



Consumers of Tomorrow

Insights and Observations About Generation Z

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grail research
an Integreon company

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

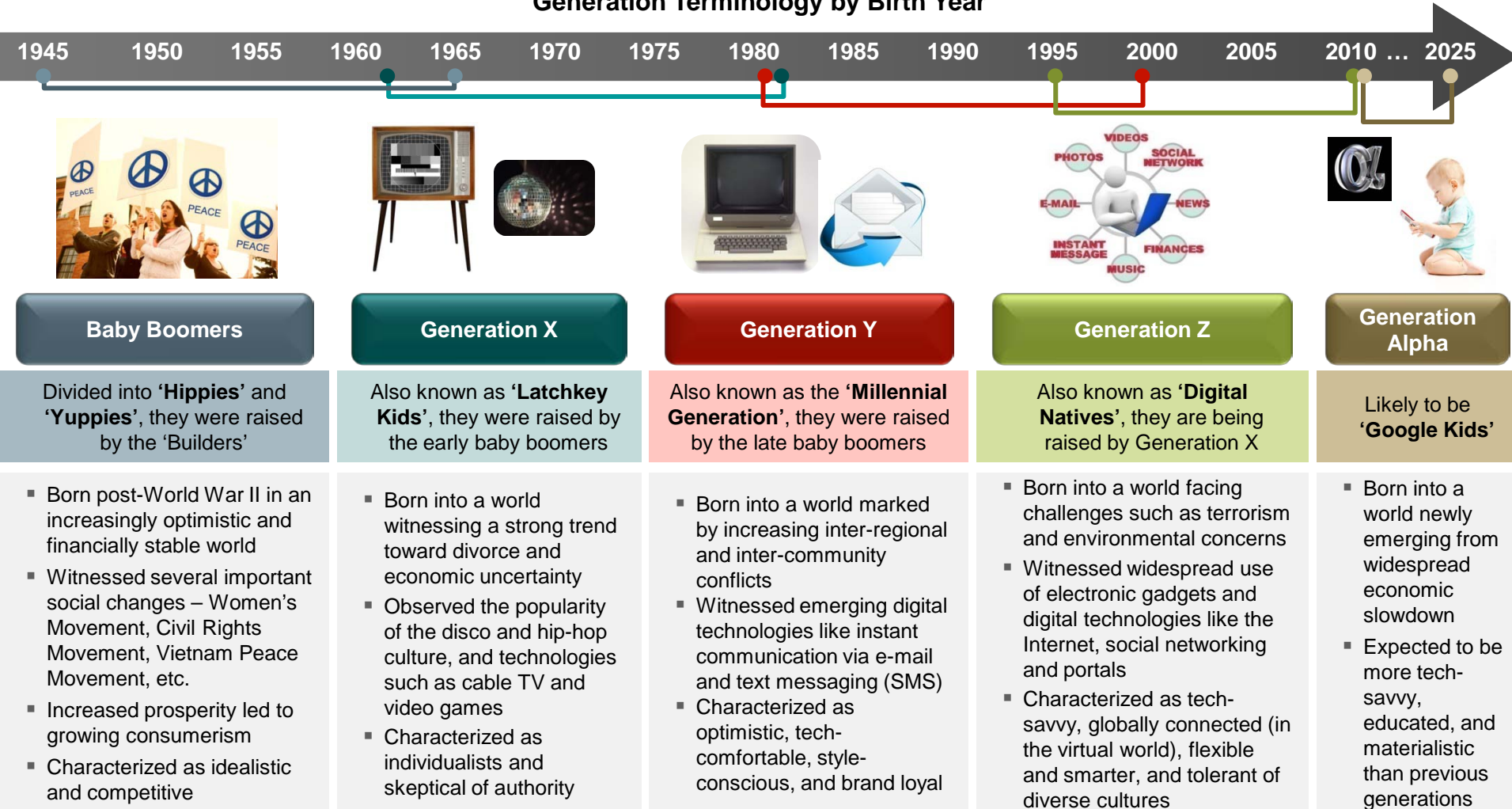
Companies targeting Generation Z will want to...

