Consumers of Tomorrow

Insights and Observations About Generation Z

June 2010
Executive Summary

Overview

Generation Z is commonly defined as “people born between the mid 1990s and 2010.” They are also known as ‘Digital Natives’

Behavioral Traits

Generation Z is...

- Well networked, more ‘virtually’ present, and more tolerant of diversity, driven by greater exposure to digital media and significant time spent on online social networking
- Comfortable with and even dependent on technology, having grown up in a digital world where technology was ever-present
- Materially satisfied, yet financially conservative, being born to older parents and smaller families, and having witnessed the impact of the recent economic slowdown
- Well educated, informed, and environmentally conscious, due to greater access to a large online information pool, new teaching modalities, and extra curricular activities
- More connected with their parents than prior generations, due to stronger alignment to family values and similarity in technology usage, brand choices and entertainment modes vis-à-vis their parents (Generation X)

Marketing Implications

Companies targeting Generation Z will want to...

- Look to enhance their virtual world presence with online product information and purchase facility
- Adopt technology-based marketing and sales channels such as text messages (SMS), mobile internet, profiles on online networking portals, etc.
- Focus on developing high value-for-money and ‘green’ products and services
- Aim to ‘catch them young’ (especially relevant for technology companies)

Source: Grail Research Analysis
Each generation is characterized by different experiences that shape their perspectives and behavior.

Generation Z includes people born between the mid 1990s and 2010, characterized as ‘Digital Natives’.

**Generation Terminology by Birth Year**

- **Baby Boomers**: Born post-World War II in an increasingly optimistic and financially stable world. Witnessed several important social changes – Women's Movement, Civil Rights Movement, Vietnam Peace Movement, etc. Increased prosperity led to growing consumerism. Characterized as idealistic and competitive.

- **Generation X**: Born into a world witnessing a strong trend toward divorce and economic uncertainty. Witnessed the popularity of the disco and hip-hop culture, and technologies such as cable TV and video games. Characterized as individualists and skeptical of authority.

- **Generation Y**: Born into a world marked by increasing inter-regional and inter-community conflicts. Witnessed emerging digital technologies like instant communication via e-mail and text messaging (SMS). Characterized as optimistic, tech-comfortable, style-conscious, and brand loyal.

- **Generation Z**: Born into a world facing challenges such as terrorism and environmental concerns. Witnessed widespread use of electronic gadgets and digital technologies like the Internet, social networking and portals. Characterized as tech-savvy, globally connected (in the virtual world), flexible and smarter, and tolerant of diverse cultures.

- **Generation Alpha**: Likely to be 'Google Kids'. Born into a world newly emerging from widespread economic slowdown. Expected to be more tech-savvy, educated, and materialistic than previous generations.

Source: Grail Research Analysis
However, the types of influences that shape each generation are similar in many ways

While Generation Z has experienced their share of economic and political crises and technology changes, it is easy to forget that their experience is not that different from other generations.

<table>
<thead>
<tr>
<th>Economic Instability</th>
<th>Political Instability</th>
<th>Technology Changes</th>
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<tbody>
<tr>
<td><strong>Generation Z</strong></td>
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<tr>
<td></td>
<td></td>
<td>▪ Afghanistan War (2001–Present)</td>
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<td>▪ Iraq War (2003–Present)</td>
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<tr>
<td><strong>Generation Y</strong></td>
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<td>• Soviet War in Afghanistan (1979–1989)</td>
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<td>▪ Vietnam War (1962–1975)</td>
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What makes Generation Z “different”? 

(1) The first true “Internet” Generation

The Internet experienced phenomenal growth and development – in terms of penetration, technology, applications and adoption during Generation Z

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<tr>
<td><strong>Global Internet Penetration (per 100 population)</strong></td>
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<td>1990 less than 0.3</td>
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<td><strong>Internet Users (Global)</strong></td>
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<td>1990 3 MM</td>
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<td>Dec, 1994 Netscape Navigator Launched</td>
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<td><strong>Browsers</strong></td>
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<td>Jul, 1996 Hotmail Launched Feb, 1999 ~30 MM Hotmail users</td>
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<td><strong>Email</strong></td>
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<td>May, 1997 AOL Instant Messenger Launched Jun, 2000 150 MM AOL IM users</td>
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<td><strong>Instant Messaging</strong></td>
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<td><strong>Social Networking</strong></td>
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<td>2004 Facebook (FB) Launched</td>
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Note: 1The data for number of users has been calculated by multiplying total number of internet users with the market share value
Source: Grail Research Analysis
What makes Generation Z “different”?  
(2) A unique parent-child relationship

Generation Z is experiencing a tighter connection with their parents on a number of dimensions

