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The On-Demand Consumer: How Consumption Patterns are Changing and Why It Matters

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"This is the whole point of technology. It creates an appetite for immortality on the one hand. It threatens universal extinction on the other."

Don DeLillo

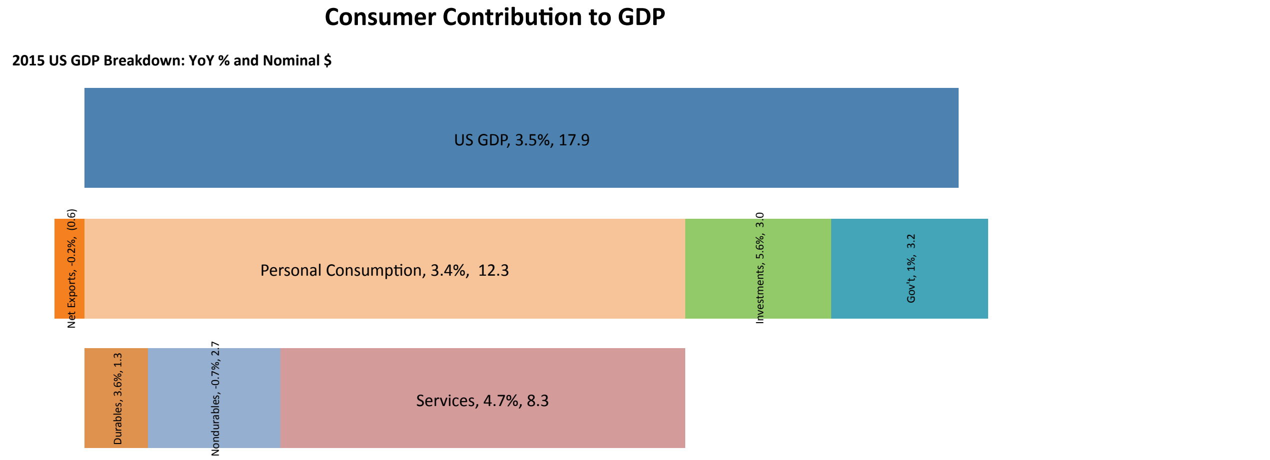
The Consumer is a Critical Input to GDP

Personal consumption in the U.S. stood at $12.3 trillion in 2015, representing more than two-thirds of total GDP with the balance split between government and investment expenditures. By virtue of its magnitude, personal consumption comprises one of the most powerful engines driving economic growth. Therefore, the strength of the consumer is a key barometer for the health of the overall economy. Digging down further, the lion's share of consumption – over two-thirds – is spent on services, with staples (food, beverages, etc.) contributing just over 20% and the remainder from durable goods, such as automobiles. (Chart 1)

How Has Consumer Behavior Changed?

Patterns of consumption, however, have not stayed static. Over the last 15 years, services have continued to gain market share, with health care, education, professional, and food service leading the pack. Consumption of physical goods, on the other hand, has receded in importance led by motor vehicles, parts, clothing, footwear, and furnishings, among others. (Chart 2)

Chart 1



Source: Bureau of Economic Advisors, Morgan Stanley Research Note: Durable goods comprise high-dollar items such as refrigerators, TVs, autos and furniture. Nondurable goods include daily necessities such as food and clothing. Services Include payments for healthcare, housing and transportation.

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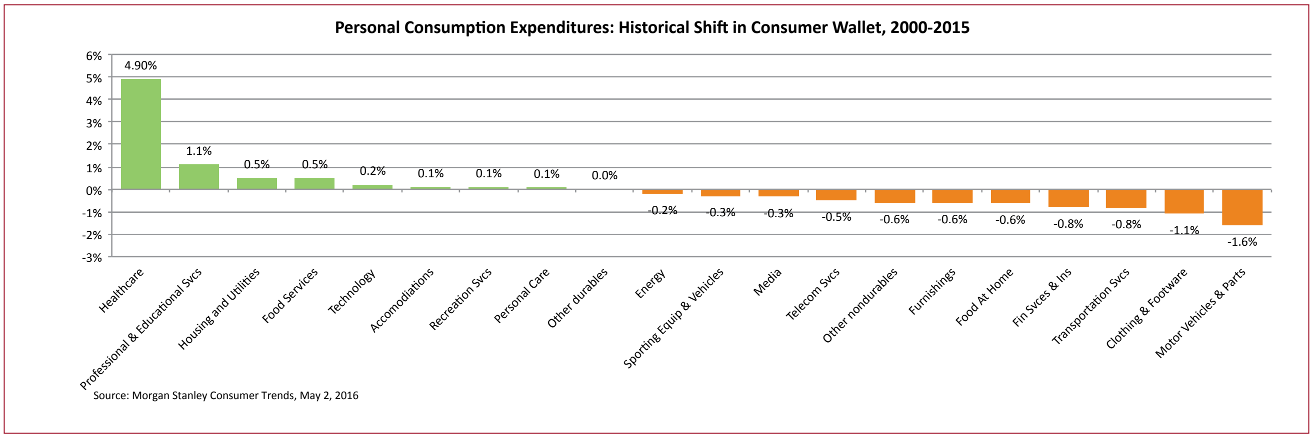
Chart 2



The ease of online purchasing, especially on mobile devices, has improved our ability to get things, as needed, in whatever quantity desired. Instant access has shifted our demand from acquiring and storing physical goods to obtaining them on-demand.

