US, 2004

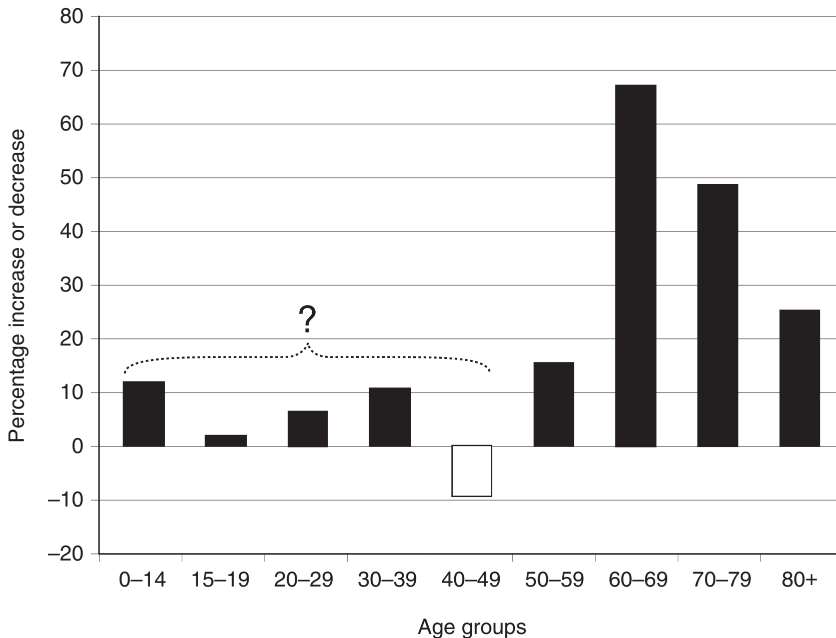

Figure 2.6 *Changes in the numbers of people in different age groups between 2005 and 2015 in the US*
Source: Census Bureau, Department of Commerce, US, 2004

NICE GRAPHS BUT SO WHAT?

The numbers used for this analysis are infinitely more accurate than any piece of consumer attitude research you have ever read. Nothing short of severe climate change, plague or pestilence, war or an asteroid strike can possibly change them.

There is one overriding conclusion to be drawn from this analysis: the numbers of older consumers are growing faster than those of the younger variety. This means that if you focus on the 15–34 market sector:

> you will see virtually no increase in your market growth resulting from the change in customer numbers. If your customers are in the 50–69 category, you will increase your business by over 20 per cent without having to increase your market share.
>
> You are consciously choosing a group of consumers whose numbers are at best stagnant and in some cases declining *and* consciously ignoring a group that is rapidly increasing.
>
> Your advertising product development and sales channels will ignore (and probably alienate) the fastest-growing group of consumers.

If the pattern of ageing in the UK and US were an aberration, then there might be the germs of an excuse for marketers being obsessed with the under-35s. However, compared to many countries, the UK and US are distinctly youthful in their age profile. Italy and Japan are 'geriatric' when compared to the US. Figure 2.7 shows how the percentages of the population over 50 changes by country and year.

In 2005, Australia, like the US, had a 50-plus population in the 40 per cent band. The UK appears in the 50 per cent band, Italy in the 60 per cent and Japan in the staggeringly high 80 per cent band. As the years pass, the percentages increase further and the countries move into higher bands. The populations get a little older day by day.

Companies trading with Japan and Italy are already encountering the effects of their populations ageing. Soon, the under-50s will become the minority in Japan. China's massive population – 450 per cent the size that of the US – is fast approaching the point where it will age more quickly than any other country in history.

% of the 50+ compared with those under-50s		2005	2010	2015	2020
	90%+		Japan (90%)	Japan (96%)	Italy (91%) Japan (105%)
	80%	Japan (85%)			
	70%			Italy (79%)	
	60%	Italy (63%)	Italy (69%)		UK (63%)
	50%	UK (51%)	UK (54%)	Australia (54%) UK (59%) US (51%)	Australia (58%) US (54%)
	40%	US (42%) Australia (43%)	US (47%) Australia (48%)		China (47%)
		Year			

Figure 2.7 *Percentages of population over 50 in different years for Australia, China, Italy, Japan, the UK and the US*
Source: United Nations' population forecasts, 2004

Not all of the world is experiencing hyper-ageing. For example, parts of the planet are very young and will remain that way for the foreseeable future. The marketing implication of a world that is fragmenting into old and young is discussed in Chapter 14.

FOLLOW THE MONEY

People in the UK aged between 50 and 54 have, on average, 30 per cent more income than those in the 25–29 age group. Those aged between 55 and 59 have an income that is about 20 per cent more than those who are younger.

Figure 2.8 shows how income varies by age for UK adults. Around the age of 50, income peaks, then falls, reaching a plateau from the age of 60 onwards. Interestingly, this plateau level is the same as the average income earned by those aged between 20 and 24.

