The New Millennium American
Changing attitudes drive consumer behavior

Highlights

- Driven by “shared life experiences,” attitudes of baby boomers—largest, fastest-growing, wealthiest segment of population—have changed dramatically as this generation has aged. With most of their material needs satisfied, boomers today place more value on experiences than on tangibles.

- Faced with pressure from normal responsibilities of middle age, disappointment of expectations, and overload of information and choices, boomers are probably the most stressed generation in history.

- Five key trends:
  - **Cradle-to-grave entrepreneurialism.** Reflecting a continuation of the shift from the big bureaucracies of 1950s-’70s (corporations offering a job for life, unions that fought for job security and better pay, expansion in government power) to the entrepreneurial economy of the 1990s, more and more Americans are being forced to behave like entrepreneurs in managing their careers, supervising their children’s education and planning their retirement. Many people of “retirement age” likely to choose stimulation of work over monotony of having nothing to do.
  - **Time drought.** Even though Americans are working shorter hours, they feel short of time because of “time deepening,” i.e., doing several things at once.
  - **Stressless leisure.** As boomers get older, they look for leisure activities with less effort, less physical exertion, less risk; fewer “projects.”
  - **No-service/full-service economy.** Stressed-out, time-starved consumers demand good service. But shortage of workers likely to cause a bifurcation of U.S. service sector into, on one hand, highly automated services allowing efficient “do-it-yourself” service and, on other hand, premium-quality traditional services that are fully staffed with well-trained employees.
  - **New drug culture.** Boomers are not staying healthy simply by living better but rather by using drugs to “fix things” when—or even before—something goes wrong.

- **Well positioned:** Companies and financial institutions catering to small businesses and home offices (banks, brokerages, office products, PCs, software, telecom), education companies, dominant brands, cruise lines, airlines, theme parks, casinos, premium hotels, selected Internet commerce companies, upscale retailers, pharmaceuticals, selected “better for you” consumer products.
### Table 1

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<th>Pag</th>
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<tr>
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Note: The inclusion of stocks that are Not Rated or rated Neutral by PaineWebber should not be construed as a recommendation for purchase. Rather, their inclusion is simply to illustrate the type of company that could benefit from the trends described in this report.

Footnotes appear on page 21.
Overview

The consumer comeback: Secular not cyclical

Since September 1995, we have strongly advocated investing in the consumer sector. In our original “Consumer Comeback” report (September 4, 1995), we argued that, for three key reasons, the consumer would be the driver of the U.S. economy:

• With politics arguing against the rebirth of “Big Government” and corporations determined to stay “lean and mean,” a process of elimination suggested that the consumer would drive economic growth.
• Real wages would climb thanks to a healthy combination of rising demand for labor in the context of a muted business cycle, and a slowly growing supply of labor because most women and boomers have entered the labor force.
• The largest, fastest-growing and most influential segment of the population is baby boomers—Americans born between the years 1946 and 1964. Now in their peak earning years, boomers are also the most affluent age group.

In seven subsequent reports over the last three years we documented the rebound of the consumer sector and identified companies and industries well positioned to benefit from strong consumer spending. And consumer-related sectors have been strong stock market performers since 1995: with the S&P 500 up 102% from the end of August 1995 through June 1998, well over one-third (13) of the 34 S&P sectors that outperformed the index are direct beneficiaries of strong consumer spending (e.g., retailers, newspapers, personal care, etc.). In our most recent update on the consumer, we reiterated once more that the recent strength of the consumer sector is not just a cyclical trend, but a secular phenomenon that should continue for a number of years” (see “Consumer Comeback, Chapter Seven: Back and Booming,” July 19, 1998).

A different approach

This report again focuses on the consumer but takes an approach more typical of Madison Avenue than of Wall Street. What this report attempts to do is understand consumer behavior and, in particular, the behavior of baby boomers, the largest, fastest-growing and wealthiest segment of the population. Importantly, as we noted in “Consumer Comeback,” “now ‘older and wiser,’ John Q. Public is not the ‘ebullient youth’ of the ’60s, nor the ‘conspicuous consumer’ of the ’80s . . .”’. In other words, driven by “shared life experiences,” boomers’ attitudes about everything from consumption to leisure to health care have changed dramatically as this generation has aged.

Asking the experts—and consumers themselves

To identify these new attitudes we enlisted the help of two leading experts on consumer behavior: The Gallup Organization and Yankelovich Partners. Working with Gallup, PaineWebber conducted a proprietary survey of 1,200 Americans, polling them on their attitudes about work, leisure and consumption. The results of this survey are discussed throughout the report. And PaineWebber also utilized the expertise of Yankelovich Partners, who, for nearly 30 years, have been compiling comprehensive polls about consumers’ preferences, habits and lifestyles.

The new millennium American

The desire for experience, not just things, has always been a potent underlying motivator for baby boomers. Today, with most of their material needs satisfied, boomers place more value on experiences than on tangibles. In other words, they don’t need more “stuff” and, more importantly, they don’t want it either.

Five key trends influencing boomers’ behavior today:

• Cradle-to-grave entrepreneurialism. More and more Americans are being forced to behave like entrepreneurs in managing their careers, supervising their children’s education and planning their retirement. To cope with all this managing, Americans set up home offices, frequent stores that provide a variety of business services and turn to full-service brokerage firms for help with financial planning.
• Time drought. Even though Americans are working shorter hours, they feel short of time because of the phenomenon of “time deepening,” or doing several things at once (e.g., cooking, watching TV, talking on the phone and helping the kids with their homework). Activities that take up too much time, such as watching TV, are at risk, while consumers favor products and services that help save time, such as trusted brands.
• Stressless leisure. With both their leisure time and discretionary income growing, stressed-out consumers are spending heavily on vacations and other leisure activities. But they want leisure that comes easy: If it
adds worry, energy or effort, it is not worth it. Three types of leisure cater to this need: “full-service” leisure, “time-efficient” leisure and “controlled-risk” leisure.

- **No-service/full-service economy.** Stressed out, time-starved consumers demand good service, and this is particularly true of baby boomers, who have become “jaded” after two decades of shopping and spending. But consumers are not satisfied with the service they are receiving. And because of the tight labor market, it will become even harder for companies to meet consumers’ high expectations.

