

# Applying Demographics to Business Strategy

## **"A Window on the Future: The Impacts of Demographic Trends on Your Business"**

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### Demographic Analysis

The discipline of demographics involves the study of human populations. In simple terms, its focus is people. Demographers are interested in understanding the trends and market or public policy implications associated with the:

- natural increase in the population (i.e., the difference between births and deaths);
- migration of people from one city or region to another or between countries; and
- distribution in the population of characteristics such as age, gender, ethnicity, and race.

From an economic perspective, people can generate demands for private or public goods and services and they can be involved in the production and supply of these goods and services. In other words, people can be customers and clients as well as employers and workers in the economy. David K. Foot has demonstrated the strategic value of conducting economic analysis on the foundation of demographics (Foot with Stoffman, 1998). Foot's "life cycle" approach places primary emphasis on the explanatory power of two variables, age and population size. The utility of demographic analysis for decision-makers in business and government is that it explains "about two-thirds of everything" (Foot with Stoffman, 1998: 7).

### Canada's "Cohorts"

Population aging is now a well-established trend in Canada and the United States that is expected to continue during the 21<sup>st</sup> century. The aging of the "baby boomers" born in Canada between 1947 and 1966 drives this trend:

- In 2007, the *boomers* range in age from 41 to 60 (about 30 percent of the population). They constitute the core of the labour force and are consuming an identifiable mix of public and private goods and services.
- Since "every year they will get a year older", over the next decade the *boomers* will age into the 51 to 70 range. They will be the *45-plus generation* (see studies prepared for Niagara Economic and Tourism Corporation) and will represent an unprecedented force in the marketplace as they consume a changing mix of goods and services.
- In 2012, the first members of the "big generation" (Kettle, 1980) will reach the retirement age of 65. Given the indelible stamp that the *boomers* have placed on all prior stages of the life cycle, there is concern about Canada's ability to sustain the pension and health care expenditures that will accompany this "seniors' boom". This concern is valid. However, from the vantagepoint of 2007 there is time to prepare for the implications of *boomers'* retirement.
- The "baby bust" cohort, born between 1967 and 1979, is the group that followed the *boom* and its members now range in age from 28 to 40. The size of the *bust* cohort is only 59 percent of the *boom* and therefore, its significance is where the members of the *bust* cohort are currently positioned and will be positioned over the next ten years in the life cycle. At

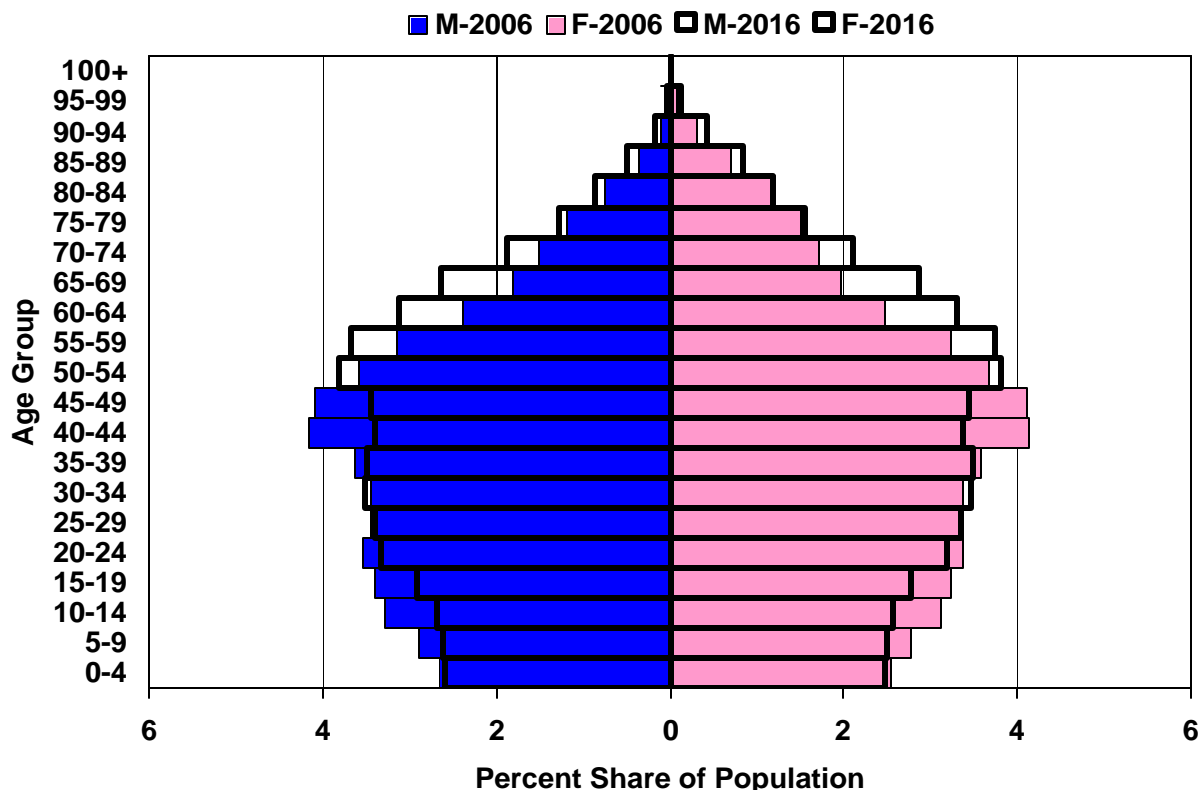
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present, members of this cohort are attempting to establish themselves in their careers or purchase their first houses. During the next ten years, the *bust* cohort will age into the 38 to 50 range. Among other things, they will move up in the housing market and take their kids to museums but, given their relative size in Canada's population structure, the volume of their demands is substantially less than that generated earlier by the *boomers*.

