



## *Teakwood Wisdom*

*As one of Teakwood's most valued friends and business partners, we would like to express our appreciation for your partnership with Teakwood. In an effort to continue building our relationship with you, we would like to share our thoughts with a small group of people, including you, on a continuing basis.*

*We plan to periodically send excerpts from our quarterly letters to our Limited Partners. In addition, we may provide additional insight that we gain through interaction with our business partners, limited partners or portfolio companies. Our goal is to provide something that is valuable to you, yet brief.*

*Please don't hesitate to give us ideas regarding what would be valuable to you or comments on the information we send to you.*

*Thank you for your continued partnership,*

*Teakwood Capital*

### ***Here is the question asked:***

*How will consumption patterns and needs change over the next 5-7 years as the baby boomers, who have delayed retirement, begin to enter retirement in large numbers?  
What opportunities and challenges will that trend create?*

### ***Responses received:***

*We have had a rich and varied response to our question, with numerous recommendations for areas of growth. Opportunities in healthcare, education, technology driven products and services were some common themes. Our respondents also opined on the impact of changing consumption patterns on public markets and the political process. Some commented that baby-boomers are likely to continue working, at least on a part-time basis which creates its own set of opportunities and challenges. On the whole, interesting and thought-provoking responses.*

***VALUABLE RESPONSES AND SNIPPETS FROM OUR SEASONED BASE OF LIMITED PARTNERS, AS PART OF THE TEAKWOOD WISDOM PROGRAM:***

Current AARP statistics seem to indicate that boomers are not ready to retire yet. They will continue to be engaged in the workforce in some fashion. This fact alone creates opportunities and challenges. If this experienced workforce is looking for flexible, part-time opportunities, companies have the opportunity to create a more flexible, agile grouping of experienced and upcoming talent for any given project. This will likely create management challenges and require refining project definition, responsibilities, and culture. However, this systematic, upfront planning will result in increased payoff in the longer run.

Combined with the current economic challenges, I think this poses a general threat to long term growth. I believe discretionary consumer items will suffer, particularly at the mid-scale to upper scale level. I think Texas should be helped by the trend, however, as boomers seek an affordable, warm place for retirement.

Considering there is a long period of Baby Boomers, this will just be the beginning of them to start to retire. My guess is it will affect consumption patterns and needs somewhat, but will be offset by resurgence in the economy. There are not many periods the economy stays flat for 2 straight decades and it was flat from 2000 to 2010. The odds are that 2010 to 2020 will not repeat what happened. I don't think the effect will be dramatic, at least at first.

Consumption will continue to skew older - with healthcare, pharmaceuticals, health services and support, and related (healthy food, products and services for the aging population, etc...) taking up a larger and larger portion of the consumption dollar. Net savings will decrease and get redistributed into corporate coffers and lower income and middle income homes, as the wealthy get taxed more, subsidies go to the poor, and upper and middle income families become more spenders than savers (we have already seen capital move out of equity and into debt, it will also move from debt into later life care and spending). All of that will result in equity multiples declining in line with the trends.

Medical and recreation have been the key opportunities often cited. Although the portfolios of retirees have recovered to a large degree from the 2008 sell-off, discretionary spending on items like travel and vacation homes may be more muted than previously expected, as more may be worried about outliving their embattled savings. Medical expenditures will continue to increase, both in general and for this group in particular, since many have the resources for cosmetic, marginal and alternative treatments. And, if trends hold, these aging 'hippies' will become even more active as both voters and in the political processes. Whether their political acumen provides obstacles or resources for businesses and investors may be one of the more interesting things to watch as the Boomers move on.

This prolonged negative economic environment will delay the retirement of many boomers longer than people think. Additionally, many boomers (more than expected) will likely transition from full time careers to part time jobs to supplement their income.

This will have a few impacts. It will continue to put pressure on the unemployment rate because more folks will be competing for a fixed job pool. It will unfortunately (possibly) create a larger pool of discouraged employees that drop out of the workforce and begin to rely on the government. On a positive note, years ago (before the 2008 crash) it was projected that we would see meaningful wage inflation pressures because there was not a large enough supply of labor to replace retired boomers. However, this wage inflation will likely be less of an issue now. On the other hand, it could perpetuate wage stagnation.

