

Consumers of Tomorrow

*Insights and Observations
About Generation Z*

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grail research
a division of Integreon



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...

- **Comfortable with and even dependent on technology**, having grown up in a digital world where technology was ever-present
- **Constantly multitasking** with a variety of online products and sophisticated electronic devices, and appreciates simple, interactive designs
- **More socially responsible**, due to greater access to a large online information pool they are more acutely aware of modern day challenges such as terrorism and climate change
- **Always connected**, communicating through various social networking channels, often across countries and cultures which significantly influences their decision process

Marketing Implications

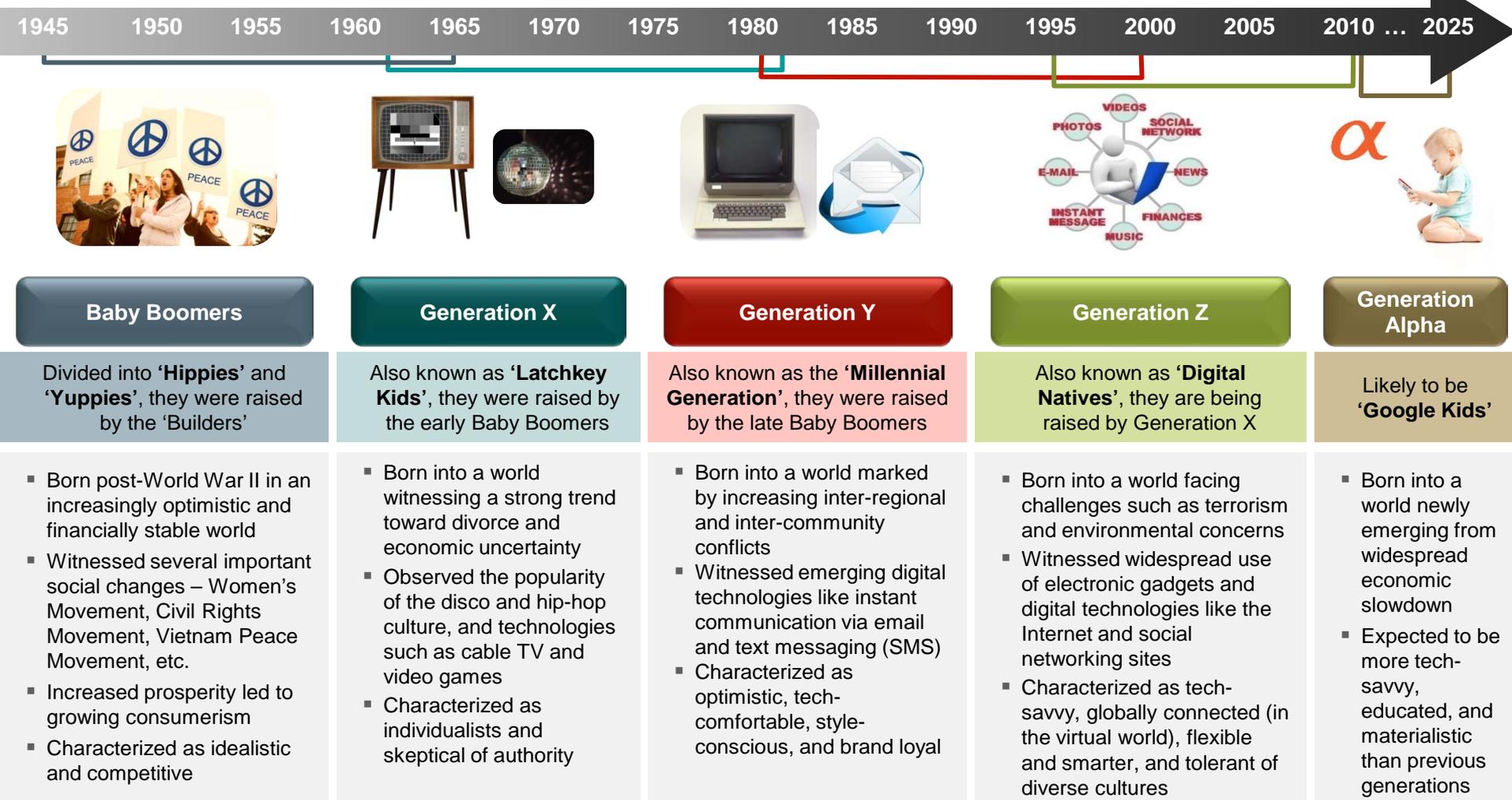
Companies targeting Generation Z will want to...