- The "baby boom echo" essentially represents the children of the *boomers*. The members of this cohort were born between 1980 and 1995, with births across Canada reaching a peak in 1990. "Echo kids" currently represent the bulk of Canada's youth, ranging in age from 12 to 27. As the front end of this cohort prepares to leave college and university to enter the labour market, the back end is moving into the secondary level of the educational system. The *echo* is about 71 percent of the *boom* cohort. Therefore, as it ages over the next ten years, there will be a discernible impact on the post-secondary educational system and the market for young workers who understand the latest technology.

The *boom*, *bust* & *echo* template varies somewhat across Canada's provinces. For example, in Alberta, Canada's youngest province, *boomers* account for about 30 percent of the population, but the shares for the *bust* (66 percent) and *echo* (79 percent) cohorts relative to the *boom* are larger than is the case across Canada. In addition, births peaked in Alberta in 1983, well before they did so at the national level.

Canada's Population by Age and Sex: 2006 (solid) versus 2016 (outline)



Source: Statistics Canada and R.A.L. Consulting Limited

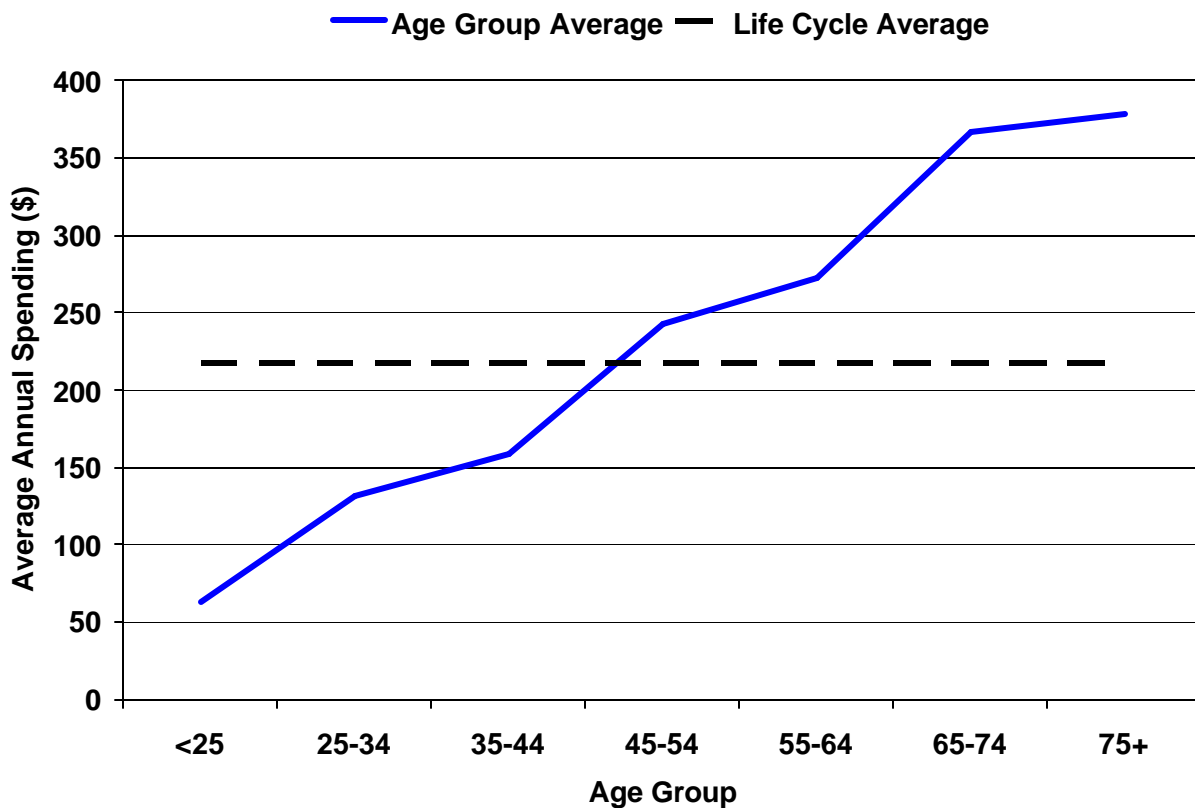
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## Demographics and Consumer Spending