To further this theme – millennials, an important consumer group, who never have had much of an appetite for owning goods, are becoming more economically influential as they enter the highest earnings phase of their careers. Born between 1980 and 2000, these individuals have grown up with the internet, are users of advanced digital and mobile technology, and have a known affinity for services and experiences beyond physical goods. Their annual incomes in the U.S. alone are expected to exceed $8 trillion by 2025 and will significantly influence patterns of consumption. Globally, millennials will account for 75% of the workforce by 2025. As this segment of the population grows in influence, its respective buying choices will continue to reshape the consumer sector.

Digitally Driven Disruption and Convergence

Today's consumer, enabled with a hand-held personalized supercomputer, known as the smartphone, holds a tremendous amount of power and information at his or her fingertips. I mproved technology, combined with an ever-more sophisticated user, has created an environment where we can find products, information, and experiences whenever and wherever we choose, generally at the lowest possible cost.

The era of the smartphone began with the launch of Apple's iPhone 3G in 2008 and, since that time, growth has surged. Smart phone market penetration now stands at 92% in the United States, up from 33% in 2011. Access to the internet through mobile data plans or Wi-Fi networks is available practically anywhere. This has created a consumer mindset of "I Want What I Want When I Want It." The Digital Consumer theme, enabled by the broad usage of mobile devices, social media, and the internet has driven two impactful trends across the consumer and retail industry: disruption and convergence.

How disruptive has the smartphone been? That little rectangular box which fits easily in your pocket or handbag has effectively replaced the need for dozens of other devices. Your phone can now serve as your source of news and information, camera, GPS, music player, TV, DVD player, PC or tablet, wallet, gaming device, wristwatch, and countless other things. All of these separate pieces of equipment that were necessary 10 years ago have now converged into one single device. Consequently, the ripple effect has very broad and significant economic implications. Consumers now need fewer things; no need to pay $13.99 for a CD when you can download your favorite song for $0.99 or stream your favorite artist free through Pandora (although you may need to listen to an advertisement or two). Instead of buying a DVD player and a movie, you can stream content directly from Netflix, Amazon, and cable or satellite providers to your phone. The digital camera that was cutting-edge about five years ago is now collecting dust in a drawer. Who needs to carry a bulky camera when you can just pull out your phone and snap a picture or video in the blink of an eye? Today, consumers need fewer things when compared to 10 years ago.

Such converging trends tend to be deflationary and may help explain why retail sales growth has been surprisingly slow. Today's consumer is better educated and equipped to do ample research in advance of making a significant purchase.

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Friends, social media, blogs, and product and service reviews are all sources of insight, and technology enables speed in finding the best possible option at the best available price. Over the past 5-10 years, companies like Circuit City, Linens N' Things, Radio Shack, Kodak, and countless others have filed for bankruptcy because the products they sell are no longer necessary, or have become commoditized and can be sold online, at a lower cost with relative ease. Old-school retailers are being replaced by technology oriented companies like Twitter, Spotify, Pandora, Apple, Netflix, Amazon, Facebook, and PayPal with applications that can be easily downloaded on a mobile device at little or no cost. Checking emails, listening to music, shopping, catching up with friends, paying bills, reading the news in real-time, watching SportsCenter or the latest episode of Game of Thrones can now happen with a single device, anyplace and anytime.