The shortage of workers is likely to cause a bifurcation of the U.S. service sector into, on the one hand, highly automated operations offering efficient “do-it-yourself” service and, on the other hand, premium-quality traditional services that are fully staffed with well-trained employees. The losers from this trend will be companies that are stuck in the “mediocre middle”—companies trying to provide traditional services in a traditional way when the labor to do so effectively is not available.

- **New drug culture.** Baby boomers are, by and large, *not* staying healthy simply by living better (e.g., exercising, eating well, getting enough sleep) but rather by “fixing things” when—or even before—something goes wrong. This has led to “the new drug culture”—the concept of a drug for every ailment, either real or potential. And boomers are also attracted to “better-for-you” consumer products. Table 6 on pages 12-13 summarizes these new attitudes as well as some of the key trends that are influencing consumers’ behavior.

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**The mindset of the consumer: The better/worse paradox**

Consumer confidence today remains close to record highs (Chart 1). And why shouldn’t it?

- Unemployment is low.
- Incomes are rising.
- The business cycle is muted: There has been only one recession in 16 years and the current expansion is going strong after seven years.
- The recent correction notwithstanding, the stock market has been strong, up 71% in the past three years (through August 1998).
- Inflation and interest rates are low.
- The world is at peace, relatively speaking.

Yet there is a paradox. Yankelovich Partners point out that 82% of Americans say that “things today seem to be getting better AND worse at the same time.” When Yankelovich polled Americans about what they think is “out of control,” the following culprits were cited most frequently:

- Drug use (94%)
- Crime (89%)
- Health care (69%)
- Government gridlock (67%)
- Pollution (64%)

Further, while most people think that things are good today, a majority (59%) *also believe that the good times won’t last*. Haunting them are memories of events that brought other “good times” to an end, such as the 1987 stock market crash, which halted the great bull run of the 1980s, and the massive corporate restructuring of the early 1990s, which shattered many preconceptions of a “job for life.” The looming bankruptcy of the Social Security system has also undermined many dreams of a comfortable, worry-free retirement.
Reflecting this paradoxical malaise, Yankelovich polls also reveal a sharp decline in the trust that people have in many of the important pillars of society (Table 2).

The perceptions that things are “out of control” and that “things seem to be getting worse” are fostered by unsettling news stories about global terrorism, the recent spate of school killings, the incessant news about White House scandals, etc. However, perhaps the key reason for this paradox is demographics.

**Unmet expectations**

Today the largest, fastest-growing and most influential segment of the population is baby boomers—Americans born between the years 1946 and 1964 (Chart 2). Now in their peak earning years, boomers are also the most affluent age group (Chart 3). Understanding the boomers’ psyche helps explain the paradoxical view that “things are getting better and worse.”

Born into the booming prosperity of post-war America, the young baby boomers enjoyed unprecedented employment and education opportunities. Taking this affluence for granted, they assumed that there was prosperity enough for everybody. This assumption was one of the many factors behind the Civil Rights and Equal Rights movements, as well as the War on Poverty—baby boomers wanted to “make a difference” and “make the world a better place.” And with many of their material needs satisfied, young boomers in the ’60s and ’70s also began exploring what might bring them “inner happiness.” *This desire for experiences, not just things, has always been a potent underlying motivator for baby boomers.*

But in recent years, many baby boomers have increasingly felt the pang of *unmet expectations*. Now that most of them are in their 40s—and despite their continued material prosperity (Charts 4, 5)—many boomers feel that they haven’t “made a difference” or “made the world a better place.”

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**Table 2**

**Percentage of Americans with “great confidence” in important pillars of society**

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<tr>
<th></th>
<th>1987</th>
<th>1997</th>
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<tr>
<td>Doctors</td>
<td>69%</td>
<td>59%</td>
</tr>
<tr>
<td>Public schools</td>
<td>46</td>
<td>28</td>
</tr>
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<td>TV news</td>
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<td>24</td>
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<td>19</td>
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<td>Federal government</td>
<td>18*</td>
<td>10</td>
</tr>
<tr>
<td>Corporations</td>
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<td>6</td>
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</table>

*1991 data

Source: Yankelovich Partners.
Bridging the suburban/inner city gap

Actually, boomers’ perception that they have not “made a difference” is too negative. With little fanfare or new government programs, we are starting to win the “war on poverty.” Since the 1950s, the rift between the suburban mainstream and (at least in the eyes of middle-class suburbanites) the impoverished, crime-ridden, drug-infested inner city has been a blight on America’s socioeconomic landscape. This gap is starting to close, and will likely continue to do so over the next decade.

Several factors will close the gap. Most important, economic opportunity for the poor is expanding. Strong labor demand and low unemployment rates mean that nearly anyone who wants a job can get one. Real wages are rising, and low-paid workers are doing particularly well. The liberal Economic Policy Institute wrote in a recent study that from 1996 to 1998, “Real wages grew 4.1% per year for low-wage (20th percentile) male workers and 2.0% per year for the median male worker, indicating a narrowing of the wage gap between middle and low-wage men.” While abundant jobs and rising wages are “pulling” more inner city residents into the economic mainstream, welfare reform is “pushing” them into it. Subsisting on welfare simply is not an option for those of sound mind and body. Between the tight labor markets and a more tight-fisted welfare system, the nation’s welfare rolls are declining sharply (Chart 6). A study by the General Accounting Office found that more and more people leaving welfare are finding jobs.

Finally, crime rates are plunging as a result of tougher law enforcement and other factors (Charts 7, 8). Lower crime rates should increase investment in the inner city and make it easier for residents to “get ahead.”

The closing of the suburban/inner city gap is bullish for the U.S. economy as a whole, because it implies a larger pool of productive, taxpaying workers and fewer people who are dependent on government services. At a micro level, it has important implications for the real estate and retail industries. Many more mainstream retailers, restaurants, movie theaters and real estate developers will be investing in neighborhoods that have been long neglected, even though they are located near highways, transit lines and downtown business districts.
Mega stress

Despite the spreading prosperity of the U.S., many boomers have still not found inner happiness—to the contrary, they are probably the most stressed generation in history. In a recent Yankelovich poll, 59% of participants described the decade of the ’90s as “stressful” and 78% reported the need to “reduce” stress in their lives. A 1996 Wall Street Journal survey found that 40% of Americans say that lack of time was a bigger problem for them than lack of money. Showing that these complaints about stress are not just talk, the “lunch hour” is shrinking, if not disappearing:

- According to a survey conducted by the restaurant chain KFC, 55% of workers take less than 15 minutes for lunch, and 63% skip lunch at least once a week.
- A survey by Boston Market showed that only 12% of workers take a full hour to eat lunch.

