Gen Z: A Boomer in Millennial Clothing?

New research shows that, when it comes to shopping, the post-Millennial generation may have more in common with their parents and grandparents than their all-too-frequently canonized predecessors.

In collaboration with: EPSILON AGENCY | catapult

By Michael Applebaum

A few years ago, as marketers were desperately trying to perfect their pitch to Millennials ("Be authentic!" "Align to the causes they believe in!" "Enable sharing!"), the anticipation around the next big wave of consumers – Generation Z – began to build.

Conventional wisdom at that time centered around the notion that immediacy and instant gratification were key to engagement with these "always on" digital natives, and brands that couldn't deliver in the "now" to this group with short attention spans didn't stand a chance.

"Gaining their loyalty and trust, to the degree it is possible, will not be easy," warned a 2015 report on Gen Z from Ernst & Young. "Counterbalancing their positives, they are impatient and will quickly discount those who can't immediately deliver on their needs or who complicate their lives in any way. This translates into extremely high expectations and a high bar for anyone who covets their business. Unless you address these 'at par' issues, you will quickly become irrelevant."

Such blanket statements, however, were largely based on anecdotal observations or third-party research, simply because the vast majority of individuals between the ages of 8 and 20 were not yet old enough to establish clear patterns of consumer behavior. Today, there is an increasing amount of purchase and behavioral data that marketers can use to inform their strategies to understand Gen Z – a group with an estimated $44 billion in collective buying power – and to separate those earlier perceptions from reality.

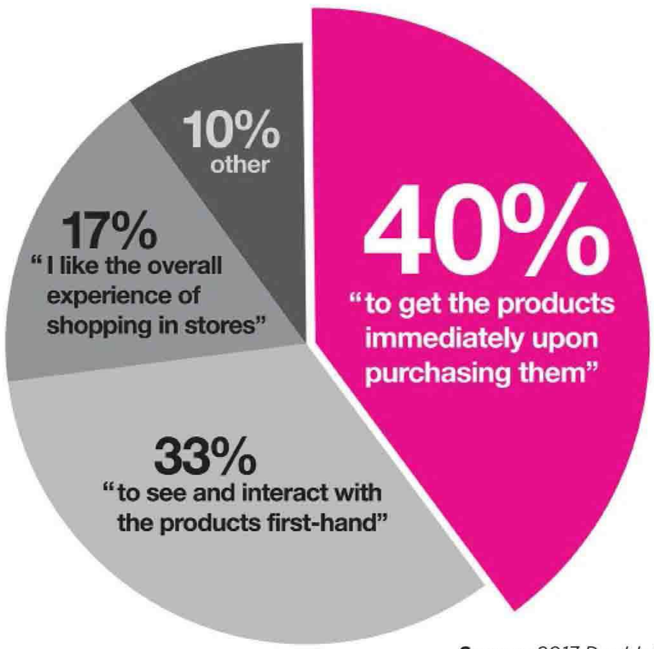
Epsilon has drawn on its proprietary data sources and a new custom shopper survey to compare attitudes and shopping behaviors across the generational spectrum. In August, it conducted a field study of more than 300 consumers in which it explored online and offline purchase behaviors in a variety of consumer goods categories. Respondents were selected from Shopper's Voice, Epsilon's panel of 35 million Americans that may be segmented by demographics, shopping behavior, brand use, retailer affinity and lifestyle data. These results were supplemented with data from Epsilon's TotalSource Plus, which includes thousands of data points spanning demographics, lifestyle information and spending behavior on the majority of U.S. households.

"With these combined research tools, we can make broad comparisons between the youngest and oldest demographics – Boomers versus Gen Z – and with a higher degree of specificity we can make comparisons between the leading edge of Gen Z, Millennials, Gen X and Boomers in terms of how they shop, spend and save money," says Zachary Baze, SVP, strategic consulting, planning and research at Epsilon.

In addition, a survey of more

Source: *TSXBroadway.com*

Gen Z and Boomers share similar reasons for visiting a brick-and-mortar store ... with immediate gratification at the top of the list



Source: *2017 Doublebase GfK MRI*

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than 1,200 consumers by Alliance Data's card services business generated loyalty distinctions among Gen Z and younger/older Millennials. (See "The Rules of NextGen Loyalty," *page 25*.)