Sharing Economy: The Rise of Collaborative Consumption

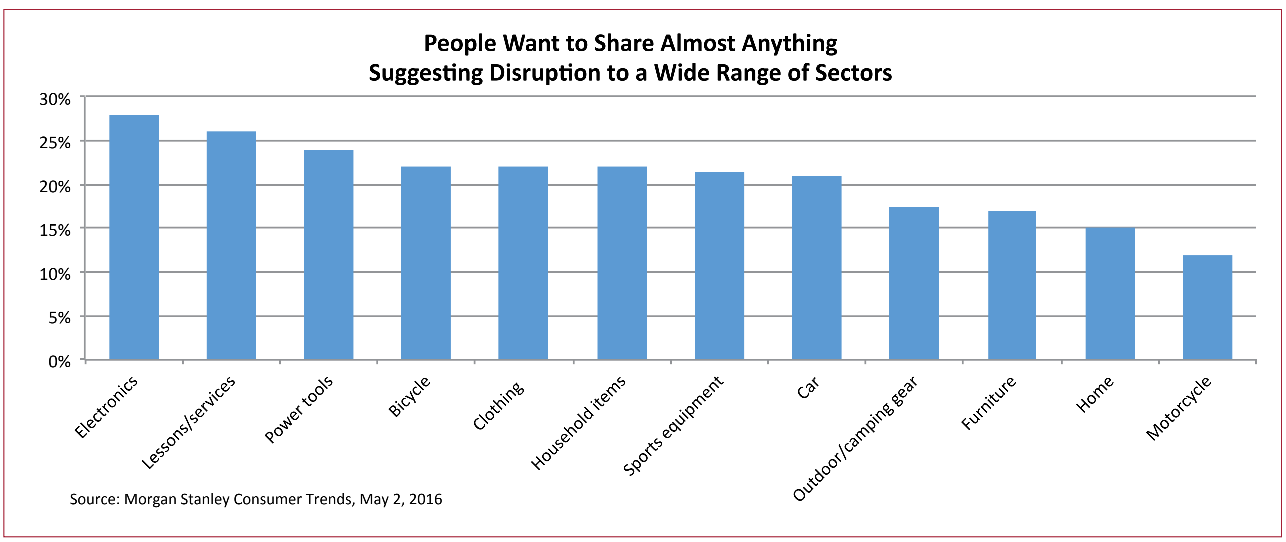
Not only has technology enabled us to connect more seamlessly with each other, but its ubiquity has reduced transaction costs. The prevalence of this connectivity has created the phenomenon of sharing. Besides the customary photos and experience sharing on social platforms, technology has stuck its disruptive finger into yet another pot – physical goods. Connectivity has made the sharing of such goods cheaper and easier than ever before, allowing for them to be deconstructed and sold as services. This has served to suppress demand for goods in their primary markets, as merchandise accumulated and stored in attics and basements is now suddenly resuscitated by technology and finding its way back into circulation.

If every house in the neighborhood had to have a lawn mower before, now that same neighborhood could just share one, or rent from a completely different area in the next town over, all enabled by a touch of a screen. There is no longer a need to splurge on a fancy gown for that prom or big night out, which will almost certainly never be worn again, not to mention the precious closet space it would consume over the years. Now a customer can go to Rent the Runway and, for a fraction of the cost, choose from Chanel to Lilly Pulitzer and try different sizes for free. The range of sharable goods continues to grow.

Sharing now spans a vast array of consumer touch points from cars to homes, from offices to parking spaces, and from clothes to movies and music, as underutilized goods limited to single households are on a path to exploit their full potential. (Chart 3)

A noteworthy aspect of the sharing phenomenon is that it is about much more than saving money. It is driven by a reduced desire to own and a shift towards rational consumption after decades of splurging. A recent study by Credit Suisse demonstrates that consumers are willing to share almost anything, from electronics to equipment, and from clothing to furniture. The findings highlight that the top three reasons for sharing are: 1) consuming what I need, 2) recycling and repurposing, and 3) living more sustainably. Consulting firm PricewaterhouseCoopers estimates that revenue from the

Chart 3



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Choosing A Trustee: Don't Be Sold On the Very First One

By Judith V. Goodnow, Senior Vice President and Trust Officer, 603-369-5105

"Who will take over if I am unable to manage things myself?" Choosing a successor trustee is as important a step in estate planning as choosing the attorney you work with to create and implement your plan. You want someone you can trust, who will follow the framework you have established, who is comfortable with the responsibility that the role requires, and is capable of handling the issues related to serving as trustee for your family.

In the short term, that person is most likely your spouse. You have probably each designated yourselves as the initial trustees, anticipating that you will each serve until you are no longer able to manage your assets. This works well for many of us throughout our lifetimes until our death, when our spouse steps into the role of trustee. For others, we may reach a point when we are unaware that we no longer respond to messages, emails, and requests for action or information.

Someone will need to step in, whether it is your spouse, partner, grown child, or close friend, to act on your behalf as trustee. A successor trustee begins to serve not only at your death, but also upon your incapacity. If you are unable to properly carry out your fiduciary responsibilities because of a physical or mental health condition, you need to resign, be removed, or otherwise leave office; when resignation is not an option (and in cases of mental health incapacity it is not), then someone may have to gain access to your health information, depending on the requirements contained in the trust document. Trying to gain access to medical records with HIPPA (Health Insurance Portability and Accountability Act of 1996) is very difficult and sometimes impossible if provisions are not already in place.

A trustee who takes over before your death must manage and invest trust assets, spend money on your behalf (sometimes for your care and the care of your spouse or to maintain your home and in-home care providers), as well as to pay bills and file tax returns. Depending on the circumstances, this responsibility could last for months or years.

Because successor trustees have a lot of power as well as responsibility, they should be selected very carefully; there are many important factors to be considered in making your choice. You have to determine which are the most critical for you and your family.

Conflicts Of Interest: Trustee's Duty Of Loyalty

Whether you select your partner, grown child, close friend, or a corporate trustee, the potential successor should have no conflicts which might tempt him or her to make decisions favorable to him or herself rather than respecting your intent. A proper successor trustee must put the interests of the beneficiaries above his or her own, and is expected to do this even when they may serve in two roles: as trustee and as beneficiary, which is frequently the case when a family member is chosen.

A trustee may not deal with the trust property for personal benefit, absent authority from the donor, the court, or from all the beneficiaries. One of the hallmarks of a trust relationship is the trustee's duty of absolute loyalty to the trust. You should think very carefully about designating anyone as your successor trustee if you doubt their ability to carry out this aspect of being a trustee. Loyalty goes not only to treating the beneficiaries' interests as superior to that of the trustee, but also to the lawful terms of the trust, and particularly to your intent in creating it.

