

What if the next big disruptor isn't a *what* but a *who*?

Gen Z is connected, informed
and ready for business



The better the question.
The better the answer.
The better the world works.



Building a better
working world



**A new generation with
unique experiences,
beliefs and behaviors.**

They are Gen Z.

The next big disruptor: Gen Z

Today's teens and tweens are taking the Millennials' reins

Generation Z is coming of age. Rarely, if ever, has the world experienced so much change as has happened in their brief lifetimes. Politically, socially, technologically and economically, we are moving at warp speed. These changes have created a generation very different than any known before. Retailers, and in fact all businesses, hoping to connect to these savvy consumers and their already \$44 billion in purchasing power ("Activities of Kids and Teens," *Mintel Reports*, November 2013) need to understand who they are, what they want and how they want it.

As a strategist, I leverage my background in cultural anthropology to recognize the nuances of human behavior within societal clusters and to understand how small shifts in attitude can lead to big changes for retailers and brands. I study attitudes globally, but my focus in this paper is the US, where Gen Z data is ample and growing. However, in today's highly connected world, it's no surprise that similarities are now appearing in other countries.

In this paper, we will seek to better understand Gen Z by exploring:

- ▶ Differences between Gen Z and Millennials – and what is driving these differences
- ▶ Implications of changing expectations and behaviors between the two generations
- ▶ Critical factors for winning the hearts and minds of Gen Z

Marcie Merriman

marcie.merriman@ey.com

+1 614 325 9192

Ernst & Young LLP

A new generation emerges

Before we jump into understanding Gen Z – today’s teens and tweens, born after 1997 – and how they differ from Millennials, let’s examine what a generation is and how we transition from one to another.

A generation is a group of people bound by the kinship created through shared events that changed the society in which they grew up. These events are usually a combination of social, economic, political or technological disruptions. For those in their formative years, societal changes set the stage for a common set of attitudes and expectations for life. We can’t predict when one generation will end and another will begin or what will be enough of a change to push us over the edge from one generation to another. Similar to a recession, you don’t know it has happened until you are in the middle of it, and you can’t predict when it will end. However, you know and feel that something is different.

With regard to Gen Z, this happened for me a few years back, before the term “Gen Z” had been coined.

My aha moment came as I was examining Millennial attitudes toward sustainability and environmental factors, and what Millennials were willing to pay more for.

Research consistently demonstrated that, true to their frugal reputation, Millennials were not willing to pay more for products or services based on a company’s environmental or sustainability practices alone. Although Millennials may have viewed these companies more favorably for their responsible practices, they sought additional benefits, such as better quality or healthier products, to justify a higher price point.

A different trend unfolded among the younger kids studied. This cohort was more focused on what *they* were doing to help improve the environment. They seemed to feel more of a personal obligation to help make things better. Here are a few examples of what I encountered:

- ▶ An 11-year-old describing how, rather than wrapping gifts in paper, she used scraps from clothes that were too damaged to donate
- ▶ A parent proudly telling the story of how her daughter came home from school and put a ban on water bottles in their home after learning what they do to the environment
- ▶ Teens explaining how they cut pollution and gas consumption by riding their bikes and walking more – and trying to get their parents to do the same

The key factor that differentiated these two groups, other than their age, was an element of self-awareness versus self-centeredness, meaning the younger people placed a greater emphasis on their role in the world as part of a larger ecosystem and their responsibility to help improve it. The older ones were more focused on what was in it for them. They also looked to others, such as the companies they did business with, for solutions, whereas the younger people naturally sought to create their own solutions. What we see now is that the younger people, now in their teens and tweens, are not just an extension of Millennials; they are a new generation with unique experiences, beliefs and behaviors.

They are Gen Z.

