“Boomer Comsumer”

BARRON'S

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By Gene Epstein
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The baby boomers, who currently range in age from 45 to 63, are in the prime of power, with one of their number in the White House and legions of others at the top echelons of Corporate America, the military, the courts, the media and just about every other hub of U.S. life. But to Madison Avenue, which historically has worshipped at youth's altar, the boomers are hurtling into the winter of irrelevance.

Increasingly, the 77 million of them are being ignored by advertisers and marketers. They're being elbowed aside, ironically, by 18-to-49- year-olds, the very age group that they, in their younger years, put on the map as the most desirable consumer cohort. But the realities are changing, and any company that ignores them will be doing so at its peril over the next decade or two.

For one thing, the number of Americans over 50 is soaring. By 2015, when all the boomers will be 50-plus, folks aged 50 to 75 will account for 40% of adult consumers, up from 36.8% now. And they will boast the most spendable cash. Yet advertisers and marketers still seem to devote about 90% of their energy to wooing the 18-49 group, and 10% to those 50-plus. "To most marketers and the management they report to, when you turn 50, you're dead," says John W. Martin, CEO of the Boomer Project (www.boomerproject.com), an online marketing and research organization, and co-author of a book called Boomer Consumer.

Demographer Peter Francese views the imbalance as ridiculous. Readily granting that the younger cohort deserves greater attention, he says that, in their own self-interest, marketers should rebalance their focus to something approximating 60%-40%.

Does it make sense, after all, for NBC's suits to judge a new TV show like Jay Leno's mainly on its appeal to 18-to-49-year-olds, as some published reports say is the case? Leno's advertisers include companies such as BMW (ticker: BAMXY), many of whose buyers are 50 or older. Leno himself, 59, is a famed car collector, whose vehicles include a 2009 Mercedes-Benz SL63 AMG.

Luxury auto sales have suffered greatly in this recession, and their chances of picking up depend on courting the boomer consumer. The median age of all luxury-car buyers is 52, by some estimates, and shoppers 50 or older account for the highest proportion of purchases or leases of luxury-car makers' most expensive models; they have worked the longest, have accumulated the most assets and have money to spend on themselves.

If Leno's former archrival, David Letterman, were to come up with a Top 10 list of things that people over 50 buy, Depends adult diapers or enSure nutrition drinks would surely make the cut, along with burial plots and long-term-care insurance.

But while the aging boomers certainly will be a bonanza to health-care outfits -- they already account for two-thirds of the spending on pharmaceuticals -- they will be anteing up a lot more for other things. Letterman's own shopping list must reflect the fact that he's a recently married 62-year-old with a six-year-old son (and some embarrassing personal problems, as he disclosed on his show last week).

In fact, the 50-plus set already accounts for 45% of all U.S. consumer spending and, Francese predicts, the figure could utlimately approach 50% by 2015.

The group's spending patterns are often misperceived.

One myth is that older Americans are much more interested in shedding furniture and housewares than in buying them because most are empty-nesters. The reality: Older consumers account for more than 40% of the money spent on new household furnishings and equipment in the U.S.

In part, this is because two-thirds of the owners of second homes are at least 50 years old, and need couches, tables and cutlery for those getaway places. In addition, one in six families headed by a person over 50 has a member under 18, as more people have children at later ages. At the same time, the recession undoubtedly is forcing more 25-year-olds and 40-year-old single parents to rethink the charms of their parents' homestead.

Bottom line: Older consumers will keep trudging off to Bed Bath & Beyond (BBBY), Target (TGT), Wal-Mart Stores (WMT) and Ikea for years.

That message, however, doesn't seem to have reached advertisers. Boomerologist Martin partly blames ad agencies for what he views as companies' blindness to the "basic demographic truth." He says a disproportionately large number of advertising copywriters, account managers and art directors are young. "Ask them to do an ad targeting the 50-plus demographic, and they default to a gray-haired senior limping down a beach trailed by an aging golden retriever," he adds.

A Boomer Project survey of advertising pros showed that, on average, respondents regarded the term "over the hill" as meaning someone older than 57. (Boomers' response to the same question: age 75.)

Ironically, boomers themselves helped foster Madison Avenue's infatuation with 18-to-49-year-olds. Not so long ago, this demographic really was huge, since it was, after all, dominated by boomers.

Take 1965 (see chart on page 24), when the oldest boomers were turning 18, then jump to 1995, when the very oldest were turning 49. Over these three decades, the number of U.S. residents aged 18 to 49 soared from 78.6 million to 125.9 million. In the same period, the 50-to- 75-year-old cohort, many of them a product of the birth dearth of the 1930s, rose far more slowly.