This analysis comes as no great surprise – older people tend to earn more than younger people. What is baffling, though, is why, nevertheless, at least 80 per cent of marketing effort in the consumer goods industry is focused on the relatively poor group of younger consumers.

Individuals' net wealth is even more skewed towards older people than income. 'Net wealth' is what a person owns when their debts have been subtracted from their savings and investments.

Until the age of 35, the average level of UK citizens' net wealth doesn't rise above £5,000. From that age onwards, it steadily climbs and peaks somewhere around the age of 65. This analysis is shown in Figure 2.9.

In the US, the pattern of income and age is similar to that in the UK. Instead of showing the income of individuals, the graph in Figure 2.10 plots the income of households in the US by the age of the head of the household. Notice anything a little strange? The income in households where the head is aged less than 35 years is lower than for all other ages, other than those in their mid-70s.

Perhaps it is not surprising that the 2001 Consumer Expenditure Survey in the US showed older consumers being the primary purchasers of transportation, healthcare, housing, food, pensions and personal insurance.

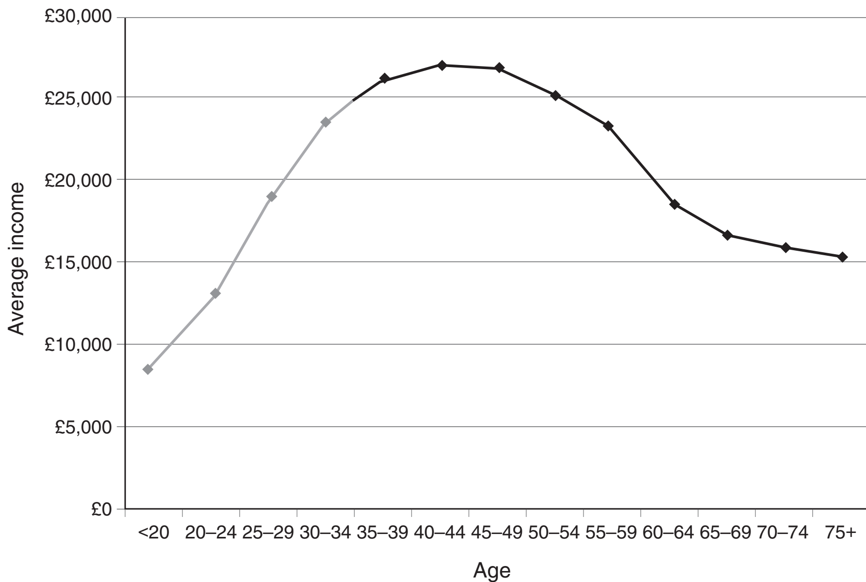

Figure 2.8 *Analysis of incomes in the UK for the period 2002–2003*
Source: Inland Revenue, 2004

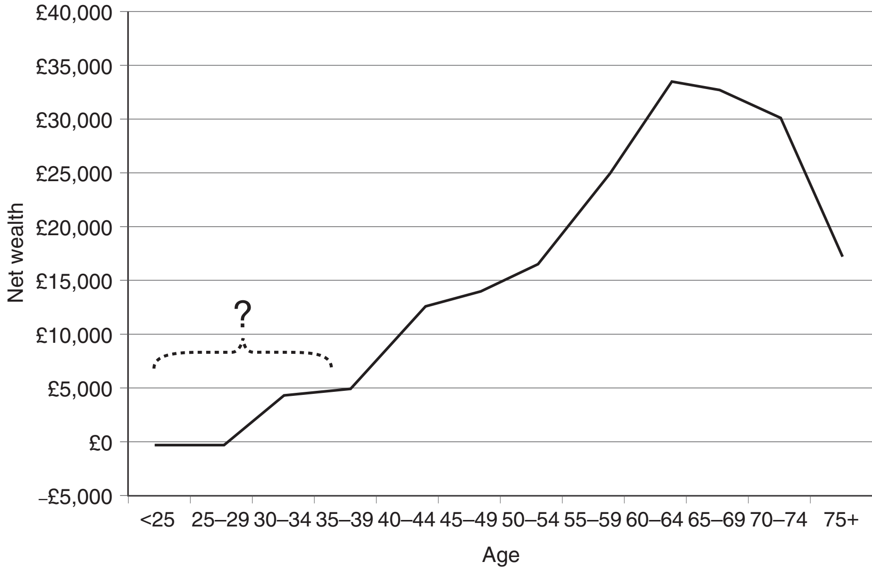

Figure 2.9 *The distribution of net financial wealth in the UK*
Source: Institute for Fiscal Studies, 2002

