Getting to know urban elderly consumers

November 2016

Older customers will drive growth in developed markets. But few companies truly understand this segment—and its nuances.

The elderly haven't always been a priority for retailers and consumer companies. Yet they present a big opportunity: the demographic could account for more than half of all growth in urban consumption in developed markets in the next 15 years. In this episode of the *McKinsey Podcast*, McKinsey Global Institute partner Jaana Remes and McKinsey partner Markus Schmid speak with McKinsey Publishing's Monica Toriello about what consumer companies must learn from older customers to better serve this growing but fragmented group.

Podcast transcript

Monica Toriello: Hi, I'm Monica Toriello, an editor with McKinsey Publishing. Thank you for joining us on today's podcast. We'll be talking about a group of consumers today who are very important to consumer-facing companies.

Specifically, we're talking about the elderly population in developed regions—people 60 or older who are living in cities in Western Europe, the United States, and northeast Asia. These consumers will contribute more than half of urban consumption growth in the next 15 years in developed markets. Joining me to talk today about this important consumer group are two McKinsey experts who've spent a lot of time studying and thinking about the changing consumer.

First we have Jaana Remes, who's based in San Francisco. She's a partner of the McKinsey Global Institute (MGI) and a coauthor of the recently published report *Urban world: The global consumers to watch*. Thanks for joining us today, Jaana.

Jaana Remes: Thank you, Monica. A pleasure to be here.

Monica Toriello: Second, we have Markus Schmid, who's a partner in the Munich office. He's been leading a research effort called Consumer 2030, with a focus on consumer trends in Western Europe. Thank you for being here, Markus.

Markus Schmid: Happy to join.

Monica Toriello: Great. So let's start with some hard facts. Jaana, the MGI report has a few figures that I think might be startling to some people. For example, in Western Europe and northeast Asia, the urban elderly are the only age group that is actually growing.

Another one: in developed countries, the elderly population will grow by more than one-third in the next 15 years, and they will total about 222 million people. They'll account for about 51 percent of urban consumption growth, which is equivalent to more than $4 trillion.

These are big numbers. Do you find that consumer companies in general are aware of the importance of this consumer group?

Jaana Remes: Young people tend to get the attention of marketers and advertisers. I think we can all honestly say that we hear more about millennials than we do about older consumers. I live in Silicon Valley, where the tech industry tends to be very successful in capturing the imagination of the younger cohorts.

Tech solutions have had a much harder time identifying the problems that older folks could use technology for. I think there are many areas where we haven't really seen the rise of the older consumers.

Of course, that's not all industries. In healthcare, older folks are the core business, and companies are very aware of the expanding market. The demographic shift is so dramatic that there is increasing awareness among companies that they will need to look and think about the shift in consumer markets in a quite different way. I think it will be exciting to watch what kinds of innovations and what kinds of new ideas we'll see and hear about for that consumer segment.

Markus Schmid: I think you can have two angles to look at that. The one question is whether companies are investing enough in targeting the elderly segment. But there's another angle. That's the question of the overall implication of the shift toward elderly consumers in terms of the volume and value growth of the categories the companies are playing in, as well as how companies have to prepare for this shift.

Let me elaborate on that quickly. If you have an economic view on elderly consumers and the overall growth implications, you recognize that there's a challenge also with elderly consumers. Because the growth is coming by the sheer size of the segment but not necessarily by the wealth of the segment.

I can give you an example. For France, we expect that the 60-plus-year-old segment will have 20 to 30 percent less disposable income, and at the same time it is growing twice to three times as fast as the segment of the 40 to 50 year olds.

This basically means that overall growth is going down. That's a pattern that you probably see not only in France—you see it in Germany, you see it all across Western Europe.

The question is, are companies preparing for this slowdown? I would say the picture is mixed. You have some players that have a long-term view in striving for consolidation and try to develop to a much leaner, so-called no-frills operating model to build a foundation to create value in a slow-growth environment.

That brings me to the second question. So, do they really focus on elderly consumers? We hardly see that right now. You see it partially in retail, where you recognize that they are offering and changing their services with respect to elderly consumers. But especially in the area of consumer packaged goods or production, you don't really recognize that there's a big trend shift.

