

Introduction

Welcome to the fourth edition of *Best Customers: Demographics of Consumer Demand*. *Best Customers* is a unique examination of how changing demographics are reshaping the consumer marketplace. It reveals who the best and biggest customers are for hundreds of individual products and services, alerting marketers to potential booms and busts in the years ahead.

Based on data from the Bureau of Labor Statistics 2004 Consumer Expenditure Survey, *Best Customers* examines spending patterns by the demographic characteristics of households. For most consumer products and services, demographics drive demand. *Best Customers* analyzes household spending on more than 300 products and services by age of householder, household income, household type, race and Hispanic origin of householder, region of residence, and educational attainment of householder. It identifies which households spend the most on a product or service (the best customers) and which control the largest share of spending (the biggest customers).

Household demographics are not static, but ever changing. The aging of the population is reshaping consumer demand. The rapid growth of Asian, black, and Hispanic populations makes their spending ever more important to the well being of our economy. The rising educational attainment of the population is boosting demand for some things and reducing it for others. *Best Customers* reveals the trends, allowing marketers to prepare for what lies ahead.

The demographic trends

While consumer markets are affected by current events, demographics are the primary determinant of consumer spending. Three demographic trends are reshaping consumer markets today: the aging of the baby-boom generation into the empty-nest years, the growing sophistication and spending power of older Americans, and the rise of Asian, black, and Hispanic consumers.

Born between 1946 and 1964, the baby-boom generation spanned the ages of 40 through 58 in 2004. As boomers fill the 55-to-64 age group, millions are becoming empty-nesters. This is one of life's major transitions, and spending patterns change accordingly. Empty-nesters have more discretionary income at their disposal as spending on necessities declines with household size. Empty-nesters spend less on groceries, for example, and more on meals in full-service restaurants. Spending on alcoholic beverages increases after the teetotaler years of child rearing. Empty-nesters are the biggest spenders on travel. And instead of buying children's clothes, they devote more to men's and women's fashions. These changes can be seen in the *Best Customer* spending profiles. As boomers enter the 55-and-older age groups, no segment of the population is changing more rapidly. Highly-educated boomers are replacing less-educated cohorts. Because few boomers will be able to afford an early retirement, incomes of older Americans will grow as dual-income couples work well into their sixties. The spending of the increasingly large, educated, and affluent older population is of growing importance to most consumer businesses.

Asians, blacks, Hispanics, and other minorities account for a growing share of the nation's population. In 2004, the 4 million Asian, 14 million black, and 13 million Hispanic households accounted for more than one-fourth of the national total and for more than one in every five dollars spent by American consumers. The average Asian household has a higher income and spends more money than the average non-Hispanic white household.

Although the incomes and spending of blacks and Hispanics are below average, both groups spend much more than average on many individual products and services. The distinct spending patterns of Asians, blacks, and Hispanics make them a major force in many consumer markets.

The spending data

Best Customers is based on unpublished, detailed data collected by the Bureau of Labor Statistics Consumer Expenditure Survey, an ongoing, nationwide survey of household spending. The Consumer Expenditure Survey is a complete accounting of household expenditures and includes everything from big-ticket items, such as homes and cars, to small purchases like laundry detergent and film. The survey does not include expenditures by government, business, or nonprofit institutions. The lag time between data collection and publication is about two years.

The Consumer Expenditure Survey uses consumer unit rather than household as its sampling unit. In this book, the terms “consumer unit” and “household” are used interchangeably. The Bureau of Labor Statistics defines “consumer unit” as “a single person or group of persons in a sample household related by blood, marriage, adoption or other legal arrangement or who share responsibility for at least two out of three major types of expenses—food, housing, and other expenses.” For more information about the Consumer Expenditure Survey and consumer units, see Appendix A.

Three types of household spending figures are shown in this book: average spending, indexed spending, and market shares. The Bureau of Labor Statistics collects the average spending figures shown in *Best Customers*. New Strategist calculated the indexes and market shares to reveal the trends.

How to use this book

Best Customers is divided into 21 chapters, arranged alphabetically. Each chapter focuses on one major spending category as defined by the Bureau of Labor Statistics, such as groceries (called “food at home”), transportation, entertainment, and so on. Within each chapter, individual products and services are arranged alphabetically. Three chapters of *Best Customers*—computers, telephone, and travel—are unique groupings produced by New Strategist to highlight important spending patterns. The BLS includes computer and telephone spending in its housing category, and it includes the travel categories in food, housing, transportation, and entertainment.