In the following sections, we will highlight the major findings from this collective body of research and discuss strategies for building enduring bonds with budding Gen Z consumers.

"Both manufacturers and retailers need to take notice of Gen Z shoppers as they will shape the future landscape of retail *today*," says Jeff Ceccarelli, associate director, international sales, planning and category management at Burt's Bees, a personal care products unit of The Clorox Co. "Marketers that can build trust with Gen Z will win their loyalty and reap the benefits of the tremendous growth they offer."

A Return to Quality

Gen Z and Boomers share many of the same values when it comes to shopping. Specifically, the emphasis on quality as a critical decision driver is shared in the DNA between these two cohorts. For example, the quality of merchandise is the primary reason Gen Z and Boomers are loyal to retailers, according to the Shopper's Voice survey. Both cohorts ranked quality as two to three times more important than price, while price was considered almost as important (three-quarters) as quality to Millennials and Gen X.

Within specific categories, the quality driver still leads among most generations. It is the prevailing characteristic when Gen Z and Boomers choose household products like paper goods and cleaning products, as well as when buying hygiene, grooming and other personal care items. Quality is considered the most important attribute for driving purchase of perishable items – 46% of Gen Z and 50% of Boomers – although price is equal and even edges out quality (among Boomers) when it comes to nonperishable food items.

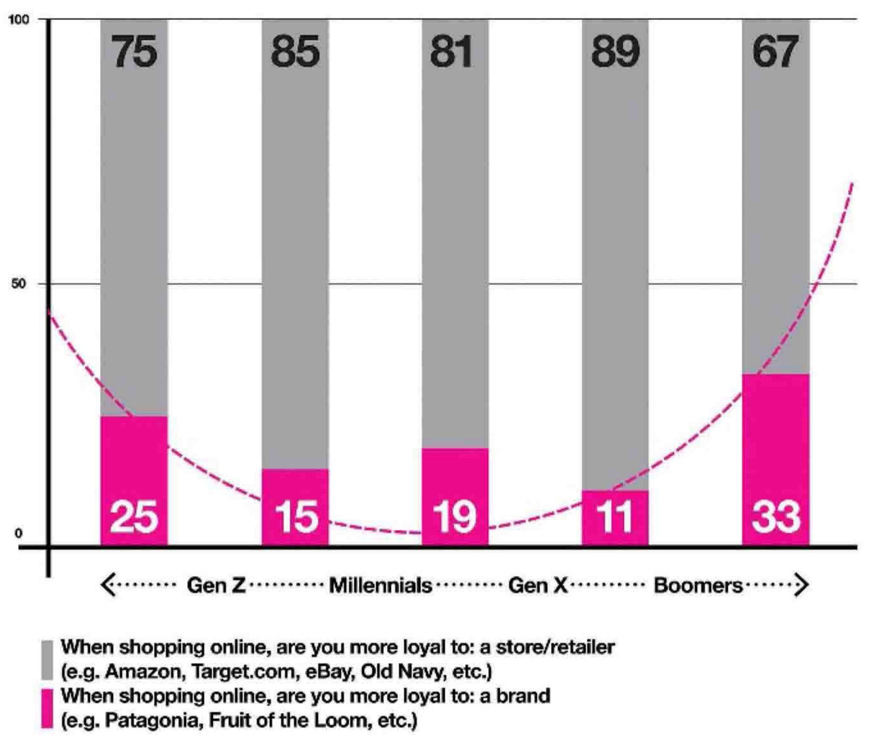
In today's marketplace, some leading indicators suggest that Gen Z shopping behavior may be mirroring Boomer consumption. For example, Gen Z appears to be more open to casual dining than Millennials. Many fast-casual restaurants have upgraded their menu selection and decor, following an extended period of declining sales that was driven largely by Millennials. The changes have led to a recent resurgence at reimagined chains including Applebee's and Ruby Tuesday, and there may be more growth ahead, according to Heidi Froseth, EVP, head of the omnicommerce practice at Epsilon Catapult.