The results of the 2006 Census drive home the message that Canada is an aging society. Aging affects consumer spending habits. For example, consumers in their twenties are not much interested in nurseries and garden supplies, but consumers in their fifties are. Also, twenty-something consumers do not have the same level of discretionary income as middle-aged consumers.

Three in five Canadian households are headed by a person 45 years of age or older. Households headed by a person between the ages of 45 and 54 have the highest level of income before tax. The *boomers* began their march through this part of the life cycle during the 1990's and will complete their passage by the end of this decade. This trend clearly bodes well for industries selling the products and services most favoured by 45-plus consumers. For example, household spending on home repairs and maintenance on a per person basis increases steadily across the life cycle (see chart below). Therefore, looking ahead the underlying demographic demand in this area of consumer spending is substantial.

**Household Spending on Home Repairs and Maintenance by Age Group (per person)  
Canada, 2004**



Source: Statistics Canada and R.A.L. Consulting Limited

Businesses with a sound understanding of demographics will track the product segments, like prescription drugs and frozen seafood, that are purchased more by older consumers. They will know that older consumers have more time and money to participate in certain types of leisure and recreational activities such as gaming and packaged travel. By anticipating growing product

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segments and developing relationships with these manufacturers and service providers an industry can position itself to benefit from the maturing population.