<p>Millennials Born 1981-1996 / 19-34 years old</p> 	<p>Key factors that differentiated these two groups</p>	<p>Gen Z Born 1997-2003 / 12-18 years old</p> 
	<p>Self-centered Entitled Idealist Creative Dependent</p>	<p>Self-aware Persistent Realist Innovative Self-reliant</p>



Born self-learners

Their world

To understand Gen Z better and how they are different from Millennials, we must first consider the exceptional world in which they've been growing up.

Danger

Born after 1997, Gen Zs have always known turbulence and instability. They experienced the biggest recession and worst employment rates since the 1930s. They know only a post-9/11 world. The war on terror, and America at war, have always been their norm. They have been raised in the shadow of the Columbine school slayings, followed by an increase in school violence incidents shared mercilessly through 24/7 news. Heightened school security measures were instated to try to keep them safe. Metal detectors are not unusual, and lockdown drills – preparing for the worst – are common protocol. Rather than a safe haven, schools are perceived as a place of danger: 43% of 7- to 13-year-olds think school violence and shootings will have the biggest impact on their generation, outweighing the advent of social media and the first African-American president (*Cassandra Report*, Summer/Fall 2013, Deep Focus).

It is difficult for Gen Z to escape the threat of physical or emotional abuse anywhere, as bullying has gone online via social media and followed them everywhere on their mobile devices. The constant perceived threat of personal harm has become a defining characteristic for this generation. Over half of youth today report being cyberbullied (“Generation Z: A World Gone Cyber,” *Huffington Post*, December 2014). While it's difficult to trace suicide rates back to specific causes, bullying is a known factor in many young suicides. The data is not encouraging: suicide rates have been rising among young people since 2007 (American Foundation for Suicide Prevention, 2015). According to 2014 data from the Centers for Disease Control and Prevention, suicide is the third-leading cause of death for those between the ages of 10 and 24 and results in about 4,600 deaths annually (“Social Media raises fear of teen suicide contagion,” *USA Today*, May 2014).

Tolerance

Remarkably, Gen Z has also grown up amid unprecedented tolerance. Most can't remember a time when there wasn't an African-American president and a woman wasn't a serious contender. President Obama took office before any of them had reached 12 years of age. Bullying changed quickly from something virtually ignored to something actively discussed and discouraged as part of the permanent curriculums of schools and many nonprofit educational organizations. LGBT tolerance soared during Gen Z's childhood, with the majority of Americans now supporting marriage equality (Washington Post-ABC News poll, April 2015).

Gen Z was born into a world where gender is increasingly more fluid and nondescript. The majority prefer non-gender-specific products and shopping in unisex stores. Gen Z considers gender to be a subjective experience and they view conventional attitudes as insulting (*Cassandra Report*, Summer/Fall 2013, “What Gender Means to Generations Y & Z,” Deep Focus).

Boundless access

From birth, Gen Z has had a unique relationship with a powerful force: modern technology. Unlike Millennials, who witnessed the introduction and rise of social media, tablets, smartphones and the mobility that allows them to access it all in an instant, Gen Z was born into it. They are true digital natives, the first to grow up online, connected to vast amounts of timely, global information and instantly socially connected to friends, businesses, other organizations and even celebrities. They have never known a world where they couldn't instantly connect and look up the answer to any question that crossed their mind. There is no need to ask anyone, or to hide from the unknown. They can figure it out for themselves in their preferred domain: online. “With so much of Gen Z's social life centered around the digital domain, significant percentages prefer socializing online than in real life. More than half say it's easier to chat digitally, or more convenient (“Gen Z: Digital in their DNA,” JWT Intelligence, April 2012).



Parents who empower

As important as the above social, political, economic and technological environment has been in shaping Gen Z, it's only the half of it. These are kids, after all, so one of the most influential forces in their lives is their parents. Gen Zs' parents are unlike any we've known before.