- **Adopt technology-based marketing and sales channels** such as text messages (SMS), mobile Internet, social networking portals, etc.
- Aim to **‘catch them young’** (especially relevant for technology companies)
- **Enhance their virtual world presence** with online product information and purchase facility
- Develop **high value-for-money products** that are multifunctional with simple and interactive designs
- Provide **‘green’ products** and services or take a proactive stance toward the environment

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



What Generation Z traits and trends are important to marketers?

1

**Competing
for Attention**

2

**Design
Matters**

3

**Social
Responsibility**

4

**Constant
Connection**

1 Competing for Attention

Born into a digital world, Generation Z is proficient with and dependent on technology, making it a critical part of how they interact, play, and learn



Behavioral Traits and Trends

- Growing up with the Internet, mobile phones, laptops, and other electronic devices creates a different market in which parents and companies need to compete to get this generation's attention
 - 31% of US children, ages 6-12, wanted an iPad over any other electronic device for Christmas in 2010; followed by a computer (29%) and an iPod touch (29%)¹
- The world for Gen Z is digital and the accessibility of technology has made them overly dependant on it for many activities
 - ~20% girls ages 12 and under regularly visit online shopping sites; 13% of girls regularly purchase products online, regardless of their age; and 35% of girls ages 12 and below own a portable gaming device²
 - In a global survey, Gen Z rejected traditional TV over streaming Video-on-Demand (VOD). In addition, PCs (51%) and mobile phones (43%) were ranked more important devices than TVs (3%)³
- Technology has also impacted the way that Gen Z learns. According to a study by *'Habbo Hotel'*, the world's largest virtual community for teens, 43% prefer the digital approach and find it easiest to learn from the Internet. 38% like combined learning from print and online; and only 16% state books as their preferred way of learning



Implications for Marketing

- Playtime is still popular, but the forums for play are changing
- Greater comfort with and dependence on electronic gadgets will lead to more early adopters and increase demand for such products. Companies will want to draw users in early and 'catch them young'
- Gen Z spends a significant amount of time online, in order to reach them, companies will need to adopt strategies such as:
 - New marketing and sales channels like interactive online media portals
 - Virtual world based marketing
 - Detailed product information and the ability to easily make purchases online

Source: ¹'Kids to Santa: We Want an iPad for Christmas', Nielsen, Oct 2010; ²'Global Survey on Gen Z Girls' Reveals Digital Behavior" by Stardoll and Carat Network; ³'Generation Z rejects traditional TV', Value Partners; 'Apple's iDevices Top Christmas Wish List in Duracell Toy Report', News Articles; Grail Research Analysis; McCrindle Research; Mashable.com

2 Design Matters

Being adept media multitaskers, Generation Z has a desire for multi-functional devices with designs that are both simple and interactive



Behavioral Traits and Trends

- Gen Z prefers media that is simple to use and interactive
 - Notebooks and touch screen devices such as iPads appeal to children due to their size and simplicity
 - Interactive, stimulating activities are favored in contrast to passive TV
 - There is a trend toward simple, clean interfaces such as Rediff, a popular Indian internet portal, which has no advertisements on its homepage and only eight icons
 - » Ranked #10 on Alexa Traffic in India, Rediff has a significant number of young visitors, with 24% of its total customer segment consisting of women and children
- Gen Z are avid multitaskers and desire products that allow them to do multiple things with one device
 - Social platforms such as Tumblr allow users to post (text, photos, links, audio, video, slideshows, etc.) easily to their own customized blog, Twitter or Facebook accounts using one simple application
 - » Tumblr's unique monthly users grew from 4.2MM in Jun 2009 to 14MM in Jan 2010
 - Devices which have educational features to enhance children's knowledge and skills are favored by kids and parents
- Consumers are willing to pay a premium for devices that provide them with a wide range of functionality such as the iPhone (starting at \$649 without carrier contract) and iPad (starting at \$499)



Implications for Marketing

- Easy-to-use and simpler platforms appeal to this generation
- Multi-purpose functionality is essential and consumers are willing to pay a premium if the product provides more than one benefit

3 Social Responsibility

Generation Z was born into an environmentally conscious world, and with greater exposure to a wide range of resources, they are expected to be more socially responsible