Best Customers analyzes individual products and services included in the Consumer Expenditure Survey, but two types of items are excluded from the book: “other” categories, such as “other food at home,” for which an analysis of spending patterns cannot provide meaningful conclusions; and products and services with spending patterns considered unreliable by New Strategist because of small sample sizes.

Each table in *Best Customers* analyzes household spending on a particular product or service, showing average spending, indexed spending, and market share of spending by age of householder, household income, household type, race and Hispanic origin of householder, region of residence, and educational attainment of householder. Each table is accompanied by text identifying the best and biggest customers, analyzing spending patterns, describing spending trends for the product over the past few years, and predicting future trends based on the nation’s changing demographics.

The spending data and demographic characteristics shown in each table are explained below.

Spending data

• **Average Spending** The average spending figures in *Best Customers* are unpublished data from the Bureau of Labor Statistics' 2004 Consumer Expenditure Survey. The Bureau of Labor Statistics calculates average spending for all households in a segment, not just for those who bought an item. When examining the averages, it is important to remember that by including both purchasers and nonpurchasers in the calculation of the average, the average spending amount is often greatly diluted—especially for infrequently purchased items. For example, the average household spent \$194 on day care centers in 2004. Since only a small percentage of households spend money on day care, this figure greatly underestimates the amount spent on day care centers by those who make use of them. To offer a more realistic idea of how much buyers spend on an item, Appendix B shows the percentage of households that purchased individual products and services during an average quarter of 2004, and the amount spent by purchasers per quarter. According to Appendix B, only 5 percent of households spent on day care centers during an average quarter of 2004. The purchasers spent an average of \$884 per quarter, for an estimated annual cost of \$3,536—a much more realistic figure than the average of \$194 for all households. For frequently purchased items—such as bread—the average spending figures give a fairly accurate account of actual spending. But for most of the products and services examined in *Best Customers*, the average spending figures are less revealing than the indexes and market shares.

Average spending figures are useful for determining the market potential of a product or service in a local area. By multiplying the average amount married couples spend on children's clothing by the number of married couples in the Pittsburgh metropolitan area, for example, marketers can estimate the size of the market for children's clothing in Pittsburgh. The Pittsburgh newspaper could show those figures to potential advertisers to prove the demand for children's clothing in its readership area.

(Note: Because of sampling errors, average values can vary—especially for infrequently purchased items. To examine the standard errors for detailed average spending data, contact the Bureau of Labor Statistics Consumer Expenditure Survey statisticians by phone at 202-691-6900 or by email at cexinfo@bls.gov.)

• **Indexed Spending (Best Customers)** The indexed spending figures compare the spending of each demographic segment with that of the average household. To compute the indexes, New Strategist's statisticians divide the average amount each household segment spends on a particular item by how much the average household spends on the item, then multiply the resulting figure by 100. An index of 100 is the average for all households. An index of 125 means average spending by households in the segment is 25 percent above average (100 plus 25). An index of 75 means average spending by households in the segment is 25 percent below average (100 minus 25).

Spending indexes can reveal hidden markets—household segments with a high propensity to buy a particular product or service but which are overshadowed by larger household segments accounting for a bigger share of the total market. Householders aged 65 to 74, for example, spend 39 percent more than the average household on magazine subscriptions (with an index of 139). This index is higher than that of any other age group, which makes householders aged 65 to 74 the best customers of this item. Householders aged 35 to 44 spend 15 percent less than average on magazine subscriptions (with an index of 85), meaning they are a weaker or underserved market for this product. But the market share of 35-to-44-year-olds is larger than that of 65-to-74-year-olds (18 versus 13 percent) because there are more households in the younger age group. Using the indexed spending tables, marketers can see that older householders are in fact their better customers and adjust their business strategy accordingly.

(Note: Because of sampling errors, small differences in index values usually are not significant. But the broader patterns revealed by indexes can guide marketers to the best customers.)

