



## Chapter 6

### Caught in inaction?!? How do companies respond (or not) to the business implications of demographic change

Florian Kohlbacher

#### Abstract

Identifying or recognizing a business opportunity is a necessary but by far not a sufficient condition for doing business. Once identified, measures need to be taken in order to exploit that opportunity. Many companies currently fail to make that transition from recognition to exploitation of opportunities arising from demographic change. Rather than passively waiting for something to happen, managers need to become more proactive in dealing with demographic change and this will involve the pro-active shaping of the conditions that make it feasible to exploit the opportunity in question. This chapter serves as a call to arms for academics to conduct more research and for practitioners to become more active in this segment.

**Keywords:** Demographic change; Silver Market Phenomenon; Ageing Societies

#### 1 Introduction

This chapter is a mix of a personal reflection, presentation of research results and recommendations to business practitioners. It is probably no exaggeration that without Cornelius Herstatt, I might have never ended up doing research on the ‘silver market’. Even though I had already done some research around knowledge management and human resources management related issues in connection with demographic change, it was Cornelius who encouraged me to apply for a job at the German Institute for Japanese Studies (DIJ) in Tokyo and start a joint research project on “The Silver Market Phenomenon: Business Opportunities and Responsibilities in an Era of Demographic Change” in 2007<sup>1</sup>.

#### 2 Demographic change

I originally became interested in the business implications of demographic change and subsequently the silver market phenomenon during my research stay at Hitotsubashi University in Tokyo from April 2005 to March 2007. After an initial interest in the HR and knowledge management implications of demographic change, my co-editor Professor Cornelius Herstatt from Hamburg University of Technology and I started a joint research project on the silver market phenomenon in 2007 and as a result of that, the first edition of ‘The Silver Market Phenomenon’ was published in the autumn of 2008 (Kohlbacher and Herstatt 2008). Thanks to the many positive reactions to the book and its successful development on the market, we

---

<sup>1</sup> The focus of the joint research with Cornelius was obviously on innovation management, e.g. the new product development process for innovations for the silver market (e.g. Kohlbacher and Herstatt 2016).

soon started working on a more focused second edition that was eventually published in 2011 (Kohlbacher and Herstatt 2011). The Chinese language edition of the book was published in 2016, and Cornelius and I are currently working on the 3<sup>rd</sup> edition of ‘The Silver Market Phenomenon’.

In my research – even though global in nature – I had initially focused on Japan, the country most severely affected by demographic change, with a rapidly aging as well as shrinking population. Japan is the world’s most ‘mature’ market and can be considered a ‘lead market’ for products for older people and there are many lessons to be learned (Kohlbacher 2011; Kohlbacher, Herstatt, and Levsen 2015; Kohlbacher, Gudorf, and Herstatt 2011; Kohlbacher and Rabe 2015; Prieler and Kohlbacher 2016). Are we going to see a new ‘Japan as number one’ with Japan being the number one country in terms of population ageing – but possibly also in terms of innovative responses to the demographic challenge?

But population ageing is a global trend and China is now also on its way to become a global lead market for the silver industry. According to the China Report on the Development of the Silver Hair Industry 2014 (Zheng 2014), the domestic market for providing essential services and products for the aging population is estimated to be worth 4 trillion yuan (\$651 billion) in 2014, or 8 percent of GDP, but it will climb to 33 percent of GDP in 2050. China will become the largest market for businesses serving senior citizens by 2050, when its aging population will account for about one-fourth of the global total and its consumption is expected to reach 106 trillion yuan (Zheng 2014).