For example, a father appointed his older son as trustee of a younger sister's trust; although they had never gotten along as children, the father thought this relationship would bring them together. Since the daughter had no children, the residue of her trust would revert to her brother's children at her death. The brother refused to approve a distribution to her for repair of the roof on her house; he thought she should move to another, less expensive residence, and felt this was a good way to make her do it. Clearly in his role as trustee, he was not considering the beneficiary's needs, and was instead putting himself and ultimately his children first. He was not complying with the father's intent in creating the trust, which was to provide some support for the daughter.

Your successor trustee should be someone who is scrupulously honest, can keep trust assets separate from their own, can

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keep the interests of the beneficiary primary, even above their own, and can be sensitive to what you have expressed as your intent.

Competence and Skill

The role of successor trustee can take many forms: accountant (preparing and filing tax returns, as well as issuing tax information to beneficiaries), investment manager, property manager (if the assets include real estate), bookkeeper (managing income and expense records and payroll for in-home care), lawyer (interpreting the trust document with regard to discretionary distributions or termination provisions), CEO (if the assets include a business), not to mention gathering the assets should they be held in a variety of financial institutions.

You want to choose a trustee with the knowledge and skills to do the job, or one who can find and work well with qualified people to do it as well as having the thoughtfulness and care necessary to work with your family.

Depending on the circumstances, it can be difficult to step in and pick up the pieces; you want to make certain that the trustee you choose is not only competent to take on this role, but willing to do so, once they know all that it entails.

In some instances, a special needs trust may have been created to benefit a child who will not be able to function without the assistance. The trustee you choose for a special needs trust should be able to navigate the choppy waters of complex federal and state regulations regarding the benefits or the potential loss of benefits should assets be distributed in a way which jeopardizes those benefits.

Not all families are happy ones, free from dysfunction; you will also need to consider the personality of the trustee and how he or she will work with your family members and the professionals you have assembled. If you know there are long established elements of sibling rivalry, significant economic disparity among the beneficiaries, or chemical dependency or mental illness. You want to consider these issues when selecting a trustee. And in fairness to the one you choose, make certain he or she is aware of the potential pitfalls in dealing with your family.

Your trustee will need to be able to make decisions regarding distributions from your trust, and know whether you intended them to be made only in emergency situations, or whether your intent was more generous and allows them for reasonable comfort. This will require the ability to interpret the trust document; this does not mandate an attorney's involvement, as long as the language is fairly clear and you have discussed your intent with your trustee. If your trustee has to decline a distribution request, will he or she be able to withstand pressure from your family to make the distribution after all? This is an additional skill; that of diplomacy. It can be as important as all of the other skills combined, depending upon your beneficiaries.

Confidentiality, Communication and Care

Your trustee should keep information about the terms, interests, and beneficiaries of the trust confidential. In addition, he or she should not abuse or misuse the information he or she is privy to as a result of the trustee/beneficiary relationship. This means that if one of the beneficiaries has a chemical dependency, for example, the trustee will keep this information confidential, except where treatment for the beneficiary requires release.

Trustees are required to report to the beneficiaries, keep them reasonably informed, and provide them with clear and accurate accounts of the administration of the trust. Beneficiaries should be able to expect periodic statements so they are fully aware of what is happening in the trust, whether it is managed by a family member or a corporate trustee.

Take care to select someone who can and will communicate with your beneficiaries. Again, not all families are happy ones; your trustee must communicate with all of them, equally, and not play favorites. If you have included the estranged child in your planning, the trustee must make every effort to also be in contact with that child, and to understand that a different kind of communication might be appropriate for that child.

One of the primary responsibilities of the trustee is to protect and prudently invest the assets of your trust. While your trustee need not have this particular skill, you will want to review your investment approach with your prospective trustee. The trustee has discretion with respect to investments; you want to be sure the trustee knows his fiduciary duty to the income beneficiary as well as to those who will receive after the death of the beneficiaries. This requires a balancing of interests between the current beneficiaries and those called

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sharing economy will reach $340 billion by 2025, implying a compound annual growth rate (CAGR) of 25% since 2014.

Peer-to-peer sharing creates numerous benefits for the consumer. Those who already own the assets end up generating extra income, while those who rent them invariably pay less compared to owning such assets. Limitations, on the other hand, are so far notably fewer with review sites serving as traffic cops to provide feedback on transacting parties and naturally weed out offenders. While an on-demand world tips the scale in favor of the consumer by allowing consumption on as needed basis, it is taxing on retailers operating in primary markets.