I think we will see deflation as baby boomers continue to lower debt and save. Peak consumer spending occurs at age 46 and based on demographic information spending levels are at risk to decline over the next five years.

I think we will see increased demand for:

- Delivery/shipping/courier services, in addition to online driven growth
- Home improvement products and hobby products (e.g. garden supplies)
- Fixed price strategies (e.g. fixed income = need for clear price visibility/stability)
- Job training and retraining of youth to fill void

- Gathering places and organizations to maintain affinity/connection to others

Decreased demand for:

- Corporate sponsored health care cost management...

The largest consumption patterns that will see hikes as these baby boomers retire are healthcare and housing. The people in this bracket tend to live longer and are more financially sound than those before them, however, with the current economic climate savings and retirement funds took a hit and so they will need to have more affordable healthcare options (including supplemental health plans) and programs that help them stay in their homes (or move to assisted living developments).

Because they are also the first technically savvy group to retire, we are going to see a shift in how people are taken care of - i.e. more home services versus clinic visits, more remote diagnosis over a laptop, more proactive care based on the data that has been generated. This pattern will also provide more opportunities for healthcare workers who provide services. New career paths will be created to respond to these patterns.

As more people enter retirement years they will tend to downsize their housing and move to townhouses, condos, apartments, etc. with lower upkeep, maintenance and security concerns. When personal economics permit they will tend to relocate from urban areas to suburban, rural, sea coasts, lakes and mountains. They will be seeking activities to fill the time formerly spent in working, including travel, hobbies of all sorts, and other recreational opportunities and many people will volunteer for part-time activities. Life-fulfilling education will be in higher demand. Some will take the opportunity to learn foreign languages, learn to (better) use the computer, write books, and/or develop new skills, etc.

As they age, more and more attention will turn to health and nutrition. Given the state of the economy and outlook for same in the light of the government fiscal debt burden, many will be forced to seek part-time work or other sources of income to supplement retirement funds. There should be an increased demand for financial planning and financial management.

There will be large and obvious opportunities in the Health Care industry - specifically home health care and nursing in particular. As demand grows for these services, there will be an ever increasing need for educated and trained health professionals. Firms situated either directly in the space of health care or in training and preparing educated professionals should benefit from this trend.

As baby boomers finally exit the workforce, there will be opportunity for younger workers to take their place in jobs held longer than average due to the recent global financial downturn. As more youth enter the workforce there will be increased pressure to identify and recruit talented, trained individuals in various industries. Education and development broadly should see a boost as a result.

Finally, we have the concerns at the macro level of how programs like Social Security and Medicare will scale to the degree needed to satisfy the demand from such a large retiring segment.

As a long term retained search consultant, I believe the impact of the pending baby boomer retirement influx, will lead to a substantial management drought for companies across all sectors. McKinsey has developed several reports over the past 5 years speaking on the "War for Talent" and I expect this to be a real challenge in the next 5 years. Specific industries have felt this pain in recent years, energy being a leading sector, whose demand for proven executive talent has outpaced the available pool of proven geologists, geophysicists and petroleum engineering, executives who entered this market in the last decade. Healthcare is another industry whose demand for experienced leadership will be affected by this pending removal of proven executive management due to age. Companies across all sectors must be looking to their bench strength management in the next 24-36 months to prepare them for the next level of leadership or they will find themselves lacking!

As a member of that class I know that the role of the baby boomer moving into retirement will be fundamentally different from those in the past. A significant number of "baby boomers" may not want to "retire" but perhaps "give back" to the younger entrepreneurs and executives. The wisdom that the "baby boomer" can bring to these companies is invaluable and the need to be "needed" is fulfilled. I

see more 60-somethings joining advisory boards as well as actually taking a more active role in some companies.

In my personal experience and the experience of others there are very few people that actually will "retire" unless they are physically incapable. The work force will be enhanced by the cumulative wisdom of the "baby boomers".

You will have an entire generation of people who do not have pensions like their parents did. Many of them have not prepared for retirement so the trend will be to try and find quality of life on a fixed income. This includes migrating to areas of the country where living expenses are low and land is inexpensive. Many of them will not retire and will continue on in the workforce due to financial reasons.

In addition to healthcare and healthcare related business opportunities we see opportunities in education, retraining and reemployment arising from healthy baby boomers looking to start their second or third careers. We expect that the trend in online education will continue and accelerate especially in this area.

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