

Something to Think About



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COMMON CENTS

Recently, two quintessential American Brands, McDonald's and Coca-Cola, have made headlines with their struggles to turnaround sluggishness in the key US market. While McDonald's has gotten most of the ink, the folks at Coke are facing the same primary issue: what appears to be a fundamental change in consumer consumption habits. In so many ways, they can't just show up any longer, and expect folks to throw money at them.

How did it get to this? In my opinion, the quick answer is ubiquity and demographics.

When I was a child, one of the more coveted birthday parties was one at the local McDonald's with the large playground. It was always the same thing, and that didn't matter in the slightest: a small hamburger (as cheese was extra), a small order of fries, and generally a small Sprite. We would play for 30 minutes to an hour, and then have cake and ice cream at one of the many picnic tables. I still remember how fired up I was to go to one particular party when I was four or five.

I also remember when getting a Coke was almost a treat, really. Mom didn't come home with soft drinks very often, and we usually sucked them down pretty quickly when she did. After all, they couldn't have been much more than 10 ounces or so; certainly not the 20 ounce behemoths we have today.

Today, both companies are struggling with how to capture the same amount of the US consumer's stomach, or more, in the face of near withering competition. This even as both companies have seemingly gone out of their way in the past to give the consumer what they want, and that is more, more, and more of a good thing. There has to be a lesson in here somewhere, and I think there just might be.

If you remember your economics classes from back in the day, you probably remember the teacher mentioning something about scarcity and demand. As my favorite economics pundit, Thomas Sowell puts it: "The first lesson of economics is scarcity: There is never enough of anything to satisfy all those who want it." Well, perhaps not always.

What do you see when you go into a convenience or grocery store? How about a fast food restaurant these days? Is there really a shortage of soft drinks from which to choose or even how much you can consume? You can get free refills just about anywhere, and there seems to be no end to the various sizes and containers you can get. I mean just go into the back of the 7-11 and look at the sheer number of sodas on display.

The same could be said of McDonald's, or fast food places in general. In 1968, the year of my birth, McDonald's opened its 1,000th outlet in the United States. In 2014, the company had in excess of 14,000. You know what? The physical size of the country really hasn't changed all that much since then. 50 states in 1968? Check. 50 states in 2015? Check. Any new and inhabited territories? Not that I can discern. In fact, we know longer hold Palau, Micronesia, and the Canal Zone, so, you know, that is huge growth in a relatively contained amount of space....particularly in population centers.

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**Aging has a wonderful beauty and we should
have respect for that.**

Eartha Kitt

Something to Think About Cont.

In so many ways, the US consumer, in aggregate, can have a Coke and eat fast food just about anywhere at any time of the day. My apologies to Thomas Sowell, there really isn't much scarcity here, and that, perhaps, is part of the problem. After all, how does the old saying go? Familiarity breeds contempt?

On internet message boards, this contempt, if you will, takes some variant of the following shape: these companies make disgusting, unhealthy, and fattening foods. Guess what? That is a bunch of rot, just not the same type of rot your toddler's teeth will have if you let them suck on 'healthy' apple juice from dawn to dark. Or how about the 'healthy' buttered noodles on just about every children's menu in the country? Low in protein, but high in fats and swimming in sugars (carbohydrates), more than your body needs. Or how about that healthy salad with the cheese, bacon, and Ranch dressing? Or the healthy veggies that have been sitting out at room temperature just waiting for your sandwich or burrito order? I will stop there.

First things first: no one goes to McDonald's or drinks a Coke because they are on a health kick. Nope. They do so because they are absolutely delicious; all of it is. You read that right. Up until quite recently, less than 100 years or so, mankind's biggest struggle was one to find enough food to eat. Most of it was quite bland, and lacking in many of the nutrients dieticians would consider a necessity today. Even kings and queens of yore didn't get enough of the good stuff, the healthy stuff the same people who deride fast food eat.

I mean, it would be fun to somehow travel back in time, and give some 1880s dirt farmer a #1 Big Mac meal with a fountain Coke. His eyes would light up like a Roman candle on the 4th of July. How did you get this, friend? Where can I get another? *Shoot, in 2015, I would argue most Americans would rather eat a hastily prepared and 'disgusting' Big Mac than the most meticulously prepared piece of liver or boiled mutton.*

But today? Man, you can get just about any type of food and drink you want, and the most common are fast food and soft drinks. They are cheap and delicious, and McDonald's and Coca-Cola are the industry leaders. And we all well know, there is a lot more downside than upside when you are already sitting at the top.