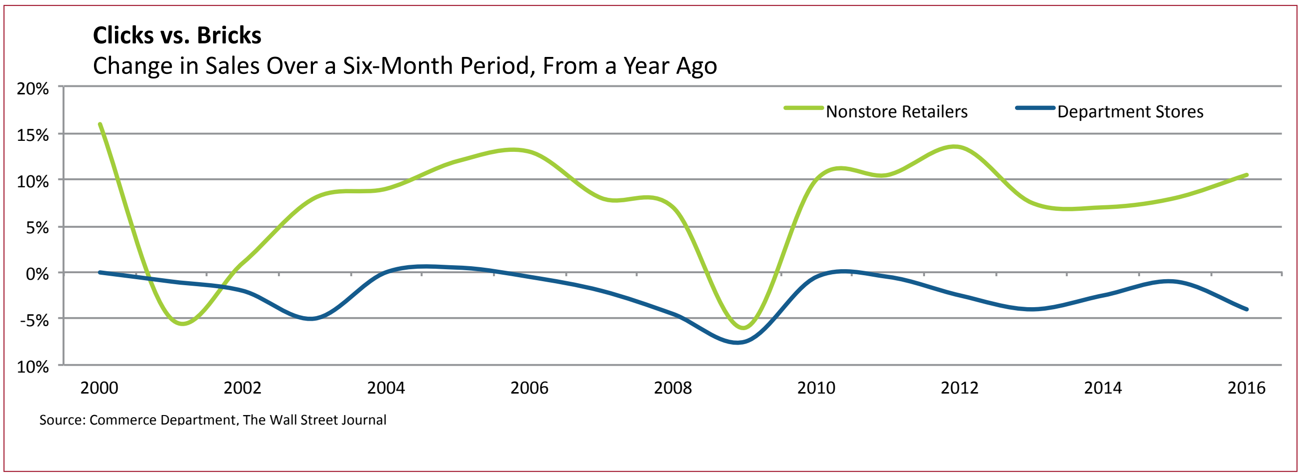
Earlier we discussed the changes in consumer purchasing trends and how physical goods have declined as a percentage of total spending. The underlying need for these goods remains as strong as ever, but consumers have discovered different venues for satisfying these needs. In the case of automobiles, ZipCar and Uber are two prominent examples. Measuring the economic impact of the changes in consumer behavior will be challenging because our metrics today are more oriented towards an asset heavy economy (i.e., automobile sales) rather than an asset light economy (Uber trips).

As a result, we expect profits from traditional brick and mortar retailers to be pressured, as consumers choose renting versus owning in an increasingly broader spectrum of their consumption habits.

E-commerce: Clicks vs. Bricks

In addition to the shift toward renting versus owning, traditional big box retailers are feeling the pressure from the shift in buying more items online than in stores. Recent U.S. Census Data show that at the end of the first quarter of 2016, e-commerce sales totaled $93 billion, or 7.8% of overall retail sales of $1.8 trillion. Compared to the same quarter last year, e-commerce grew 15.2% while total retail sales increased 2.2%. Sales at department stores are down closer to 5% compared to last year. Research indicates three primary reasons that shoppers choose to buy online versus in-store: 1) convenience, 2) price, and 3) greater selection. Given that e-commerce, or non-store sales, represents less than 8% of total retail sales, the online channel can still increase market share meaningfully at the expense of brick and mortar stores for some time to come. (Chart 4)

Chart 4



The shift from shopping in physical stores to buying goods online is a phenomenon that has been gaining traction and shows little sign of slowing. A study by The Pew Research Center estimates that in 46% of two-parent households, both parents work full time and households with only one full-time working parent have declined from 46% in 1970 to only 26% in 2015[1]. Ultimately, consumers do not have as much time to shop, and the convenience of shopping online may even justify paying a premium price.

According to data by ShopperTrak, a global leader in providing location-based and store traffic analytics, holiday visits at malls declined from 34 billion in 2010 to 16 billion by 2014[2], a decline of greater than 50%. It is not difficult to understand why mall traffic has slowed given the emergence of online behemoths like Amazon, combined with an element of convenience, greater selection, and lower prices that most

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brick and mortar retailers cannot match. But a 50% drop in four years goes a long way in demonstrating the threat that traditional brick and mortar stores are facing. Simply buying and sending a gift from an online vendor saves a trip to the store, a trip to the post office, the cost of postage, and most importantly – precious time.