Millennials were heavily protected and validated by their "helicopter parents," who hovered, guarded and were constantly involved. Millennials' parents were known for calling to wake them up for summer camp and college classes and communicating directly with professors about bad grades. Millennials, the children of Baby Boomers and raised to their ideals, were validated throughout life and given trophies just for participation. They were sheltered from the evils of the world. This protection continued as they grew, often returning home after college and expecting ongoing support. Now, 24% of 25- to 34-year-olds live with their parents, up from only 11% back in 1980 (Pew Research Center, July 2014).

But it was much easier to shelter kids before social media and smartphones. The advent of these things didn't just change the youth, it changed how society parented them. Gen Z's parents (representing several generations and a diversity of ideals, thanks to fertility advancements) were never under the illusion they could isolate their children from the evils of the world. Instead, they moved toward educating and preparing their kids to avoid, plan for or deal with life's difficulties – internet bullies and predators, school violence, economic and career challenges.

Rather than helicopters, the parents of Gen Z became stealth fighters, consistently monitoring their activity, communication and movements – zipping in, dropping bombs and redirecting as necessary – but just as quickly zipping back out. Eighty-four percent of 14- to 17-year-olds confirm, "I know why I shouldn't do something, because my parents explain the consequences to me" ("Consumer Insights," Viacom, October 2013).

This stronger push to prepare them for life involves higher expectations, more responsibility and more adult-like treatment. For instance, Gen Zs have more pressure from parents to focus on their careers, with one study finding 55% of Gen Z saying their parents put pressure on them to gain professional experience during their high school years (High School Careers Study, Millennial Branding, February 2014). Where Millennials' parents tended to shelter their children, Gen Z's are tending to have a more open and consultative relationship with their children. And the sharing of opinions and advice is becoming more of a two-way street, with Gen Z having a greater influence on family decisions. For instance: 93% of Gen Zs' parents say their children have some influence on household spending decisions; 65% say their children are influential in vacation choices; and 32% say their children's opinions matter when it comes to buying home furnishings ("Gen Z: Digital in their DNA," JWT Intelligence, April 2012). The adult-like treatment of Gen Zs is evident in the fact that more than two-thirds of them agree with the statement, "My parents are like a best friend to me" ("Consumer Insights," Viacom, October 2013).

43%

of 7- to 13-year-olds feel that school violence and shootings will have the biggest impact on their generation.

(Cassandra Report, 2013)