Monica Toriello: So you're talking mostly about Western Europe, Markus. But Jaana, you acknowledge in the MGI report that it's a very diverse group of people. Do you see any distinct differences between the urban elderly, say, in Western Europe versus the United States versus northeast Asia? What are some of the distinct characteristics of these groups?

Jaana Remes: There are quite a few differences. And, of course, there are differences even within each of these groups. So let me highlight three general areas where they are different.

First, these regions are at different stages of aging. Clearly, in Japan and South Korea, the two countries that we include in our northeast Asia region, the population is already aging much further. A full 40 percent of the region's consumption growth is going to come from the 75-plus age group. The aging is happening at the higher end of the segment group. But in Western Europe and the United States, the rapid growth is coming from 60 to 75 year olds, where baby boomers are shifting. The peak cohorts of baby boomers are shifting into that age group. So that's the first factor.

The second factor is that when you are looking at consumption patterns, what matters is people's incomes. For older folks, particularly after they become retired, it is pension systems that matter for their income. They vary widely in terms of generousness and in terms of the incentives people have to retire, and those matter a great deal across regions, as well as within Europe. They matter because they change the incentives for how people should behave and how much money they will have in the future.

So, for example, it's clear that we have seen a shift from defined benefits to defined contributions in US pension systems. That means that people have very different endowments based on how much they have saved; before it was more determined by their income, which varied less. That's the second factor.

The third factor to look at is the consumption patterns. This is interesting, again because you see very clear differences in how the older folks see their consumption patterns. Traditionally, northeast Asia has been a region where the older generations, both working age as well as the 60-plus, have invested heavily in the younger generations. Both in Japan and South Korea, the real transfers to younger folks were a source of the economic growth.

A lot of the people who are aging now, they're the cohort that sacrificed a lot for the younger generation, and they continue to do that. They still see their role as supporting their children and grandchildren in times of need. They tend to be much more frugal in their spending patterns than what we see, for example, in baby boomers in North America, who broke that tradition within the cohorts.

The previous generations tended to save more and consume less. Baby boomers have been much more focused on their consumption. We expect that those patterns won't change. So I think those differences will matter on what kind of choices these big consumption groups will make in the future.

Older folks are increasingly more unequal, and their inequality is rising as fast as in all other segments. And it's still higher than anywhere else. The reason is that we have moved away from defined benefits to defined contributions, and some people have saved more than others.

At the same time, we have seen income inequality increase among the wage earners, and capital gains obviously accruing to a small segment. That means that we'll have much greater diversity, and we'll have fewer and fewer "average" older consumers.

So, to your question on what this means for consumer companies, the fact that older consumers are more unequal means two main things. The first is that companies do need to know who their customer is. They need to target exactly who they are talking to, because there is no such thing as an average consumer, if there ever was. You don't want to be caught in the middle.

The second imperative for companies is that they need to think of value for money for everyone. The reason is that everyone has more information today about all the products. All consumers have the capacity to compare goods and services. Even people who can afford higher-value goods want to know what they get for their money. I think that is a big change. There is more consciousness about price across the segments. It doesn't mean you can't differentiate, but you need to be able to communicate why your price is higher and what the consumer gets for that price.

Monica Toriello: Markus, I would love to hear your take on that, given all the work you've done with consumer companies, specifically on Consumer 2030.

Markus Schmid: There are some common traits of elderly consumers. Obviously, one is the physical limitations that come over time. Those also create certain requirements for new products and how you package products, and so on.

Another topic that's relevant and that people have to think about is that when you look at the segment, they experience one of the greatest disruptions in life—they're going from professional to private or pension life. That creates a lot of spare time that has to be filled. You will find segments that are very wealthy and that are looking for new ideas to fill, basically, their life. That's something consumer-goods companies have to think of.

Jaana Remes: I think the point you make, Markus, is a great one. One of the biggest differences between the older segment and the prime-age earners is the time available to them.

For example, when you look at how much time they spend shopping for every dollar they actually spend, it's 25 percent more than the prime-age folks. That means that they make their choices differently. They spend more time, and they are more thoughtful on how they make those choices, which again emphasizes the need to focus on understanding their specific needs and willingness to pay.