Boomers today are faced with stress from:

- The normal responsibilities of middle age (i.e., career, finances, caring for children and elderly parents, etc.), with additional pressures coming from a sense of no job security, the urgent need to save for retirement, etc.
- The disappointment of their expectations: They are, by and large, middle-class, middle-aged and middle-of-the-road, a state that many of them revolted against when they were growing up.
- Too many decisions to make: The downside of living in the “Information Age” is that people are overloaded with information and choices. A baby boomer who decides that she is going to save for retirement may be distressed to learn that there are just as many equity mutual funds as there are stocks listed on the NYSE. And instead of just being served by the local phone company—“Ma Bell” in most cases—Americans face a huge number of choices with respect to their local, long distance, wireless, Internet access and cable TV service. Deregulation will bring a similar plethora of choices to the electricity market.

Cradle-to-grave entrepreneurialism

One other major source of stress is that more and more Americans are behaving like entrepreneurs—making their own decisions and taking their own risks to prosper in a free-wheeling capitalist economy, instead of following bureaucratic rules. After the devastation of the Great Depression and the inflationary trauma of World War II, Americans placed their faith in giant bureaucracies, whether it was the corporation that offered a job for life, the union that fought for job security and better pay, the U.S. military that fought the cold war, or a generous federal bureaucracy that sent out Social Security checks every month. All of these institutions lost their luster in the eyes of the American public during the late 1960s and 1970s. The war in Vietnam ended ignominiously; the “War on Poverty” ended up looking more like a “War on the Poor” that subsidized poverty instead of ending it; and an unholy alliance of big corporations and big unions pushed inflation higher and the living standards of most Americans lower.

Americans were wrenched away from big bureaucracies in the 1980s as Ronald Reagan reined in the federal bureaucracy while corporations and unions were crushed by disinflation. The percentage of workers employed by firms with over 1,000 employees dropped from 14.3% in 1980 to 13.1% in 1985 and was only 12.9% in 1995 (Table 3). Entrepreneurship flourished as venture capital boomed and many firms did LBOs. However, the U.S. did not fully embrace an entrepreneurial approach in the ’80s. “Reaganomics” was apparently discredited by the huge federal budget deficit. Ivan Boesky, Michael Milken, the 1987 stock market crash and the S&L scandal gave private enterprise a bad name; the media branded the ’80s the “decade of greed.” Preferring the high yields of bonds and money market funds to the high risk of stocks—which were tainted by both insider trading and program trading—individual investors did not fully participate in the strong stock market of the 1980s. Finally, the grinding recession of 1990-91—which did not really end for consumers until 1994—further discredited entrepreneurship.

Table 3

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<th>Employment Size-Class</th>
<th>1980</th>
<th>1995</th>
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<tbody>
<tr>
<td>Under 20 employees</td>
<td>26.0%</td>
<td>25.7%</td>
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<tr>
<td>20-99 employees</td>
<td>28.3%</td>
<td>29.1%</td>
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<tr>
<td>100-499 employees</td>
<td>23.8%</td>
<td>25.3%</td>
</tr>
<tr>
<td>500-999 employees</td>
<td>7.6%</td>
<td>7.0%</td>
</tr>
<tr>
<td>1000 or more employees</td>
<td>14.3%</td>
<td>12.9%</td>
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</table>

Source: Census Bureau.
However, the wrenching change of the 1980s and early 1990s has recast not only the U.S. economy but the American psyche. Americans are distrustful of large institutions and are being more entrepreneurial with their careers, their capital, and even the education of their children. Fewer and fewer workers have a union to stick up for them—only 14% of jobs are unionized (Chart 9).

This new entrepreneurial ethic is likely to continue over the next decade because it is part and parcel of a dynamic, prosperous economy that is raising living standards more rapidly than at any time since the early 1960s. Among the many dimensions of cradle-to-grave entrepreneurialism:

- Over one-quarter of workers are employed by firms with fewer than 20 employees; another 29% work for small firms with 20-99 employees (Table 3). Better and cheaper technology—including PCs, fax machines, multiple phone lines, cable modems, e-mail, and the Internet—is making it increasingly feasible to set up a small business in the home (to the benefit of companies such as Compaq, Dell, IBM, Microsoft, Nextel, Staples, Time Warner [cable modems] and WorldCom). Other companies catering to small businesses include outsourcers such as Administaff, which provides personnel management services (including benefits and payroll administration, medical and workers’ compensation insurance programs, payroll tax filings and personnel records management).

- The amount of venture capital available to finance start-ups is booming, and so are the number of initial public offerings (Charts 10, 11). Employees in small, growing companies tend to be paid disproportionately with stock options rather than straight salary. Consequently, their fortunes are tied more directly to the success of the company they work for.

Turnover is high. Over a quarter of baby boomers (28%) and more than one in six of the pre-retirement age group (17%) have worked for no more than two years in their current job.


- Virtually no major U.S. corporations offer “lifetime employment.” Today, when profits are squeezed, payrolls are cut. When corporations merge, redundant employees lose their jobs. Every worker has to be proactive and flexible in managing his or her career. Chart 12 tells the story. The median length of job tenure for younger workers has not changed much, but job tenure for those aged 45-54 has slipped by more than a year since 1983, from 9.5 years to 8.3 years. For employees aged 55-64 it has declined even more—from 12.2 years to 10.2—and for workers aged 65 and up it has declined from 9.6 years to 8.4.
Here is the reformers’ dilemma: If they “fix” the system by the familiar “tax and trim” method—i.e., raising payroll taxes and trimming benefits—they will make the already poor rate of return for today’s workers even worse. By impoverishing Peter to pay Paul, this would further undermine support for the system, particularly because few voters will believe that the next tax hike is the last. Increasingly perceived as a Ponzi scheme that is unfair to young families, Social Security as we know it could go the way of welfare as we knew it.

Fully 81% of Americans say that they are not planning on Social Security as a major source of their retirement income.