57%

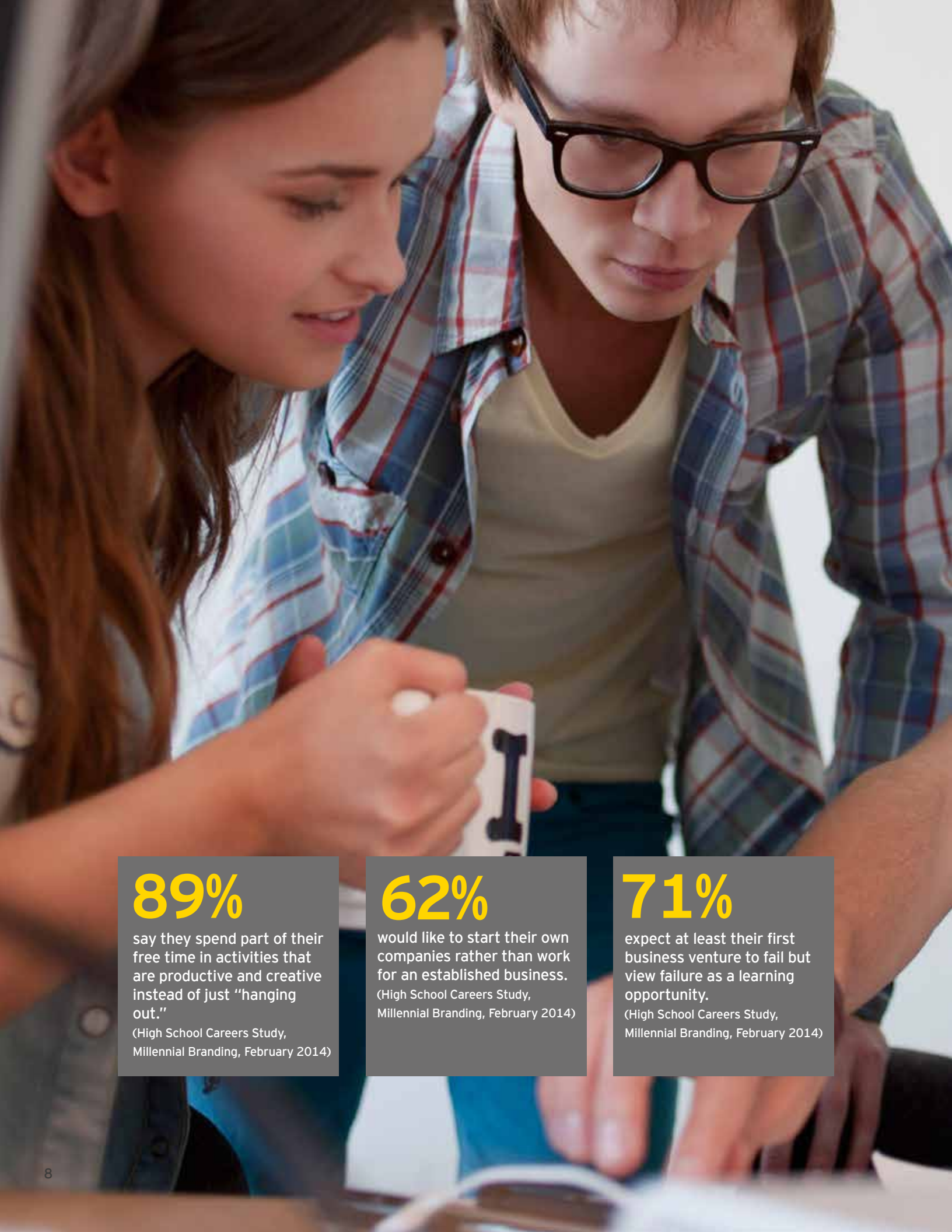
of Z said they would rather save money than spend it immediately.

(Forbes, 2013)

93%

of parents say their children influence family spending and household purchases.

(Cassandra Report, 2015)



89%

say they spend part of their free time in activities that are productive and creative instead of just “hanging out.”

(High School Careers Study, Millennial Branding, February 2014)

62%

would like to start their own companies rather than work for an established business.

(High School Careers Study, Millennial Branding, February 2014)

71%

expect at least their first business venture to fail but view failure as a learning opportunity.

(High School Careers Study, Millennial Branding, February 2014)

The entrepreneurial generation

From this unique social and familial setting has emerged a generation more self-aware, self-reliant and driven than the previous one. They are intuitively innovative, uber-productive, goal-oriented and realistic. In a word, they are entrepreneurial. In fact, 62% would actually like to start their own companies rather than work for an established business, while only 43% of college students (the youngest of the Millennials) feel this way. Eighty-nine percent say they spend part of their free time in activities that are productive and creative instead of just “hanging out.” And 80% of high school students believe they are more driven than their peers. They know that success won’t come easy: 71% expect at least their first business venture to fail but view failure as a learning opportunity (High School Careers Study, Millennial Branding, February 2014). Gen Z was born into a culture of active leisure, where productivity in every moment and every activity is the expectation. Add to this their naturally creative and ambitious nature, and you have tomorrow’s entrepreneurs today.

