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From boomers to bust

the coming demographic
headwind for consumer-
facing businesses

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Demographics is destiny, as Auguste Comte, the founder of the discipline of sociology, famously observed. With huge numbers of people in the US and Europe moving past their prime spending years and smaller generations behind them, that destiny looks particularly difficult for consumer-facing businesses over the coming decade – unless they act now to prepare for a future that will be vastly different from the past 10–15 years.

As demographers have clearly established, the lifecycles of individuals follow predictable patterns of productivity, earning, spending, and key events like marriage and childbearing. On average in the US, for example, individuals enter the work force at about age 20, marry at 26, have children in their late 20s, buy their first home at 31, and buy a larger home in their late 30s to early 40s. Their peak spending years occur between 46-50 and their peak savings rate at age 54. They retire at 63 and peak in net worth at 64.

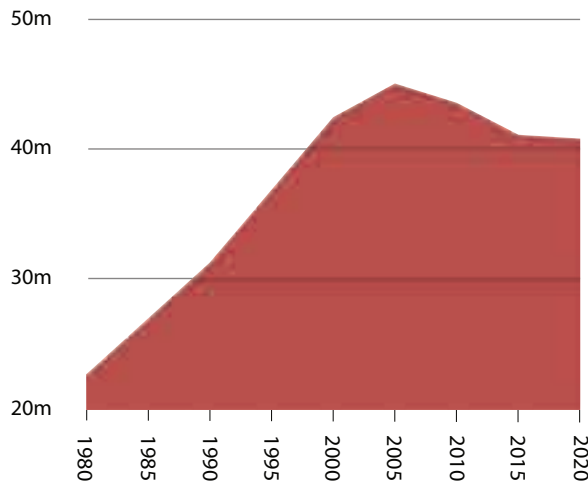
Meanwhile, fertility rates, mortality rates, and immigration trends determine the size of each age cohort – that is, the age-structure of the population. In what have historically been the largest and most lucrative markets for consumer-facing companies, demographic trends are turning unfavorable, with population bubbles like the baby boomers now moving past their peak spending years. They are being followed by generations too small in numbers to make up for the inevitable drop in consumer spending that will occur (*fig 1*). The spending horsepower of 77 million baby boomers in the US cannot possibly be matched by the next generation of 44 million 'Gen X'ers'. Nor can those baby boomers be stimulated to spend in the future as they have in the recent past, principally given their changing needs as they become empty nesters and future retirees, but also in part due to the shock to their psyche coming out of the Great Recession.

In Europe the median age is projected to rise from about 38 today to more than 52 by 2050. In the US only 8.1% of the population was 65 or older in 1950; by 2000 that figure had risen to 12.4%; by 2025, less than 15 years from now, it is projected to hit 18.2%. In Japan, which at 21% has the highest percentage of people over age 65 in the world, the median age today is almost 47 and by 2025 will be approaching 50.

This change in the age distribution of the population, with different consumer needs at different life stages, might be positive for

figure 1

Predicted US population aged 40–49



“The spending horsepower of 77 million baby boomers in the US cannot possibly be matched by the next generation of 44 million Gen X’ers”

pharmaceutical companies but it is bad news for most other companies selling consumer products and services. As we move into our 50s and see retirement not far over the horizon, we tend to save more and spend less. In the US, as the largest generation in history passes its peak spending years, markets will shrink for all kinds of products that are predominantly purchased by younger age cohorts. For example, spending on furniture tends to peak for individuals in their 30s and 40s – their prime home-buying years. Well known economist and author, Harry S Dent, offers the humble example of spending on potato chips, which peaks at over US\$60 per year when the head of household is 42, and likely has young children, and then declines dramatically thereafter. The story is similar for a whole host of consumer packaged goods. In 2009, for example, people age 25–34 spent an average of US\$229 on cereal and cereal products; people 65 and older averaged only US\$150 (fig 2). Similarly, the 35–44 year-olds spent an average of \$401 on non-alcoholic beverages and US\$515 on alcoholic beverages while the over 65 cohort averaged US\$262 and US\$300 on those categories, respectively.