Behavioral Traits and Trends

- Access to a large online information pool has made Gen Z acutely aware of modern day challenges such as terrorism, climate change, etc.
- 74% of teenagers, globally, consider climate change and global warming to be a greater threat than drugs, violence or war.¹
 - Many companies have seen this as an opportunity. For example, McDonald's headquarters encourages all their franchises to improve energy efficiency and reduce their carbon footprint. It has also launched environmental education programs for kids to spread the message of environmental responsibility
- Globally, teens, along with their families, are changing their purchasing behavior towards choosing environmentally responsible products and companies
 - About 75% of teens in Singapore stated that they care whether their family is purchasing green products. In addition, two in three said they recycle as much as possible and more than half have donated to carbon-offset programs²
 - 61% of Australian teens said that they cared whether their families purchased 'green' products, and 70% actively make an effort to reduce energy consumption. 97% believe recycling is important and 82% said they recycled as much as possible³
 - There has been an increase in teen forums and associations targeting environmental responsibility in the US such as *Teens Turning Green*, the *Dream Green Festival*, and *KidEarth*



Implications for Marketing

- Gen Z is expected to evaluate the environmental impact and carbon footprint of products and brands
- Companies will need to consider offering green products or taking a proactive stance toward the environment as they market to Gen Z
- Corporate programs and communication can influence product purchases as much as the product itself
- Recycling and return programs can drive awareness and adoption

Note: ¹Survey conducted by Habbo and Greenpeace on ~50,000 teenagers across 18 countries, 2007; ²Survey conducted in Jul and Aug 2011, each of the eight surveys had an average of 1,100 Singapore teenagers, who are registered Habbo users, participating; ³ 2009 survey conducted by Habbo on Australian teens
Source: News Articles; McCrindle Research; AC Nielsen Company; AsiaONE News; Grail Analysis; "Company Profile - McDonald's", Cut Your Footprint; 'Children of the tech revolution', smh.com.au, Jul 2008

4 Constant Connection

The Internet, mobile phones, and social networking sites have made Generation Z more accessible, on a more regular basis, through different communication channels



Behavioral Traits and Trends

- Gen Z values constant connectivity with peers through the Internet, instant/text messaging, mobile phones and social networking sites. These peers greatly influence their decisions and provide a broader exposure to cultures, languages, and ideas
 - Girls are getting mobile phones at younger and younger ages; 65% of 12 year old girls and 79% of girls ages 13-15 own their own mobile devices
 - Many children feel that social networking is more important than other aspects of their life, including their family
 - 46% of teens select TV shows to watch based on recommendations from social networking sites
 - According to a global survey of children¹, 50% of all tweens (8-12 years) globally are online everyday and 25% interact daily with peers in other countries
- This generation prefers communicating through social networks and instant messaging, and considers email “so yesterday”
 - Youth SMS is predicted to fall 20% in the next 5 years, due to next generation messenger services (BBM, Weibo, WhatsApp, QQ, etc.)
- Emotional attachment to digital habits sustains high online activity
 - According to a study, when children were kept away from social networking devices such as laptops and mobile phones, 79% of them displayed symptoms of distress²



Implications for Marketing

- Gen Z is using different modes of communication than in the past and companies should leverage those channels in their marketing strategy
- Gen Z constantly adapts to the newest technologies and companies need to stay focused on “what’s next” in order to keep pace with this generation

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:²The study was conducted by the University of Maryland on students aged 17-23 in ten countries

Source: “Global Survey on Gen Z Girls’ Reveals Digital Behavior” by Stardoll and Carat Network; National Family Week Survey; ‘Generation Z rejects traditional TV’ by Value Partners; News Articles; Grail Research Analysis

Many companies have already taken steps to target young consumers

Strategies to target young consumers are keeping pace with the technologies they use and the behavioral traits they exhibit



- In 2011, Walmart introduced *Geo Girl*, a range of eco-friendly makeup products, specially designed for girls ages 8-12
 - The products are marketed as eco-friendly, made of natural ingredients and packaged in recyclable materials
- All products are named after chat short-hand abbreviations used in instant messages and texts including, TISC (This Is So Cool) Body Mist and VBS (Very Big Smile) Lip Gloss



- In 2008, Firefly, a US-based mobile phone company, launched a pay-as-you-go mobile phone service targeted to kids
 - Introduced two exclusive mobile handsets for kids – glowPhone for ages 5-8 years, and flyPhone for ages 9-12 years
 - Key features include full color screen, built-in camera, games, mp3 and video functionality
- In 2009, Firefly ceased partner store sales and moved to online sales only, stating the channel to be more efficient at reaching their target audience