These traits can be seen in their taste for entertainment and advertising. They prefer realistic to idealistic, and they like to be engaged by “real people.” This is no surprise when one considers their “real” connections to real people through social media and through YouTube, which 85% say is their favorite site (*Cassandra Report: Gen Z*, 2015). On YouTube their time is largely spent watching young “YouTubers” – ordinary people who, on their own initiative, have become online personalities, commentators or video bloggers – rather than commercially produced content. YouTuber Felix Kjellberg, better known as PewDiePie, is one of the biggest hits. PewDiePie dropped out of college and sold hot dogs to finance his game playing. He now earns over \$4 million a year in ad sales (“YouTube Video Game Star PewDiePie Earns \$4 Million Per Year,” Gamespot, June 2014). His videos are simple: he plays video games and narrates along with the action, and over 37 million subscribers watch (PewDiePie YouTube channel, 2015).

The connection with realism shapes advertising as well. Gen Z prefers nontraditional notions of beauty and rejects the projected image of perfection that past generations have expected. Sixty-three percent of Gen Z prefer real people to celebrities in advertising, compared to 37% of Millennials (*Cassandra Report*, Winter/Spring 2015, Deep Focus). According to a *Variety* magazine survey, Gen Z named Smosh, PewDiePie, The Fine Brothers, KSI and Ryan Higa their top five most influential celebrities or celebrity duos (“YouTube Stars More Popular Than Mainstream Celebs Among US Teens,” *Variety*, August 2014.). Meanwhile, Millennials named Mark Zuckerberg, Justin Bieber, Taylor Swift and Lady Gaga as their top influencers (“Millennials Reveal Who Represents Their Generation,” *Huffington Post*, November 2012).

Loyalty

Gen Zs are highly informed and want to take charge of their lives and their futures. So it’s not surprising that they are less loyal to retailers. EY recently conducted a study of Baby Boomers, Gen X, Millennials and Gen Z, focusing on shopping behavior and loyalty, *Redefining Loyalty for Retail*. Our research shows that trying to gain the loyalty of Gen Z via traditional loyalty programs, cards and promotions is a losing battle. No matter how we asked Gen Z, they are simply much less interested in these things. For instance, the percentage who say a loyalty program makes a store special to them drops from 45% for Millennials to 30% for Gen Zs. The drop-offs are even more dramatic for interest in shopper cards and special events.

Getting these consumers to be loyal to your brick and mortar will be more challenging than ever. Our research shows that online ordering and delivery are extremely important to Gen Z, and the ability to order online and come into the store to pick it up is, for the first time, declining in importance. The bottom line is that Gen Z expects retailers to get the product to them. This adds to the pressure to find new ways to grab and hold consumers’ attention. To do so, retailers and brands must authentically connect with Gen Z in their hearts and minds.

[Click here EY Retail Loyalty Survey Report](#)

Three essentials to win the hearts and minds of Gen Z

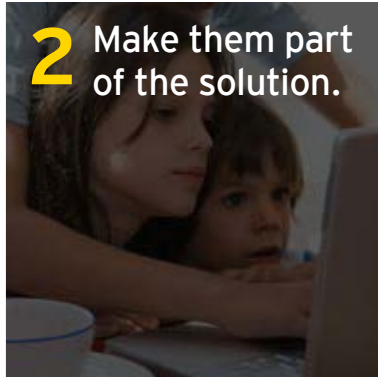
Gen Z's self-reliance and desire to create their own solutions; their awareness of the world around them and how they fit into it; their expectations of a respectful and equal coexistence with others regardless of age; and being born into our "always on" society – these have created what may end up being one of our most ambitious, hard-working and innovative generations in history.

and when they shop with you and where they buy. They even want to create it on your behalf: you give them some options and they figure out the rest. They challenge all aspects of form and function, and are always looking for better, faster and more fun ways to do things. Let's look at each of these a bit deeper and examples of how a few brands are delivering on all these attributes to win with Gen Z.

1 Intuitively deliver on their constantly evolving needs.



2 Make them part of the solution.



3 Demonstrate respect and loyalty before asking for it.



Gaining their loyalty and trust, to the degree it is possible, will not be easy.

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.