- **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)

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



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

Economic Instability

Political Instability

Technology Changes

Generation Z

- Observed the Oct. 2000 NASDAQ technology index crash, as well as the Sub-prime lending bubble burst (2007) which led to the Global Financial Crisis (2008)

- 9/11 Terrorist Attacks (2001)
- Afghanistan War (2001–Present)
- Iraq War (2003–Present)



Generation Y

- Witnessed the Stock-Market Crash (1987) and the Oil-Crisis-induced Economic Recession (1990)

- Soviet War in Afghanistan (1979–1989)
- Fall of Soviet Union (1991)
- Persian Gulf War (1990–1991)



Generation X

- Experienced the 1973 Arab Oil Embargo, the Energy Crisis (1979) and the Economic Recession induced by a contractionary US monetary policy (1980)

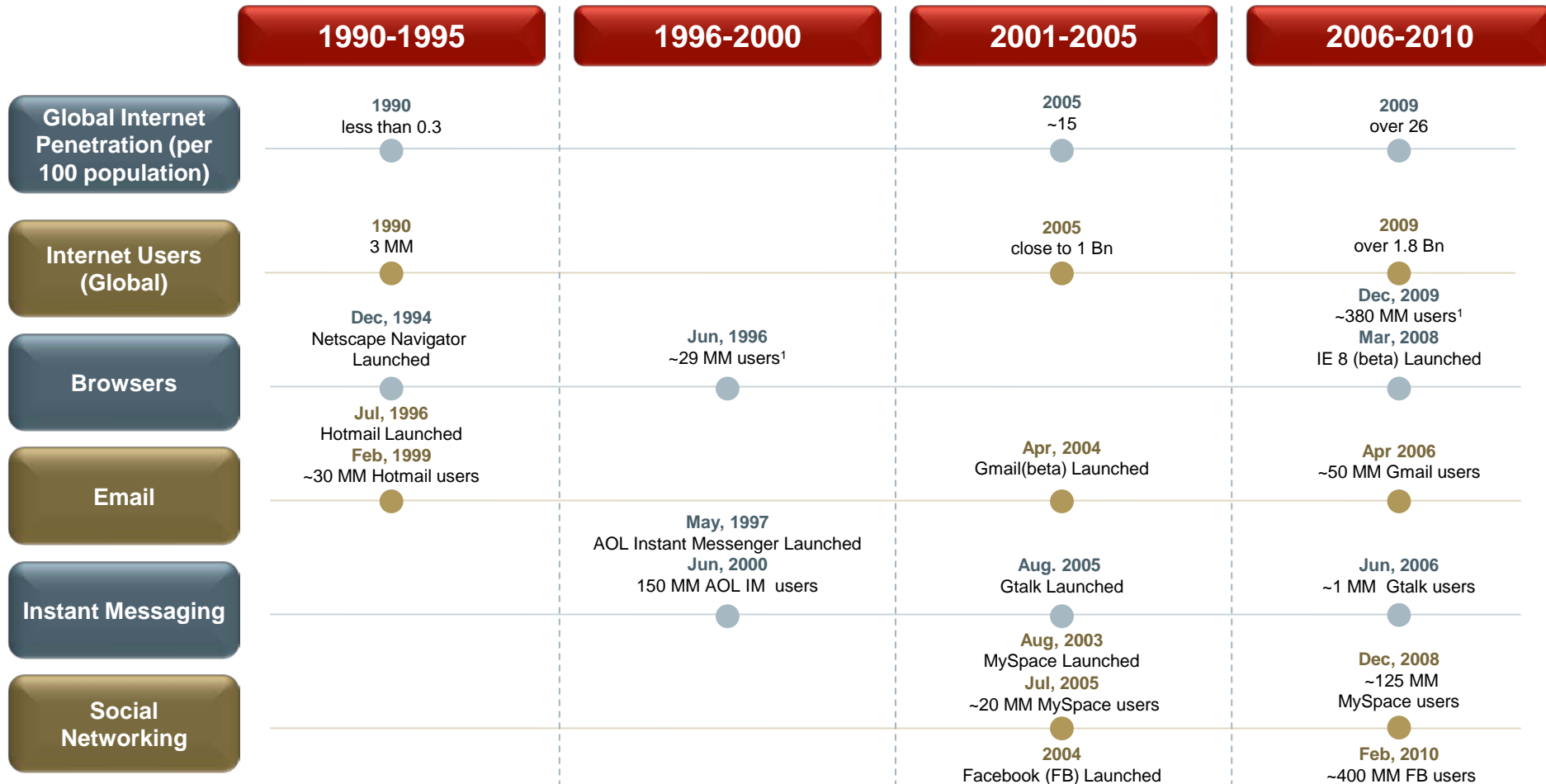
- Cold War (1947–1991)
- Cuban Missile Crisis (1962)
- Vietnam War (1962–1975)
- Six Day War (1967)