On 29<sup>th</sup> March, 2015, the Financial Times ran a piece on its website entitled “Ageing population in China creates business opportunities”<sup>2</sup>. The print edition of 30<sup>th</sup> March, 2015 featured the same article but with the title “China’s ageing society sets minds ticking” (Bradshaw 30<sup>th</sup> March, 2015). This article suggested that China “presents a fascinating case for those interested in the social and economic challenges of ageing populations, not to mention the business opportunities” and that “For just this reason Florian Kohlbacher moved to China in August after 11 years studying demographic change in Japan” (ibid). It is true that after more than a decade in Japan, I had moved to China in 2014 to join the International Business School Suzhou (IBSS) at Xi’an Jiaotong-Liverpool University (XJTLU). Apart from my appointment as Associate Professor of Marketing and Innovation in the business school (IBSS), I had also become the Founding Director of the XJTLU Research Institute on Ageing and Society (RIAS), an interdisciplinary research institute at the university level. In 2016, I returned to Japan as the North Asia Director of the Economist Corporate Network, the executive networking and private briefing service of the Economist Intelligence Unit (EIU). In this new role as well – now managing a business – I keep working on ageing and business, as demographic change is one of the global key megatrends that shapes our societies, economies, industries and the way we do business.

Let me take this opportunity to reflect upon more than a decade of research on the silver market phenomenon. As mentioned above, I first got interested in the issue of demographic change in the form of population aging while I was a visiting researcher at Hitotsubashi University in Tokyo from 2005-2007. Looking at the data, there was no doubt: This is huge! And

<sup>2</sup> <http://www.ft.com/intl/cms/s/2/3e4fd3e2-7fc4-11e4-adff-00144feabdc0.html#axzz3vb9j6vHD>, Ftchinese.com posted a Chinese translated entitled “中国人口老龄化蕴含巨大商机” on 10 April, 2015: <http://www.ftchinese.com/story/001061456>

it's gonna be a no-brainer for businesses to do something to respond to this trend. At the very least to fend off the challenges – but more importantly to leverage new business opportunities. But when I set out to talk to executives and managers from companies in all kinds of industries, I was surprised. I seemed to get the same answer all the time: “Yes, this is a very important topic. And yes, there is a business opportunity here.” Great! I thought and continued to ask: So, what does your company do about it? And this is where it started to get really interesting – and disappointing. “Oh, us, we haven't started looking into this in detail yet.” Or: “Oh, us, no we are in the B-to-B business and so this is not really relevant to us; but the consumer goods industry has plenty of opportunities there.”<sup>3</sup> Or: “We're currently working on this big business restructuring project, but I am sure that once we're done, we can have a go at this.”, etc. etc.

At first, I was a little puzzled. Almost every executive I talked to was knowledgeable about the demographic trends and the business opportunities. But when I asked about their own companies, they all of a sudden presented me with all kinds of excuses why they are just not ready yet or why this does not really matter to them. I call this the difference between a first-person opportunity and a third-person opportunity (Kohlbacher, Herstatt, and Levsen 2015). I.e. the potential opportunities for anyone – or possibly even everyone – are third-person opportunities, while those potential opportunities for a specific actor – i.e. a specific entrepreneur or company - are first-person opportunities. Obviously, most executives do recognize the general potential of aging as a business opportunity; but only for someone else out there and not necessarily for their own businesses. In other words, it seems that many companies fail to be able to translate the third-person opportunity into a first-person opportunity. How is this possible? I decided to start a research project to find out what is going on.

Together with Professor Ken Matsuno from Babson College, we conducted field work involving qualitative interviews as well as a large sample survey with 545 marketing managers in Japan (Matsuno and Kohlbacher 2019; Matsuno and Kohlbacher in press). As usual, we chose Japan for our research, because it is the country that is most severely affected by population aging in the whole world and frequently identified as a lead market in terms of ‘silver’ products (see also above). What we found was that most companies are:

- Aware of/sure about the state demographic change
- Not so sure about/ convinced of the effect (for their business)
- Not really prepared in terms of responses (with exceptions)

So far, this seemed to confirm the anecdotal evidence from my previous discussions with managers. But what is the reason for the gap between 1) and 2) and thus subsequently 3)? Our survey provided the answer (Matsuno and Kohlbacher 2019).

