

Top 10 Misconceptions That Sabotage Marketing to Mature Audiences: #6

# Older consumers are more reluctant to open their pocketbooks

June 2, 2010

## INTRODUCTION

It's said that most stereotypes have an underlying shred of truth. But as the stories are repeated over time, they become so blown out of proportion that, eventually, there's no resemblance between the stereotypes and reality. This is probably where one of the more offensive misconceptions about older consumers was born: the image of them as miserly and reticent to open their pocketbooks—and therefore not worthy of marketers' time, money, and efforts.

It's true that compared to younger generations, older adults are generally more experienced savers. Time, trial, and error have taught them how to balance a budget. During the current economic recession, the flood of news reports about how it decimated the life savings of many older adults has only compounded the stereotype.

But what most people (and marketers) forget is that, today, there are more Baby Boomers who came of age during the free-spending '80s than there are people who suffered through the Great Depression. So that shred of truth—many who endured that dark time in our country's history learned grim lessons that understandably shaped their spending habits forever—doesn't apply to today's widely diverse mature markets. To remember the days when people were standing in soup lines, and stuffing money into their mattresses rather than putting it in banks, you'd have to be at least 80 years old. Yet the stereotype persists.

For example, remember the “Early Bird Special?” This practice of offering discounted dinners was originally created by restaurants to increase business during off-peak hours, by luring retired adults with flexible schedules. Yet the perception that stuck was that older folks didn't want to spend the money on a full-price meal. Truth is, thanks to the recent recession, the Early Bird Special is enjoying a revival—but it's younger diners who are leading the charge.<sup>1</sup>

So despite the stereotypes, older consumers as a whole are not as thrifty as people might think, and enjoy spending their money on things that they want or need. While their habits are based more on necessity and experience (i.e., needs rather than wants), they are still a major force in consumer spending, with nearly \$2 trillion of spending power.<sup>2</sup> Clearly, marketers who ignore this group due to outdated stereotyping could be making a misguided and costly mistake.

THANKS TO THE RECENT RECESSION, THE EARLY BIRD SPECIAL IS ENJOYING A REVIVAL—BUT IT'S YOUNGER DINERS WHO ARE LEADING THE CHARGE

## DO YOU HAVE SOMETHING FOR ME, GRANDPA?

The spending behaviors of older adults who are grandparents indicate that one stereotype may hold some truth: the image of kindly grandparents surrounded by their grandkids, distributing money and treats. In the United States, grandparents are a large and active consumer group—70 million people at the end of 2009 who spend roughly \$28,500 per person, per year, representing one-third of consumer spending overall.<sup>2</sup> \$52 billion of this money will be spent on their grandchildren, a number that's grown 7.6% since 2000.<sup>2</sup> That's a whole lot of candy.

How can they afford to spend so much money in this troubled economy? A number of factors seem to be at work here:

**They're getting wealthier.** By the end of 2010, it's predicted that families led by 54- to 62-year-olds will have the highest net worth of any age group. This trend has been building for some time: in the decade ending in 2007, the 55- to 74-year-old group had an 11-12% increase in median family income.<sup>2</sup>

**They're getting younger, not older.** The average age of grandparents today is younger than the previous generation. In fact, the median age is just 50 for women and 54 for men, and they are at the peak of their earning power. Households of those 55-64 years old—two-thirds of which are led by people who are grandparents—have an average net worth of \$254,000.<sup>2</sup>

**They survived the recession better.** While some older adults had their life savings decimated by the drop in the stock market, grandparent homeowners came out of the recession in much better shape than younger homeowners. In fact, more than half of grandparent-led households don't even have a mortgage.<sup>2</sup> With expenses freed up after paying off mortgages and past debts, grandparents have more money to spend than their younger counterparts.

So which industries, products, and services stand to benefit most from the significant spending power of grandparents? Here's a breakdown of how they spend their money (2007 data, in billions):<sup>2</sup>

- Motor vehicles, fuel, and maintenance: \$251
- Food at home: \$140
- Entertainment: \$100
- Restaurants: \$97
- Travel: \$77
- Apparel: \$76 (\$3 alone on infant apparel)
- Gifts: \$64
- Education: \$32 (\$5.5 on gifts of stocks, bonds, and mutual funds)

It gets even better. With the number of births increasing each year, it's estimated that there will be more spending from grandparents on the new grandkids.<sup>2</sup> That almost ensures that grandparents will continue to be the consumers who spend the most out of all older adults. It's clear that they're willing to spend their disposable income to enjoy their lives and enhance those of their families. So, the image of the giving grandparent does have roots in the research.