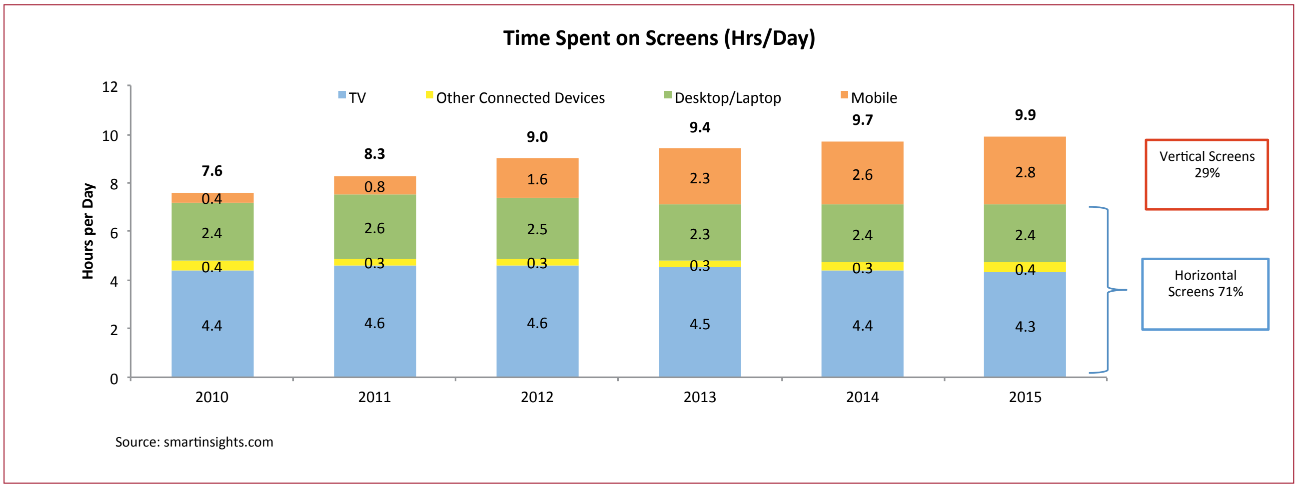
While online sales penetration in categories like music, books, video games, and consumer electronics is very high, other categories have much lower penetration levels and face a lower probability of being dissociated from traditional retail in the near term. Large appliances, auto parts, home improvement products, personal care products and groceries are categories with relatively low levels of online penetration currently, but none are completely immune to the threat of online retail.

The New Way of Media Consumption

Another area where technology is uprooting deeply entrenched habits is media consumption. Primary sources of getting information in the past revolved around television, radio, and print. That paradigm has shifted under our fingertips, literally, and in a seemingly irreversible way.

Media consumption has increased at a compounded annual rate of 5.5% between 2010 and 2015 equating to an average of 9.9 hours of media time per day. The biggest driver of this growth is the vertical screen device. The largest losses have occurred in print and radio, and while TV still retains a formidable share grabbing a third of eyeballs, its audiences have been eroding and it lost its dominance to digital in 2012. (Chart 5)

Chart 5



Despite waning audience share, measured as number of eyeballs a particular screen attracts, TV still commands the bulk of media budgets of approximately 41%. This interesting discrepancy at first glance is not a big surprise upon closer inspection. The consumer is nimble and quick to adapt to whatever platform serves their needs best. If Game of Thrones is available on demand and fans can binge watch as many episodes as they like, why wait for the next episode. Conversely, there are a lot of levers to be put in motion before marketing budgets can shift. Chief marketing officers of large companies assess alternative platforms to deploy cash and consider factors like measurement, ROI, frequency, reach, and fraud. They also need to get a buy-in from complex corporate structures and multiple layers of constituents. Increasingly however, marketing budgets spent on traditional platforms are like chasing ghosts, creating an obvious dislocation between where budgets are allocated and where consumers are focused. We expect budgets will adjust accordingly in the next 3-5 years. (Chart 6)

The migration to digital platforms that has taken place in recent years has two important implications. First, we believe traditional media players will grow increasingly more challenged as revenue decelerates with marketers moving more meaningful portions of budgets to online, and as margin pressure rises on a growing need to invest in content. Second, we consider digital platforms to be

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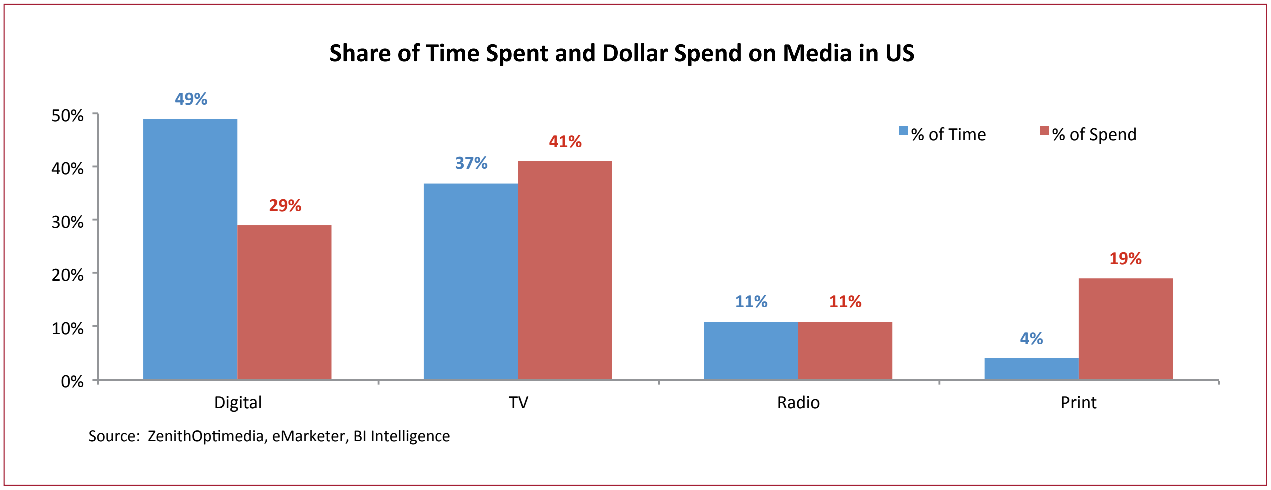
Chart 6



early on in their monetization path as they deal with, and eventually overcome, hurdles such as reach, effectiveness, and measurement. Therefore we view players like Google, Facebook, and Nielsen as favorably positioned to benefit from such secular industry shifts.

