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RETAIL

Retail's future in 9 demographic trends

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New York's Times Square: Retail crossroads of the world. Image courtesy of Pam Danziger

By Pamela N. Danziger

In this age of Big Data, when every retailer's cup runneth over with consumer information, it has become easy to say, "Demographics don't matter."

Take this article in HuffPost's *Advertising Week* by Alexander Jutkowitz, who writes: "Ending our reliance on demographics will not only make us more effective marketers, but will also help eliminate damaging stereotypes that crop up so often in marketing campaigns. If you feed your marketing teams the same tired demographic research, you're painting a very restricted picture for them."

Point taken. Merely assigning people to a demographic segment by age, gender, race or income may engender a stereotypical view that may not match the consumer's individuality.

But that is hardly a case against studying the demographics of the consumer market. It may be a reason consumer research cannot end with demographics, but it most definitely must start there.

Peter Francese, founder of the now-defunct and sadly missed *American Demographics* journal, has news for marketers:

"The American population the number of consumers is growing less than 1 percent per annually. No product manager, no business manager, no CEO is going to be satisfied with revenue growth of less than 1 percent per year. It is necessary for anyone marketing consumer products to figure out what are the fastest-growing segments and what are the segments that will buy more of my product than average. It's nothing more complicated than that. Demographics really matter."

To provide perspective on the demographic trends that are shaping the consumer market now and into the future, I talked to RoxAnna Sway, executive director of Retail Intel. Here are nine macro-trends that retailers need to be planning for:

1. Fewer people means fewer people buying

A rising tide may well raise all boats, but the rate of U.S. population growth has reached its lowest level since 1937.

The country's population rose only 0.7 percent in 2016 and 2017. Factors impacting the slowdown in the population growth rate, according to Ms. Sway, are a lower death rate, fewer births and reduced immigration, down 4 percent in 2016.

The U.S. population is also shifting, with movement to the West and South and with Black Americans now moving back from the North to the South.

For example, New York State is experiencing more outbound than inbound migration, and Utah is now the fastest-growing state.

This puts the squeeze on retailers in traditional high-population areas.

"Less population will require fewer stores and less expansion, meaning that existing stores must become more productive," Ms. Sway advises. "This sets up a perfect storm considering the increase in competition from online shopping."

2. Less fortunate middle class, more prosperous luxury class

Study after study has documented the decline in the spending power and financial resources of the American middle class.

Pew Research found that the number of adult Americans in the middle class, defined as people living in households that have incomes from two-thirds to double the national median, has fallen from 61 percent in 1971 to 50 percent in 2015. And their share of the nation's aggregate income has declined precipitously, from 62 percent in 1970 to 43 percent in 2014.

These middle-class households simply have less money to spend on necessities, let alone discretionary purchases.

"The reality is that retailers, who have traditionally served the middle class, have less middle class to serve," Ms. Sway said. "For many, aspirational shopping is a thing of the past."

Ms. Sway points to the success of dollar stores, convenience stores, warehouse clubs and off-price stores as places where cash-poor shoppers can manage their paycheck-to-paycheck existence.

While the middle class sinks lower, the fortunes of those at the top of the income pyramid are rising. They are taking an inordinate amount of the nation's income, rising from 29 percent in 1970 to 49 percent in 2014, and accumulating a greater share of wealth, more than seven times that of middle-class households in 2013, according to Pew.

Not all upper-income households are necessarily luxury class: The vast majority of the nation's 35 million affluent households are HENRYs (high-income-not-rich-yet), which number 30 million, rather than the 5 million ultra-affluents with incomes of more than $250,000.

But all 35 million affluents have discretion to spend, with ultra-affluents spending three times more than households with incomes under $100,000 and HENRYs spending twice as much, on average, according to the latest data compiled by the Bureau of Labor Statistics.

3. Multigenerational households on the rise

One in five Americans lives in a household with more than one generation a record 60.6 million people, according to Ms. Sway, including about 40 percent of millennials (ages 18 to 34) who live with their parents or other family members, which is the largest percentage since 1940.

In addition there is an increase in "grandfamilies," with a grandparent as the household head. Today, about one in 10 children lives with a grandparent.

This makes for unpredictable buying patterns when people shop: for example, the 50-year-old woman buying baby diapers for her grandchild and adult diapers for her parent.

"The traditional business model of the family shopping unit two parents and two kids is no longer meaningful for predicting spending activities," Ms. Sway said.

Ms. Sway also highlights how the multigenerational families are creating new demand in housing impacting the size of homes, number of bedrooms and baths, and even the size of the garage.

4. Sheltering in place

People are not moving like they used to.

Whereas in the 1960s some 20% of Americans were on the move, today only about 10 percent are expected to move in a year, the lowest level since 1948, according to the U.S. Census.

Further, the number of people moving from state to state has declined by half since the 1990s.

The reasons for these changes are complex, but the results are not.

"Familiar surroundings provide insulation and protection from the unknown (both real and imagined) as Americans become more adverse to risk-taking and more obsessed with security and safety," Ms. Sways said.

Americans are playing this out by demanding that the malls and stores they frequent convey assurances of safety, suggesting that uniformed but unarmed security guards may not be enough anymore to protect mall shoppers.

Ms. Sway also notes that the clothes people wear in public have become more anonymous, generic and less attention-getting, so as not to signal wealth.