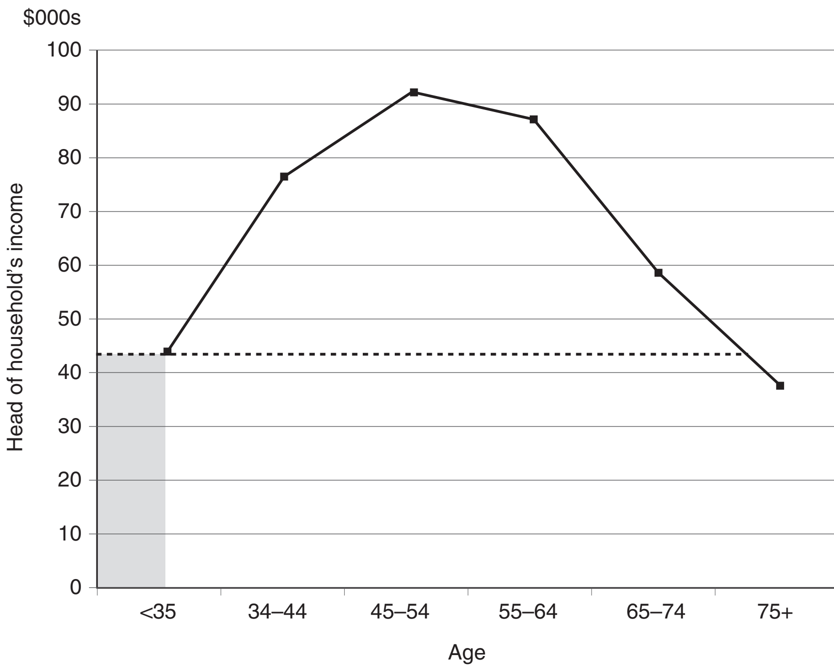

Figure 2.10 *Analysis of family incomes by age of head of household in the US*
Source: Federal Reserve Bulletin, January 2003

NICE GRAPHS BUT SO WHAT, PART 2?

On average, older people have more money to spend than younger ones. However you want to analyse, dissect, chart and present the ways in which income and wealth vary by age, you will always come back to the same conclusion: people under the age of 35, on average, are poor compared with their parents and grandparents. This means that if you focus on the 15–34 market sector, you have intentionally chosen a group with:

low levels of disposable income

the highest marketing/consumer spend ratio – that is, the amount of marketing spend divided by the level of consumer expenditure.

These are obvious statements, but ones that need to be made. The macro-economic analysis of age, income and number of consumers we have undertaken here will not apply to every single marketplace, as the dynamics and attractiveness of markets are affected by many things other than the number of consumers and their income. However – and this is a major factor – you cannot ignore the irrefutable evidence that proves the economic centre of gravity is moving from young to older people.

This chapter can be summarized in the following simple, logical statement:

older people have higher incomes than younger ones – in some cases a great deal higher

AND

numbers of older consumers are growing a great deal faster than the younger variety, which

IMPLIES

that marketers must have *exceptional* reasons for ignore ignoring older age groups.

FUNDING PENSIONS AFFECTS CONSUMER SPENDING

The concurrence of a population that is ageing with one in which its older members are disproportionally wealthy raises some interesting issues. The point where the rubber firmly hits the road is the implications this creates for funding pensions.

Governments have no easy choices to make for their citizens. They can ask them to retire on a pittance, pay more tax, save more or work for longer. Whatever happens, one thing is certain: consumer spending patterns are going to change for the worse.

Pensions and how to pay for them are complicated subjects, but the basic facts are simple and obvious. Fact number one: we are living longer. Fact number two: we are having fewer children. It doesn't take a genius to deduce that there will be fewer people working who will have to support an increasing number of older people, which we demonstrated earlier. The term 'support' doesn't just mean paying pensions; it also includes providing health and residential care, both of which are expensive.

This situation is not good, but it is only the start of the bad news. Today's pension position is pretty grim, with 50 per cent of people in the UK having such low levels of savings and private pensions that they are entitled to additional handouts from the State. If we look forward, in 10 years' time today's pensioners will appear wealthy. The picture in 30 to 40 years' time is too horrible to consider.

All the solutions to the pensions crisis are nasty. To recap, it either means working longer, saving more money, starting to save money at an earlier age, paying more tax or, most likely, a combination of all four remedies. The UK's *Financial Times*, not known for hyperbole, has said, 'The traditional British penchant for muddling through has bequeathed a system that is incomprehensible, inequitable and inadequate.'

What is the exact magnitude of the problem? If pensioners in the UK are to remain as well off as they are today and retire at the same age, then an additional 8 per cent of the country's gross domestic product (GDP) – £48 billion – will have to be spent on pensions by 2050.

In differing degrees, this problem affects all countries with an ageing population. In President Bush's 2005 State of the Union address, he launched his campaign for 'private accounts' as a way of privatizing the US's social security. In the proposed US model, individuals will pay into their own 'private' pension accounts, which are then invested in a mix of investments. The attraction of this for government is it caps its financial commitment to paying pensions.

Whatever the solutions, they have a common theme: money that would have been spent on consumption must be transferred by the individual, employer or government to paying for people's old age. This affects the amount of money in consumers' pockets, especially those of the young.