There is something that negatively affects the impact of an understanding of the situation (i.e. demographic change) and the response to it (i.e. marketing strategy and tactics). It is called *ambivalence*. This occurs when one's evaluation of a phenomenon's potential implication is not fully captured on a bipolar continuum from positive to negative, but rather is expressed as both positive and negative. In our case this means that managers have both a positive and a negative evaluation of what demographic change means for their own business. It could be good, but it could also be bad – or possibly even both at the same time. Or it could be that

---

<sup>3</sup> But of course there is also a B2B silver market, e.g. in the form of more ergonomic workplaces, shop floors and easier to handle and safer equipment etc. (see e.g. Kohlbacher, Herstatt, Levsen 2015).

they are just not really sure about it and this means that they are ambivalent about it and thus are also ambivalent about how to respond. In the absence of ambivalence, there is a strong direct relationship between an understanding of demographic change and the business response to it, i.e. the better the manager understands the phenomenon (= the implications of demographic change), the more likely he/she is to respond (and the better he/she can respond in terms of marketing solutions). But if there is ambivalence, the direct effect is weakened and in the case of very high ambivalence, it can be completely turned off, thus leading to a non-response. When this happens, the company is *caught in inaction*. It goes without saying that this is a highly dangerous situation.<sup>4</sup>

**Table 1: Common mistakes when dealing with demographic marketing challenges**

Mistake	Reason and tip for manager
Segmenting exclusively according to age	Very tempting due to demographic development; but modern marketing left the simplistic segmentation based on age behind a long time ago. Individual lifestyle, financial, professional and health situation, etc., significantly influence the needs and wants of consumers.
Measuring all “seniors” by the same yardstick	50+, 55+, 65+ may sound handy and may generalize the silver market. But it may not make sense to work this way. With today’s high life expectancy, 50+ can almost refer to half of the human life-cycle.
Underestimating and/or patronizing seniors	Nowadays, it is more and more important to know exactly what consumers want and to cater to their individual needs. End-users are more and more tied into the development process providing ideas or even start an innovative process. Instead of asking seniors or incorporating them into development, many companies active in the silver market seem to believe that they know what customers want much better than they do. As is the case for segmentation: do not take a step backwards but be innovative and approach consumers.
Fear of age and “seniors” (no, seriously!!)	Many companies fear that their image among other age groups will be damaged if they appeal to the silver market. Parallel success among young and senior people is indeed a big challenge and not completely without risk. The key to success refers to “universal design” or “trans-generational design” as well as to “ageless” or “age-neutral” marketing. As usual: exceptions confirm the rule and depending on the product, an age-emphasizing strategy can also lead to success (e.g., Dove pro-age). However, in general it is true: beware of ageism, think trans-generationally!

So, why do managers become ambivalent in the first place? We believe that there are several reasons for this. First of all, there is a lack of in-depth knowledge and understanding about demographic change in terms of its marketing implications. While we have legions of marketing studies about younger or even middle-aged consumers, older cohorts remain widely neglected by both academic and professional marketing research i.e. we don’t really know who the older consumer is and how he/she makes purchasing decisions. Second, the level and time line of the information are not suitable to make specific, tactical marketing decisions. Macro data about demographic change are valuable to understand the bigger picture, but what is needed to make decisions on the response is detailed, micro-level data. And oftentimes the data presented in reports and presentations show future trends up to the year 2050 or even

<sup>4</sup> Let me just hasten to add that I am not at all ambivalent about the exciting opportunities for researching the silver market phenomenon and its business implications.

2100 (*I must know because I am doing this all the time myself*). But where is the executive who is planning ahead for decades or even centuries into the future?

No wonder that many decide to put the decision about silver marketing off until later and focus on – seemingly – more urgent and immediately pressing issues first. And finally, there are still many preconceptions and misunderstandings about age and aging and often even out-right ageism. Again the only remedy to this situation is to do proper, in-depth marketing research, i.e. we need to do our homework first. Table 1 contains four tips about the most common mistakes when dealing with demographic marketing challenges and how to avoid these.