"Fortress families and fortress homes are the new normal," she said.

5. Lots of young adults, few young kids

Millennials may be the largest generational cohort in history 79.8 million in 2016 but so far they are not birthing the next generation. What should be a new baby boom is rather a baby bust.

Millennials are putting a hold on childbearing, delaying the age of motherhood to 28, resulting in the lowest birth rate since 1987.

Since 2008 there have been 3.4 million fewer births than normal, Ms. Sway reports.

"There are now more households with dogs than there are with children, 43 million versus. 33 million," she said.

While there are signs that the birth dearth is reversing, owing to more women nearing 40 having babies, in the short term things are going to be dicey for retailers targeting kids.

"When millennials do start having children, the numbers aren't expected to surge as much as with prior generations," Ms. Sway said. "Businesses depending on kids would be well advised to keep an eye on this birth population slowdown."

6. Going it alone

Marriage as a social institution is on the rocks.

For the first time in history, there are more single adults than married Americans: some 124.6 million single adults.

By comparison, in 1960 more than 70 percent of Americans were married.

Given these trends, Ms. Sway predicts that one in four millennials will remain single for life.

This has direct implications for the amount of money that households have to spend, since it often takes two incomes to propel a household into the high-income ranks. But these singletons may still demand high-quality goods and services tailored for their needs.

"Retailers can benefit from offering lower prices, providing support services [think delivery, handyman, install and assembly] and designing special products for these consumers," Ms. Sway said.

"For example, we are already seeing more packaged single-serving food items in grocery stores," she said.

7. Who is working, who is not

As hard as women have fought for their rights in the workplace, they are rapidly losing ground.

With the economic recovery, more jobs have been created for men than women.

Women's presence in the workplace actually peaked in 2000 and has been on the decline since. By 2020, the Labor Department predicts, women's labor force participation will be lower than in 1990.

Ms. Sway warns that women may take a step backward in terms of the freedoms and influence that they gained over the past 100 years.

"Since women account for about 80 percent of all consumer-purchasing decisions, reducing their presence and power in the economy may not bode well for retailers," Ms. Sway said.

Ms. Sway further notes the growing pace of baby boomers retiring, reported by Pew Research to be 10,000 boomers each day, which brings challenges for retailers as well, as boomers' spending on healthcare takes a growing share of their fixed incomes.

But these shifts can mean new opportunities for retailers as well.

"Retailers can identify new opportunities to serve women and seniors," Ms. Sway said. "Retirees are virtually an untapped market that will be beneficial and pay off."

8. More phones, fewer cars

Car ownership means big responsibility to millennials, and so far many are refusing to take it.

Car ownership among 18-to-34-year-olds has dropped by 30 percent in the past five years, Ms. Sway said.

The rising price of automobiles, reported by Kelley Blue Book to be more than $36,000 for the average price of a new car or light truck, puts a lot of millennials out of the running as well.

Given the opportunity to get wheels on demand, through services such as Uber, Lyft and Zipcar, or to borrow a car from someone in their multigenerational household, millennials are opting to spend what previous generations paid monthly on their cars for digital equipment and smartphones instead.

"Many individuals simply do not have enough income to support both financial commitments, since the average amount spent now on digital equipment and services may be as much as a typical car monthly payment," Ms. Sway said. "For the young, digital wins out."

Less mobile but more connected, millennials will mean more online shopping as a drive to the mall, shopping center or Big Box store becomes more of a commitment.

"Shopping visits could be curtailed," Ms. Sway warns.

9. Minority majority

In Ms. Sway's estimation, the biggest demographic shift that American retailers will experience will not happen until about 2050, when Caucasian or white Americans will no longer constitute the nation's majority.

The ethnic makeup of the U.S. population is going to get a major overhaul as a result.

The total U.S. population will increase by 36 percent to reach 441 million in 2050, with immigrants and their children making up a stunning 88 percent of the increase, or 130 million.

Further, Asians are going to be the biggest inbound ethnic group, according to Pew, which predicted "Asians are now on target to surpass Hispanics as the largest foreign-born group in American by 2055." Currently, they make up less than 6 percent of the U.S. population.

Retailers are already trying to appeal to different ethnic groups with targeted merchandise and special language signing, but it is only going to become more chaotic and confusing in the future.

"Expect to see more efforts as dominant groups shift and export their influence, demanding more recognition," Ms. Sway said. "Smaller, specialty, niche businesses will proliferate."

But while retailers will want to respond to ethically and culturally diverse customers, they also need to think about being inclusive while meeting those special needs. History has taught us that "separate but equal" thinking does not work.

Demographics is destiny

These nine macro-demographic shifts are shaping the destiny, opportunities and challenges for retailers. Retailers cannot escape them. They must embrace them.

That said, millennials, with their generationally distinctive lifestyles, buying and shopping patterns, may shift to become more like their parents as they age, marrying, having babies and moving into McMansion-sized homes.

Immigrants may choose to melt into the pot, rather than seek out culturally specific shopping destinations and products.

Women may return to the workforce, putting more money into their pocketbooks.

Boomer retirees may throw caution to the wind and start spending their savings instead of living on fixed incomes.

Parents may kick their millennial children out of the nest.

ANY OR ALL of these shifts is possible.

The only way to know that these shifts are happening is to pay close attention to demographic trends. Forewarned is forearmed.

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