At the same time, they are looking to spend that time somehow. So consumption that is combined with time spent enjoyably is a good thing. It may be a shopping experience; it may be that your transport choices are more determined not by speed and cost but by the scenery you see on the way.

I think there's a broader point. When you look at, for example, the time spent on sports and outdoor activities in the United States, more than 90 percent of the growth in that time is going to come from the 65-plus age group. That time spent, which they would probably rather spend with their children and grandchildren, is a huge untapped opportunity.

They might choose to spend it with their family and invest in their family. They might choose to spend it in community service. They might want to spend it in sports and staying fit. They might want to pick up other hobbies that are completely new.

Consumer companies that understand what's happening in the minds of these consumers, and what kind of food, beverages, gear, and clothing they need that go with these new activities—it's a small, fragmented, but rapidly growing segment.

Markus Schmid: To add on that, I think that you have the trade-off between their needs and the emerging needs in other age segments. Just think of working moms, a change in household structures. Basically, people are looking for convenience and getting things done in a shorter frame of time because they have so much to do.

The opposite is true for elderly people. Just to give you a lively example about grocery online retail, think of delivering stuff to the homes of people. You would argue that this is something that's really attractive for elderly people because they don't have to carry the big stuff.

But, in fact, that's not true. In fact, online grocery is very interesting for moms with kids who have a ton of stuff to do and just don't have time to go shop. And for elderly consumers, shopping is just one of the exciting things that happens throughout the day.

Jaana Remes: Exactly, Markus. My first job was working in a supermarket, and I was selling warm bread that I packaged myself.

The supermarket was next to an older-folks home, and there were people who came to buy one tiny piece of bread every day. And they spent 15 minutes chatting with me every day. I knew I was part of their social life, and part of my job was to make their day.

Monica Toriello: The urban elderly today: they're not only very different from each other, but they're also very different from previous cohorts of the same age, right?

For example, they're retiring later in life, they're more ethnically diverse, they're more educated, and they're more active, as you alluded to. Does that mean that consumer companies need to throw out everything they thought they knew about the elderly from previous cohorts?

Markus Schmid: The trend you just mentioned is an opportunity for consumer-goods companies because, as you said, they are getting more active, which means they are getting more interested and flexible. So it's becoming more interesting to offer them new products and to win them to buy new products—and to overcome their traditional styles of doing stuff.

Jaana Remes: It is pretty clear that baby boomers throughout their whole lives have been breaking things—they have come in and done things in a different way. It is the baby-boomer generation that is aging now, and we should expect them to break things, and definitely break a lot of stereotypes of what elderly folks are.

So I think there is something to what you say, that we need to throw away a lot of the dated and often inaccurate, even today, stereotypes of older folks, particularly for companies where that has not been in focus. For me, what is fascinating to think about, is that this is now such a large segment that a lot of the niche markets that we didn't even want to think about before are going to be attractive markets for their size.

Older folks are relatively high spenders because they have high incomes in developed economies. The downturn of the past ten years has hit them much less than it has hit many in the younger segment, particularly the new entrants to the labor market.

Their consumption spending is still relatively high. Even a smaller group in this larger pool can be very attractive. I think we will see a lot more differentiation. So let me give you a few examples. Let's take nursing homes.

In the United States, we traditionally used to think of our old stereotype of gated communities in the Southwest with the golf course. That's probably not the case for most baby boomers, and we are already seeing different solutions being offered.

There is an Asian community for older people living in the San Francisco Bay Area, where I live, and they have Cantonese- and Mandarin-speaking staff. They have tai-chi and calligraphy classes instead of Zumba, for example. You have an Escapees Care Center in Livingston, Texas, that offers services for folks who want to continue to live in their RVs, and they can just drive in and get doctors and meals delivered to their house.

All of this just speaks to the fact that we'll see much more differentiation among older consumers. The baby boomers will want to do things their way, as they always have. I think they will come up with many solutions that will be attractive to the younger segments, too.

Monica Toriello: Have you seen any examples of companies that are trying to target the urban elderly but are doing it in a suboptimal or ineffective way?

Markus Schmid: I would say the first thing is that you should start, as a consumer-goods company, to learn what the target group is. Just as an example: when our clients do consumer research, they set the sample—and basically the sample starts at 19 or 20, which is fine, because that's when people start to consume a lot. But it typically ends at 60. They are not even interested in what happens afterward. And this is a complete white spot.

