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Boom time for retirees

By Francesco Guerrera and Jonathan Birchall

Judy never thought she would spend her retirement worrying about a rusting fridge and rotting furniture.

But since August, when a rainstorm lacerated her split-level ranch-style home in the comfortable Chicago suburb of Glenview, the 62-year-old former elementary school teacher (who prefers her surname to be withheld) has had to expend effort on insurance claims and money on removal people.

Coming less than a year after the death of her husband, the flood has thrown Judy's plans for a leisurely retirement into dis-array. But although her financial and emotional reserves are low, she remains determined, almost defiant, in her desire to reap the rewards of 34 years' teaching in inner-city schools.

"I don't want to cut back on my lifestyle. I have worked all those years and I feel I have earned it and I deserve it. What is the purpose of being retired if you can't pick [yourself] up and go to a show or on a trip and have dinner with friends?"

Judy's resolve embodies the spirit of a generation like no other in US history. The 77m "baby-boomers" – born between 1946 and 1964 when the optimism fostered by victory in the second world war and rapid economic development prompted Americans to procreate – have been the largest and wealthiest demographic cohort in the country for more than half a century.

Over the past few years, as more and more boomers joined the pensioners' ranks, their long-held dominance over America's society and its economy was widely expected to fade. But unlike previous trend-setting generations – such as the "New Dealers" born between 1936 and 1945 and the "Silents" that preceded them – the boomers do not appear ready to step aside in favour of younger blood. On the contrary, new research by McKinsey, the management consultancy, found that boomers will instead tighten their grip on America's economic levers over the next few years.

By 2015, boomers will have a net worth of some $26,000bn (£12,750bn, €17,670bn) – equivalent to a year's gross domestic product for the US and eurozone combined. They will control a larger proportion of wealth, income and consumption than any other generation in the country – the first time that consumers over 50 have held such sway over the world's largest economy.

With boomers set to account for the bulk of growth in expenditure on items such as groceries, beauty products, furniture, clothing and electronics, corporate America ought to be busy devising novel ways to lure these ageing big spenders. But aside from pharmaceutical companies and financial services providers, which have traditionally targeted older consumers, there are few signs that large companies have recognised the giant opportunity presented by boomer consumers. "The idea of turning 50 has had a halo of doom and gloom about it," says Jeff Taylor, founder of Eons.com, an internet portal for older people. "When it comes to spending, corporations' heat map is on teenagers and the young."

The two questions for companies ranging from Wal-Mart to Apple, Procter & Gamble and Gap, as well as the advertising wizards on New York's Madison Avenue, are why and how. Why have they so far been unable to tap into a market that, as one disgruntled boomer puts it, dwarfs any other demographic in America other than "male", "female" and "white"? And how can they make up lost ground and adjust their products and marketing to a seismic shift in their key audience?

The issue is made all the more relevant by the looming threat of recession: as people begin tightening their belts, companies capable of winning over the wealthier, more consumption-focused part of the population stand to gain an edge over the competition.

In some ways, corporate America's current neglect of baby-boomers stems from their past popularity: for at least three decades they have been the most coveted group for companies and advertisers. As Matt Thornhill and John Martin recall in their book Boomer Consumer, the television network ABC was one of the first companies to awake to boomers in the late 1960s.

Trailing badly in the ratings to rivals such as CBS, ABC commissioned research that showed younger viewers preferred half-hour comedies to feature-length dramas. The finding led to the creation of shows including Happy Days and Charlie's Angels, which became an instant hit with twentysomething boomers and propelled the network to the top of the viewership charts.

Success stories such as ABC's, coupled with the simple fact that consumers aged 18-49 have been a fast-growing, big-spending group for decades, led companies and marketing gurus to concentrate on mining what became known as "the golden demographic". That strategy was reinforced by a realisation that older people were, as a category, a spent consumer force due to their unwillingness to change lifelong consumption habits and their often limited financial resources.