### 3 Final remarks

I hope readers have not become too depressed by now by all the bad news about what is going wrong with the business (non-) response to demographic change. Fortunately, there is some good news as well. As explained above, while executives generally seem to acknowledge the importance of demographic trends, relatively few companies take concrete action to try to develop the older market segment. But there are a few notable exceptions. Yes, there are some pioneering firms out there that got it right (Kohlbacher 2011; Kohlbacher, Gudorf, and Herstatt 2011; Kohlbacher, Herstatt, and Levsen 2015). The most impressive one is probably Fujitsu's Raku-Raku Phone that has developed into a long-seller over almost 20 years already. Having started as a just simple-to-use mobile phone with a reduced set of functions it has quickly turned into a high-tech device that remains easy-to-use but offers a full range of functions and technological innovations that ensure a great customer experience (Kohlbacher and Hideg 2011). In China, the consumer electronics company Xiaomi Technology Co., Ltd – famous for its smartphones and other mobile devices – successfully developed a special version of its popular Hongmi (Redmi) smartphone series targeted at older people.

The research by Ken Matsuno and me (forthcoming) has showed that there can be various types of responses:

1) *moving up* That is the most straight forward solution as it means embracing the silver segment as an addition to current activity. In most cases, it means developing this segment in addition to the current customer base rather than exclusively moving into the older segment. The Raku-Raku Phone is an example of adding a product line to the portfolio in order to 'move up'. In a similar vein, Pearson Publishing introduced English language books/seminars for those affluent silver consumers who enjoy traveling abroad but with limited language proficiency. This is definitely a big move for a company that has traditionally focused on college and high school educational publications.

→ *ACTION IDEA: reconsider existing products and look at how to re-message, re-package with little new development. We saw this with the move diaper makers have made in adapting existing technologies to adult needs. Many other products are now adapting such as the move from Seven-11 and other convenience store chains to develop single serve ready to eat meal packaging for increasing single older people households*

2) *moving down*: This one is kind of counterintuitive as it means to develop (even) younger segments. We encountered this case with a Japanese education company whose core business is to help Japanese senior high school students prepare for the university entry exams. Rather than deciding to go into the market for educational products for older people – a segment

where they do not have any experience – they decided to start targeting younger, junior high school students and start the preparation support even earlier.

→ *ACTION IDEA: pushing the products available to younger groups is a short time strategy that will work for a while. More importantly target the affluent retiring grandparents to support grandchildren with higher end products. The move by many toys and game manufacturers to develop more hi-tech toys for younger children and then appeal to grandparents for purchase*

3) *moving deep*: This strategy involves improving quality/service and/or adding additional features or services to create value-added for which higher prices can be charged. This means that even when selling less in terms of units (due to the shrinking of the younger age groups), revenue can remain stable or even grow due to higher margins per unit. The children's education and toy industry is a case in point, especially in Asia where e.g. the Chinese 'little emperors' that get spoiled by their parents and grandparents have already become famous. In Japan, supermarket chains (e.g., Aeon, Ito Yokado) are offering smaller packaged prepared food but with higher quality raw materials (e.g., organic vegetable, domestic beef/pork, free-range chicken) for health conscious, educated, and affluent older people, and convenience store chains now offer special home delivery services for older people who have difficulties carrying their shopping bags back home.

→ *ACTION IDEA: we are seeing more higher end entertainment aimed at seniors such as "revival tours" and "nostalgia visits". A few years ago Tokyo Disneyland realized that there was an uptick in older visitors taking their grandchildren to their parks. They then found some were visiting as couples to celebrate anniversaries etc. So campaigns were successfully launched to encourage older couples to "relive" young memories with higher end packages*

Finally, 4) *moving out*: i.e. going international/global. Companies that have been focusing overly on the domestic market have to consider going international and explore foreign markets to compensate for decreasing business volume on their home turfs. Indeed, this is one of the reasons for an increase in international activities by more and more small and medium sized companies from Japan that traditionally were only offering on the Japanese market. One obvious industry is babies/infants/children apparel where manufacturers are shifting their emphasis to Southeast Asia (e.g., Singapore, Thailand). Other examples including education company Benesse expanding its Asia business or real estate business Mitsui Fudosan trying to utilise their accumulated know-how in developing cities in Japan during the growth era to the still-growing Asian cities (e.g., suburban development collaborating with railway companies, shopping centers).