• **Market Share (Biggest Customers)** To produce market share figures, New Strategist first calculates the total amount all households spend on each item by multiplying average household spending on the item by the total number of households (116,282,000). New Strategist then calculates total household spending item by item for each demographic segment by multiplying the segment's average spending on each item by the number of households in the segment. To calculate the percentage of total spending on an item that is controlled by each demographic segment—i.e., its market share—New Strategist divides each segment's spending on an item by total household spending on the item.

In 2004, for example, married couples without children at home (most of them empty-nesters) accounted for 58 percent of total household spending on ship fares. The cruise industry could reach most of its customers if it targeted only this demographic segment. Of course, by single-mindedly targeting the biggest customers, businesses cannot nurture potential growth markets. An additional danger of focusing only on the biggest customers is that businesses can end up ignoring their best customers. This is especially problematic because market shares are unstable, thanks to baby booms and busts over the past half-century. Right now, for example, householders aged 45 to 54 are the biggest customers of gardening and lawn care services, controlling 23 percent of the market—but only because the age group is filled with the large baby-boom generation. In fact, the best customers of lawn and garden services are older householders. Those aged 65 to 74, for example, spend 54 percent more than the average household on gardening and lawn care services. The 45-to-54 age group spends only 14 percent more than the average household on this item. Although the older age group controls only 15 percent of the gardening and lawn care market today, the share will expand as boomers age into their sixties and seventies. The best customers of gardening and lawn care services will become the biggest customers as well. Marketers who ignore their best customers in favor of the biggest customers may end up with no customers.

• **Age of Householder** Age is one of the best predictors of spending because lifestyle determines most consumer wants and needs. Ongoing changes in the age structure of the population will have a profound effect on consumer spending. This is why *Best Customers* explores spending by age in so much detail, using it as the primary guide to consumer trends in the years ahead.

Changes in the size of age groups will dramatically affect spending in many categories over the next few years. The number of adults under age 35 is expanding as the age group fills with the millennial generation. This will boost average household spending on products and services for infants and young children. The small generation X will fill the 35-to-44 age group, which reduces the share of the consumer market controlled by 35-to-44-year-olds. As the large baby-boom generation fills the 55-to-64 age group and enters the empty-nest lifestyle, look for more spending on full-service restaurants, alcoholic beverages, women's clothing, and travel. Not only will the size of age groups change, but as younger generations replace older ones, attitudes and behavior will also change. Younger generations, for example, devote a larger share of their household budget to computers and other high-tech gadgets. In making predictions of future spending trends, New Strategist takes into account not only the changing numbers, but also changing attitudes and lifestyles.

• **Household Income** It is no surprise that the most affluent households spend the most. For most of the products and services examined in *Best Customers*, households with the

highest incomes appear to be the best and biggest customers. Yet the story behind spending is more complex than income alone. Most spending is driven by lifestage (age) or lifestyle (household type), and secondarily by income. That is why *Best Customers* identifies high-income households as the best and biggest customers only when income has an extraordinary effect on spending or when an item is a purely discretionary expense—such as spending on indoor plants and fresh flowers. While most businesses would do well to target the affluent, they would find it difficult to design a product or craft a message if they ignore the lifestage and lifestyle reasons for spending.

- **Household Type** Household type is one of the most important determinants of spending for several reasons. The presence of children, for example, means the household will spend on products and services children want and need. Not only that, but households with children tend to include more people than those without children, and household size is an important determinant of spending. Because married couples head most of the nation's households, they account for the majority of spending in most categories. But single parents are important in some markets, and single-person households have growing clout because they are becoming a larger share of households. The most important household change to occur in the next few years is the rapid expansion in the number of married couples without children at home as boomers become empty nesters. (Note: Market shares by household type will not sum to 100 percent because not all household types are shown.)

- **Race and Hispanic origin of householder** The Bureau of Labor Statistics classifies households by the self-identified race and Hispanic origin of the householder. The bureau classifies all households into one of three racial groups: Asian, black, and "white and all other," where "other" includes American Indians, Alaska Natives, Native Hawaiians and other Pacific Islanders, as well as those reporting two or more races.

Because Hispanics may be of any race, the bureau separately classifies all households into one of two Hispanic origin categories: Hispanic or non-Hispanic. Within the non-Hispanic origin group are blacks and "whites and all other races." In this classification, the "whites and all other races" include non-Hispanic Asians, American Indians, Alaska Natives, Native Hawaiians and other Pacific Islanders, as well as non-Hispanics reporting two or more races.