It's different also in terms of when you look at services or when you look at products. In the retail space, for example, there is no way around that. The target group is aging, so you see the shopping carts with the magnifier glasses. You rarely see any retail stores that don't have a toilet; that's just a no-go if you are in this elderly segment. Retailers have understood that, and they are moving. This sounds like tiny bits and pieces, but transitions in retail are pretty long-term perspectives; this has been happening already, for ten years or so, or five years.

Monica Toriello: Markus, you drew the distinction between services and products. Indeed, one of the facts in the MGI report is that growth in services is outpacing growth in consumption. Is there any way that consumer companies can get into the services game? If so, are there specific things they could do to serve the urban elderly?

Markus Schmid: Difficult question. I would say, generally, if you look at manufacturers, going into services is just not in their DNA. So what you see is basically that they're offering solutions.

You see washing machines that already have an ultimate refill system. Or look at shave clubs—services where you go directly to consumers, cutting out the middleman. But when it comes to the core of services without a product, I can hardly imagine that they moved into that area, because it's just so far away from where they're coming from.

Jaana Remes: There is one way in which services will matter for older consumers, particularly in light of income differences. We hear a lot of talk about the gig economy, and most people tend to focus again on the younger workers.

However, when looking at the folks who are working there, it is the older households that are the biggest rise in the gig economy. It is the people who are between wanting to work and wanting to retire, and who want to take a little bit more time. It is the people who want to start monetizing some of their assets, their housing—they might rent part of their house or build a room on the back that they can rent out. The sharing economy has huge potential to change how older consumers get part, or in some cases more than part, of their incomes.

That is again going to influence what kinds of things they buy, where they invest, and how they consume. That is something to keep in mind. Just one example.

It used to be that people over 55 did roughly a third of all housing renovations in the United States. Now they do about half. With older folks trying to make most of the assets they have and aging in place, we are probably going to see some interesting solutions.

For example, some older folks have practical skills that the younger generations may not have, as well as the power tools to execute projects. They might start renting themselves out just for the fun of it and just for the social connections of being able to help in the town. Those are the kinds of things that will probably change significant niches, in some cases even parts of the markets of goods and services where we traditionally have a set idea of how people use them.

Monica Toriello: Both of you, in articles that you've written, have said that consumer companies today have a much bigger challenge when it comes to understanding consumers and meeting their needs, in part because there's such diversity. What do you think is the single most important thing that a consumer-company CEO should do about this?

Jaana Remes: With the increasing fragmentation of elderly consumers, as well as all consumers, if I had to choose one thing for consumer-company CEOs to do well, it would be to understand and execute against the digitization in their segment. Let me explain what I mean by that.

Given how wholeheartedly consumers are going digital now, and given how much innovation there is, there is no industry that won't be transformed in one way or the other by digitization. Even though we may have been busy worrying about short-term macroeconomic fluctuations, that's probably the biggest tsunami for most companies coming ahead.

So you need an understanding of how that will play out in your market overall, and then to make sure that you are a shaper and not a follower on that game. At the same time, you need to have digital tools to understand the niches we have been talking about. Because it is only if you are able to understand the relative sizes, the locations, and the preferences of the different kinds of segments that you are able to target and deliver what you want and what they need.

Markus Schmid: To build on that, I would say one of the key questions is how you build an operating model that's able to serve all these niches without drowning in complexity. Because most of these companies in Western Europe—and I'm now focusing on Western Europe or mature markets—are focusing on increasing scale and driving down costs to create value in a slow-growth environment.

But the operating model and the organization that's behind that structure—just think of the supply chain and factories and so on—is the opposite of what you need to serve and cater to a multitude of small and diverse niches.

Basically, that means you need an agile development process that helps you reduce time to market and investment for new products. You need a production line to cater small lot sizes for small target groups. How do you combine this trend of going into scale and reducing costs with building up an agile model in one organization? That's a big challenge.

Monica Toriello: That's a lot for CEOs to think about, and I think we will end here. Thank you very much, Jaana and Markus, for your time today. Thanks to all of you listening today. To read more about the changing consumer landscape, see our series of articles on the new consumer on McKinsey.com. □

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