- 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, 9,781,626 people like the McDonald's company profile, 692,985 people like the Dell profile, 5,265,685 people like the Pepsi profile and 1,004,339 like the Apple profile), 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 teen members across the globe
 - Zynga, the largest developer of social games on Facebook, partnered with Lady Gaga on the launch on her "Born this Way" album by providing FarmVille players with a first listen to exclusive unreleased songs
 - MyCoke.com is a virtual environment to engage teens in interactive activities and encourage them to associate their personal identity with Coca-Cola's brand identity

Next Generation: Alpha

Generation Z will be followed by the digitally superior and well-informed Generation Alpha



Generation Alpha

- **Born after 2010**
- **Raised by Generation X & Y**
- **Predicted to:**
 - Be the largest generation to date
 - Adopt technology faster
 - Have increased health concerns
 - Start earlier and stay longer in school
 - Be more technology focused
 - Have better career opportunities due to a skills shortage, created by the present population leaving the workforce



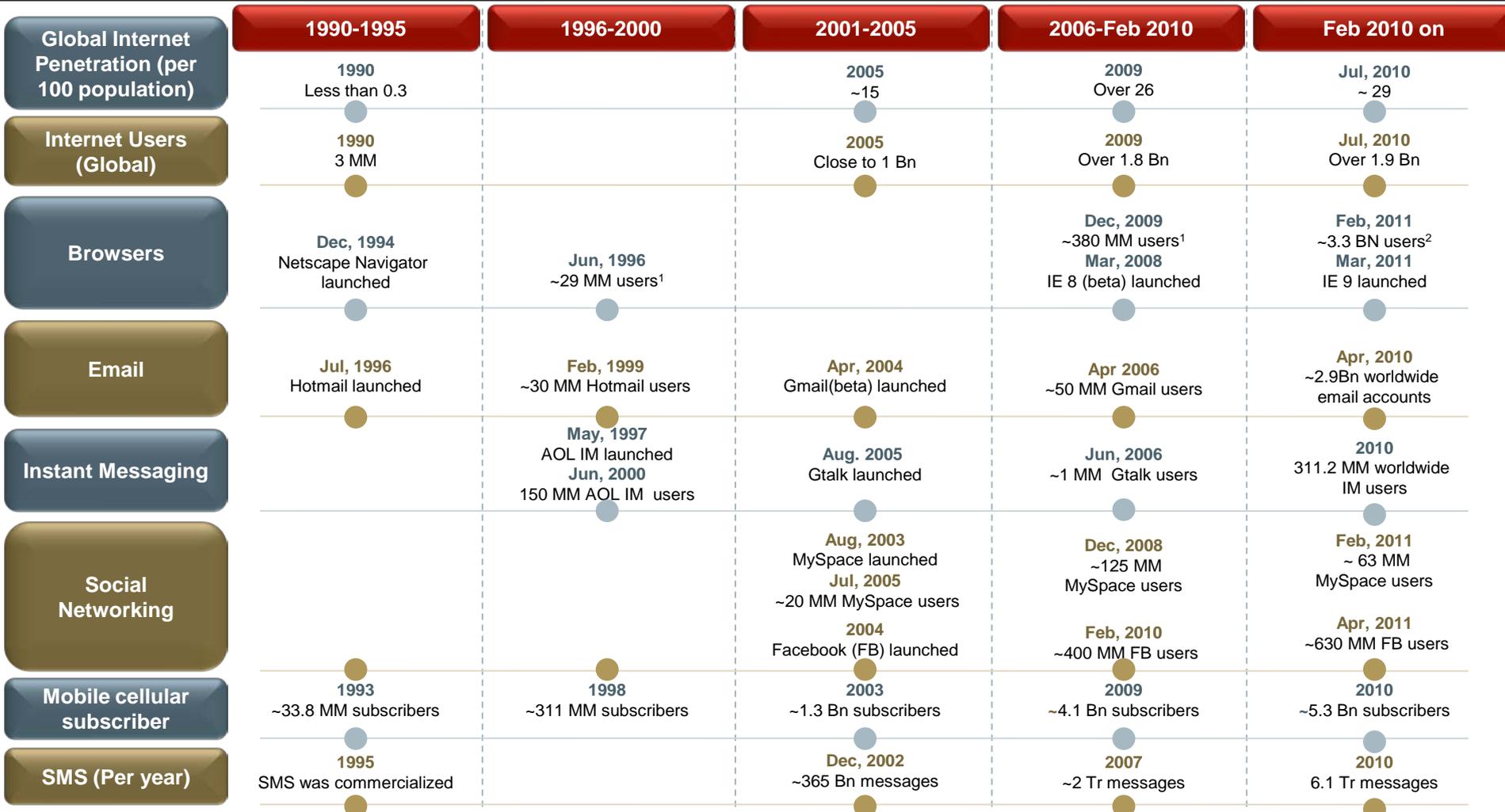
Appendix – Additional Insights

What Makes Generation Z Different?