"One of the unwritten rules of good consumer marketing has traditionally been the focus on younger people because they are open to change and willing to spend," says David Court, of McKinsey's worldwide market and sales practice. "For marketers in the last few decades, the core of the market and boomers were one and the same thing".

But as the boomers aged – by 2015 they will all be outside the fabled under-49 cohort – corporate America failed to grow old with them. Marketing experts argue that the continued focus of large companies such as P&G and Gap on the youth of "generation X" and "generation Y" overlooks a simple statistic: the 18-49 age group will grow by only 1m people in the next 10 years, compared with the 22.5m Americans set to enter the 50-plus bracket.

But size is not the only driver behind the lasting power of the boomer generation: there is ample evidence that, unlike previous ageing groups, boomers are not "stuck in their ways" and do not regard themselves as backward-looking consumers. When the AARP, the pensioners' lobby group, surveyed Americans over 45 in 2002, it concluded that "contrary to conventional wisdom, [they] are no more brand loyal than younger people in most categories".

In fact, for products such as stereos, computers and mobile phones, older consumers turned out to be much more willing to shop around and switch brands than hip "generation X-ers". Not coincidentally, some 25 per cent cent of Apple's recently released iPhones – the epitome of a "cool", cutting-edge product – have been bought by people over 50.

"It is not boomers but marketers and companies that are stuck in their ways, doing the same thing they have been doing for the past 40 years," argues Mr Thornhill. "Boomers are going to have money, time and willingness to spend on goods and services for 20 or so years. There is no reason to give up on them."

Switching their attention to ageing boomers will not prove easy for companies and advertising agencies that have focused for years on a much younger audience. The problem is compounded by the fact that the millions of boomers are a fragmented and diversified group, whose varied desires and tastes are difficult to grasp.

"This is a cohort that many companies don't know much about and that doesn't fit existing models," says Robert Bloom, a former US chief executive of Publicis, the advertising giant, and author of the business strategy book The Inside Advantage. "Companies will have to create a whole new lexicon to talk to these people."

What is left out of the new lexicon will be as important as what is put in. The experience of the few companies that have deliberately gone after boomers suggests that they hate being treated as over the hill. Gap's attempt to target female boomers, for example, failed this year when it closed its fledgling Forth & Towne chain, taking a $40m writedown, partly because many women shunned stores openly aimed at the over-35s.

Similarly, women's mainstream fashion in the US is seeing the decline of an entire category – "classic" – that has been associated with women over 40. Jane Elfers, chief executive of the Lord & Taylor department stores – a chain that is a traditional bastion of classic – says older women increasingly "don't want to wear what their mothers wore". Even the Liz Claiborne brand – which built its success on appealing to working baby-boomer women – is undergoing an overhaul that is likely to lead to a more contemporary fashion line, according to William McComb, its chief executive.

By contrast, Oxo International, the maker of Good Grip kitchen utensils – a product that inherently appeals to older, less dexterous users – built a $200m-a-year business by shunning any direct targeting of older consumers. Alex Lee, Oxo's president, says the company even removed recommendations from the AARP and the Arthritis Foundation from its packaging to rid itself of "the stigma" associated with older people.

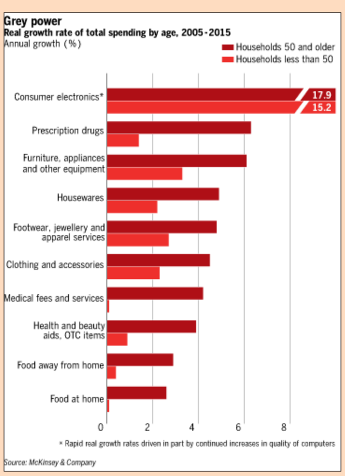
"The last thing the [boomer] generation needs is a company that tells them they need tools to address their lack of dexterity," he says. "They don't want geriatric tools, they want cool stuff."