<table>
<thead>
<tr>
<th>Baby Boomer Parents and Their Kids</th>
<th>Generation X Parents and Generation Z Kids</th>
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<tr>
<td><strong>Similar Channels of Entertainment</strong></td>
<td><strong>Parents and children are increasingly watching the same TV channels, as broadcasters offer programming for both adults and children (e.g. Nickelodeon and Nick at Nite)</strong></td>
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<tr>
<td>▪ Baby Boomer parents grew up with limited TV programming, while their children had cable TV and 100s of channels to choose from</td>
<td>▪ Baby Boomer technologies (e.g. typewriters, rotary dial phones, and black and white TVs) were significantly different from those that their children experienced</td>
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<td>▪ Baby Boomer parents had simple games such as pinball and only experienced video games through the eyes of their children</td>
<td>▪ Generation Z and their parents are purchasing and developing an affinity for the same brands, e.g. Gap (GapKids and babyGap), J.Crew (Crewcuts), and Polo Ralph Lauren</td>
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<td><strong>Common Technology</strong></td>
<td>▪ Generation Z has grown up with technologies that their parents are also comfortable with such as mobile phones, laptops, video games, online networks, etc.</td>
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<td>▪ Brands for children and adults were quite separate and there was no brand connection between parents and children</td>
<td>▪ Generation X is raising Generation Z with a high involvement parenting style. Generation X saw a social trend of divorces and is expected to instill stronger family values, along with ‘old’ notions such as work ethic, etiquette, and resilience. This, along with better education, will make Generation Z more tolerant, respectful, and responsible</td>
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<td><strong>Shared Brand Experiences</strong></td>
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<td>▪ Baby Boomer parents were very career-oriented and pushed their children to be high achievers, regardless of their natural inclinations</td>
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<td>▪ As more women joined the work force, greater financial means and mother’s guilt meant children were given more of what they wanted</td>
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<td><strong>More Closely Aligned Family Values</strong></td>
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What makes Generation Z “different”?  
(2) A unique parent-child relationship

**Increasing Overlap Between Generations**

Source: Grail Research Analysis
What makes Generation Z “different”? (3) Increased speed in technological advancement

Every generation has seen the emergence of a ‘disruptive’ technology that rendered existing technologies irrelevant. New technologies continue to emerge faster than ever and ‘innovation leaps’ are becoming smaller, leading to a stronger ‘connection’ between newer generations.

Source: Grail Research Analysis
What makes Generation Z “different”? 

(4) Distinct differences within the generation

While the connection between generations is strengthening, the generational span is becoming shorter, driven mainly by the ever-increasing pace of technological development.

- Generation Z1
  - Witnessed the beginning of the ‘digital era’ with an increased use of the Internet and social networking.
  - Characterized as tech-savvy, flexible and smarter, and tolerant of diverse cultures.

- Generation Z2
  - Born into a ‘digital world’ where “always-on” social networking, on-demand entertainment and touch screens were becoming the norm.
  - Share Generation Z1 characteristics and are also globally connected and networked (in a virtual world), looking for instant gratification, and lacking in a sense of privacy (personal lives are constantly on display).

- Generation Alpha
  - First truly 21st century generation.
  - Likely to be better educated and more materialistic than previous generations.
  - May never know of products and services such as physical storage (cassettes, VHS tapes, floppy disks), dial-up Internet connections, desktop computers (including mouse/keyboard), analog cable TV, and offline music purchases.

Source: Grail Research Analysis
What Generation Z traits are important to marketers?

(1) Increased online presence

Advances in social and communication media have had a major impact on Generation Z: they are well networked, have a strong ‘virtual’ presence, and are more tolerant of diversity

**Behavioral Traits**

- Generation Z spends significant time online on networking portals and virtual worlds such as Facebook, Twitter, Orkut, LinkedIn, MySpace and Second Life. Online networking profiles make social lives more public, and have led to an increase in the influence of social networks on consumer decisions.
- According to a global survey of children\(^1\), 50% of all tweens (8–12 years) globally are online daily and 25% interact daily with peers in other countries.
- Greater exposure to digital social media has led to a faster aggregation of cultures, languages, and ideas; Generation Z is expected to be more tolerant of diverse cultures, ethnicities, and non-traditional marriage and parenting behaviors.

**Implications for Marketing**

- Generation Z spends more time online, has a preference for interactive media, and social networks have a strong influence on consumer decision. This will require companies to enhance their online presence.
- To effectively market to Generation Z, companies need to have a strong presence online:
  - Profiles on networking portals
  - Virtual world based marketing
  - Detailed product information and the ability to easily make purchases

Note: 1Survey conducted by Millward Brown on several thousand kids from more than 70 cities in 15 countries throughout Europe, Asia, The United States and South America; Source: News Articles; McCrindle Research; Grail Analysis
What Generation Z traits are important to marketers?

(2) Dependence on technology

Having been born into a digital world, Generation Z is proficient with and dependent on technology

Behavioral Traits

- The world for Generation Z is digital. Growing up in a world where the Internet, mobile phones, laptops, and other electronic gadgets (iPods, Handy Cams, etc.) are common, makes their world very different from all previous generations.
- According to a study\(^1\) in Australia, out of the total money spent on toys for children older than 8 years, the largest amount is spent on consumer electronics (such as iPods, digital cameras, mobile phones, and computers); followed by electronic game technology (Xbox, etc.).
- Accessibility of technology has made Generation Z over dependant on it for some activities such as conducting research and interacting with friends.