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: ¹Calculated by multiplying total number of internet users with the market share value; ²Calculated by dividing the total internet explorer users with its market share
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

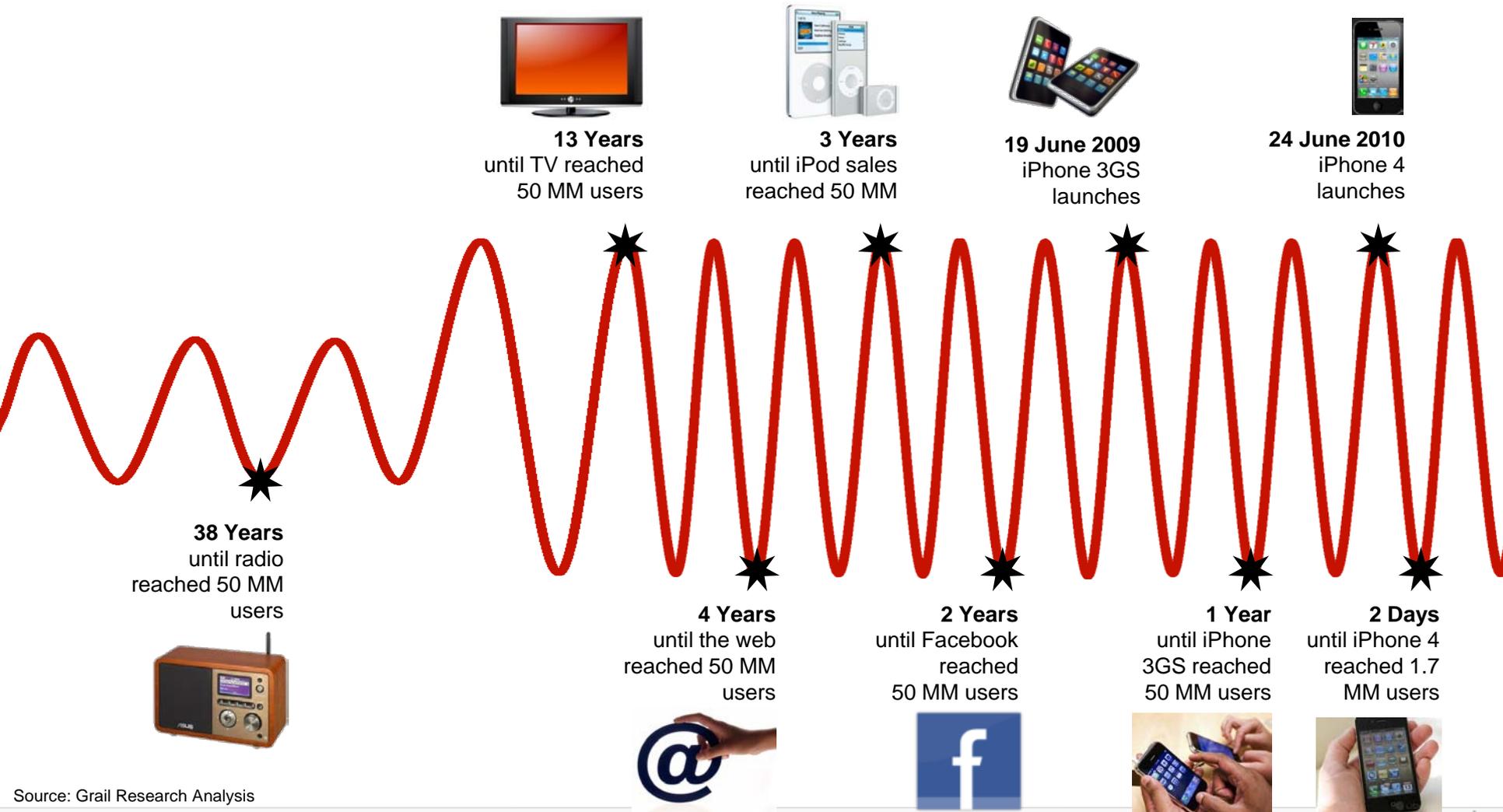
Increasing Overlap Between Generations



What Makes Generation Z Different?