Instead of yet another round of “tax and trim,” many politicians, both Republicans and Democrats, argue for structural reform that permits each American worker to deposit part of the payroll tax in his or her own investment account. Very much like a 401(k) plan, this account would be controlled by the worker, who could decide how to invest the funds (by choosing from a menu of conservative investment options) and who would own the principal when they retired. Traditionalists argue that it would be dangerous to let workers invest their retirement funds, but Senator Bob Kerrey replies, “I see lots of $6 and $8 an hour workers managing their own retirement funds. [Private accounts] are what the American people are coming to expect.” Social Security privatization would profoundly affect American society. By tying the fortunes of retirees even more closely to the stock and bond markets, it would increase public support for low inflation and a prosperous corporate sector.

**Entrepreneurial education**

More and more Americans are also having to become entrepreneurial when it comes to their children’s education. Many parents wonder why, when the U.S. spends so much on public education, American students’ performance has deteriorated and lags that of their peers in other countries. Indeed, U.S. companies desperate for qualified workers are going into schools to improve instruction, whether by tutoring in basic skills or by offering specialized vocational training—such as how to use airline reservation software. Many parents are taking matters into their own hands by turning to a company such as ITT Educational Services, which offers programs designed to provide students with the knowledge and skills necessary for entry-level employment.
Living and working longer

Given that the typical American is living longer than ever before (Chart 13), many people are likely to choose the intellectual stimulation of work over the monotony of seven days a week on the golf course. And given the tight labor market we are likely to have in the future, older Americans who want to keep working should have little trouble finding a job.

But avoiding boredom is not the only incentive to work longer. Unlike their parents who grew up amid the hardships of the Depression and World War II, baby boomers today do not view a leisurely retirement as their reward for years of hard work and sacrifice. Boomers have always been work centered and will remain so. Remember, this is a highly educated generation: 85% of boomers are high school graduates and 25% have college degrees. For many boomers, work is a career and a way of life, not a job; it provides a social network of professional contacts and is the source of inner satisfaction as well as a way to pay the mortgage.

In a recent Business Week survey of adults 45 and older, 85% of respondents said that the reason they would continue to work after reaching retirement age would be to “stay challenged and stimulated.” (And many of those who don’t want to work later in life will be obliged to do so by reform of the Social Security system that pushes back the retirement age.) This increasing “desire to work” is corroborated by rising participation rates for men and women aged 55-64 (Chart 14), a reflection of both the ample supply of jobs and the fact that people would rather work than retire and stay home bored.

Investing in stocks longer

One important implication of “living longer and working longer” is that investors’ approach to financial planning could change. In the past, investors were told that, as they approached retirement age, they should skew their asset mix away from stocks and toward bonds and other more conservative investments.
The time drought

One might suppose that the cause of the stress/time crunch is that more and more Americans are working, and they are working longer hours. Actually, only the first half of this statement is true. More people are indeed working, but the workweek is getting shorter. Chart 17 shows that the labor force participation rate for all adults has climbed to a record level, mainly because the participation rate for women has climbed from 38% in 1960 to 60% in 1998. Not only are dad and, in a majority of households, mom likely to be working, so are the teenage kids. During the school year, 39% of students work an average of 18 hours per week, and when school is out 59% of teens work. Consequently, parents often cannot get Junior to mow the lawn. And it’s also difficult to hire someone else’s kids to do chores. In many suburbs, the names of reliable baby sitters are a closely guarded secret.

But although more people are working, the workweek is not expanding. The best way to find out how much people work each day is not to ask them; sociologists have discovered that respondents’ estimates tend to be—surprise!—way too high. A more reliable method has been developed by two sociologists, John P. Robinson and Geoffrey Godbey. They survey a large random sample of adults and ask them to write down precisely what they do as they go through a day. These time-use studies have been conducted since the 1960s, and they reveal that the amount of time the typical employed American works has declined 6 hours for women and about 7 hours for men since 1965 (Table 4). Conversely, the total amount of free time (defined as time not at work or doing chores at home) has increased 6.8 hours for employed women and 3.3 hours for employed men (Table 5).

This demographic factor was one of the reasons we cited in “The Big Shift— Barely Begun” (February 8, 1998) for the shift out of equities that occurred in the late 1960s (Chart 16). By contrast, today more people are working past the traditional retirement age (and, therefore, receiving income on a regular basis). So 15 years from now, investors could well postpone the shift out of equities and into the traditional income-generating assets.
Table 6  
Key trends behind The New Millennium American

I. Cradle-to-grave entrepreneurialism

- Reflecting a continuation of the shift from the big bureaucracies of 1950s-70s (corporations offering a job for life, unions that fought for job security and better pay, expansion in government power) to the entrepreneurial economy of the 1990s, more and more Americans are being forced to behave like entrepreneurs in managing their careers, supervising their children’s education and planning for their retirement.

- Living longer/working longer. Given that the typical American has more leisure time than ever before and is living longer than ever before, many people are likely to choose the intellectual stimulation of work over the monotony of having nothing to do. So, when they reach “retirement age,” many boomers will keep working, albeit often in new, more interesting jobs.

Investment implications: An entrepreneurial, competitive economy helps to keep inflation low and is bullish for companies and financial institutions catering to small businesses and home offices. With entrepreneurialism also spreading into the realm of retirement, an increased focus on asset management is positive for brokers and investment firms. And with more parents taking an entrepreneurial approach to their children’s education, demand is increasing for the services of education firms. In comparison to today’s retirees, boomers in their 60s and 70s will have less need to sell stocks and income-producing investments because more of them will still be receiving a paycheck.

Well positioned: Administaff, Bank of New York, Compaq, Dell, IBM, ITT Educational Services, Marsh & McLennan, Merrill Lynch, Microsoft, Nextel, Staples, State Street Corp, Time Warner, Travelers and WorldCom.

II. The time drought

- While stress increases, so does leisure time. The length of the work week has shortened, leaving more time for leisure. But stress is increased by “time deepening” as people use such devices as wireless phones and the Internet to do several things at once.

Investment implications: Brands flourish because they save time, make shopping easier. Network TV, a time hog, is at risk as new media grab an increasing share of consumers’ time.

Well positioned: America Online, Coca-Cola, Gap, PepsiCo, Procter & Gamble and Tiffany.
### III. Stressless leisure

- As boomers get older, they are looking for leisure activities with less effort, less physical exertion, less risk; fewer “projects.”