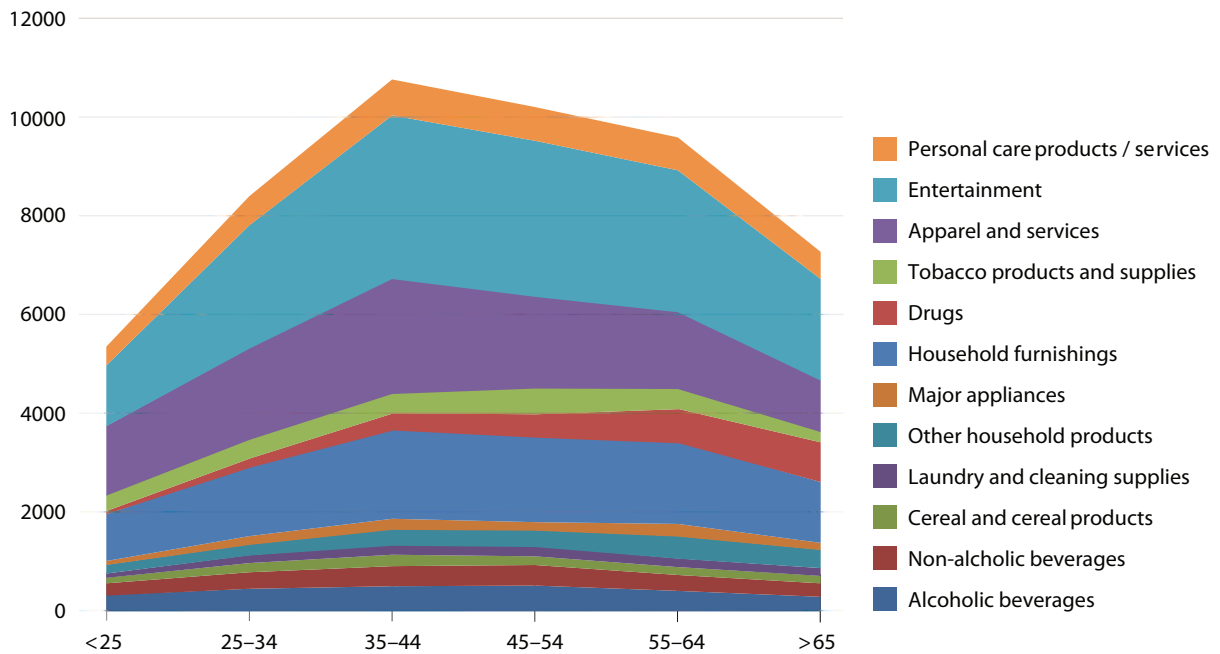
Further, people in their prime working years will have less disposable income as they are faced with the economic burden of supporting and caring for so many older people. Heavily indebted governments, like that of the US, will find it difficult to help ease that burden through additional borrowing. Japan, whose baby boom generation peaked 20 years ago, already offers a sobering picture of what is to come in much of the rest of the developed world: severe economic stagnation, including greatly shrunken markets for many categories of consumer goods, and a smaller, emerging population reeling under the task of caring for the elderly.

Confronted with the greatest demographic and economic shift in modern history, consumer-facing businesses will have to do two things supremely well in order to survive. First, they will need to develop long-term strategies designed to address these demographic headwinds around the world. Second, they will need to find leaders who have the requisite skills and experience to execute those strategies.

figure 2

Average dollar amount spent in 2009 on selected products by age group

(Source: Consumer Expenditure Survey, 2009, US Bureau of Labor Statistics)



Strategies for success in the demographic headwinds

In difficult economic times, the instinct of many companies is to hunker down, preserve cash, and forestall making any decisive moves until conditions improve. While short-term conditions may (or may not) incrementally improve following the recent recession, the outlook for the long term is clear: it will be difficult. Those who wait until things improve may find themselves waiting for a long time and will likely be left behind. Meanwhile, those companies in the consumer sector that can correctly read the demographic writing on the wall will pursue some essential strategies. These include:

Cut costs relentlessly

With declining demand and deflationary pressure in aging markets, cost management will be absolutely critical.

Be ready to seize the Darwinian moment

Those consumer product or service businesses that survive the harsh environment will not only be lean and mean from a cost structure standpoint but also have access to cash and liquidity to take out weaker competitors when they falter, which they inevitably will. Companies that are prepared will be able to take advantage of the many incredible consolidation opportunities. InBev, the Belgian beer giant, acquired US market share giant Anheuser-Busch, which had neglected to expand effectively beyond its home market. Unilever's acquisition of US-based Alberto Culver will complement its existing portfolio of brands in hair and skin care and build stronger global positions in both categories (an example of a top-three market share player taking out a distant number 4).