What might seem like a theoretical economic argument thus has some significant implications for marketers. The way in which, historically, pensions have been funded is a central factor in the creation of the generation of people we have now who enjoy a secure and prosperous financial future. How pensions will be funded in the future is key to creating the next older generation, who will be relatively poor by comparison.

THE 'CHARMED GENERATION'

Some of the circumstances surrounding the 'charmed generation' are special to the UK, but, in differing degrees, they are also present in Europe, Australia, Canada, Japan and the US.

In the UK, part of the group of people who are retired and who will retire in the next five to ten years have a level of wealth and income that is unlikely to be repeated in future generations. They are thus the 'charmed generation' and represent a business opportunity that, once gone, is unlikely to be repeated.

The reason for their good fortune is explained by the four Ps: pensions, property, parents and prudence – not to be confused with marketing's 4Ps!

Pensions

Many people of this generation receive, or will receive, a defined benefit pension. This scheme pays the highest level of guaranteed income, relative to the person's salary, of any type of pension. It is unaffected by the stock, bond, currency or any other market. Its recipients receive a guaranteed level of income for the rest of their lives.

In the UK's commercial sector, the number of active members of these schemes today has fallen by 60 per cent since 1995, 50 per cent since 2000 and could fall by a further 10–20 per cent in the future. This generous form of pension provision is fast disappearing. So, unless there is a drastic change in pension law, the era of receiving a guaranteed level of pension from an employer is over. Like the parrot in *Monty Python* (the renowned TV comedy show), the defined benefit pension scheme is dead, it is no more, it has ceased to be. Defined pensions have expired and gone to meet their maker!

Government employees are the only group who are guaranteed a defined benefit pension. The cost of meeting pension commitments for civil servants, teachers, National Health Service employees and the emergency services has risen so quickly that it now dwarfs the level of public-sector debt. The estimated, unfunded public-sector pension liabilities had reached £690 billion by March 2005. The size of this figure is staggering, as is the problem it presents to government. Public-sector pensions will be forced to undergo radical change.

The unpalatable alternative is for people to spend a sizeable amount of their income – maybe as much as 25 per cent – on funding a private pension. Money that is funding a pension is not being used for consumer spending.

Property

In the UK, the proportion of people under 45 years old owning their own property has declined since 2001. If you are 30 or younger, you are less likely to own a property now than 20 years ago.

The barrier to becoming a homeowner is the relatively high cost of property. If you were buying a house between 1960 and 1970, it would have cost you three times your annual earnings. Today it is exactly six times.

In 1994, three in every five first-time buyers came from the 18–30 age group. In the last 10 years, property prices have trebled and now only two in every five first-time buyers are of this age.

The conclusion to be drawn from this analysis is that much of the UK's property assets are owned by the 45+ and that the financial barriers for future generations to join the ranks of property owners will keep rising. Saving for a deposit and paying the mortgage consumes a disproportionally large chunk of income and, like paying for pensions, money spent on housing debt is not spent on consumption.

Parents

Another repercussion of the rapid rise in property prices is inherited wealth that the over-50s are receiving at the death of their parents. Few older people have used the equity in their property to fund their retirement, which means that most of the property value is being passed on to their children as an inheritance. Today's 50-year-olds need to fund, on average, 20 to 30 years of post-retirement life, however, so releasing equity

(wealth) from the value of their homes will become an increasingly important way in which to achieve this.

Already, a fifth of people moving between owned properties on which there is no mortgage say that the reason for them doing so is that they want a smaller and cheaper house. From this you can infer that they are seeking to transfer some of their property value into cash.

Nearly 40 per cent of people in the UK aged between 51 and 60 who have a pension believe that the equity in their home will be part of their retirement assets. For some, in fact, property wealth will be an integral component of their retirement income. Currently, £2,250 billion of value resides in housing equity (that is, the property value less the outstanding mortgage). This is nearly double other forms of wealth, with the exception of pensions. Unlike savings and investments, housing equity is more evenly distributed throughout the population and so can be used by more people.

The outcome of the over-50s' dependence on property wealth has a worrying implication for their sons and daughters: property wealth spent on funding mum and dad's retirement will not be inherited. We have witnessed the birth of the SKI phenomenon – spending the kids' inheritance.

In truth, nobody knows how much of retired peoples' housing equity will find its way back to their children or be consumed funding their own retirement, what effect the reduction in the number of young people will have on housing prices and what will happen when interest rates rise. Further, if housing prices are at an artificially high level and plummet, so will one component of the 'charmed generation's income.

Where there is little doubt is that converting the equity held in property into income will be a central issue in the pension-funding process.

Prudence

The UK's level of debts on credit cards, mortgages and loans has reached the gigantic figure of £1,004,290,000,000.