That all changed after 1995, as the boomers began to turn 50. What has happened since then was predictable, but has unaccountably been overlooked. As the boomers left the younger age group and swelled the ranks of the older, the balance rapidly tipped. Of the total number of adult consumers aged 18 to 75, the share over 50 jumped from 30.4% in 1995 to 36.8% in 2009, the highest percentage on record.

It is expected to rise further. By 2015, Census Bureau projections show the over-50s will account for 40% of all adult consumers. By 2025, the number will hit 41%. Over the same span, according to Census estimates, the number of consumers aged 18 to 49 will rise far less impressively. (The balance will begin to reverse by 2035, when most boomers will be past 75, with many of them residents of assisted-care communities or that Great Mall in the sky.)

That raises a crucial question for at least the next 16 years. Says Martin: "What's easier for a consumer-driven company? Fighting among your competitors for a piece of a flat 18-49 demographic, or going after the 50-plus age group that will experience almost all the growth?"

Francese argues that, with older Americans already accounting for 45% of consumer spending, 40% of the marketing effort -- not just the current sliver should be targeted at the 50-plus crowd. To be fair, the 18-49 cohort will still account for most of the new-household formation that leads to buying new products. And they still will be the most likely to cruise malls and downtowns to scout for those items. How much they will be buying is another question.

The recession has left the typical 18-to-49-year-old far less flush than the average 50-plus consumer. In September, unemployment officially ran 9.8% for all workers, but the figure was 10.6% for those 18 to 49. For workers over 50, the rate was 7.3% Put another way, 92.7% of the over-50s who want a job are working, versus 89.4% of their younger counterparts.

As the official jobless rate rises, people often drop out of the labor force. But the decline in labor-force participation over the past year has been concentrated among workers under 50. Among older Americans, the participation rate actually has ticked up. That shouldn't be surprising.

The news that more older workers are delaying retirement is actually old hat. Mainstream media have left the impression that workers are staying on the job solely because the bear market has devoured their 401(k)s. But the trend has been evident since the late 1990s, when bull-market euphoria was at its zenith. It is doubtful that Dow 14,000 would convince a lot of these folks to relinquish their desks for the pleasures of golf, bridge and Scrabble.

The decline in wealth has probably hurt Generation X -- born in the late 1960s and the 1970s -- more than the boomers "Of all the generations born since World War II," maintains demographer Cheryl Russell, "boomers are in better shape than the younger generation, largely because most bought houses before prices went through the roof. Gen Xers are the ones stuck with the overpriced homes." To which we might add, the stock portfolios held by Gen X might also disproportionately hold overpriced shares. The boomers are old enough to have accumulated stocks years before the Dow first went north of 10,000.

What sectors might benefit from boomer consumers' continued strength? If The Graduate were made today, says Martin, "the cocktail party advice on the coming industry would shift from 'plastics' to 'probiotics.' Go into the aging businesses, all of which will thrive with longer life expectancies as the boomers age."

Along with pharmaceuticals and other health-related goods and services, beauty products should do well. Procter & Gamble's (PG) Olay, L'Oreal (LRLCY) and its Garnier unit and Johnson & Johnson's (JNJ) Neutrogena have all launched products targeted to boomer women.

Airlines and travel-and-entertainment companies, such as cruise operator Carnival (CCL) or Walt Disney (DIS), already benefit from the over-50s and should gain more. Not all the travel is for the boomers themselves.

Demographer Francese, author of a major study called The Grandparent Economy, says more than half the grandparent population will be baby boomers by 2010, and nearly 60% will be by 2015. These folks travel to visit their grandchildren, take them on one- and two-day trips, sometimes to theme parks, and ply them with goods and services.

"The rapid increase in boomer spending on grandchildren," comments Francese, "is driven in large part by the decline over the past decade in real income among young families, at a time when household income among those over 50 has been rising."

Another beneficiary: the financial-services industry, since aging boomers will be keenly interested in raising income, investing and even saving, to preserve something for their heirs.

Mental-agility products, such as Brain Age, Nintendo's (NTDOY) mental-training game series, might also become big as millions of boomers try to keep their minds sharp. Much later, as the boomers' autumn gives way to winter, such products might also be used to delay the onset of dementia.

But, despite what Madison Avenue might think, for the boomers -- one of whose bards sang memorably about staying "forever young" -- winter is still a long way off.