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



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

Baby Boomer Parents and Their Kids

Similar Channels of Entertainment

- Baby Boomer parents grew up with limited TV programming, while their children had cable TV and 100s of channels to choose from
- Baby Boomer parents had simple games such as pinball and only experienced video games through the eyes of their children

Common Technology

- Baby Boomer technologies (e.g. typewriters, rotary dial phones, and black and white TVs) were significantly different from those that their children experienced

Shared Brand Experiences

- Brands for children and adults were quite separate and there was no brand connection between parents and children

More Closely Aligned Family Values

- Baby Boomer parents were very career-oriented and pushed their children to be high achievers, regardless of their natural inclinations
- As more women joined the work force, greater financial means and mother's guilt meant children were given more of what they wanted

Generation X Parents and Generation Z Kids

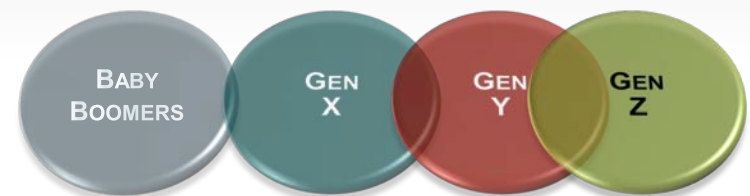
- Parents and children are increasingly watching the same TV channels, as broadcasters offer programming for both adults and children (e.g. Nickelodeon and Nick at Nite)
- Video games are common to both generations. The industry is increasingly catering to the “family-gaming” segment by providing products such as the Nintendo Wii

- Generation Z has grown up with technologies that their parents are also comfortable with such as mobile phones, laptops, video games, online networks, etc.