That is a key problem....complete and utter market saturation, to the point where the perceived value of the products has declined in the mind of the American consumer due to their ubiquitousness, shoot, omnipresence. Hey, these companies aren't alone, even it seems like I am picking on them. Walmart is another good example, as are Facebook and just about anything AB InBev (Budweiser, et al.) puts out there. Or at least the products you know they put out there. I imagine there is more than one beer drinker out there sucking down a Blue Moon or a Goose Island, heck, even a Stella Artois, who claims: "Man, I would never drink some mass produced Bud product." Yeah, just keep thinking that pal.

Then there is the simple, or perhaps not so simple, fact of shifting American demographics. This is a topic that doesn't get anywhere near the amount of coverage it should.

It is no secret most people's metabolism slows as they age. They simply don't need as many calories in order to maintain stasis. We all know this. So, people just don't eat and drink as much as they get older, or at least shouldn't. Further, they are a little more mindful of what goes into their mouths, particularly after they know a few people who develop diabetes or have a heart attack, etc. Further, the older folks get, the fewer rug rats they have to feed quickly and

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Something to Think About Cont.

cheaply. Finally, you know, as people age they tend to spend more money on healthcare and a whole host of services they used to perform themselves when they were younger.

With this in mind consider this: according to the 1970 Census, 69.5% of Americans were under 45 in that year. Obviously, only 30.5% were older, with just 9.9% being 65+. Perhaps more importantly, 45.9% were under 25! By comparison, in 2010, 61.1% of Americans were less than 45 years of age, meaning 38.9% were older. While those numbers might not sound like a lot, it is a pretty huge move in such a large sample.

However, perhaps most importantly, the number of Americans under age 25 had fallen to 34.2% in 2010, from that 45.9% back in 1970! That is an amazing drop, and here are the absolute numbers: 104.352 million in 2010 and 93.341 million in 1970.

Arguably, this is the core market, the folks that still crave this stuff, and can keep off the pounds, arguably, better than the us oldsters....and it has grown 11.3%, 0.3% annualized over last 40 years. Meanwhile, the number of folks shifting into lower overall food & beverage intake patterns has ballooned, as the number of Americans 60+ has grown roughly 91% since 1970, 1.6% annualized, a total of over 26 million Americans.

In essence, the US is aging itself out of the fast food & soft drink industries' target markets. Sure, you can blame Chipotle, Panera Bread, Pepsi, Starbucks, pick a firm, all you want. Over the next decade or two, the average American, 1 standard deviation from the median, will (or should be) consuming less calories than they currently are. If not, we will be stroking out right and left, which isn't good business for restaurants and beverage companies either.

There really aren't any two ways about it.

Unfortunately, there aren't any easy solutions to growing your business in a massive, mature industry with a lot of existing alternatives. Too many people have spent too much time and money focusing on growing revenue and expanding market share to jump ship in mid-stream. However, the first thing I would focus on is acknowledging the changing demographics, and, first things first, reducing serving size.

Why McDonald's hasn't come up with an 'early bird' senior meal is beyond me. It would be a regular burger, with a higher quality beef patty, a small French fry, and a drink for about \$4....available only to seniors, period. You can't cook at the house for less than that, and the sizes wouldn't intimidate. For Coca-Cola, I think a return to an 8.5 ounce bottle, plastic or otherwise, would be a great idea. Of course, bottlers would freak out, but that standard 20 oz. bottle is a real undertaking for folks as they get older, in a lot of ways. If nothing else, and there are other things, no one likes to throw away a half-full anything, as that is literally wasting money....which becomes a much bigger issue to folks the older they get. What's more? The company could market the heck out of the 8.5 oz. 100 calorie Coke. That is not necessarily a diet killer.

Again, I am running the risk of picking on McDonald's and Coke, but they are not alone...only two of the largest and most visible companies facing the same problems: ubiquitousness and shifting demographics. Historically, corporate America has been able to grab market share by giving consumers more, more, and more of the same thing at roughly the same price. However, what if we are entering an era where the consumer wants, gasp, less, less, and less of the same thing at only a slightly reduced price?

Once the retooling nightmare is over, corporate America should be able to give the aging US consumer what it really wants, less, but ultimately at a higher profit margin because prices wouldn't fall at the same rate as quantity. In so doing, the ubiquitousness of these mature markets would diminish, to some degree, as the quantity provided shrinks. That would help to mitigate the 'familiarity breeds contempt' problem many of these companies are currently facing.

Whew.

Moving forward, expect to hear more about shifting demographics as the cause for changing consumer consumption patterns as opposed to new alternatives. The alternatives are all so many 'variations on a theme.' The key for business will be to keep the older generations buying their products, at as close to the current unit number as is possible. The only way to do that will be to reduce portion size, as counterintuitive as that may seem.

Have a great weekend.