## MOVING FROM WANT TO NEED

Of course, older adults face economic realities just like the rest of us. Analysts predict that due to the recession, older consumers will be a little more frugal than they were in their younger years. Perhaps due to significant losses in retirement fund values, older adults in the United States raised the percentage of personal income that they put into savings, from 1.7% to 4.5%.<sup>3</sup>

What impact will this have on buying habits? Consumer spending is shifting—from wants to needs, from luxury items to ones that are less expensive yet just as durable. For example, today's older adults may be more likely to buy a new Hyundai Sonata when their Mercedes C-Class hits

100,000 miles. Consider that Mercedes-Benz sold 33% fewer cars in 2009 as compared to pre-recession 2006<sup>4</sup>—while Hyundai's U.S. sales rose 8.3% in 2009, in a year when industry-wide sales in the U.S. fell 21%.<sup>5</sup>

Even so-called “affluent” older adults have a different take on what it means to be wealthy these days. A recent study on these “New Affluents” (a group whose median age is 45 and median household income is nearly \$200,000) found that luxury brands and social status are no longer important to them.<sup>6</sup> They're shunning “conspicuous consumption” for brands that represent quality, aesthetics, and authenticity. Other attributes that signal “prestige” for these consumers include uniqueness, integrity, design, and performance. So it's not so much what's on the outside, but what's on the inside. (Not only is it not your father's Oldsmobile any more, there's no such thing as Oldsmobile any more.)

What other trends can marketers expect from this need-based phenomenon?

Older adults are expected to make more experience-based purchases on travel or dining, and spend more on healthcare (as much as 7.2% of their income) within the next eight years.<sup>3</sup> As healthcare continues to evolve and people live longer, it's fair for marketers to expect that these expenses will continue to be a priority for older adults.

But it's important to remember that despite the trend toward purchases based on experience and necessity, older adults still spend more money than any other age-based demographic.<sup>4</sup>

## MISSING OUT ON A GOLDEN OPPORTUNITY

Are too many marketers moving on to Generation X and Y? That could be a costly mistake. Based on size alone, companies and marketers need older adults in these times. While older adults may be trying to save more,<sup>3</sup> they still make up the largest consumer demographic in both numbers and the amount of money spent.

In addition, depleted retirement funds will force many of today's older adults to remain in the workforce longer, extending their earning years.<sup>4</sup> A recession in 2000 wiped out some of the Baby Boomers' social security, and the current recession took another, larger, chunk out of their savings.<sup>7</sup> However, this also means that with the heightened competition of experienced older adults in

CONSUMER  
SPENDING IS  
SHIFTING—FROM  
WANTS TO NEEDS,  
FROM LUXURY  
ITEMS TO ONES  
THAT ARE LESS  
EXPENSIVE YET  
JUST AS DURABLE

the workforce, it may take Generation X longer to move into their prime earning and spending years.<sup>4</sup> The news is even more sobering for Generation Y: in 2009, that group experienced a 14% unemployment rate—and have significant debt out of which to climb.<sup>4</sup>

Specifically, younger Baby Boomers in their late 40s and 50s are not only at the peak of their earning potential, but are making the majority of buying decisions for themselves, grandchildren, and their elderly parents. They're spending more on themselves per month than Millennials or Generation Xers, and twice as much on other people in their lives.<sup>8</sup>

## CONCLUSION

Clearly, while the economic recession has altered Baby Boomers' habits—from free spending in the '80s and '90s to strategic spending today—the important thing for marketers to remember is that they're still spending.<sup>7</sup> In fact, they're still spending more on themselves and their families than their younger Generation X and Y counterparts. Advertisers and marketers who discount older adult markets because of outdated stereotypes about their frugality are making a costly mistake—and missing out on a significant opportunity.

Baby Boomers and older adults still make up one of the largest and most powerful age-based consumer demographics. In fact, younger Boomers grew up in a period when consumer spending was excessive, and some of these habits linger. Experience (and the recession) has made older adults grow smarter about their purchase decisions, basing them more on “need” than “want.” But while the recession has hurt every generation, older adults remain as the wealthiest and smartest buyers. Smart marketers will recognize this and continue to tap into the potential of this oft-forgotten group.

**BABY BOOMERS  
AND OLDER  
ADULTS STILL  
MAKE UP ONE OF  
THE LARGEST AND  
MOST POWERFUL  
AGE-BASED  
CONSUMER  
DEMOGRAPHICS**

## REFERENCES

1. Cave, Damien. “Newly Frugal Generation Revives Discount Dining.” *The New York Times*, January 8, 2010.
2. Francese, P. “The Grandparent Economy: A Study of the Population, Spending Habits and Economic Impact of Grandparents in the United States.” April 20, 2009.
3. “Experts Anticipate Shift in Spending Habits During Retirement.” *AARP Global Network*, January 28, 2010.
4. Welch, D. “Baby Boomers Curb Free-Spending Habits.” *MSNBC*, July 27, 2009.
5. “Hyundai Motor to recall Sonatas in South Korea, U.S.” Bureau Report. Retrieved from <http://www.zeenews.com/news606595.html>.
6. Arnold, Tim. “Is Luxury Dead? Maybe Not.” *Advertising Age*, May 13, 2010.
7. Wallace, E. “The Boomers Stop Buying.” *MSNBC*, February 26, 2009.
8. *TV Land*. “Generation BUY: A Close Look at the Boomer Consumer.” Study fielded by OTX. July 7, 2008.