Very little of this vast mountain of debt resides with today's retired generation. They come from the pre-credit card era, when debt was something to avoid at all costs. Things are different for younger people, however, and those close to retirement. As the Director General of Age Concern said, 'Older people have historically been reluctant to get into debt, but some of the next generation of pensioners appear to have quite different attitudes.' It appears that many 50-year-olds are spending rather than saving and this is setting the trend for 40- and 30-year-olds. There is

a cohort of people entering retirement with considerable levels of debt that has to be serviced by retirement, rather than earned, income. This change in behaviour is likely to affect intergenerational transfers of wealth as older people have to use their property value to repay debt rather than pass it on as inheritance.

The terrifying prospect is that interest rates increase. At the beginning of 2005, the UK's base rate of interest was 4.75 per cent. For much of the 1970s and 1980s, the interest rate was twice and sometimes three times this level. If the rate were ever to increase to these historic levels again, then it would divert a massive amount of expenditure from consumption to debt repayment. It is a thought best not considered.

For the debt-free retired generation, though, the higher the interest rate the better, as it increases the income they receive from their savings.

The 'charmed generation' grew up during a period when the State paid for higher education and all but the very wealthy went to State-funded schools and used the free health service. Now, the burden of paying for education and health is increasingly transferring from the State to the individual. This generation has benefited from good pensions, rocketing property assets and low debt.

It is not surprising, when you look at the wealth profile of the UK, that so much of it is concentrated with the 50-plus. Sadly, the children and grandchildren of this group are very unlikely to accumulate the same levels of wealth. In a decade's time, the 50-plus cohort might have (almost certainly will have) a very different wealth profile. It will still contain the very rich and very poor, but the group of people who benefited from the unique combinations of the 4Ps will be missing.

Not all members of the 'charmed generation' are wealthy

The report produced by the Pensions Commission in 2004 as a policy document for the UK government concluded that 'The present level of pension rights accrual is both deficient in total *and increasingly unequal.'*

This inequality is demonstrated in Figure 2.11, which shows how the mean and median levels of net wealth vary by age. It is impossible to deduce from the mean (average) value how the wealth is distributed (that is, there may be a few very wealthy people and lots of poorer ones or, alternatively, everybody could have approximately the same level of wealth). The median value is a more useful measure. It represents the middle value of net wealth in each age range. So, for the age range 60–64, the average net wealth is nearly £35,000, but the median is close to £5000, implying that half of the people's net wealth is below this value.

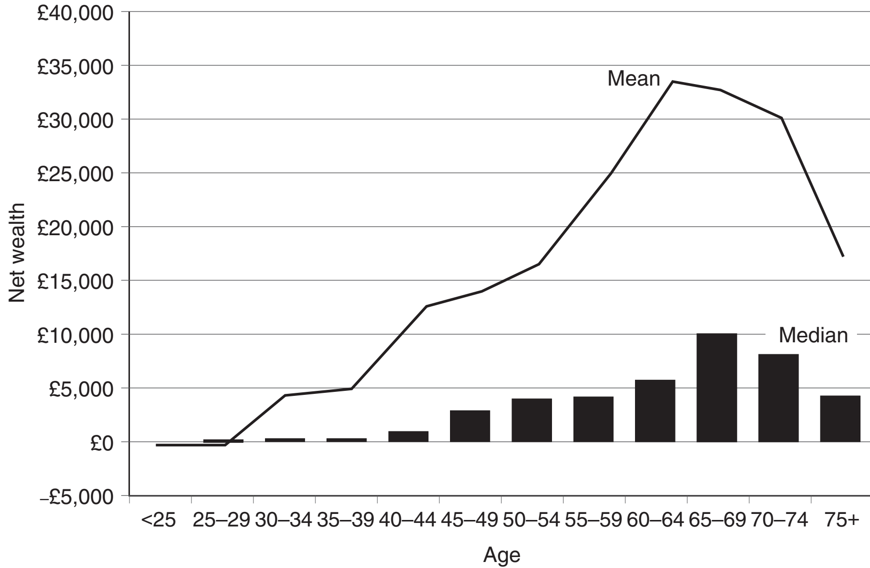

Figure 2.11 *The mean and median values of net wealth by age*
Source: Institute for Fiscal Studies, 2002

Even the most statistics-averse marketer can see that the median value is far less than the average value for the whole age range. There are a few people in each age group with a lot of financial wealth and far more with little or none. Indeed, of the £165 billion financial assets owned by 50–59-year-olds, over 84 per cent are owned by a quarter of the group.

Another measure of inequality – or, perhaps, it is the cause – is the unequal distribution of older people who have not retired but just 'stopped working'. Figure 2.12 shows, for the age group 50–59, the unequal distribution, by levels of wealth, for those who are retired or semi-retired and those who have stopped working for such reasons as being unemployed, sick or needing to care for a dependant. The poorest 20 per cent of this age group have nearly all disappeared from the work market, while the richest 20 per cent have retired or are semi-retired.

The more you look, the more evidence you will find of the disparity in wealth. Savings and home ownership are higher among those with pensions than those without.

