



Japan's Silver Market Phenomenon

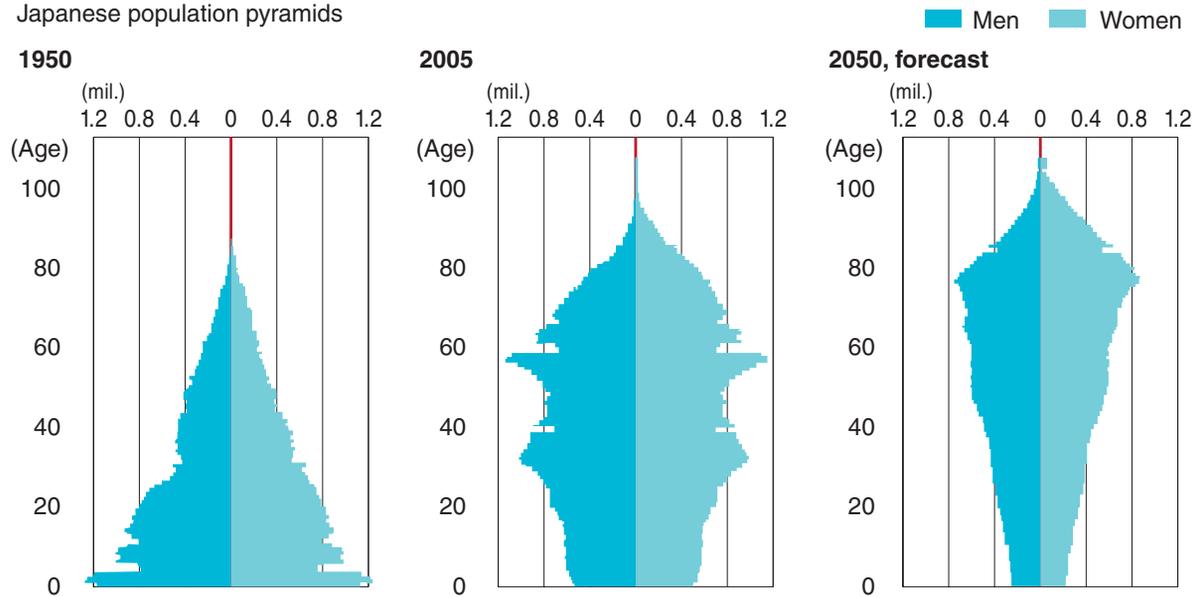
Golden Opportunity or Rusty Reality?

By Florian Kohlbacher and Andrea Weihrauch

The current shift in demographics—aging and shrinking populations—is a well-known and often discussed issue in many industrialized and some developing countries around the world. Japan is experiencing the fastest and probably even widest ranging demographic changes and thus is often seen as the global precursor. In 2005, Japan's population started shrinking for the first time and with it its labor force. By 2015, one fourth of the Japanese society will be older than 65 years, for 2025 forecasts expect even one third of them being as old. Japan's over-50-year olds will account for about half of the entire population by 2025. Demographic change in such a speed and dimension leads to extensive consequences for the society as well as companies and other organizations.

Demographic Change in Japan: From tree to kite

Japanese population pyramids



Source: National Institute of Population and Social Security Research

Golden Opportunities

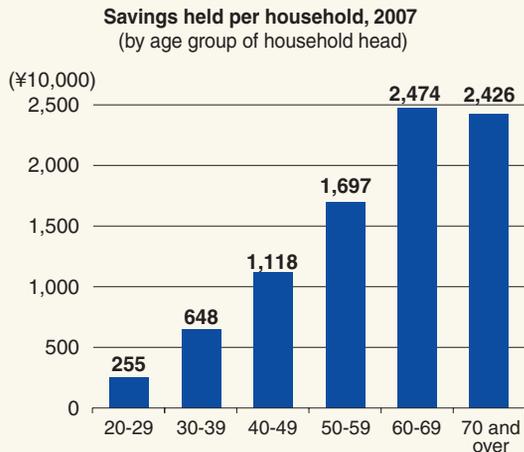
A shrinking population also implicates a shrinking base of potential customers, which means that the demographic change also involves major challenges concerning sales and profitability. But the plain number of potential customers is of course not the only indicator of business opportunities. Purchasing power and consumer behavior also play a major role in possibly compensating for the declining number of customers. The demographic change furthermore implies a shift in the market segments. As a result, the diminishing segment of younger customers faces an ever growing segment of senior customers. Thus, one particularly essential implication of the demographic shift is the emergence and constant growth of the so-called "graying market" or "silver market," the market segment more or less broadly defined as those aged 50-55 and older. Currently it is especially the group of baby boomers—those born between 1947 and 1949 in Japan—as part of this senior segment grapping the attention of many companies.