Implications for Marketing

- Greater comfort with and dependence on electronic gadgets will lead to early purchases and increased demand for such products.
- Companies will need to adopt marketing and sales channels such as text messages (SMS), mobile Internet, online interactive media portals offering gaming and video/music downloads.

Technologically Adept and Dependent

Note: \(^1\)Study conducted by McCrindle Research
Source: News Articles; McCrindle Research; Grail Analysis
Since Generation Z has been born into a world with (relatively) older parents, (more) working mothers, and smaller families, their parents spend more money per child.

However, their exposure to the impact of the recent economic slowdown on their families is expected to lead to financial conservatism.

A research study of 12–18 year olds in Australia\(^1\) cited that more than 50% of the Generation Z teenagers had started saving for technology gadgets and cars, and more than 33% paid their own phone bills. The study indicated that they disliked borrowing money.

Companies will need to focus on developing high value-for-money products and services.

Cautious and guarded spending might reduce the credit card culture (prevalent with Generation Y) and could lead to an averseness for loans and other borrowing schemes.

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Note: \(^1\)Study conducted by Veda Advantage and Habbo
Source: News Articles; McCrindle Research; Grail Analysis
What Generation Z traits are important to marketers?

(4) Educated and environmentally aware

Greater exposure to varied information sources and activities are expected to make Generation Z smarter, flexible, and more responsible.

Behavioral Traits

- An avid interest in computer games, greater exposure to extra-curricular activities, and newer teaching methods (such as online education) is making Generation Z smarter, imaginative, and flexible.
- Access to a large online information pool has made Generation Z well aware of modern day challenges such as terrorism, climate change, etc.
- 74% of teenagers, globally, consider climate change and global warming to be “a serious concern” and rate it a higher threat than drugs, violence or war.¹
- “Green Teens” (with high concern for the environment) are also more likely to use online content including e-commerce (42% green teens vs. 32% overall) and social networking (chat participation is 22% vs. 17% overall).²

Implications for Marketing

- A more informed and smarter Generation Z is expected to evaluate product attributes and utility, along with brand name.
- Companies will need to consider offering green products or taking a proactive stance toward the environment as they market to Generation Z.
- Companies with strong green attributes should look to online channels to reach Generation Z.

Source: News Articles; McCrindle Research; AC Nielsen Company; Grail Analysis

Note: ¹Survey conducted by Habbo and Greenpeace on ~50,000 teenagers across 18 countries in 2007; ²Survey of 2,091 teenage online users (13-17 years) conducted by Jupiter Research
Shiseido, a cosmetics company, launched the Puretext club in the UK in 2002. This campaign was aimed at promoting its Pureness skin care range to teenagers through text messages.

L’Oréal used mobile Internet to promote Maybelline to young consumers in Japan.

In 2005, McDonald’s launched the McFlurry mobile marketing campaign to attract young customers.
- 600 McDonald’s restaurants in California invited young customers to send text messages in return for electronic coupons which could be used to get a free McFlurry.

In 2005, Kellogg’s launched a marketing campaign aimed at publicizing its website to young customers. The company printed its web address on more than 6.5 MM Kellogg’s Corn Pops cereal packages. Customers who visited the website got a chance to win prizes.

Many major consumer goods companies such as Pepsi, McDonald’s, Apple, and Dell have their own profiles on popular social networking portals like Facebook, Twitter, and MySpace to connect with the younger generation.
- These company profiles generally have large member lists (on Facebook, 2,218,063 people like the McDonald’s company profile, 166,178 people like the Dell profile, 709,231 people like the ‘Pepsi – Refresh Everything’ profile. The Apple profile has 112,414 members), which provides them with a solid platform to promote their new products.

Virtual world marketing/avatar-based marketing is a relatively new strategy that companies have adopted:
- At Neopets.com, a virtual game website targeted at 8–17 year olds, food companies like McDonald’s, Nestle and Mars sponsor various activities to increase their brand visibility with young customers.
- Habbo Hotel (a virtual teen online community to meet people, play games and create your own online space) provides a platform for companies to market their products to teenage members across the globe.
- Companies such as Pepsi, Coke and Procter & Gamble are using interactive marketing tools (such as games) to promote their products in the Virtual Laguna Beach, an extension of a popular MTV television series.
- MyCoke.com is a virtual environment to engage teens in interactive activities and encourage them to associate their personal identity with brand identity.

Many companies have already taken steps to target young consumers

Personalization services are also highly appreciated by young consumers

- In a survey of 1,000 US teenagers, Apple CEO, Steve Jobs, was voted as the most admired entrepreneur. Apple’s unique marketing style has placed it in the list of most popular brands with teenagers:
  - Apple has positioned itself as a company that wants to empower young consumers as creative, unique individuals
  - Apple places high importance on the design of its products and also extends that to physical stores which appeal to teenagers

- Nike provides a customization service, NIKEiD, which allows customers to design their own shoes. This unique feature is very popular among the youth as it allows them to showcase their creativity through their personalized sneakers