Income and wealth inequality is very much part of society in the US as well. The AARP published a study in 2004 showing that there is an increasing level of wealth and income inequality for Americans aged 41 to 59 (baby boomers). The top 1 per cent of this group owns more wealth than the whole of the bottom 80 per cent. In each year of the survey – from 1989 to 2001 – the inequality gap widened.

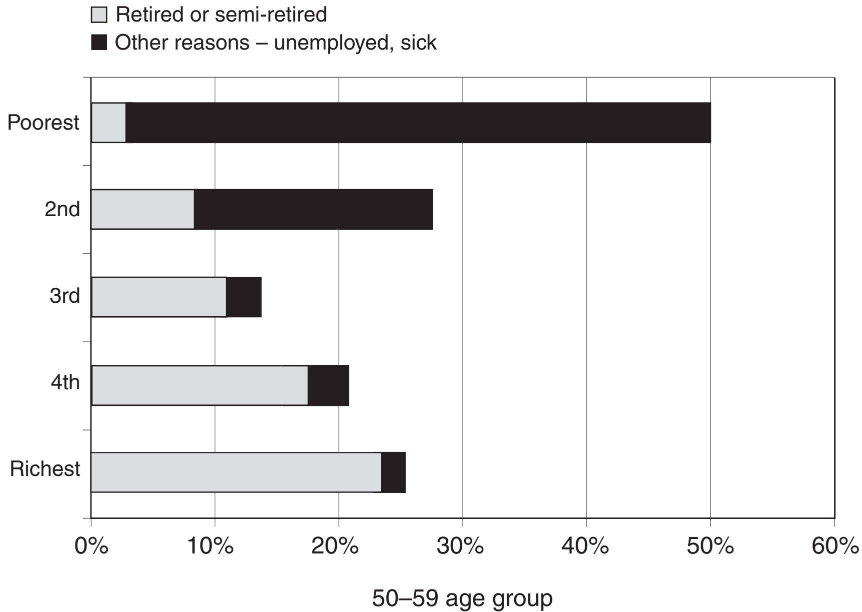

Figure 2.12 *Reasons for men aged 55–59 not working in relation to wealth*
Source: Pensions Commission, 2004

The message for marketers is blindingly simple: some retired people, and those near to retiring, are going to have a lot of spending power. A lot more in this age group, however, will have very little – a trend that will become more pronounced in the future. This puts a premium on establishing marketing relationships with the post-retirement affluent. The question every marketer must answer is: does their customer base contain the rich or the poor over-50s? This is not such a simple question to answer because it depends whether or not their customer's income is predominantly dependent on paid employment.

At the point when people stop working because of retirement or exiting from the workforce, their financial position can radically change. For instance, the income of a self-employed person may have been high compared to that of a government employee. At the point when work income stops and retirement income starts, however, their respective financial positions may be reversed. The government employee has a guaranteed pension for the rest of his or her life, while the self-employed person may not have made pension provisions and is then dependent on State support.

The groups of people listed in Table 2.1 are a first approximation of the 'winners and losers' in terms of having adequate pensions.

Table 2.1 *Groups of people most likely to have adequate and inadequate pensions*

Those with adequate pensions	Types of people likely to have inadequate pensions
▪ Members of private-sector direct benefit schemes that are still accepting payments. ▪ Most public-sector employees. ▪ Senior executives with high-paying pension schemes. ▪ People on low incomes who will receive equivalent levels of State benefits.	▪ People not paying into a pension scheme and those making insufficient payments. These people are most likely to be found among the: – lower middle-income groups – smaller and mid-size firms – service sectors – self-employed.

Source: Pensions Commission, 2004

NICE GRAPHS BUT SO WHAT, PART 3?

The popular media's depiction of the over-50s swings between portraying them as a sad bunch of people, destined to pensioner poverty, and a fun-seeking and healthy group, determined to spend their wealth rather than leave it to their children. Even such a broad description has to contain some elements of the truth!

Among the retired and the soon to be retired is a group of fortunate people with little debt, receiving income from investments, pensions and property. Future generations will have such people but never so many as there are today. The concurrence of the 4Ps that created the 'charmed generation' is not likely to be repeated for the foreseeable future. So, this group represents a one-time opportunity for marketers. Once this cohort has aged and lost its ability and enthusiasm to spend, it will not be replaced by another of equal wealth. If you miss this opportunity it is gone for good.

Life for many of the other over-50s will not be so good, even now. At least 50 per cent of the over-50s stop working and have little in the way of savings and no private pension. Worse still, many more are retiring who have substantial levels of debt. The types of products and services purchased by this group will be totally different from those chosen by their wealthy counterparts. Marketers must understand the radical differences between these two groups

The importance of translating property wealth into income is central to how many people will fund their retirement. During the next decade, there

will be a bonanza in the financial and support services associated with property equity release.

Finally, the ways in which companies collect customer information must reflect the differences between the pre-retirement affluent (those with wealth derived from work income) and the post-retirement affluent (those with income from pensions and property). In many cases, the two groups will be the same, but this will not always be the case. Some customers' income will plunge when their income stops and inadequate pensions start.