Rōjin Kizoku—"Elder Nobility"

The baby boomer generation in Japan has always been considered as extremely active and dynamic,

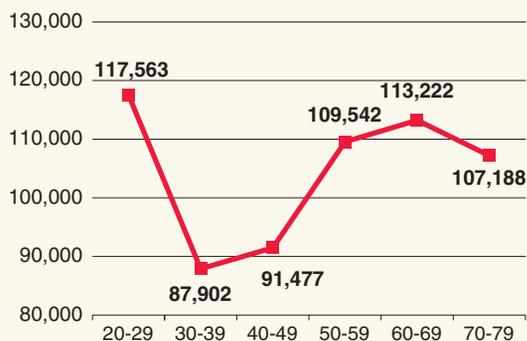
as well as being a consumption-orientated and wealthy population. After retirement they also gain a lot of free time. The high purchasing power connected with the actual willingness to spend money makes them a highly interesting target group for companies in the silver market. Japan's seniors indeed have a high spending power. Japanese people aged 65 years and older have average savings of an equivalent to more than 220,000 US dollars, are by and large free of debt and live in their own property for the most part. Japan's seniors are financially so well-off that they got the nick name *rōjin kizoku*, "elder nobility." Since the mid-1980s, the increase in spending of the age group 35 to 39 only adds up to in between 24 and 29 percent; during the same period, the consumption spending of the 60 to 64-year-olds has risen by 35 percent, those of the over 65-year-olds even by 40 percent. The silver market thus really appears to be a growth market, on both the supply and demand side. In reaction to the aging process and the upcoming needs and demands, new industries emerge and products and technologies are adapted or newly developed. Indeed, almost any industry seems to be affected in some way by this demographic shift.

Japan's Elder Nobility: Wealthy and eager to spend—at least for now



Source: Ministry of Internal Affairs and Communications, Statistics Bureau

Average of Monthly Consumption Expenditures per Household by Age Group of Household Head in JPY, 2007
(average spending for one person in the household)



Source: Ministry of Internal Affairs and Communications, Statistics Bureau

Dark Clouds in the Silver Sky

However, there are a number of phenomena and trends in the Japanese society that indicate that the current silver business chance may just be a short window of opportunity and that the silver market of the future may look very different from now. First of all, in recent years, the debate about “poverty among the elderly” shows that another group of Japanese seniors is also on the rise. It is true that many baby boomers fit the picture of the wealthy generation charged with large assets, living in their own property. But for some in the same generation or older, the situation does not necessarily look as bright. The changes in Japan’s management strategies driven by globalization

and the financial crises of 1990, 1997 and 2008/9 have overcome traditional human resource management values such as lifetime employment, leaving some of Japan’s *salarymen* in non-regular contracts without a promising pension. While many baby boomers keep working for mere pleasure or spend their retirement traveling and consuming, there are others who struggle for bare survival. Some of the so-called “working poor” still work 60 hours per week and reach their personal physical limits just to make enough to live. Apart from the remarkable number of poor already existing, the future silver generation in Japan will probably be even more strongly exposed to major financial challenges.

Keep Working

A remarkable fact regarding older employees in Japan is that many of them want to keep working after their “usual” retirement age of 60. A survey recently conducted by the “Japan Organization for Employment of the Elderly and Persons with Disabilities” for example showed that only 20.6 percent of the baby boomers are not working anymore and more than three fourth of them are still working full time. Even more outstanding is the development for the 65-year-olds. In this generation, 35% of the men and 15% of the women are still working somehow. But even though there is still a high loyalty of Japanese workers for their companies and they are often seen as “addicted” to their work, the main reason for holding a job is simply to earn livelihood. According to a survey by the Ministry of Health, Labor and Welfare on the employment conditions of older people, as much as 67.4% of the male employees in the age group 60-64 hold their job to earn their livelihood; in the group 65 to 69-year-olds, it is still 53.9%. It is true that some of the wealthy baby boomers do not know what to do with the free time after retirement, but here one can clearly see that the majority of Japanese seniors has other reasons for keeping the suit. However, if older employees decide to keep working, most of them have to accept changes in their contract conditions and salary. If they work in a regular job contract, it is often modified from regular worker (*seishain*) to so-called “non-regular” (*hiseikishain*) and many of the older employees already work as such non-regulars.

“Silver” Turning into “Rusty” Iron?