- 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

- 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

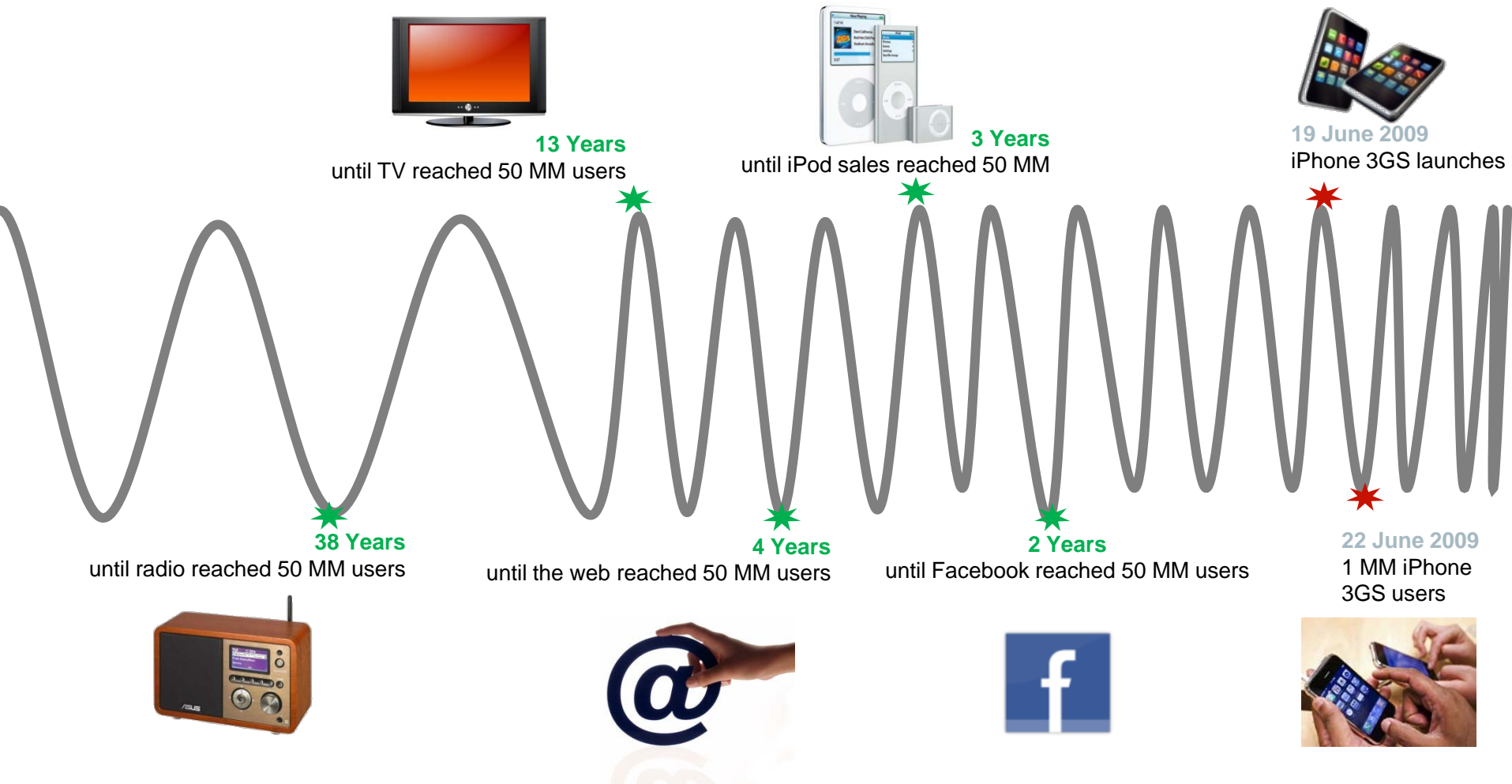
Increasing Overlap Between Generations



What makes Generation Z “different”?