"Millennials turned up their noses at the quick-serve and fast-casual dining categories, as well as created significant declines at malls including store and chain closures. There could be a cyclical rejection of that entire class of behavior by younger consumers," says Froseth. "Within the restaurant category specifically, Gen Z is less interested in things like transparency in ingredient sourcing and may appreciate a return to the traditional, homey feel of casual dining that their parents or grandparents enjoy."

Gen Z consumers also don't necessarily spend and save in predictable ways. For example, a TotalSource Plus analysis conducted for a value-oriented fitness chain earlier this year found that Gen Z and younger Millennial consumers placed a high importance on their appearance and "keeping up with the Joneses." Thus, they over-indexed in categories like cosmetics and high-end fashion, and were deciding week to week whether to spend any leftover income on a craft beer or an extra Uber ride, or on something more practical like a gym membership."

"They had significant revolving credit debt based on discretionary spending on clothing and travel, so a $10 per month gym membership wasn't necessarily a no-brainer for them," explains Baze. "We had to reframe our value messaging to be more aspirational and affirm that this was a good lifestyle choice, while also showing the company that their value proposition wasn't necessarily as 'automatic' as they had believed."

While ALL generations are loyal to retailers when shopping online, Gen Z and Boomers are more loyal toward brands



Source: *Epsilon*

The Need for Immediacy Is Tempered

The urgent need for instant gratification was a consistent theme in previous industry reports on the post-Millennial generation. It was often assumed that companies needed to have constantly connected opportunities to convert these customers and address their complaints, including 24/7 customer service via social media outlets or chatbots and a substantial e-commerce site. One botched delivery or out-of-stock item and Gen Z customers would jump ship to Amazon, or so went the thinking.

The reality is that Gen Z consumers are more patient and display more fluid and flexible purchase behavior than marketers may have previously imagined. Many are willing to wait for items to be delivered, especially if they don't have to pay for shipping. And if they can't find exactly what they're looking for, they'll do without it. "Reaching Gen Z is not, or should not be, a race to see who can deliver the fastest and cheapest products," says Froseth. "Immediacy from a shopping perspective is still important, but more so in the context of managing expectations or clarifying standards of service than providing instant gratification or lightening quick delivery."

Similarly, not every customer interaction or touchpoint has to be digitally focused or enabled. While it is certainly true that Gen Z has been conditioned to expect companies and brands to always be available, these individuals have not abandoned more traditional forms of brand engagement. Technology's generational divide isn't so clear-cut.

For example, a 2017 study by Salesforce.com revealed that chatbots are roughly equally popular among Millennials and Boomers, although the tool was seen as helpful for different reasons among the two cohorts. As for Gen Z, one thing is certainly true: They are finding ways to combine the digital experience with in-store visits. "The idea of separate online and retail shopping doesn't compute to this group," notes Froseth. "From browsing to price comparison to buying to fulfilling the order, shopping is all one, interconnected experience. There is only one channel: omnichannel."

A variety of data bears this out. Three-quarters of Gen Z consumers say they are content with shopping in brick-and-mortar stores, per TotalSource Plus findings, and one-third prefer it over online shopping. A recent study by predictive analytics firm Profitect similarly found that 42% of Gen Z shoppers age 18 to 22 prefer to shop in stores versus online. A further 34% prefer to shop in stores and online equally, while only 23% indicated they prefer to shop online only. Nearly half (48%) said that convenient location was the primary reason for choosing one store over another. Per Shopper's Voice, Gen Z and Boomers share similar reasons for visiting a brick-and-mortar store: "to get the products immediately upon purchasing them" (40%); "to see and interact with the products first-hand" (33%); and "I like the overall experience of shopping in stores" (17%).

Hybrid Retail Emerges

Given all of the upheaval in the retail landscape and recent efforts by the major chains to reinvent themselves, it is fair to ask whether consumers who are coming of age today view shopping in the same way as previous generations. The answer is, yes, they define "what shopping means to you," all generational cohorts ranked "visiting a store to browse merchandise" the highest (88%) and "searching for a product online" second highest (63%). In fact, the order was consistent among cohorts with "reading reviews and ratings" third (30%) and "seeking advice from friends or family members" fourth (20%).