Increasing inequality and rising poverty among the elderly in Japan are facts. The reasons are multitudinous with the main argument simply being the effect of the aging of society itself. The world's most rapidly graying nation struggles to cope with the exploding costs of its aging population and tries to cut back on its safety net of universal health care, pensions, and welfare benefits for seniors. Almost one in two people on welfare in Japan is now 65 or older. According to a report by the Ministry of Health, Labor and Welfare the average age of homeless in Japan is already 57.5 years.

Furthermore a lot of older Japanese now live alone, and one can observe a rapid change of traditional “more generation households” to seniors forming “one person households.” Many of them can't or don't want to rely on their children and the attempt to get by through their own efforts is not always marked by success. This increases the cost of living and results in a lower average income.

Older Prisoners

Especially in provincial areas the situation of the elderly is severe. They have to work until high ages to make their living. Some of the older citizens are so overburdened and incapable to manage their living that they choose drastic ways to deal with the problems. The crime rate among seniors rose 4.2 percent in 2007 from a year earlier, though the total number of people arrested fell 4.8 percent according to the Ministry of Justice crime report. Beside motives linked to economic reasons, some of them consider prison as a place where someone simply takes care of them.

Targeting the Bottom of the Pyramid and Other Chances

The development of a new underclass among seniors in Japan—a country that long prided itself on being a “one-class society”—might seem surprising. Companies definitely need to be aware of the phenomenon of increasing poverty among the elderly in Japan; especially in the long run. Still having to expect a decrease in the elder nobility does not necessarily mean giving up the silver market for good. Another approach to target the seniors might be as promising as selling luxury

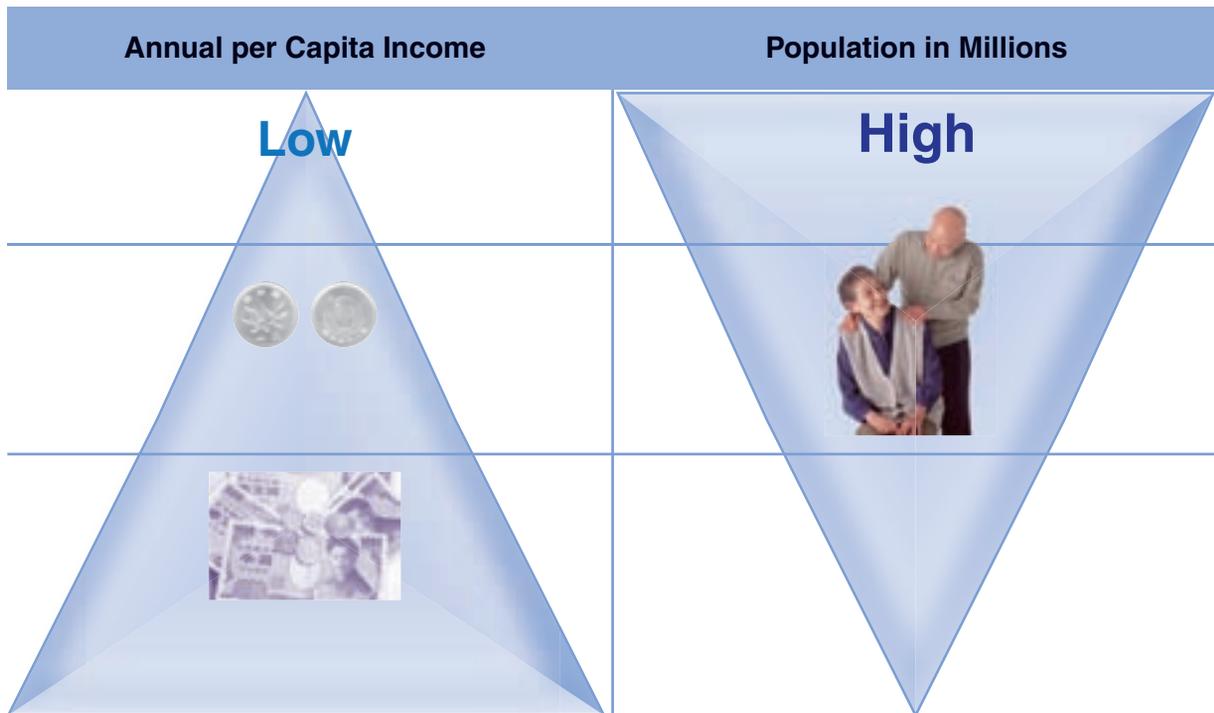


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to the recent wealthy baby boomers and the probably few remaining richer ones of the future. Why not try to dig for silver at the bottom of the pyramid? Management guru C.K. Prahalad has already shown how this works for markets in developing countries in his seminal book “The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits,” where he referred to those consumers at the bottom of the income and wealth pyramid. This idea can also be applied to the silver market (of the future) where those in need will be those at the top of population pyramid (while being at the bottom of the income and wealth pyramid). Just like in the case of markets in the developing countries, economies of scale can be achieved simply because of the sheer mass of consumers, making sure that profits can also be gained from low-income, low-wealth consumers. However, the important thing is that the consumers themselves benefit the most from this, namely in the form of improved standard and quality of life as well as subjective well-being.