This desire to keep in step with the times – partly derived from the boomers' tendency to retire later in life than previous generations – will force companies to use different marketing devices from the ones usually reserved for ageing groups. "People who are retiring now have spent 10 years in the workplace experiencing the digital transformations that have occurred," says John McNamara, chief executive of Halogen Response Media, a media planning unit of Starcom MediaVest Group. "They use computers a lot ... Digital marketing will be very important for this sector."

That is why websites such as Eons – set up by Mr Taylor in 2005 after leaving Monster.com, the portal he founded for job-seekers – are positioning themselves as platforms for advertisers trying to reach internet-savvy boomers.

Their task is complicated by the online habits of these "silver surfers". Many are looking not for things to do or products to buy but to meet other boomers. Nearly three-quarters of traffic on Eons – which has 630,000 registered users – goes through its "people" section, which allows users to seek out cyber-boomers between the ages of 49 and 103.

The hunger for virtual social networking underlines another trait that sets this generation apart from those before it: many boomers are, or feel, alone. A divorce rate of 38 per cent – much higher than for previous cohorts – and the declining importance of support networks such as the church and extended family, has turned many boomers into single-person households with little attachment to traditional communities.



This increasing isolation presents unexpected business opportunities for businesses such as restaurants, providers of take-away food, travel services and a host of other "convenience industries". Home Depot and Lowe's, the home improvement chains, have for example been targeting consumers with a limited enthusiasm or ability for do-it-yourself chores by offering a "do-it-for-me" handyman service.

A few travel companies have added concierge services to make it easier for older tourists to arrange transfers, meals and excursions while on holiday.

Other businesses are trying to get to the elusive boomers by looking at their evolving interests. Grandparents.com, for one, provides ideas on activities, gifts and tips involving grandchildren. Jerry Shereshewsky, an advertising and sales veteran who left Yahoo! to become chief executive of the internet venture, says the main attraction for advertisers – from baby products manufacturers to amusement park operators – is the ability to reach a highly motivated audience.

"Just because demographers call them baby-boomers, it does not mean they call themselves baby-boomers," he says. "It is the lifestyle and the life stage that people have a connection and a camaraderie with." Indeed, baby-boomer "empty-nesters" who buy a dog or a cat after the children have left home are credited with an explosive recent growth in the market for pets.

All the same it is difficult to see the market for ageing animal lovers, companionship-seeking older people and puzzled grandparents as more than niche businesses. For large companies, the biggest opportunity could rest with boomers such as Judy in Chicago, who for a variety of reasons find themselves less well off than they thought they would be.

McKinsey estimates that the 24m "underfunded" boomers will nonetheless account for one-quarter of all US consumer spending in 2015, making them a prized audience for virtually any company. Reaching this boomer underclass, however, will entail more than offering a swath of goods and services at bargain-basement prices.

Boomer watchers say the generation's dominant role in the past half-century has left boomers with a sense of entitlement as to their standard of living in retirement – as shown by Judy's determination to have a good time despite her financial problems. This means that, just like their aversion to being treated as "old", boomers will not respond well to companies with a "pile 'em high, sell 'em cheap" proposition. As one boomer says: "I just can't stand going to [discount chain] T.J. Maxx, where none of the sizes are right and you have to pile through mountains of stuff to find anything decent."

According to marketing experts, the likely winners in the battle for the wallets of "underfunded" boomers will be companies that offer good value for money but still give consumers a sense of being well looked after. Some point to examples such as JetBlue, a low-cost airline that has personal screens embedded in its leather seats, or Target, a retailer that differentiates itself from its arch-rival Wal-Mart through more "fashionable" clothing and better-looking stores.

The irony is that neither JetBlue nor Target appears to have recognised its appeal to the bulging boomer masses. The two companies were unavailable for comment but a look at their advertising, brand image and product offering suggests they are chasing a younger, hipper, audience.

In that, they are not alone. As tens of millions of people follow Judy in a quest for retirement happiness and head for the mall, they may find corporate America surprisingly ill-prepared to seize the $26,000bn opportunity in front of its eyes.

Additional reporting by Aline van Duyn