- Among the forms of leisure that appeal to stressed-out consumers: “full-service” leisure (integrated, all-in-one packages without extra hassles or extra charges—e.g., cruises); “time-efficient” leisure (activities that cram a lot into a limited amount of time); “controlled-risk” leisure (an activity that has a sense of adventure as an antidote to the dull routine of the everyday, but yet is not too risky or uncomfortable—e.g., theme parks, casinos).

**Investment implications:** Bullish for cruise lines, airlines, theme parks, casinos, hotels.

**Well positioned:** AMR Corp, Carnival Corp, Delta Airlines, Disney, Four Seasons Hotels, Gannett, Hilton Hotels, Marriott, Mirage Resorts, Northwest Airlines and Royal Caribbean Cruises.

### IV. The no-service/full-service economy

- A tight labor market makes it difficult for traditional middle-market firms—the “mediocre middle”—to deliver good service.

- In response to this, consumers are gravitating, at one extreme, toward quick, efficient, automated services (notably on the Internet).

- At the other extreme, consumers are turning to premium-quality, full-service firms.

- Smart retailers are avoiding the “Net threat” by delivering convenient services as well as merchandise.

**Investment implications:** Good opportunities both for low-cost, highly efficient services (including Internet firms) and for premium-quality services. But the “mediocre middle” should get squeezed.

**Well positioned:** America Online, Bed Bath & Beyond, Cisco Systems, Costco, Lowe’s, Nordstrom, Open Market, Proffitts, Staples, Sterling Commerce and Wal-Mart.

### V. The new drug culture

- Boomers are not staying healthy simply by living better but rather by using drugs to “fix things” when—or even before—something goes wrong.

- Boomers are also attracted to “better-for-you” consumer products.

**Investment implications:** Strong demand for pharmaceuticals and “better-for-you” consumer products.

**Well positioned:** Abbott Labs, Avon Products, Colgate-Palmolive, Ecolab, Medtronic, PepsiCo, Pfizer, Procter & Gamble, Revlon, Schering-Plough and Warner-Lambert.
Preliminary estimates from 1993-96 time-diary studies show that the amount of free time remains close to the 1985 figures. And, as Chart 18 reveals, the trend toward a shorter work week is corroborated by data compiled by the Bureau of Labor Statistics, with this pattern holding through 1997.

**Chart 18**

**Average workweek**

*in hours, annually*

![Graph showing average workweek](image)


**Most Americans would like to spend more time on recreation.**

—59% would like to spend more time
—34% are happy with how much time they now spend
—6% want to spend less time


**About one in five of all Americans (22%) say they will be taking no vacation this year, while the average (including those who will take none) is 2.7 weeks.**


**Deeper time**

If Americans are working shorter hours, why are they so stressed out? One key reason is a phenomenon that Robinson and Godbey call “time deepening”—instead of doing just one thing at a time, people do two, three, or even four things at once. Consequently, even free time may be stressful. Once upon a time, when radios were bulky appliances, the family sat around the radio in the evening and listened to “the Shadow” or a Brooklyn Dodgers game. By the 1950s they listened to radio while driving a car; today they listen to the radio while driving and making phone calls.

Time deepening is so pervasive that it has reshaped the home. Living rooms where you can sit down with someone and just talk are being superseded by “great rooms” connected to the kitchen where parents can simultaneously cook, watch TV, talk on the phone, and help the kids with their homework. The ultimate time-deepening appliance is the computer wired to the Internet, which one can use to almost simultaneously write a report; e-mail a friend; check stock prices, sports scores and bank accounts; follow the latest news headlines; and play a game of solitaire.

**Network TV: The next buggy whip**

Traditional TV is at risk because it is a time hog. Of the 39.6 hours of free time per week that Americans had in 1985, no less than 15.0 hours (38%) was spent watching TV (Chart 19). This was more than twice as much time as was spent on the next biggest category, “socializing.” Simply because it claims so much time, TV is the big loser as consumers spend more time on new activities such as surfing the Net, or taking their kids to a myriad of activities (soccer, dance, karate, art, girl scouts, drama, etc., *ad infinitum*). According to Nielsen, since 1993 daily TV viewing time of kids under age 11 has dropped 17 minutes, or 8%, to 3 hours and 13 minutes.

Major TV networks face the additional problem of rising competition from cable channels, pay-per-view, videos, DVDs, etc. A Roper poll found that 46% of home computer users watched less TV after buying the computer. A poll that asked consumers, “Has Internet use completely/mostly replaced” other media in your home found that 12% answered “yes” for TV, 10% for newspapers and 8% for magazines.

**About one in five Americans (19%) say that “surfing the Internet” is one of their favorite activities.**

The time/stress crunch explains the success of America Online, which makes the Internet easily accessible and enjoyable to use. As the largest Internet service provider (ISP), America Online provides over 13 million subscribers with access to the Net. More importantly, it helps them quickly get to where they want to be. It organizes the Internet into channels such as sports, news, travel, entertainment, personal finance and shopping. These channels guide users to their destination with a few clicks of the mouse. In effect, AOL is giving users the “best of the Net”—saving them the time and aggravation of finding the best sites on their own.

<table>
<thead>
<tr>
<th>Net surfing is far more popular among younger age groups.</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Youngest age group</td>
<td>29%</td>
</tr>
<tr>
<td>Baby boomers</td>
<td>20</td>
</tr>
<tr>
<td>Pre-retirement group</td>
<td>13</td>
</tr>
<tr>
<td>Retirees</td>
<td>5</td>
</tr>
</tbody>
</table>

Brands are time-savers

The time/stress crunch also elevates the power of well-established brands, which save consumers time in two ways. When you buy a trusted, well-known brand, you do not have to spend as much time researching the purchase, and you can have a high degree of confidence that you will like the product and not have to exchange it, get it repaired, etc. Yankelovich Partners’ extensive research shows that consumers desperately want to be in control of the buying process; purchasing established brands helps them do it. Why take your chances buying khakis at a “mom and pop” clothing store when you can get a tried-and-true pair, in a familiar, easy-to-shop environment, at Gap?

Second, there is the Internet factor. As we argue elsewhere, consumers love the convenience of shopping on the Net. But it certainly is a drawback of Web shopping that you cannot handle and inspect the merchandise before buying. Therefore, Web shoppers will want to reduce their risk of buying shoddy merchandise by purchasing brands they know and trust.