Experience vs. Things

The combination of baby boomers moving into retirement and a generation of millennials and post-millennials growing in size and economic stature are driving a shift in spending patterns from purchasing physical goods to buying greater memories and experiences. According to research done by J.P. Morgan, millennials currently spend more than 34% of their income on three experience related categories: travel, entertainment, and dining. This compares to only 28% in the same three categories for non-millennials[3]. Importantly, the rate of growth by which millennials are spending on these categories is growing more than three times faster than non-millennials (15% vs. 4%) so the dichotomy between spending on experiences and things by the younger generation should be expected to widen.

On May 4, 2016, teen retailer Aeropostale filed for Chapter 11 Bankruptcy following 13 consecutive quarters of losing money. In a statement related to the filing, Aeropostale Chief Financial Officer David Dick stated that declining mall traffic, a highly promotional and competitive teen environment, and a shift in customer demand away from apparel to technology and personal experiences was a considerable factor in the bankruptcy filing. His statement speaks volumes to the behavior of today's teens, as well as millennials, broadly. It echoes similar comments from major retailers like Macy's, Nordstrom, Kohl's, Gap and other department stores that have expressed the harsh realities of a changing consumer landscape on their businesses. Macy's is shuttering over 100 stores and is updating some in-store formats to try mini-concerts, yoga classes and cafés to lure younger customers.

Interestingly, millennials have embraced the notion that memories last a lifetime and experiences bring people more happiness than physical possessions do. They tend to be experience-based spenders, opting to try new restaurants, attend concerts, shows, and sporting events, and see the newest movie in IMAX with 3D picture and surround sound with comfortable reclining seats. Millennials are becoming less interested in spending on a new purse, instead, opting for a sushi dinner with friends, with the belief that great memories will last longer than the instant gratification (which quickly fades) of that new purchase. A study conducted by the Insight Center determined that 3 out of 4 millennials prefer to spend money on experiences rather than on consumer goods[4]. Experiential living provides them with the entertainment trifecta of 1) escaping from the everyday pressures of life, 2) connecting and interacting with friends and family, and 3) being part of a social currency that comes with being aware of current pop culture. The younger generations cherish and relate to these themes.

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Millennials openly acknowledge their "Fear of Missing Out" (FOMO) on important events. Social media sites like Facebook, Instagram, and Snapchat serve as visual mediums that focus less on what people are wearing or driving and more on what they are doing or where they are going. You can connect with friends and share pictures and experiences in real-time; when you see friends having fun, you want to engage, add your comments, and participate in their experience. A simple posting on social media about a restaurant you are considering can open up discussions with friends about past experiences, things on the menu and so on. Friends on social media sites want to engage and openly share their feelings or experiences too, creating a virtuous cycle of communication.

We anticipate that the growth in these important consumption patterns will accelerate as millennials start earning higher salaries and can afford more memorable experiences. Industries that are likely to be negatively impacted include traditional retail and related real estate (malls and department stores), as well as luxury goods. Alternatively, we view restaurants, hotels, airlines, travel and tourism industries (including Airbnb), and social media sites as the long-term beneficiaries of these trends.

Health and Wellness: Fad of the Day or a Trend Here to Stay?

Yet another space impacted by the rise of digital and social media is the concept of investing in self. The desire to improve our health and well-being dates as far back as humankind; however our growing access to information and to each other has triggered a deeper conversation about what is in our food. We are now more conscious of nutritional attributes like calories, ingredients, preservatives, and additives to name a few.

While we are better informed than in the past about what could be harmful to our bodies, healthy eating remains a moving target for a number of reasons:

1) The definition of which foods are good and which are bad is fairly fluid. Food groups that have been both glorified and vilified include protein, fats, eggs, carbohydrates, dairy, coffee, and chocolate. Switching sides is not all that uncommon. Research by the NPD Group, a market research company focusing on consumer behavior and trends, shows that foods trade the spotlight roughly every three years. The fear of gluten, for instance, peaked in 2013-2014 and has since receded. In another few years, it will likely not be viewed as the enemy it once was.
2) Sometimes it comes down to a phrase that catches on without solid evidence of its health merits. A recent study by Sanford C. Bernstein found that since 2013 when it hit a peak, the usage of "low" has declined in popularity (e.g. low carb, low caffeine, low sodium, low sugar, etc.). Its place has been taken by "free" (e.g. GMO free, preservative free, antibiotic free), which is in vogue at present. The comparative cost benefit analysis of such health claims is scarce at best and often leads to dieting trends instead of overall improved eating habits.
3) Companies can at times be misleading about what really is in our food. Back in 2011, the USDA found that 100% of the soy used in Kashi's organic products was grown with GMOs and had pesticides that are known carcinogens and hormone disruptors[5],[6].