Gen Z is highly educated, technologically savvy and naturally creative and innovative. They look for solutions on their own and set out to make things on their own. With this level of self-direction and purpose, it's no surprise that Gen Zs also wish to create their own solutions with companies. This goes beyond customizing or personalizing what businesses offer. They actually want to invent the offer with you, how

Fast food just for me

In 2015, a leading quick-service restaurant chain became the first with a mobile app for ordering and payment for both drive-through and dine-in – designed with the Gen Z consumer in mind. The app allows self-reliant Gen Zs to place their orders on their own, without human interference. Their desire to find their own solutions is met by the ability to customize each menu item through clearly displayed add-ons and extras not listed on the traditional menu. Their creativity is stimulated by the endless options presented by the app; and their desire for connectivity is channeled into sharing their new menu creations on sites like HacktheMenu.com. As reported in Bloomberg Business (4 February 2015), the average digital order for this fast food giant is 20% higher than traditional orders made via a human cashier, and the restaurant has solidified its position as a favorite of Gen Z consumers.

Fitness untethered

Fitness memberships are being redefined by a new app offering a monthly membership program that lets users pay a flat fee to take fitness classes at different gyms and studios (*Business Insider*, 6 May 2015). The app clearly connects with Gen Zs' desire to customize their own solutions by putting them in control of their fitness regime. Why subscribe to one gym or studio and adhere to their strict policies and schedule when a flat app fee unlocks availability at barre, boxing, cycling, dance, martial arts, pilates, rowing, strength, yoga studios and gyms with localization built in, making them part of the solution. The app provides something of great value – fitness and fun – without any of the hassles of membership or profile creation beyond the initial profile setup. Additionally, the app creates an atmosphere of mutual respect, allowing cancellations up to 12 hours prior to class but charging a self-policed no show fee for missed classes.

Lingerie, respectfully

When the 17-year-old founder of an online store for girls was frustrated by the fact that the bras available for her 13-year-old sister were overly sexy, she was inspired to create her own age-appropriate line. She believed her sister "should feel confident in whatever she wears, not that she is lesser than her peers if she looks different than a goddess-like model 10 years her elder." Not only did the Gen Z founder build her own solution, but she develops a relationship of mutual respect with her customers, thereby earning their loyalty. Her company's success proves the business potential of truly understanding and respecting your Gen Z customers and meeting their specific needs. So far it has paid off: she raised \$41,000 in a \$25,000 online fundraising campaign and "her company is being held up as a model of innovation, design and feminists united against the sexualization of girls" (*Fast Company*, 24 April 2014).

Snack tracking

When a popular food delivery chain added the Internet of Things to their process, they made their entire customer experience transparent, providing their customers with something they value where and how they want it, absolutely free of hassles. The chain reduced their online ordering process down to five clicks and added a tracking component once orders are submitted, so customers can follow their snack all the way to their doorstep. By eliminating the doubt that comes with submitting an online order and waiting for delivery, they make the wait fun and build a relationship with their Gen Z consumers, even before a bite of food has been consumed (*The Atlantic*, 6 June 2013).

Innovate or die!

Gen Z, like all generations, was borne from disruption. Today, the very goal of businesses, political groups – not just technology companies – is to disrupt the status quo, to change how people think and live. Thanks to the internet, social platforms, smartphones and advancements in mobile technology, events and innovations are shared instantly and disseminated globally.

If Moore's law holds true, we will continue to have the doubling of technological capabilities every 18-24 months. We can expect this to further accelerate social change and therefore changes in human attitudes and expectations. Our generations will become shorter. Successful businesses will adapt to this new norm and learn to thrive amid frequent change. This requires a habit of understanding consumers as human beings, understanding what drives them and providing them – repeatedly – products, services and experiences they can't imagine living without.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2015 EYGM Limited

EYG No. BT0523

All Rights Reserved.

BSC no. 1504-1438074

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com

Contact Information:

Marcie Merriman

marcie.merriman@ey.com

+1 614 325 9192

Ernst & Young LLP