'GENERATION BROKE'

The 'charmed generation' has a mirror image. It is called 'generation broke'.

The name for this generation was coined in a briefing paper published in 2004 by Demos, the US think tank. In the press release accompanying the report's launch, there was the following profound statement: 'younger Americans (18–34) face a "perfect storm" of debt, massive student loans, slow wage growth, underemployment and rising costs.' The press release went on to say, 'ironically, this coveted demographic for advertisers and marketers are slipping into a downward debt spiral that is unmatched in modern history.'

'Generation broke' is not just an American phenomenon. It is estimated that the average student in England and Wales now leaves higher education owing around £12,000 and this figure keeps increasing. According to the Demos report, young adults (25–34) in the US are experiencing record levels of debt. The statistics are frightening. These young adults' average credit card debt increased by 55 per cent between 1992 and 2001. Households in this age group, with credit card debt, spend nearly 24 per cent of their income on debt repayments. In households with incomes below $50,000 (approximately two-thirds of the total), debt servicing can rise to 40 per cent of income. Adults aged 18–24 are experiencing even higher rises in credit card debt – up 104 per cent between 1992 and 2001.

The 18–34 age group has suffered from a combination of factors that have resulted in this precarious financial position. Many of the costs associated with young adulthood have increased dramatically during the past 10 years. Housing costs have risen by a significant amount when compared to salaries. Education costs – something that was once free – are now an expensive entry into adulthood. Salary levels have been suppressed and many permanent jobs have been replaced with short-term

contract employment. To make matters worse, this generation has experienced the full might of credit card and retail store companies' marketing machines. There has never before been an era when buying on credit has been so simple.

With all of these financial commitments and temptations, it is not surprising that the one thing this age group is not doing is contributing enough to securing its pensions. In the UK, between 2002 and 2003, the number of under-35-year-olds saving for pensions declined. This wasn't a tiny little drop, but a huge fall – 13 per cent of men and 12 per cent of women in this age group dropped out of saving for a pension in a single year! During the same period, the percentage of 45–64-year-olds paying into pensions increased by around 7 per cent.

Since 1997, an additional 1.7 million people have entered the UK workforce. During that same period, however, the number of people both working and contributing to a pension has not increased by one person.

It is plain that this situation cannot continue. Either through higher tax or enforced saving, the 18–35s are going to have to pay a large chunk of their incomes into pensions. This is bad news for marketing's favourite age segment as every penny paid into a pension scheme is one penny less spent on consumption.

Financial life is going to get bleaker for these 18–35-year-olds. They are going to have to fund their own retirement plus that of their mums, dads and grandparents. Marketers had better get used to the idea that this age group is going to become relatively poor as they are forced to stop spending and start saving. The marked differences in the financial outlooks for these two generations are shown in Table 2.2.

There are some negative factors affecting the 'charmed generation's ability to spend. Needing to fund up to 30 years of post-retirement living affects the rate of spending, as does the demand to help with their children's finances, especially with housing and relieving their debt burden. However, compared to the catalogue of issues confronting 'generation broke', these are minor irritants.

The conclusion from analysing the 18–35 age group is that their future is littered with financial commitments that will constrain their ability to consume. These woes will not affect all members of this generation and there will remain an attractive subgroup worthy of marketing attention. At an aggregate level, however, you have to conclude that this age group's marketing attractiveness is declining.

Table 2.2 *The factors affecting the spending power of the 'charmed generation' and 'generation broke'*

'Charmed generation'		**'Generation broke'**	
Pension income	✓	Paying to fund pension	✗
Property equity	✓	Low growth in pay	✗
Low debt (beginning to change)	✓	Debt from funding education	✗
Accumulated savings/investments	✓	High housing debt repayments	✗
Need to fund long period of retirement	✗	Saving to acquire property	✗
Intergenerational wealth transfer	✗	Likely tax increases to fund ageing population	✗

Source: 20plus30, 2004

THE MARKETER'S TESTIMONY

Marketers made a range of responses when confronted with the arguments contained in this chapter. Table 2.3 lists these responses, accompanied by a slightly cynical interpretation of what is really meant by their reactions and the actions that they are likely to take as a result.

A simple technique to encourage senior marketing and business managers to really think about the implications of this analysis is the 'marketer's testimony' (see Figure 2.13). This is a short document that should be signed by the marketing and senior business managers in companies that primarily target the 18–35 age group.