The rise of Gen Z may signal the beginning of "hybrid retail," a concept that includes local fulfillment and can offer social shopping by placing experiences at the center of what shopping is or can be. In the heart of Times Square, for example, a group of developers are pushing the boundaries of experiential retail with TSX Broadway, a proposed $2.5 billion construction project that would include a 10-story, 75,000 square-foot retail space, an 18,000 square-foot permanent wraparound sign and the area's only permanent outdoor stage. "This amounts to the ultimate futuristic playground integrating the best in technology, entertainment, culture, retail and hospitality at the number one tourist destination in the world," says Froseth.

Elsewhere in experiential retailing, everything old is new again. FAO Schwarz is reopening at Rockefeller Center in Manhattan this fall, a launch party complete with product demonstrators and entertainers to interact with visitors and dance on its infamous piano. For marketers in the everyday living space, finding this level of inspiration will not be easy – but it can be done, says Froseth. "While not all retail spaces can be a TSX or FAO Schwarz, all brands and retailers can and must reflect what they've learned from listening empathically to Gen Z, and all cohorts, and respond in a way that will create simple, everyday pleasures and lifetime memories."

For the average CPG marketer, one can understand a case of "Millennial fatigue" weighing on the urgency to motivate and inspire a new young consumer generation. Given the need for companies to keep up with the dizzying pace of technology, especially with regard to their retail supply chains, shopper services and digital platforms, it is no surprise that few, in fact, appear to have extensively planned for this next cohort. But there's still time to gain an edge over the competition.

"It's all about relevant ubiquity," says Tom Edwards, chief digital innovation officer at Epsilon. "Gen Z's expectation from brands and retailers alike is a seamless, anticipated and relevant experience at every touchpoint. Gen Z has only known a world where they are empowered and in control. To truly connect, it's more than personalized experiences, it's about ensuring brands can enhance their creativity while empowering Gen Z." SM

THE RULES OF NEXTGEN LOYALTY

1 Loyalty Must Be Earned

Today's consumers increasingly have the ability to be more selective in deciding when, where and how they shop. It's about what suits their needs at the time. Gen Z is less likely than older (29-36) or younger (21-28) Millennials to shop online or on their phones specifically for price or convenience. Only 46% of Gen Z cited price (versus 61% of young Millennials and 52% of older Millennials), and 62% cited convenience (versus more than 70% of Millennials overall). Nearly equal numbers of all cohorts (just over 50%) said they rarely purchase something different if they like a brand.

2 Loyalty Is Complex

Today's consumers expect brands to be loyal to *them*. When asked to describe *life loyalty*, all three cohorts ranked trust, honesty and reliability as the most important of its core values, though Gen Z ranked each of those higher than Millennials. Meanwhile, different types of *brand loyalty* span the continuum, from traditional to brand love. Traditional loyalty exhibits more functional attributes, while brand love is more emotional and aspirational. Gen Z ranked quality (61%), reliability (56%) and discounts (55%) as the most important determinants of brand loyalty, while rewards, quality and discounts were the top three among both Millennial groups.

3 Loyalty Is Increasingly Fragile

Consumers expect great service and an ideal experience across all channels. Otherwise, they will take action and voice their opinion. More than three-quarters of consumers give brands only two to three chances before ditching them. High prices and poor quality are the top reasons all cohorts (on average) gave for why they stop shopping at a particular store or for a particular brand, followed by poor selection, poor customer service and poor experience. Next were items out of stock, "hard to find what I need," "difficult to shop," "stopped carrying products/brands I love" and "store or brand not trustworthy."

4 Loyalty Comes in Many Forms

Multifaceted loyalty requires multidimensional metrics. Traditional brand loyalty is built on a blend of functional and emotional attributes. However, as more emotional elements of loyalty are introduced, the relationship changes. It moves beyond the transactional and into the aspirational. This is known as brand love loyalty. When measuring traditional brand loyalty, it can be gauged by looking at frequency, monetary impact, and recency in shopping a particular brand. When measuring brand love loyalty, a traditional model is no longer applicable, requiring brands to review how they approach and measure it.

Source: *Alliance Data/Loyalty One, "The Rules of Next Gen Loyalty"*