

Consumer Packaged Goods and Retail Practices

Cracking the code on millennial consumers

Capturing business from millennials—the largest living generation—will not be a one-size-fits-all solution for companies.

by Bo Finneman, Julia Ivory, Sophie Marchessou, Jennifer Schmidt, and Tom Skiles



Companies that win millennials' business stand to enjoy robust economic growth for years to come. In 2015, millennials surpassed baby boomers as the largest living generation in the United States. Now more than 75 million strong, this cohort, born between 1981 and 1997, is expected to peak at 81 million in 2036. Millennials already spend \$1 trillion, and that spending power will increase as their income reaches \$8.3 trillion by 2025 (versus \$6.4 trillion for Gen Xers and \$1.1 trillion for baby boomers).

Many forward-looking consumer companies and investment firms are wondering about the true marketplace potential of millennials and the appropriate influence of this cohort on their strategies. Because millennials are critical to future growth and value creation for consumer-facing businesses, we investigated this generation to understand their marketplace potential better. We surveyed 11,000 people in May 2016, including

7,000 millennials, 2,000 Gen Xers, and 2,000 baby boomers about their attitudes, buying preferences, and category behaviors. Our research showed that millennials are a complex cohort with diverse preferences. The seemingly conflicting press on these consumers reflects seven distinct segments. Consumer companies and investment firms should take this complexity into account as they shape their strategies, as capturing a meaningful share of millennials' potential will not be a one-size-fits-all proposition.

Aligning to the right millennial segments

We found that millennials fall into seven distinct segments along a spectrum of three behavioral clusters: value, quality, and image. Within each cluster, we see two or three segments that behave quite differently from one another (Exhibit 1).

Exhibit 1

Millennials fall into seven distinct segments along a spectrum of three behavioral clusters.

General consumer-population segments¹

Value		Quality		Image		
						
Economizers Unengaged; brand agnostic; go after deals; believe less-expensive products are good enough	Risk avoiders Younger; lower income; price conscious; place significant reliance on recommendations	Diligent loyalists Strong need for control and routine in many aspects of life (eg, diet, finances); care about being informed; content with current products	Premium enthusiasts Highly educated; willing to pay more; care deeply about health, wellness, and quality of products and brands (especially food)	YOLO-ers² Heavily focused on enjoying life today, even if it means living outside their means	Showcasers Higher income; enjoy shopping and showing purchases on social media; believe newer brands are more innovative	Explorers “First movers”—like to be first to try new brands/products to set themselves apart; shop primarily at specialty stores; willing to pay a premium

¹Representative sample of millennials, Gen Xers, and baby boomers.

²“You only live once” millennials.

Source: McKinsey Millennial Survey, May 2016

Value-driven consumers: 40 percent of millennials

These consumers fall into two segments, both of which are conservative in their purchase decisions and care less than other segments about brands. Economizers are relatively unengaged, budget-conscious consumers who go after deals and are brand agnostic. Risk avoiders rely heavily on recommendations and advice before trying new products or brands. They want to know that they have made good decisions and will emphasize advice and recommendations from others when they make decisions.

Quality-driven consumers: 22 percent of millennials

These consumers have definite preferences and consider brand selection a mark of their ability to make thoughtful decisions. Diligent loyalists show a distinct need for control and routine in many aspects of their lives (for example, diet and finances). They care about being informed and are largely content with their current products. Premium enthusiasts are highly educated consumers who see products and brands as extensions of themselves. They are willing to pay more to obtain the quality they care about. This cluster has the greatest affinity with health and wellness activities and brands.

Image-driven consumers: 38 percent of millennials

This cluster consists of three different segments. Experience-driven “you only live once” millennials (YOLO-ers) focus on enjoying life today, even if that means living beyond their means. Higher-income showcasers follow the latest trends, think newer brands are more innovative, and show off their purchases on social media. Explorers are willing to pay a premium to be the first to try new products or brands in order to set themselves apart.

Understanding millennial behaviors and preferences

Despite current lower incomes and concerns about the financial future, millennials as a whole

spend money. Our research found that millennials are willing to pay premium prices for both goods and services, suggesting that “premiumization” trends will continue. In our survey, just over half of millennials indicate that they don’t mind paying more for quality products that will last for years. Even for value-conscious millennials on a budget, one-third admit that they spend more than they should, compared with 29 percent for Gen Xers and 14 percent for baby boomers.