Table 2.3 *The responses from marketers to this chapter's demographics and economic analysis*

Reaction to the analysis	Real meaning and resulting actions
'I know all of this and it's reflected in how we market.'	It is a tiny number of marketers who have genuinely and thoroughly investigated the relevance of this analysis. Rarely has a recent and comprehensive audit been conducted to evaluate the significance of these demographic changes.
'I don't think it will affect us.'	When translated this means, 'I have no idea if it will affect us and I don't intend to find out.'
'It's something we should look at.'	This, almost certainly, means nothing will happen. The genuine interest and concern is soon replaced by a more pressing issue.
'Perhaps it will affect us, but not in the short term.'	Same answer as above.
'This could have a serious impact on our business.'	This might result in some action being taken, but, more likely, it will become an item on a lengthy 'to do' list.
'This really makes me think.'	Another item that will be added to the 'to do' list. Unlike the previous response, though, it will be placed in the 'very important' category.
'We must evaluate the implications.'	This response has a 50:50 chance of resulting in action being taken.
'I will personally make sure we understand the implications.'	This response has a good chance of resulting in significant activity to understand the implications of these trends on the business.

Source: 20plus30, 2004

THE MARKETER'S TESTIMONY	
I understand the implications of the demographic and economic changes affecting the number and relative wealth of consumers. Please tick to confirm that you understand the facts and implications of each point.	
The numbers of people aged over 50 will increase significantly during the coming decade.	☐
The numbers of people aged 18–35 will remain static and in places decrease.	☐
On average, a person aged over 50 has a higher level of wealth and income compared with the average 18–35-year-old.	☐
A significant number of members of the age group who are retired and those retiring in the next five to ten years have a level of wealth and income that is unlikely to be repeated in future generations. They represent a business opportunity that, once gone, is unlikely to be repeated. They are called the 'charmed generation'.	☐
The generation aged 18–35 are experiencing financial pressures caused by high levels of debt, the need to fund a pension and the change in employment conditions and this is a situation that is likely to continue. On average, their relative financial importance as consumers will decline. They are called 'generation broke'.	☐
Even though the demographics and economic trends indicate the reducing economic importance of 18–35 consumers, I recommend retaining our current focus on this group for the reasons detailed below. These are listed in priority order.	
Reason 1	
Reason 2	
Reason 3	
Reason 4	
Reason 5	
I, being of sound mind and body, do acknowledge that I have thoroughly read and understood the meaning and implications of this document.	

Name	....	Date	....

Figure 2.13 *The marketer's testimony form. Proof that the implications of the changing demographic and economic value of different-aged consumers is understood*

IMPLICATIONS FOR THE MARKETER

Many, if not the majority of marketers, focus on the 18–35 age group, even though, compared to other age cohorts, their numbers are hardly growing and they are relatively poor.

! Where companies have a youthcentric strategy, it is the duty of senior management to explain why it is appropriate for them.

There is an ample supply of data about population patterns and the associated distribution of income and wealth.

! Understanding macroeconomic consumer data and then using it to guide future strategy is part of the marketer's role.

A subsegment of those who are retired and who will retire in the next five to ten years has a level of wealth and income that is unlikely to be repeated in future generations. This is the 'charmed generation'.

! Companies should understand whether or not this group of wealthy consumers is relevant to their business. If it is, then there needs to be some urgency in targeting them.

Many of those who are about to retire will suffer a significant reduction in their standard of living. This is the start of a trend that will become more prominent in the future.

! Companies should understand the impact on its customers' expenditure levels as they move from pre- to post-retirement incomes.

For many young people, their future is littered with financial commitments that will constrain their ability to consume.

! Marketers should not assume that the spending power of 18–35-year-olds will continue at its current rate. Their levels of expenditure should be closely monitored.

SUMMARY

- Whichever way you analyse the data, the conclusions are the same: compared to the over-50s, the 18–35 cohort is growing at a slower rate and is relatively poor. In the next 15 years, the number of 50–69-year-olds in the UK will increase by 3,000,000. The number of 15–34-year-olds will struggle to grow by 160,000.
- Despite these statistics, marketers retain their fascination with the young.
- The same patterns of ageing, wealth distribution and marketing indifference exist throughout Europe, Japan, Australia and the US.
- In the UK, some of those who are retired and who will retire in the next five to ten years have a level of wealth and income that is unlikely to be repeated in future generations. They are property owners, have little debt and receive income from investments, pensions and inheritances. They are the 'charmed generation' and represent a 'one-time' opportunity for marketers. Once this cohort has aged and lost its ability and enthusiasm to spend, it will not be replaced by another of equal wealth. If you miss this opportunity it is gone for good.
- Another and larger part of this age group is financially ill-prepared for retirement and will suffer a significant reduction in its standard of living.
- The message for marketers is astoundingly simple. Some retired people, and those near to retiring, are going to have a lot of spending power. A lot more in this age group will have very little – a trend that will become more pronounced in the future. This puts a premium on establishing marketing relationships with the post-retirement affluent.
- The mirror image of the 'charmed generation' is the many 18–35-year-olds suffering from the financial problems of credit card debt, repaying student loans, slow pay growth, under-employment and rising property costs. For many younger people, their future is littered with financial commitments that will constrain their ability to consume.
- Marketers must understand how the different generations' consumption levels are being affected by economic factors, even if they then wish to ignore the conclusions.