Shed non-core businesses and assets

This will not be a time to be spread thinly or to dabble in multiple sectors with a core strength in none. Smart companies will shed non-core businesses, assets, and non-performing brands and stores. Recent examples include Whirlpool divesting Hoover following its acquisition of Maytag, Sara Lee spinning-off Hanesbrands, and Procter & Gamble unloading its food and beverage businesses in order to focus on its core household, personal care, and beauty units. Gian Giacomo Ferraris, the CEO of Italian luxury goods leader Versace, told the Financial Times, “We are addressing the non-core areas of this business – everything that is not design, product development and brand management,” following an announcement that they were closing their retail stores in Japan.

Focus product efforts against the markets that matter

As baby boomers continue to age, they will want products that meet their aging needs and still youthful desires. As a result, companies that deal in categories such as pharmaceuticals, health and fitness products, leisure travel, and products for smaller, older households have a golden opportunity to capitalize on this trend. Also, growing market segments such as Hispanic households will continue to hold promise. But the overall headwind for mainstream products will be palpable in the US and elsewhere in the developed world. Purchases of motorcycles, for example, peaks at around age 50, and the last members of the 77-million-strong baby boom generation will have moved through that peak in 2014. It will simply be impossible to sell as many motorcycles to ‘Gen X’ers’ – the smaller generation that follows the baby boom – because there will only be 60% as many 50-year-olds in ‘Gen X’ as there were in the baby boom.

Leverage core assets in emerging markets with the most promising demographic trends

Conventional wisdom says that multinationals should make up the coming constriction of their historically primary markets by aggressively entering the so-called BRIC countries – Brazil, Russia, India, and China. That advice is a little over half right. Brazil and India certainly look promising. Brazil’s economy, the eighth largest in the world and the second largest in the Western hemisphere, has been growing at a rate of 5% a year. The bulk of its population is under 40 and their share will rise even further by 2020. India’s economy has been growing at a rate of about 8 percent a year, which could easily continue for another decade or more, and most of its population growth will come in the working-age and higher spending population.

China, interestingly, is only attractive for the next ten years. Then it begins a slow decline, in part due to the demographic effects of its one child policy, in place since the 1980s. By 2030 its working-age population will shrink by 30%. The outlook for Russia is the least promising of all. By 2030, 21 percent of its population will be 65 or older, versus 13% today. Since the end of Communist rule, deaths have exceeded births by about 50% and – incredibly – life expectancy has actually decreased. More promising demographic trends will be found in the rising populations of countries like Malaysia, Indonesia, Vietnam, Turkey, Thailand, and the Philippines, among other places.

Each emerging market has its unique attractions and challenges beyond the purely demographic, but consumer products companies would be well advised to begin by considering carefully the coming age-structure of any market. The most far-seeing companies will, as Coca-Cola did so many decades ago, begin planting their flag in

markets whose value may not be fully appreciated by competitors today but will be fully apparent tomorrow.

Consumer-facing companies that can combine some or all of these strategies into an integrated, comprehensive plan for the long term will outperform more shortsighted companies and achieve the growth that in years past was much more easily available – if they can find or groom leaders who can execute those strategies.

The Right Talent, Right Now

Among the first casualties in tough times are development activities and investment in people. However, it is exactly in times of great challenge that forward-thinking organizations show conviction and courage. They recognize that addressing the demographic trends that are shaping the future for consumer companies will require exceptional leadership talent. Further, history tells us that organizations which have made a thoughtful investment in talent enjoy positive returns even in a downturn and outperform their competitors over the longer term. This approach includes acquisition of key talent, as well as an effective strategy for developing and optimizing the effectiveness of international teams. The aim of all of these activities should be to make sure that the company possesses the competencies that will be essential for successfully executing against the unprecedented economic and demographic shift that is now under way. Those key talent requirements include superior competencies in:

Operational excellence

Lean operations and cost-cutting initiatives require leaders who are steeped in operational excellence and drive relentlessly for efficiencies.

Strategic discipline

Expanding carefully yet deliberately, staying the course in challenging markets, and divesting non-core assets will require leaders who can keep the company on course toward an enormous payoff in the long term.

Portfolio management

Making strategic acquisitions, seizing opportunities for consolidation, and divesting non-core assets requires leaders who are skilled at advantageously timing such moves and orchestrating them into a profitable and coherent whole.