*ACTION IDEA: the growth and export of ageing care expertise to China and other markets both for the building of Japanese older people wanting to live cheaper in South East Asia etc. and also catering to the ageing populations of other countries.*

Let me close by coming back to the perception of business opportunities. Identifying or recognizing a business opportunity is of course a necessary condition for doing business, but it is not a sufficient one. Once identified, measures need to be taken in order to exploit that opportunity. As explained above, many companies currently fail to make that transition from recognition to exploitation of opportunities arising from demographic change. Rather than passively waiting for something to happen, managers need to become more proactive in dealing with demographic change and this will involve the proactive shaping of the conditions

that make it feasible to exploit the opportunity in question. It's time now to seize the golden opportunity of silver marketing and silver innovation. I hope this short chapter will serve as a call to arms for academics to conduct more research and for practitioners to become more active in this segment.

## References

Bradshaw, Della (30 March, 2015), "China's ageing society sets minds ticking," *Financial Times*, 15.

Kohlbacher, Florian (2011), "Business Implications of Demographic Change in Japan. Chances and Challenges for Human Resource and Marketing Management," in *Imploding populations in Japan and Germany. A comparison. International comparative social studies*, Vol. 25, Florian Coulmas and Ralph Lützel, eds. Leiden: Brill, 269–294.

Kohlbacher, Florian, Pascal Gudorf, and Cornelius Herstatt (2011), "Japan's growing silver market - An attractive business opportunity for foreign companies?," in *From Grey to Silver: Managing the Demographic Change Successfully*, Michael Boppel, Stephan Boehm and Sven Kunisch, eds. Heidelberg: Springer, 189–205.

Kohlbacher, Florian and Cornelius Herstatt (2008), *The silver market phenomenon. Business opportunities in an era of demographic change*. Berlin: Springer.

Kohlbacher, Florian and Cornelius Herstatt, eds. (2011), *The Silver Market Phenomenon. Marketing and innovation in the aging society. 2<sup>nd</sup> edition*. Berlin: Springer.

Kohlbacher, Florian and Cornelius Herstatt (2016). "Silver Product Development: The Concept of Autonomy as the Common Denominator in Innovations for Older Users", In *Gerontechnology: Research, Practice, and Principles in the Field of Technology and Aging*. Sunkyo Kwon (Ed.), New York: Springer. 429-446.

Kohlbacher, Florian, Cornelius Herstatt, and Nils Levsen (2015), "Golden opportunities for silver innovation: How demographic changes give rise to entrepreneurial opportunities to meet the needs of older people," *Technovation*, 39-40, 73–82.

Kohlbacher, Florian and Andrea Hideg (2011), "The Raku-Raku Phone: Simple Communication That Is Simply Successful," *Marketing Management*, 20 (1), 38–43.

Kohlbacher, Florian and Benjamin Rabe (2015), "Leading the way into the future: the development of a (lead) market for care robotics in Japan," *International Journal of Technology, Policy and Management*, 15 (1), 21–44.

Matsuno, Kenichi and Florian Kohlbacher (*in press*), "Proactive Marketing Response to Population Aging: The Roles of Capabilities and Commitment of Firms", *Journal of Business Research*. <https://doi.org/10.1016/j.jbusres.2019.01.042>

Matsuno, Kenichi and Florian Kohlbacher (2019), "Firms' (Non)responses: The Role of Ambivalence in the Case of Population aging in Japan", *Long Range Planning*. 52(2). 236-254. DOI 10.1016/j.lrp.2018.02.006.

Prieler, Michael and Florian Kohlbacher (2016), *Advertising in the aging society. Understanding representations, practitioners, and consumers in Japan*. Basingstoke: Palgrave Macmillan.

Zheng, Zhi (2014), *中国老龄事业发展报告2014 [China Report on the Development of the Silver Hair Industry 2014]*, Social Sciences Academic Press (China)