PaineWebber analysts also emphasize that consumers are gravitating toward the biggest and best brands. One source of brand dominance is that the aforementioned fragmentation of American media makes it increasingly tough to build a new brand. Instead of buying time on popular TV shows such as “Bonanza” or “Dallas” to reach America’s great middle class, marketers now have to advertise on the major networks, many cable stations, and the Internet—and they still won’t reach the consumer market as effectively as before. As PaineWebber analyst Chris Dixon puts it, “brand is king in the consumer cacophony.”

Consumers’ preference for the best brands also reflects a shift of confident, increasingly affluent consumers toward “quality”—toward buying the Tommy Hilfiger shirt rather than a J.C. Penney knock-off. (Recall that the premature “death of brands” scare in 1993 occurred when consumer incomes failed to recover adequately from the 1990-91 recession.) The preference for brands as time-savers that give consumers control of their busy lives is bullish for virtually all of the “gorilla” stocks with dominant brands—Coca-Cola, PepsiCo, Procter & Gamble, etc. It is also bullish for the handful of retailers that have become brand names in their own right—such as Gap and Tiffany.

Stressless leisure

With both their leisure time and discretionary income rising, stressed-out consumers are spending heavily on vacations and other leisure activities. Surveys reveal that baby boomers want less stress and more fun in their lives, but this does not just mean escaping the usual pressures of middle age. As boomers grow older, less stress increasingly means:

- Less effort. When Yankelovich asked people if they “prefer places where I can get a sense of participating,” 71% agreed in 1993, but only 61% in 1997.
- Less physical exertion. According to a Yankelovich poll, the percentage of people who turn to physical exercise/sports as a way to relax fell from 30% in 1993 to 27% in 1997.
- Less risk. Gratuitous risk-taking is unappealing to stressed-out consumers. For many this would include, for example, foreign travel which entails the risk that you won’t like the food, the culture or the weather.
- Fewer “projects.” As Table 7 reveals, most people think that a “leisure” activity that can be classified as a “project” is too much like work.

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Table 7
Favorite way to express oneself

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIY projects</td>
<td>57%</td>
<td>47%</td>
</tr>
<tr>
<td>Home improvements</td>
<td>52</td>
<td>41</td>
</tr>
<tr>
<td>Gardening</td>
<td>47</td>
<td>34</td>
</tr>
</tbody>
</table>

Source: Yankelovich Partners.

Three types of leisure

In short, consumers want leisure that comes easy: If it adds worry, energy or effort, it is not worth it. Among the forms of leisure that appeal to stressed-out consumers:

- “Full-service” leisure. When vacationing, stressed baby boomers don’t want extra hassles or extra charges. Many prefer integrated, all-in-one packages, especially ones that have plenty of options for kids. An obvious example is cruise ships, which offer the convenience of going overseas but not leaving the U.S., of going out to eat every night without finding a restaurant and getting a reservation, and having high-quality entertainment constantly available without the “work” of, for example, reading movie reviews, finding a theater, driving, parking and driving home after the show. Cruise line operators include Carnival Corp, Disney and Royal Caribbean Cruises. And upscale hotels such as Four Seasons Hotels and Marriott (owner of the Ritz-Carlton chain) also offer “full-service” leisure.

- “Time-efficient” leisure. Reflecting the “time drought,” leisure activities that cram a lot into a limited amount of time are popular:
  —And a getaway does not even have to be a weekend. The number of day spas in the U.S. has risen from 30 in 1987 to 600 in 1997 while, at the same time, the number of health clubs has declined from a peak of nearly 14,000 in 1990 to 13,000 in 1997 (again reflecting the aversion to things physical).
  —“Time deepening” also makes leisure more time efficient. For example, many Barnes and Nobles bookstores have a café in them as well as organized activities such as author readings and children’s entertainment. So consumers can relax over a cup of coffee, browse the new releases, and let their kids play in a safe environment.
  —And Gannett’s USA Today appeals to harried consumers because it organizes lots of information into digestible snippets that make data easy to remember and use.

- “Controlled-risk” leisure: i.e., an activity that offers a sense of adventure as an antidote to the dull routine of the everyday, but yet is not too risky or uncomfortable. We noted the pervasive viewpoint that things are “out of control” and that people are powerless in a chaotic world. “Controlled-risk” activities offer adventure and the element of risk, but the consumer remains in comfort and in control most of the time. Two examples of “controlled-risk” leisure activities are “going on safari” at Disney’s Animal Kingdom theme park in Florida, and gambling at the New York-New York hotel and casino in Las Vegas.

Disney’s Animal Kingdom blends live animals with audio-animatronic creatures ranging from the mythical to the prehistoric. It combines Disney’s storytelling ability with its organizational prowess, reproducing an African safari where the animals, unlike their Kenyan counterparts, always appear on cue. Trekkers pay to venture into “the bush” where they might stumble across poachers while tracking the matriarch of a herd...
of elephants. Disney is tapping into the adventure-travel boom, but you don’t have to spend hours on a plane to Africa; you won’t pick up a stomach bug; there’s no mysterious food; and you will recognize the toilets.

Similarly, at New York-New York Hotel and Casino one can combine “some of the most famous sites of the Big Apple with the thrills and excitement of Las Vegas,” all in the comfort of a lavish resort. The hotel recreates the Manhattan skyline, complete with 12 New York-style skyscrapers which house 2,035 guest rooms. More than 84,000 square feet are dedicated to gambling facilities, with over 71 tables offering everything from blackjack to Pai Gow poker. And when you are finished gambling, you can do a little shopping, eat at various restaurants, and then catch a “Broadway” show. For the kids, there is an array of amusements and activities, including interactive laser tag, virtual reality games, bumper cars, a shooting gallery and all the latest simulators. Other companies which could benefit from the appeal of “controlled risk” leisure include Hilton Hotels and Mirage Resorts.

The no-service/full-service economy

Stressed-out, time-starved consumers demand good service, and this is particularly true of baby boomers who have become “jaded” after two decades of shopping and spending. But consumers are not satisfied with the service they are receiving. According to Yankelovich Partners, 64% of consumers say, “Service people don’t care,” and a whopping 90% say, “Prices I pay entitle me to the highest possible service.”

But because of the tight labor market, it will become even harder for companies to meet consumers’ high expectations. Hotels, restaurants, retailers, medical services and many other services will have a hard time hiring competent workers at reasonable wages as workers gravitate toward high-wage jobs. For example, retail trade in 1998 is paying $8.67 per hour, compared to $13.44 for manufacturing and $20.82 for the fast-growing “computer and data processing services” category.