To simplify things for *Best Customers*, we narrowed the race and Hispanic origin categories to four: Asians (including Hispanic Asians), blacks (including Hispanic blacks), Hispanics (a group that also includes Hispanic Asians and blacks), and non-Hispanic whites and others (a group that also includes non-Hispanic Asians). Because there is overlap among the four race and Hispanic origin groups, numbers by race and Hispanic origin will not sum to the total.

On average, Asian households spend more than non-Hispanic white households, and black and Hispanic households spend less. But there is great variation by individual product and service category. Asians do not spend much on pets, for example. Blacks and Hispanics spend disproportionately on children's clothes.

The spending of Asians, blacks, and Hispanics differs from that of non-Hispanic whites for a variety of reasons. Asians are, on average, younger and better educated than non-Hispanic whites. Blacks and Hispanics are more likely to have children at home. Food preferences differ by race and Hispanic origin as well. Asians and Hispanics are concentrated in the West, while most blacks live in the South, influencing purchasing patterns. With the numbers of Asians, blacks, and Hispanics growing rapidly, their spending is becoming increasingly important to the nation's economy. This is why it is important to understand spending patterns by race and Hispanic origin.

- **Region of residence** For many products and services, regional differences in spending are small. But for some items, spending differences by region are pronounced. There are several reasons for this, including differences in regional economies, climate, physical infrastructure, racial and ethnic composition, and access to resources. Differences in regional population growth rates also affect household spending patterns.

- **Educational attainment of householder** The population is becoming increasingly educated, and educated consumers spend differently than those with less education. College graduates headed 28 percent of the nation's households in 2004, a figure that climbs each year. Because income rises directly with education, households headed by college graduates tend to spend more on most discretionary items than those headed by people who went no further than high school. Because older generations are less educated than younger ones, older Americans are over-represented among householders with a high school diploma or less education. Consequently, the spending of less-educated householders reflects their older age. As well-educated boomers enter the older age groups in the years ahead, the spending of older Americans is going to change. This is one of the most important spending trends of the coming decade.

Appendices

Best Customers includes four appendices and a glossary of terms. These are described below.

- **Appendix A** describes the Consumer Expenditure Survey in more detail and tells readers how to contact the Bureau of Labor Statistics.

- **Appendix B** shows the percentage of households that purchased the products and services examined in the Consumer Expenditure Survey during an average quarter of 2004. It also shows how much purchasers spent on items during an average quarter. In some cases, the quarterly spending figure alone is a good estimate of how much a typical purchaser spends. Take new cars, for example, which is a one-time rather than an ongoing expense. In an average quarter of 2004, 0.8 percent of households bought a new car, spending \$21,846. (The Consumer Expenditure Survey counts the net cost of an item at the time of purchase, whether households pay for it at once or over time through a car loan.) For ongoing expenses, however, the quarterly spending figure must be multiplied by four to get an estimate of how much households spend annually on the product or service. Forty-one percent of households bought women's clothes during an average quarter of 2004, for example, spending \$233 during the quarter. The annual spending of householders who buy women's clothes can be reasonably estimated at \$932 (or \$233 times 4). Appendix B not only supplies readers with invaluable insight into the propensity of households to buy individual products and services, but also provides a more realistic picture of how much purchasers spend.

- **Appendix C** ranks products and services by the amount the average household spends on them, from highest to lowest. It shows which categories are most important to the household budget. The relative standing of products and services is often surprising. To know that gasoline is the seventh biggest expense of the average household puts the media's focus on gasoline prices into perspective. The fact that health insurance is the tenth biggest household expense explains why many households feel strapped by health care costs.

- **Appendix D** shows trends in household spending by major category between 2000 and 2004, after adjusting for inflation. During those years, spending by the average household grew a modest 4 percent to \$43,395, after adjusting for inflation. The increase in spending was much less than the 11 percent growth in household income. While the media frequently claim that consumers spend beyond their means, in fact the steady rise in consumer spending at the national level has been the result primarily of demographic

change—population growth and the aging of the baby-boom generation into the peak earning and spending years. The average household, in fact, is cautious with its spending. This caution is reflected in the spending trends for many of the individual products and services analyzed in *Best Customers*.