(3) Increased speed in technological advancement

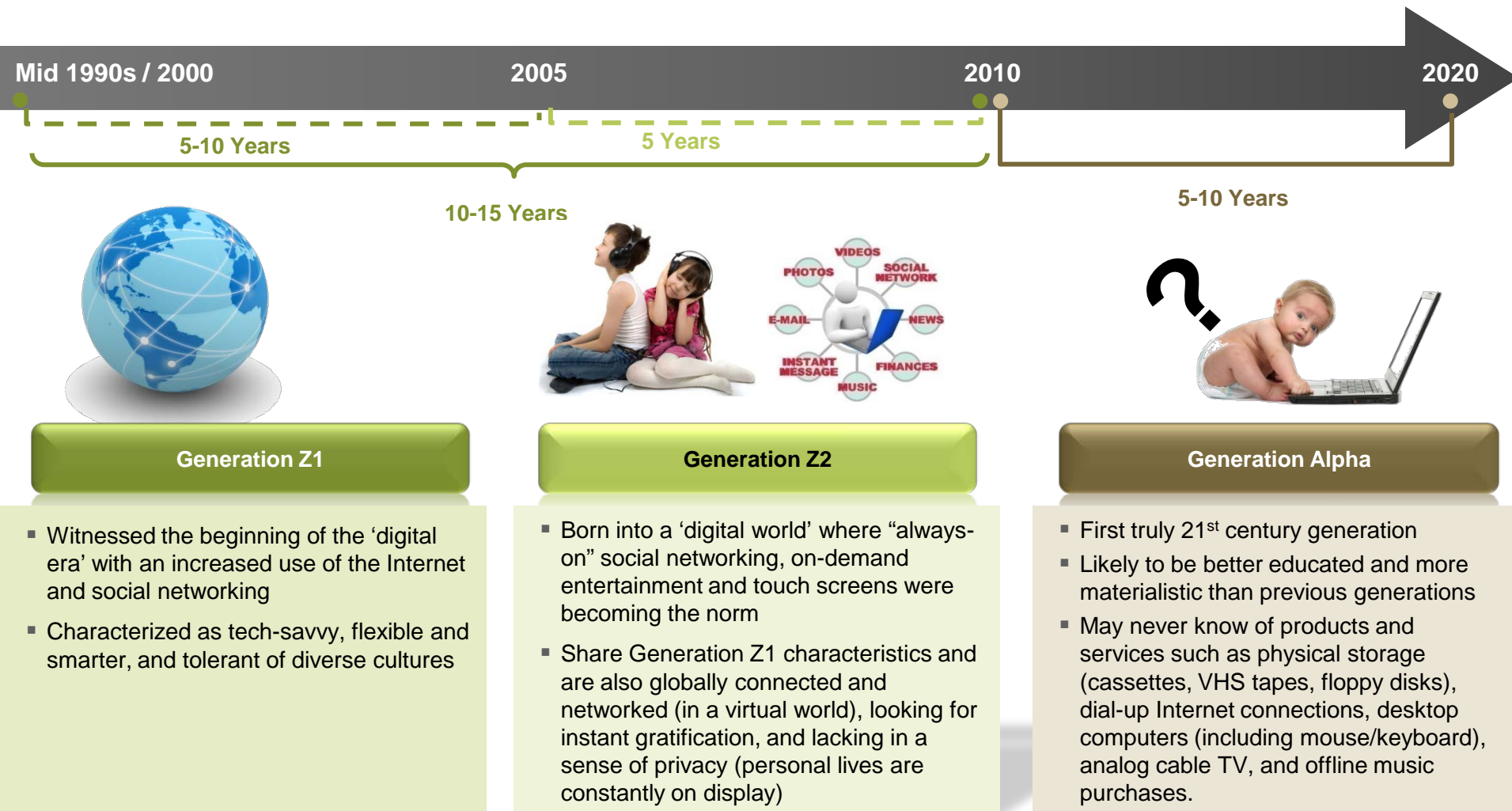
Every generation has seen the emergence of a ‘disruptive’ technology that rendered existing technologies irrelevant. New technologies continue to emerge faster than ever and ‘innovation leaps’ are becoming smaller, leading to a stronger ‘connection’ between newer generations



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



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



Well Networked, Socially and Professionally



More Tolerant of Diverse Cultures and Ethnicities

- 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 children¹, 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 study¹ 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: ¹Study conducted by McCrindle Research
Source: News Articles; McCrindle Research; Grail Analysis

What Generation Z traits are important to marketers?

(3) *Conservative financial outlook*

Although Generation Z is materially comfortable, they are conservative financially



Materially Comfortable, Yet Financially Conservative

Behavioral Traits

- 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 Australia¹ 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

Implications for Marketing

- 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

Note: ¹Study 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



Well Educated & Informed,
Imaginative Thinkers



Highly Environmentally Conscious

- 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 war¹
- “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

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

Many companies have already taken steps to target young consumers

Strategies to target young consumers are keeping pace with the technologies they use, moving from SMS text messaging to mobile Internet to advertising on virtual worlds



- 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



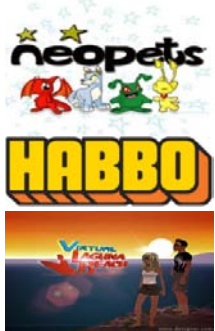
- In 2005, McDonald's launched the McFlurry mobile marketing campaign to attract young customers
 - 600 McDonald's restaurants in California invited young customers to send text messages in return for electronic coupons which could be used to get a free McFlurry



- 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

Source: "Interactive Food & Beverage Marketing: Targeting Children and Youth in the Digital Age", Berkley Media Studies Group, May 2007; "The lure of generation Y", Euromonitor, 2002; "Teen Marketing: Apple's the Master", Bloomberg Businessweek. Aug 2007; Grail Research Analysis

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



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