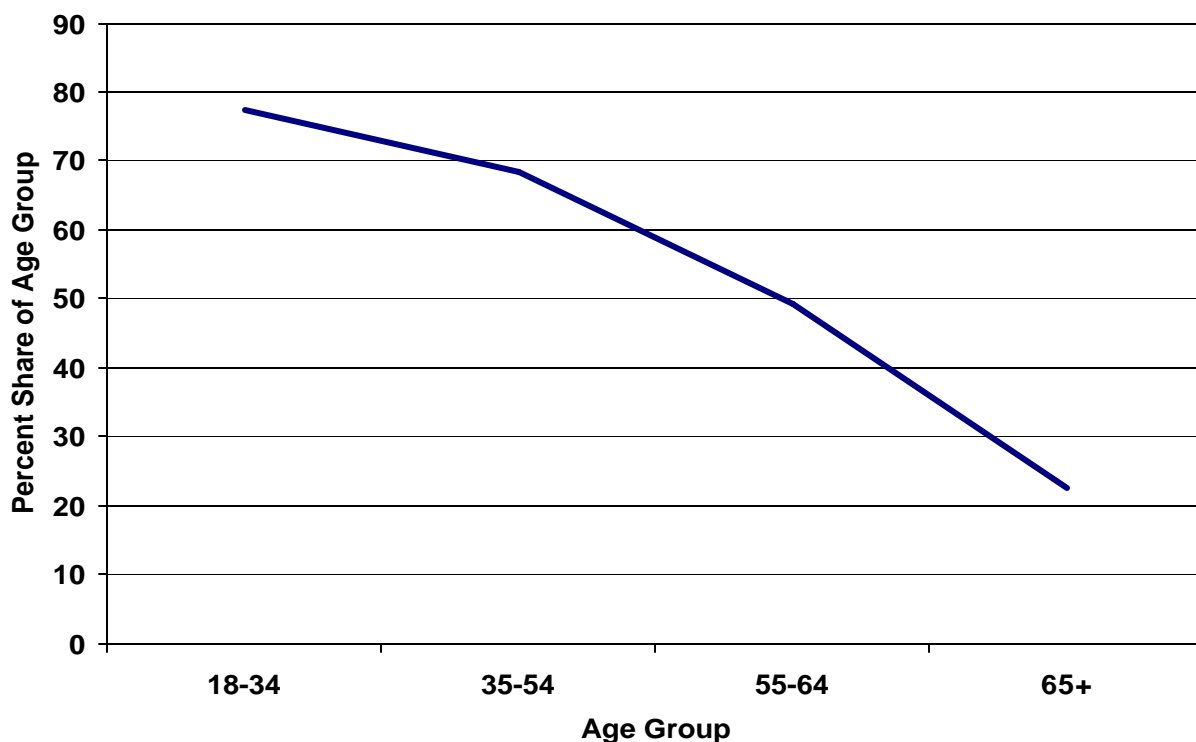
### Demographics and the Digital Divide

Over the last decade household Internet penetration rates have increased, and governments and businesses have sought less costly methods of service delivery. For these reasons government agencies are increasingly using the Internet as a medium for the provision of information, programs, and services to their clients or customers.

Internet-based information, programs, and services offer the promise of reduced cost and increased access, but there are inherent risks. The greatest risk is that those on one side of the *digital divide* (the technological "have-nots") will miss out on the opportunity to participate in this information revolution. Hence, a government agency or business that relies too heavily on Internet-based service delivery may run the risk of bypassing these "consumers".

The *digital divide*, although in part characterized by differences in education and income, is, more importantly, characterized by differences in age. Older Canadians have much lower Internet penetration rates and exhibit different Internet behaviour than younger Canadians. Using Statistics Canada sources, analysis of Internet use by age suggests that these differences will not disappear readily over the next 10 years. Given the aging of Canadian society, Internet-based service delivery may more of a challenge to implement than government policy pronouncements or business advertisements would lead Canadians to believe.

**Home Internet Users by Age Group  
Canada, 2005**



Source: Statistics Canada

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## Demographics and the Labour Market

Greying workforce threatens economy

Census forecasts job shortages within a decade

New blood won't stop job shortages: Baby boomers to leave large gaps

Alberta trades scrambling as labour shortage looms

Aging work force reliant on immigrants

Women boost highly skilled workforce

These are the headlines from across Canada on February 11, 2003, the day that Statistics Canada released 2001 Census data on Canada's workers. The aging and diversification of Canada's labour force may be news to many but it is not to the clients of **R.A.L. Consulting Limited**. We have assisted numerous clients across the country with the management of the challenges posed by an aging and more diverse work force.

The aging of Canada's boomers is changing dramatically the generational structure and needs of your work force. In Ontario, boomers currently account for 45 percent of the province's labour force. Is your business positioned to reap the opportunities presented by demographic change? Are you ready to manage the challenges of an aging work force?

Over the next decade in Ontario, more workers will enter the "retirement feeder group" (55 years and older) than the "labour force feeder group" (under 25 years). Our projections for Ontario during the 2006 – 2016 period show that the number of workers under 25 in 2016 will be roughly at the same level reached in 1981, the year the last of the *boomers* entered the labour force. By 2021, we project that Ontario, Canada's most populous province, will have more 55-plus workers than under-25 workers. This *generational crossover* means that businesses and governments in Ontario will increasingly experience the dilemma of recruiting and retaining a shrinking pool of younger workers and re-inventing a growing pool of older workers seduced by the trend towards early retirement. Failure to do so will result in a work force that is demographically imbalanced.

A work force that is characterized by *demographic imbalance* will:

- Lack the energy and technological savvy of younger workers;
- Struggle with the potential inertia of the older workers in areas such as training and staffing the front line;
- Jeopardize the productivity of workers in the middle, those who are in the prime of their careers and who have a valuable blend of experience and energy; and
- Run the risk of creating misunderstanding and conflict among generations in the workplace, thereby furthering jeopardizing productivity.