The shortage of workers is likely to cause a bifurcation of the U.S. service sector into, on the one hand, highly automated services allowing efficient “do-it-yourself” service and, on the other hand, high-quality traditional services that are fully staffed with well-trained employees. The losers from this trend will be companies that are stuck in the “mediocre middle”—companies trying to provide traditional services in a traditional way when the labor to do so effectively is not available. Most consumers would rather deal with an intelligent keyboard than a dumb clerk—especially if they have to wait in line for the privilege of dealing with the dumb clerk. One example is the tremendous popularity of bank automatic teller machines—you can use them any time of day or night to check balances, deposit money or get cash.

Over a third of Americans (37%) think that service has gotten worse over the past five years.


Concerning the quality of service in stores, fully 44% of Americans believe they have become more demanding over the past five years and only 11% have become less demanding.


Just under half of Americans (45%) say they choose the stores they shop at because the service they provide helps them to better manage their time.


Of people who have bought products over the Internet, nine in ten are either “very satisfied” or “somewhat satisfied.”

The new automat

Eleven years ago, in a report titled, “Return of the Automat” (September 23, 1987), we wrote about the coming labor shortage in the service sector. The “automat” has turned out to be the Internet. Despite the fact that the Net is still slow, disorganized and confusing—with many major service establishments not fully hooked into it—consumers love it. PaineWebber Internet analyst James Preissler reports that most of the leading Internet companies have shown trends in volume growth that exceeded investors’ expectations. A recent PaineWebber report on the impact of the Web on book retailing noted:

“... this channel is growing far faster than initially anticipated... even with shipping charges it is substantially cheaper to buy online than in the store. A hardcover book can be bought at 10% off list at a Barnes & Noble superstore or 30% off at barnesandnoble.com or 40% off if it is an Amazon.com bestseller. Online shoppers are also spared sales tax for the most part. For a $30 book, the $6 savings is substantial enough to make even DINK [Dual Income No Kids] professionals ponder the merits of standing in line to pay more.”

Book retailing’s competitive advantage—which applies in varying degrees to many other classes of merchandise, from music to toys to apparel to garden tools—including the following:

• A huge selection—far greater than any brick-and-mortar store can offer;
• A searchable database covering millions of titles;
• Valuable and accessible consumer information such as book reviews, lists of prize winners, etc.
• Low inventory costs because most books are obtained from wholesalers;
• Low operating costs because there are no real estate costs or in-store labor costs;
• 24-hour-a-day service;
• The convenience of having merchandise shipped to your home—admittedly, for an extra charge;
• No sales tax in many cases.

How far will the Net extend—into what branches of retailing, finance, media, travel, etc.? That is the key strategic issue for hundreds of companies. Our bet is that the answer tends to be “further than we ever expected.” Lots of supposed barriers to the Web are likely to break down.

It is sometimes said that “heavy” items cannot be sold on the Web because shipping costs are too high. But computers are heavy, and they are the top-selling category on the Web. And some claim that apparel is not well suited to the Web, but any garment that can be sold by mail-order catalogue can be sold more efficiently on the Web.

Currently, catalogue sales of apparel total $9 billion, or 5% of the total. Among main-line apparel retailers, Gap Stores has created an ambitious and elaborate Web site, which is heavily promoted in its stores. Other major retailers are still in the process of migrating to the Web. Increased Web commerce is clearly bullish for e-commerce companies such as Open Market and Sterling Commerce, and Internet hardware providers such as Cisco.

Because shopping is not only a practical chore but also an enjoyable communal experience, the migration to the Web will be far from complete. Fashion-minded shoppers will continue to make day-long excursions to malls, where they can visit many department stores and specialty shops. However, the key for retailers and other service providers is to make sure that the consumer experience is, in fact, enjoyable. That’s not easy in a period of tight labor markets. Best positioned to succeed are upscale establishments with a classy image and a culture of providing superior service—e.g., companies such as Nordstrom and Saks (recently acquired by Proffitts). In this era of the “consumer comeback”—when incomes are being boosted by continued employment growth, rising real wages and declining taxes—discretionary incomes are rising much faster than free time. So consumers make the most of their free time by paying up for premium services.

The premier service providers with strong brand names also have a little-noticed advantage that will become increasingly important. They are the first place that job-seekers in their industry look. Therefore they are able to hire the best people, which in turn improves the quality of their service. It is a virtuous, self-perpetuating cycle.

Squeezed: the mediocre middle

Most at risk are companies that are caught in the “mediocre middle”—neither providing cut-rate bare-bones on-line service nor providing a premium-quality full-service experience. Middling firms also have a hard time projecting a strong brand image.

One example would be middle-market retailers, which offer neither deep discounts nor particularly good service. Department stores tend to be stressful and hard to shop. Another interesting example is securities firm Charles Schwab, a fine company and a great stock in the 1990s. Though it was a pioneer in discount brokerage, Schwab—whose costs are buoyed by the maintenance of 272 offices
around the United States—cannot compete on price with on-line stock brokers. But it also does not provide the proprietary research and personalized, one-on-one advice of full-service investment firms.

Selling solutions—Antidote to the Web threat

PaineWebber analyst Aram Rubinson points out that the real reason stressed-out consumers go to a store is not to buy something *per se*, but rather to solve a problem. One of the best ways for retailers to inoculate themselves from the Web threat is to redefine their business as selling solutions rather than just merchandise. The new paradigm of category killers is not “selection and price” but rather “service and convenience.” Brick-and-mortar stores have, in many circumstances, an advantage in this respect because it is quicker to walk into a store and walk out with what you need than to order it on the Web.

Building on this, such companies as *Lowe’s* and *Staples* provide a variety of services. Staples offers its small-business customers not only everything they would need to fit out a home office but also photocopying, phone services, insurance and technology services. Tax advice, sign making and archiving may be next on the agenda. By deepening its relationship with its key customers, Staples can create a “loyalty loop” that goes beyond price and selection. Furthermore, these are high-margin sales because they do not require building new stores.

Similarly, Lowe’s is not just selling lighting, bathroom fixtures, kitchen counters, flooring, etc.; it is also beginning to provide installation services. As baby boomers get older, with more money, less time, less “elbow grease” and pricier homes with higher standards of craftsmanship, they are migrating from the “do-it-yourself” market to the “do-it-for-me” market.

