

Business Demography

Stanley K. Smith and Peter A. Morrison

“Business Demography,” pages 106-108 in Paul Demeny and Geoffrey McNicoll (eds.), *Encyclopedia of Population*. Farmington Hills, MI: Macmillan Reference, 2003.

Business Demography

Stanley K. Smith and Peter A. Morrison

Business demography encompasses the application of demographic concepts, data, and techniques to the practical concerns of business decision makers. This loosely organized field includes—but is not limited to—site selection, sales forecasting, financial planning, market assessment, consumer profiles, target marketing, litigation support, and labor force analysis. Specific applications have evolved over time, reflecting changes in data sources, computer technology, statistical techniques, and the business environment itself. In this article, we survey the major features of this eclectic and rapidly changing field, focusing on the United States.

Evolution of the Field

Businesses have based decisions on demographic data and techniques since as far back as the late nineteenth century (Pol and Thomas, 1997). The emergence of business demography as a distinct field, however, is quite recent. The release of 1970 census data in machine-readable form gave rise to an electronic data industry, which grew from a mere handful of companies to at least 70 competitors by the mid-1980s (Russell, 1984). Although the number of data vendors has since declined, many new firms focusing on marketing, survey research, trend analysis, mapping, and software development have been established. As the field matured, it became routine for businesses to base decisions on the advice of consultants and employees skilled in collecting, analyzing, and interpreting demographic data.

Responding to these developments, the Population Association of America formed a Committee on Business Demography in 1982, which together with the Committee on State and Local Demography launched publication of the *Applied Demography* newsletter in 1985. During this formative period, two commercially-oriented magazines (*American Demographics* and

Business Geographics) were launched, reporting on demographic trends, data availability, technological advances, and business applications. Business demography thus coalesced into a visible and well established area of endeavor, although the field itself remains loosely defined and organized.

The Practitioners

Business demographers fall into three distinct groups. First are analysts employed by private companies, whose work pertains specifically to those companies and their business activities (e.g., market analyses, customer profiles, site selection). Second are analysts with firms that create demographic databases (e.g., population estimates, consumer spending, lifestyle clusters), develop proprietary software applications, and perform customized research (e.g., estimates and projections of the population residing within five miles of a supermarket). These firms serve both government agencies and business enterprises. Third are individual consultants who undertake specific projects for particular clients. For some individuals, consulting is a full-time activity; for most, it is a part-time pursuit outside regular work activities.

Not all practitioners have formal training in demography. Indeed, the diversity in training, educational background, and current occupation reflects the eclectic nature of business demography as a field. Many have backgrounds in economics, geography, marketing, statistics, survey research, real estate, or other disciplines. Even those with formal demographic training have acquired many job skills principally through work experience rather than academic training. Few academic programs extend their demographic focus to business fields, and few business schools offer training in demographic applications.

The Tools

The tools of business demography parallel those that demographers use generally: data from a variety of sources; computer hardware and software; and basic demographic concepts, measures, and techniques. What sets them apart is the purposes for which they are used. Business demography aims to clarify and inform business decisions rather than to advance knowledge. The tools of demography are described elsewhere in this volume; here, we focus on their business applications.

Data sources include publicly available censuses, surveys, and administrative records (e.g., building permits, registered voters, Medicare enrollees); proprietary surveys (e.g., of new or repeat purchasers); and firm-specific records (e.g., customer files, business transactions). The availability and reliability of such data vary considerably across levels of geography and among countries. Typically, the smaller the area, the more difficult it is to obtain useful data. Since business decisions often pertain to local markets, there is a premium on assembling reliable data for small areas.

Exponential increases in computing power and data storage capacity have greatly expanded the possibilities for organizing, integrating, and analyzing data. Computer networks enable analysts to share information and transfer data globally through the Internet. Powerful software packages have largely automated statistical analysis and reporting. Advances in geocoding and displaying spatial information through geographic information systems (GIS) have been especially influential, as many analyses call for data grouped into customer service areas, market analysis zones, and other uniquely defined geographic areas. The ability to use these computing tools effectively is crucial for many business demographers.

The concepts and measures of business demography focus primarily on dimensions relevant to commerce and enterprise: population composition (e.g., age, sex, race, income), consumer units (e.g., individuals, families, households), demographic events (e.g., births, deaths, marriage, migration), and the distribution of demographic characteristics and events across geographic areas (e.g., counties, census tracts, ZIP code areas). Business demographers have extended these measures using consumer data. For example, geodemographic segmentation systems classify neighborhoods with similar demographic characteristics and consumer preferences into *lifestyle clusters* (Mitchell, 1995; Weiss, 1988). Given business demography's emphasis on decision making, techniques that update recent census data and project future values play a particularly important role.

Demographers introduce fresh perspectives to the business world because they can envision business problems differently than business people ordinarily do (for example, distinguishing among age, period, and cohort effects that reshape a market). They inform and advise, broaden perspectives, and even serve as catalysts for organizational change. By exposing business minds to new perspectives, demographers can elevate management thinking from an operational to a strategic level (e.g., Kintner and Swanson, 1997; Pol and Thomas, 1997; Siegel, 2001).