(3) *Increased speed in technological advancement*

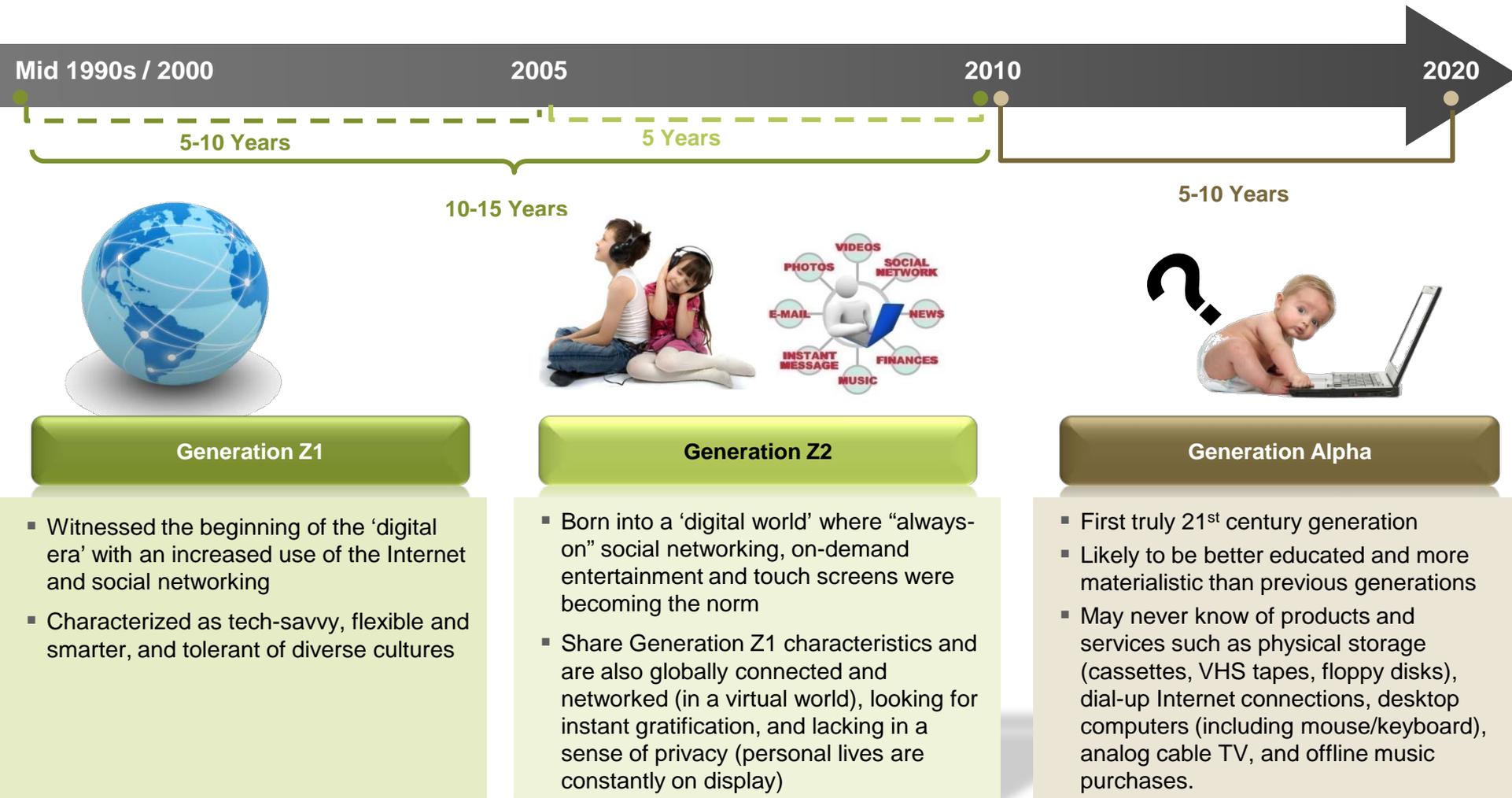
Every generation has seen the emergence of a 'disruptive' technology that rendered existing technologies irrelevant. New technologies continue to emerge faster than ever and 'innovation leaps' are becoming smaller, leading to a stronger 'connection' between newer generations



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





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