These issues present human resource management specialists and their internal clients with *five challenges* that must be managed to ensure continued productivity.

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The first challenge is to *"re-invent" the older (i.e., 45-plus) worker*, the dominant group in the projected labour force. Flexibility is the key. Among the strategies that can be tailored to fit your business needs are:

- Self-employment
- Part-time employment
- "Tele-commuting" and home employment
- Volunteering
- Mentoring
- Customized benefits

The second challenge is to *devise strategies for a competitive youth market* during the next ten years. The entrance of the *echo generation* into the labour market will ensure an increase in the number of potential job applicants but well below the levels established by their *boomer* parents in earlier decades. Furthermore, the age profiles of existing work forces in most industries will exacerbate the demand for younger workers. The case of plumbers in Canada illustrates this issue. In 1991, about one-half of Canada's plumbers were under the age of 35. By 2001, just over one-third was under the age of 35. Looked at another way, in 1991 there were about four plumbers under the age of 35 for every plumber 55 or older. In 2001, the ratio was 2.4:1.

The third challenge is to induce *greater labour force participation by traditionally underrepresented groups*, i.e., women, aboriginals, and persons with disabilities. Women now share the labour force with men but remain bit players in sectors such as construction or manufacturing that have been male-dominated. For example, in 2001, only 1.7 percent of Canada's plumbers were female. Aboriginals, particularly those living on reserves, represent a "niche market" of youth in an aging society. In 2001, 61 percent of Ontario's aboriginals were under the age of 35 compared to 47 percent of the provincial population.

The fourth challenge is to tap into an *increasingly diverse (in ethnic-racial terms) immigrant labour pool*. This strategy will be essential in the second decade of the century but it is not too early to start planning given the adjustment issues involved in recruiting and retaining workers from non-European countries (Canada's traditional source of immigrant labour). During the past ten years, over one-half of Ontario's international migrants were from Asia and less than one-fifth from Europe.

The fifth challenge is to *adjust the balance between technology and labour*. Greater use of technology holds the potential to increase productivity but older workers, the predominant cohort in Canada's future labour force, require more support and training than their younger colleagues to keep abreast of the latest equipment and work processes.

### Demographic Analysis: The Key Implications

Our consulting and research work suggests that the *challenges* of population aging are mostly related to the fact that participation declines with age for many activities, especially in the 45-plus age group. This trend is evident in areas such as recreation, Internet use, education and training, labour force participation, and personal mobility. Conversely, the decline in participation is not always undesirable (for example, crime and automobile use). The *opportunities* presented by population aging relate to those activities where participation or market penetration rates increase with age. Some examples include: volunteering, part-time employment, golf, consumption of fruits and vegetables, home renovation, and hospital utilization.

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Some opportunities in the 45-plus market are *immediate* (for example, post-secondary education and specialty food stores) while others are *longer term* (for example, dental and medical services). In pursuing the identified opportunities, it is important to pay attention to activities that have above average growth in one decade and below average growth in the next (for example, post-secondary education).

The business opportunities that emerge as a result of population aging are two-fold. Goods and services can be provided to not only *local* households and businesses but also households and businesses in *export markets*. *Sectoral resource transfers* are essential for success. For example, in the public sector resource transfers will need to occur between education and health care. Transfers within sectors will also be necessary in:

- *Policing*: from reactive to preventative delivery approaches and from violent to property crime.
- *Health care*: from maternity to cardiology.
- *Recreation*: from hockey arenas to walking trails.
- *Social welfare*: from "child benefits" to pensions.

A similar transformation will take place in the private sector (for example, from movie theatres to concert halls and cable channels).

Population aging can create *conflicts between perception and reality*. This is discernible, for example, with respect to Internet use and crime. These conflicts have some basis in fact. The Internet is experiencing the rapid growth that characterizes the introduction of new technology. However, what are the conditions to sustain its growth in an aging society? Although personal victimization decreases with age, the physical and psychological decline that accompanies aging creates perceptions of vulnerability. How will police services manage these expectations of an increasingly larger group within society?

Finally, *there is time to plan*. Demographic intelligence is strategic and long term. Population aging is inevitable but gradual.

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