Several Examples

The business concerns that demographers address are many and varied. Accurate sales forecasts depend on foreseeing changes in population size and composition. Human resource planning requires data on characteristics of the labor force and personnel needs of the business enterprise. Site analyses require information on local populations within reach of one or another retail outlet. Financial planning requires information on how demographic changes affect cash

flows and returns on investment. Many projects require population estimates and projections, often with detailed characteristics (e.g., age or income). The following illustrations suggest the range of business applications:

Marketing and retailing. Demographic information and analysis have become essential to identifying, locating, and understanding the diverse consumer groups that form markets for goods and services. For example, newspaper publishers and editors recognize that they must adapt to powerful demographic and societal changes that are transforming reading habits and readers' interests. Many readers live alone, are divorced or remarried, or are cohabiting. Among married couples, fewer have children at home but more anticipate future eldercare obligations. Accompanying these diverse lifestyles are new interests and obligations. Demographers can identify the changing demographics of newspaper readership, helping publishers cater to collections of small audiences with certain shared interests who comprise an increasingly segmented readership. Demographers can also devise and calibrate specialized tools for segmenting customers (e.g., Lauderdale and Kestenbaum, 2000; Mitchell, 1995).

Human resource planning. The demographics of a corporate workforce have important long-term implications for benefits, productivity, and profitability. General Motors, for example, spends more than \$3 billion annually on healthcare for its current and former employees and their dependents. Since healthcare expenditures vary tremendously by age, information on likely future changes in the age structure is critical. Kintner and Swanson (1997) analyzed the expected longevity of General Motors employees, developed a series of projections by age and sex, and made recommendations to the company's senior management that helped them control healthcare costs.

Site selection and evaluation. Geographic proximity to consumer markets is highly important since most retail transactions are made at specific locations. Productive retail sites are generally located in the midst of dense consumer populations or are readily accessible to the potential users of a firm's goods and services. Local availability of an appropriately skilled labor force also is critical for many businesses. Evaluating a proposed site—or weighing the comparative merits of several competing sites—is another way demographers support business decision making (e.g., Morrison and Abrahamse, 1996; Voss, 1997).

Tracking emerging markets. As markets have globalized, business interest has focused on the emergence of consumers within the massive populations of developing countries like India and China. A defining characteristic of emerging economies is rapid economic growth and the ripening market potential that accompanies such growth. Anticipating future growth of consumer markets poses distinctive problems amenable to demographic analysis. With only the barest minimum of data, demographic accounting models can capture the upward economic mobility of newly prosperous consumers (e.g., Morrison, Levin, and Seever, 1996).

Conclusions

Business demography is a problem-driven field with an emphasis on using (rather than advancing) knowledge. Its practitioners address problems and inform decision making within a specific business context. Its tools and perspectives are drawn from demography generally but are applied to the practical needs of the business community. It is an eclectic and continually evolving field, responsive to the opportunities that expanding data sources, statistical techniques, demographic methods, and information technology offer. Although its focus has been primarily on small areas, new applications and trends toward globalization are pushing it increasingly into

broader areas with national and international implications. Future opportunities in business demography promise to be many and diverse.

See also SMALL AREA ANALYSIS; POPULATION PROJECTIONS; STATE AND LOCAL DEMOGRAPHY.

ACKNOWLEDGEMENTS: The authors thank Linda Jacobsen and Jeff Tayman for numerous helpful suggestions.

REFERENCES

- Kintner, Hallie J., and David A. Swanson. 1997. "Estimating Vital Rates from Corporate Databases: How Long Will GM's Salaried Retirees Live?" In *Demographics: A Casebook for Business and Government*, ed. Hallie J. Kintner, Thomas W. Merrick, Peter A. Morrison, and Paul R. Voss. Santa Monica, CA: RAND.
- Lauderdale, Diane S. and Bert Kestenbaum. 2000. "Asian American Ethnic Identification by Surname." *Population Research and Policy Review* 19: 283-300.
- Mitchell, Susan. 1995. "Birds of a Feather." *American Demographics* 17 (2): 40-48.
- Morrison, Peter A. and Allan F. Abrahamse. 1996. "Applying Demographic Analysis to Store Site Selection." *Population Research and Policy Review* 15: 479-489.
- Morrison, Peter A., Morlie H. Levin, and Paul M. Seever. 1996. "Tracking Growth of Emerging Consumer Markets Worldwide: Where Demographic Analysis Fits In." Paper presented at the Sixth International Conference on Applied and Business Demography, Bowling Green, OH.
- Pol, Louis G. and Richard K. Thomas. 1997. *Demography for Business Decision Making*. Westport, CT: Quorum Books.
- Russell, Cheryl. 1984. "The Business of Demographics." *Population Bulletin*: 39 (3). Washington DC: Population Reference Bureau.
- Siegel, Jacob S. 2001. *Applied Demography: Applications to Business, Government, Law and Public Policy*. San Diego: Academic Press.
- Voss, Paul R. 1997. "Targeting Wealthy Ex-Wisconsinites in Florida: A Case Study in Applied Demography." In *Demographics: A Casebook for Business and Government*, ed. Hallie J. Kintner, Thomas W. Merrick, Peter A. Morrison, and Paul R. Voss. Santa Monica, CA: RAND.
- Weiss, Michael J. 1988. *The Clustering of America*. New York: Harper & Row.