**Bed Bath & Beyond** offers a variety of products outside the strict confines of the “home furnishings” category (e.g., teabags to go in the teapots it sells). **Costco** is also offering its members a variety of products besides the merchandise on its shelves, including car insurance, travel services and real estate services. In all of these product lines, it acts as an agent for other companies. But by providing solutions to a variety of problems, it is strengthening its tie to the customer. And **Wal-Mart** offers “one-stop-shopping” where harried consumers can load up on everything from food and consumables to electric appliances and apparel.

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The new drug culture

A key reason why people are living longer and working longer is, of course, that they are staying healthier. But baby boomers are, by and large, not staying healthy simply by living better (e.g., exercising, eating well, getting enough sleep) but rather by “fixing things” when—or even before—something goes wrong.

**At home with drugs . . .**

Boomers are comfortable with this “medical activism” because they were born into a world awash in drugs. Penicillin, available for widespread use in 1944, became a catchword for the easy fix, and many serious diseases (such as venereal disease and tuberculosis) became distant memories overnight. Polio was vanquished by new vaccines in the 1950s and childhood diseases (such as measles and chicken pox) were reined in with massive inoculation programs. Other factors reinforcing this “new drug culture”:

- Since the laws regulating the advertisement of prescription drugs were relaxed in the 1980s, advertising by pharmaceutical companies has soared. In 1997 manufacturers spent over $700 million on direct-to-consumer advertising, and as a result more and more patients are asking their doctor to prescribe a particular drug.
- Many employers offer health care programs that have prescription drug plans.
- Many doctors in managed care systems are under pressure to see as many patients as possible. Prescribing a drug is often the quickest way to treat a patient.
- And with heavy emphasis today on managing health care costs, in many instances drugs are the most cost-effective treatment for patients.
Reflecting this new drug culture, today’s boomers are making trips to the doctor at an unprecedented rate (Chart 21). And not only are boomers taking drugs to treat medical problems, they are also popping pills to fight the aging process (Chart 22). This generation considers themselves, in the words of the Bob Dylan song, to be “forever young.” Indeed, a Yankelovich survey revealed that boomers give 79 as the median age they consider old. But growing old does worry boomers: A recent study by Roper Starch Worldwide revealed that roughly half of those aged 45-59 (54%) and those aged 30-44 (46%) describe themselves as “somewhat” or “very” concerned about aging.

... and looking for a stress-free road to health

Importantly, however, baby boomers’ aversion to stress also affects their approach to health care:

- For boomers, feeling good means not feeling stressed. But worrying about getting enough exercise and diet and nutrition is stressful. That’s one reason why being thin has given way to feeling well regardless of how you look. (To appreciate this point, just turn on the TV and take a look at Drew Carey, Rosie O’Donnell, Al Roker, etc.)

- Some of the stress of everyday life can be relieved by “little indulgences”—a bag of Fritos, a mocha latte—even though they are part of the reason boomers need such medications as Lipitor (for cholesterol). Reflecting this propensity to indulge rather than sacrifice, Weight Watchers—whose public spokesperson, Sarah Ferguson, a.k.a. “Fergie,” is by no means a Kate Moss waif—has shifted its marketing emphasis away from denying yourself and feeling guilty, toward eating what you want and feeling good.

- And while baby boomers want to feel “forever young” they don’t necessarily want to look “forever young” if that requires too much effort and sacrifice (Table 8).

<table>
<thead>
<tr>
<th>Table 8</th>
<th>“I’ll do whatever I can to look as young as possible”</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>1993</td>
</tr>
<tr>
<td>Total</td>
<td>47%</td>
</tr>
<tr>
<td>Women</td>
<td>55%</td>
</tr>
</tbody>
</table>

Source: Yankelovich Partners.

Desiring to stay healthy and young, but unwilling to take on the stress of a diet or more exercise, many baby boomers are taking some or all of the following medications on a regular basis:

- Propecia for hair loss
- Dexatrim for weight loss
- Zyban for smoking cessation
- Prozac for depression
- Xanax for anxiety
- Viagra for sexual dysfunction
- Lipitor for high cholesterol
- Norvasc for high blood pressure

And as boomers get older, they will likely take even more drugs that treat problems such as arthritis, prostate problems and osteoporosis. Some companies well positioned to benefit from this powerful trend are Abbott Labs, Medtronic, Pfizer, Schering-Plough and Warner-Lambert.

Beyond drugs

But other firms are benefiting too by offering products and services that cater to boomers’ health needs:

- Although stressed consumers are not willing to give up their “little indulgences,” they do want to stay away from fat—which, of all food ingredients, probably worries consumers the most. One clear indication of
this is the success of Olestra, the “fake fat” manufactured by Procter & Gamble. For example, using Olestra, Pepsi’s Frito unit has created the WOW product line, a fat-free line of potato chips. Despite a 60% price premium per ounce over regular chips, WOW has been running 25% above plan since its introduction a few months ago. (But, consumers’ aversion to fat is clearly bad news for many purveyors of fast foods ranging from burgers to fried chicken.)

- A major driver of Colgate’s earnings growth over the past three years is Total Toothpaste, which the company calls “the first toothpaste ever that can legitimately claim it helps prevent gingivitis, plaque and cavities.” Gingivitis is a gum disease that, left untreated, can eventually cause teeth to fall out.

- Boomers spend plenty of time outside, leading to strong demand for skincare products ranging from sunscreen to moisturizing agents. Two beneficiaries of this include Revlon (whose Colorstay lipstick has transfer-resistant properties as well as moisturizing and sun-protection ingredients) and Avon (whose ANEW is a breakthrough technology for skincare and a big winner from the move to alpha hydroxy acids, which provide superior moisturizing qualities.)

- Restaurants, hospitals and hotels that are worried about nefarious microbes such as E. coli and salmonella call upon Ecolab, which, PaineWebber analyst Robert Ottenstein points out, is making a major transition from a “dishwasher soap company” to a “food safety company.” Ecolab now sells cleaning and sanitizing products; services customers’ cleaning machines; and serves as a consultant and trainer in food safety matters.

Additional information is available upon request.

Prices of other companies mentioned as of 8/31/98:

Amazon.Com AMZN $83 3/4
Barnes and Noble BKS $27
Penney (J.C.) JCP $49 9/16
Schwab (Chas) Corp SCH $29 7/8
Tommy Hilfiger TOM $46 1/2

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