Who's Going to Buy This Car?

If we rescue the auto industry, it must be able to build vehicles for an aging population.

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By David K. Foot

As federal Industry Minister Tony Clement and his Ontario counterpart, Economic Development Minister Michael Bryant, evaluate the business plans submitted by General Motors and Chrysler for taxpayer-funded bailout money, they'd be wise to consider the future of the auto industry in an aging population. The arrival of that future has been accentuated by the downturn engulfing Canada and other auto-producing countries.

What are the industry's prospects? This malaise is making life difficult for all businesses. Customers are retrenching or disappearing. This is especially true for businesses where purchases can be postponed or eliminated, as with buying a new car. But two groups have been particularly adversely affected by economic events.

Members of the first group - retired young seniors (people in their late 60s and early 70s) - have watched as much as 40 per cent of their retirement nest eggs have vanished. Many hadn't yet moved all of their savings into more secure income-generating products and were still "enjoying" seeing their equity investments drive the values of their portfolios upward. Now they are suffering. They have neither the luxury of waiting another decade for the market to recover nor the option of returning to the work force in this depressed economy. They are not going to buy a new car.

The second group is primarily the second half of the boomer generation, currently in their 40s and early 50s. Although most can wait for the markets to rebound, many have little savings. They still have substantial mortgages and other debt. They also have children to support. Some have already lost their jobs, and the remainder are concerned about losing theirs. For many, both income earners are at risk.

This is one of the main arguments for government support of the auto industry. About 60 per cent of auto workers in Ontario are 35 to 54 years old. Many more work for companies that supply the auto industry. For many of these people and their communities, downsizing the auto industry has profound consequences.

So what are the longer-term prospects for the industry? Surveys show that an average family spends the most money on cars in their late 40s and early 50s. By their late 50s, the children have left home and the "kid's car" is sold. When they retire in their 60s, they no longer need two vehicles.

This behaviour has two consequences. It floods the resale market with used vehicles, thereby depressing their value and offering an attractive alternative to a new auto purchase. And perhaps more important, it severely reduces the growth in demand for new vehicles.

The early boomers are now entering their 60s, and while some may postpone retirement for a year or two, this massive cohort that has driven North American auto-industry sales since the 1960s is now poised to contribute to its contraction. True, their children, the Echo generation now in their teens and 20s, will generate increased sales of smaller, cheaper and most likely greener vehicles over the next 15 years. But sheer numbers mean that the boomers' behaviour dominates, particularly in Canada, where the Echo generation is only two-thirds the size of the boomer generation.

North American auto manufacturers have never done a good job of understanding the effects of changing demographics on their business, despite some notable successes. The minivan boom of the 1980s, when the early boomers were in their 30s with young families, and more recently, the increased demand for up-market SUVs to provide comfort to boomers in their late 40s and early 50s, are two such examples. But when these trends first arrived, they surprised an industry dominated by marketing to sporty younger drivers.

In the future, the aging boomers will need different vehicles. Many already have difficulty getting into low-slung cars, and they increasingly need bigger dashboard dials. The Japanese companies have a head start in understanding these trends. It will be necessary for North American auto companies to get up to speed rapidly if they are to compete effectively. And quality will be important. Younger buyers are more willing to trade quality for a better price. This trade-off is proving increasingly difficult when customers are older. Will we require the Canadian industry to show that it understands how to build autos for an aging population as a condition for the receipt of bailout funds?

But, more important, the boomers will require fewer vehicles. Over the next decade, changing demographics require that the auto industry not only needs to be reconfigured but also retrenched. This will be a major challenge for the nostalgia-enslaved management and workers who have trained in an industry historically dominated by younger customers and growth. New management ideas will be needed to effect the changes.

As governments consider pumping public funds into the auto industry to "save" jobs, it should keep future demographic trends in mind. Besides requiring details on proposed vehicle designs appropriate for an aging population, perhaps the package should include bridging older workers to early retirement and providing retraining options for younger workers who choose to move to other industries. Simply cutting costs will not be sufficient for long-term survival.

It is no longer "business as usual" in a North American auto industry where survival amid an aging population inevitably requires the industry to be smarter and smaller.

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