As a result it is hard to say whether chia, probiotics, or a food class that is yet to get the spotlight will be the next smash hit. Predicting which specific product will be in favor next and for what timeframe is immensely challenging, if not impossible. However, we view two trends as sustainable over the long run.

1) There is an observable shift towards snack foods driven by millennials. In the last 10 years, despite all of the new knowledge on health and wellness we have acquired, the top food groups we consume have remained remarkably stable. Three notable additions that have made their way to the top have been yogurt, snack bars and salty snacks. Our view is that snacking will comprise a larger portion of our food consumption going forward.
2) We view the secular trend towards growing health and wellness awareness as sustainable and players in the better-for-you food category as structural winners in the space. Better for you usually manifests itself in improved and healthier versions of existing products, such as organics, fewer and more natural ingredients, and more sustainable ways of production.

Companies that play well into these two trends include Unilever, Nestle, and Treehouse.

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Conclusion – Are All of These Trends Deflationary?

The proliferation of mobile devices is having a profound impact on consumer behavior and spending trends. Younger generations appear more focused on rational and sustainable consumption and tend to buy fewer physical things. Technology has enabled an On-Demand world in which the consumer has been empowered to get a highly customized product, in the precise quantity needed, for a specific period of time, with little effort, at the lowest price available, and without commitment of physical ownership. This prevents any one company from arbitrarily raising prices and forces greater competition across industries. Further, as owners of goods make better use of their existing assets, prices of goods in primary markets are likely to be under additional pressure. These secular shifts in consumption may provide some insight into why broader measures of inflation and economic health, such as the consumer price index (CPI) and personal consumption expenditures (PCE) remain uncharacteristically depressed and below targeted levels.

On the flip side, as demand for experiences and investing in self increases, consumers may show a willingness to pay a premium for better experiences, healthier ingredients, or things that improve their well-being. The related industries could see greater pricing power and are the likely secular winners.

Innovation and technology have provided new ways of information processing, communication, and consumption that have served to fundamentally change the way we do things. As we continue to shape our habits for this new environment, there will naturally be winners and losers. In due course, some companies and even industries will become less relevant and less profitable until they either adapt or become extinct. In the paragraphs above, we have tried to shed some light as to how the consumer is evolving and what the consumer will need more and less of as a result.

"Change is the only constant" an old saying professes. And so in many ways, none of this is new. But change is different every time, in that there are distinct catalysts fueling it and determining its pace. Faster speed of innovation, backed by significant capital spending from some of the largest and richest players in the digital world, enables progress in areas like artificial intelligence and machine learning, which will in turn help people to better, and more effortlessly meet any and every need they have. That combined with the mounting economic influence of newer generations less concerned with the physical and more interested in sustainability and experiences is altering the consumer sector in unprecedented ways, which will provide unique opportunities for both consumers and investors going forward.

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[1] Pew Research Center, "How American parents balance work and family life when both work" November 4, 2015

[2] Stores Confront New World of Reduced Shopper Traffic: http://www.wsj.com/articles/SB10001424052702304419104579325100372435802

[3] J.P. Morgan Chase, State of the U.S. Consumer, Gordon Smith, September 12, 2016

[4] Insight Center, Millennials: Shaping a New Economy of Experience, May 2015

[5] Exposing Kashi Cereal For The Poison That It Is: http://www.undergroundhealth.com/exposing-kashi-cereal-for-the-poison-that-it-is/

[6] Angry Consumers Deluge Kashi With Concerns Over GMO Subterfuge: http://www.cornucopia.org/2012/04/angry-consumers-deluge-kashi-with-concerns-over-gmo-subterfuge/

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remainder beneficiaries. The current beneficiary may prefer to maximize the income, while the remainder beneficiary prefers that the assets grow. Your trustee should understand the relationship and be able to fairly balance the needs and interests of both.

Compensation

Regardless of whether you select a family member, friend, or corporate trustee, a decision about compensation should be made. Statutes in both Massachusetts and New Hampshire particularly, entitle the trustee to take "reasonable compensation." For professionals, this is based on a published fee schedule. There is no such fee schedule for family members or friends, and what a trustee decides is reasonable can range from $50 per hour to $700 per hour. Compensation should be clarified at the time you discuss the role as trustee, so that you both understand what is appropriate.

Conclusion

Do not be sold on the very first person you think of to be your trustee. Think carefully about whom you can trust, who has the necessary skills, will he or she work well with your family, and compensation. Then speak with him or her about this role and all it entails with your trust provisions and your family; see if there is a willingness to serve as well as competence to serve. Your family will be glad you made this decision wisely, and you will have peace of mind knowing that you have done all you can to make this a smooth process for all.

Cambridge TrustLetter *Editor – Laura C. McGregor*

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The On-Demand Consumer: How Consumption Patterns are Changing and Why It Matters

By Tanya Stavreva, CFA, Vice President and Investment Officer, 617-441-1432 and Ryan Hanna, Vice President and Investment Officer, 617-441-1497

Choosing A Trustee: Don't Be Sold On the Very First One

By Judith V. Goodnow, Senior Vice President and Trust Officer, 603-369-5105

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