Firms should therefore be careful not to exclude those customers at the bottom of the income and wealth pyramid, not only because the combined total fortune of these people is substantial, but also because it allows firms to be socially responsible by contributing to individuals' and societies' well-being through “gerontechnologies” and related products and services. Products with adapted functionalities, smaller sizes of product servings and packages or products specifically addressing the needs and means of financially not so well-off people are just some examples. Applying this logic to the population pyramid rather than the income and wealth pyramid, it is obvious that this could be “The Fortune at the Top of the Pyramid.”

The Fortune at the Bottom/Top of the Pyramid



The Fortune at the Top of the Pyramid

It may sound farfetched comparing Japanese seniors to poor people in the Third World. But some of the strategies proposed to serve this target group can be successful when wanting to satisfy the demands of the indigent Japanese seniors. Most companies automatically dismiss the strategy for the bottom of the income pyramid because they judge it economically unattractive. It is true that margins are likely to be low but unit sales can be very high. It will require companies to reevaluate price performance for products and services and maybe to restructure their distribution system or even their entire business strategy. The market is wide open for new product innovations being simple, easily accessible and affordable. Harsh times in the global economic crisis might be a good time for developing new and innovative product strategies. And products with features for the Japanese bottom of the income pyramid might as well attract other target groups of younger age with more money.

Old and New Chances

Neither society nor companies can ignore the changes occurring in Japan. The population is aging leading to challenges for politics and management. The most important is to not forget those who actually form the silver market. Today, well-off baby boomers are living side by side with their "poor" counterparts. Both form markets and could be targeted with products and innovations corresponding to their demands now and in the future.

For now general and luxury products for wealthy seniors are still a market opportunity. Due to their financial situation and their considerable amount of free time the wealthy part of Japan's seniors are worth to be targeted in a specific way. Generally, this group of older consumers does have higher requirements for the quality of products and services. Satisfying their demand can be achieved with products like group tours, yachts, or retro products like electric guitars.



Raku Raku Phone
©DoCoMo

But even though future silver market generations might not be as affluent as today's "elder nobility," it does not mean companies have to give up the graying market in the long run. Easy to handle and easy to use products can be worth focusing on when setting up innovation strategies. A classic example for the Japanese market would be the "Raku Raku Phone." This cell phone, developed by Fujitsu and promoted by NTT DoCoMo is characterized by an easy-to-read lettering, bigger keys, less complicated functions and an easy and very intuitive handling. Products like that can often be cheaper because they are purged of unnecessary and expensive features and are also good to target the less wealthy seniors.

Furthermore health is and will be an important issue for both groups of Japan's seniors. "Gerontechnology" and support devices for older people with restrictions are successful now and will stay promising. The term gerontechnology implies "technologies used in products allowing an active, independent, and autonomous aging." Of course the products are independent of the age variable since they can also be used by younger people with restrictions, but the growing number of aged in the population and the increasing demand in maturity make gerontechnology an important application. An especially increasing segment is robot technology for households as well as for the health and care sector.

Beside the aging society, one can also see changes in the age structure of the working population. Changes in a new silver society can for example come up by focusing on the companies having to deal with older employees. Older employees have other needs and claim other demands to their employer than new graduates or mid-40s. For the main part, their physical fitness decreases and an adaptation of machines, especially in production is unavoidable to ensure safety. Many other possible adjustments can help

to increase the comfort for older employees while working, starting from easy-to-read instructions in big letters to regular free of charge health check-ups. The list of possibilities is long and depends on the seniors' job and work environment. Certainly the market for products focusing on improving the general work environment for seniors (and therewith their productivity for the companies) is another reason not to give up on the "new" silver market.



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New demands of the seniors evolving in their free time or at work create new chances in addition to the silver market strategies as we know them today. After all, creating products to serve the older in private life or at work or developing products connecting generations is not only promising high returns on investment but is also a way of responding to the challenges for corporate social responsibility (CSR). Indeed, when thinking of the "new" silver market as the old, poor, and sick in addition to the wealthy baby boomers, there certainly is a social responsibility for companies to serve their needs to ensure life and work quality. Given the right business model, socially and ethically responsible action can also lead to economically responsible profits. Not to speak of the positive effect on their reputation. ■

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