Multi-market knowledge

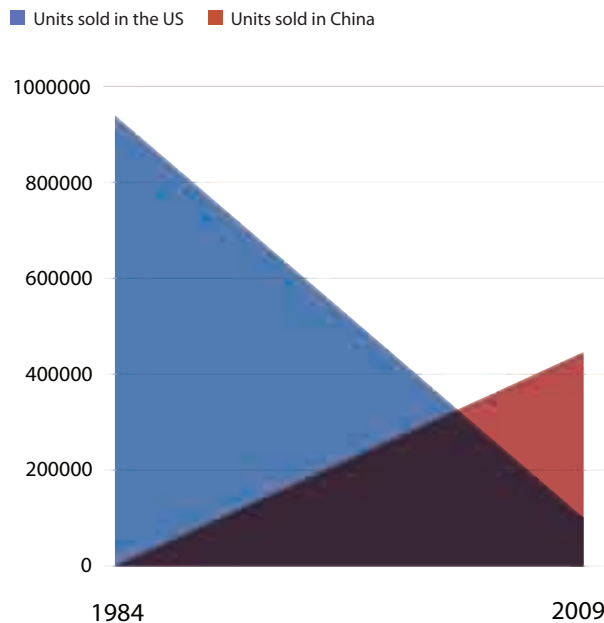
Companies facing the stagnation of their traditional markets and seeking to grow in emerging markets will need to build a senior team with the relevant international experience, especially in emerging markets like India, Brazil, and Indonesia. Companies like Unilever, Procter & Gamble and Whirlpool are examples of those who have or are doing this well. Organizations that have not given executives an opportunity to acquire multi-market experience on their way up the ladder will be forced to seek external talent, where they will be competing within a limited pool and will also encounter the challenges of successful cultural integration.

Cultural sensitivity

Experienced executives will need to be customer-focused across different cultures as well as vastly different markets. Companies will require top marketing, research, and innovation talent with specialized and hard-to-find skills, experience, and multicultural understanding.

figure 3

Comparison of Buick sales to US and China between 1984 and 2009



Fortunately, the consumer-facing sector has often outpaced other industries in grooming executives with these skills, as confirmed by how often other industries try to attract top marketing and general management talent from leading CPG organizations. Further, the recent recession has produced a cadre of executives who have been battle-tested in shrinking markets, in turnarounds, and by the necessity of cost-cutting, and they are easily identified. Many of these organizations are also leading the way into emerging markets with the management talent others will undoubtedly covet.

Achieving long term success in an environment where some markets offer attractive growth prospects while others are demographically challenged requires talent strategies beyond simply plucking high-priced superstars from the external talent pool. Addressing the essential competencies a company will need should take place in the larger context of a comprehensive talent management strategy. That includes ensuring a high-performance

top team, shaping organizational structures to develop key executives, and establishing rigorous succession planning for effective leadership transitions, and maintaining a deep talent bench. Taking it a step further, the company should devise a program to drive optimum Board-level effectiveness as well as full alignment behind corporate goals and objectives for the coming era in the industry.

The effort is worth it, as some early success stories indicate. Consider just one: General Motors' Buick division. Few brands could be more challenged in their home markets, not only by recession but by image and, more recently, bankruptcy. In 2009, Buick's domestic sales were a meager 102,000. By contrast, Buick sales in China were up 60% in 2009, to 447,000 (fig 3). GM made Buick an investment priority in China more than a decade ago. Today Buick not only sells more cars in China than in the US market, but has also developed a unique version of its Park Avenue model, among others, for the Chinese market. Most importantly, the company's experience indicates the dynamism that will characterize emerging markets: it took eight years for General Motors to sell one million Buicks in China, but only three years to sell the second million.

Demographics may be destiny but consumer-facing companies that can embark on the right strategy, find the right talent to execute it, and do it right now in the right markets, will control their own destinies. ■

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Consumer Markets practice

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With our unique access to individuals with proven experience – building successful brands, streamlining supply chain operations, penetrating new markets, and delivering financial objectives – we speed the search process and deliver the best possible candidates for companies competing to win in the rapidly changing consumer marketplace.

Our experienced professionals include consultants who specialize in one or more consumer sectors, know the issues each sector faces, and understand the competencies required for success. Understanding where these sectors either converge or diverge, we can assemble a search team with the requisite depth and breadth to serve our clients' unique needs.

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Statistics cited in this paper have been drawn from the US Census Bureau; the US Bureau of Labor Statistics; Harry S Dent, The Great Depression Ahead, (Free Press, revised updated edition, December 2009); and Nicholas Eberstadt, "The Demographic Future," Foreign Affairs, November / December 2010.

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