This willingness to pay (for quality) extends across multiple product categories, especially food and beverages at home, where half of millennials report that they always or often pay premium prices. Other categories where we see greater willingness than other cohorts to pay a premium include tech devices (44 percent), apparel (39 percent), footwear (37 percent), and, surprisingly, automobiles (31 percent). But willingness to pay a premium differs by segment. YOLO-ers are especially willing to pay a premium for exclusive products and services. Explorers will pay more to get exactly what they want, while premium enthusiasts favor products made by companies that share their values. Marketers will need to communicate differently to win each segment’s consideration and loyalty.

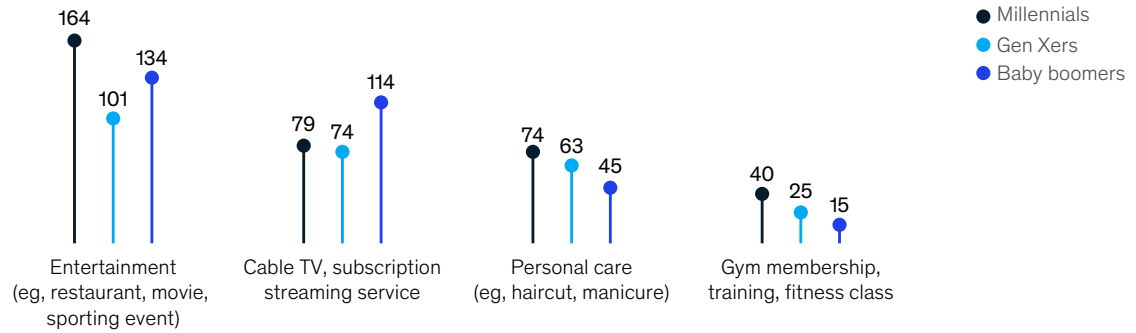
Millennials spend on material things, not just experiences. They do spend more than older generations on experiences—for example, millennials report spending \$164 per month on average on entertainment versus \$101 for Gen Xers and \$134 for baby boomers. What they do not do, however, is curb spending on other material goods to afford memorable experiences. Just as millennials are willing to pay a premium for quality, our research showed this cohort is outspending other generations on several major product categories, especially apparel and footwear. Millennials spend \$524 per year on apparel versus \$355 for Gen Xers and \$439 for baby boomers. For footwear, those numbers are \$264, \$185, and \$134, respectively (Exhibit 2).

By and large, millennials are also outspending either or both of the Generation X and baby-boomer

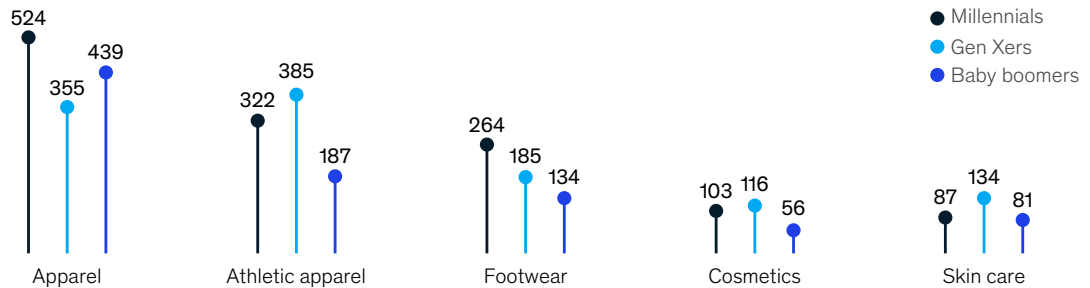
Exhibit 2

Millennials spend more than older generations on experiences, and they don't curb spending on material goods to do so.

Mean reported monthly spending on experiences, by category, \$



Mean reported annual spending on material goods, by category, \$



Source: McKinsey Millennial Survey, May 2016

cohorts on categories where we expect to see moderate to high growth (Exhibit 3). Consumer-facing companies should ensure they are well positioned to capture growth from categories where millennials outspend others. They may also need to convince their millennial customers to spend in other categories to deliver on their long-term growth aspirations.

Millennial segments differ sharply in their preferences for healthy products. Not every millennial is deeply health conscious. Some segments (diligent loyalists, premium enthusiasts, YOLO-ers, and showcasers) care deeply about health and wellness. In fact, they care more deeply than older consumers in the same segments. These

millennials want to know exactly what is in the food they eat and prefer organic, nonprocessed ingredients. But other millennial segments (economizers, risk avoiders, and explorers) find processed foods and nonorganic ingredients quite acceptable. We foresee plenty of growth in better-for-you and healthy categories, but the growth is coming from a portion of millennials and the influence they are having on their parents and children.

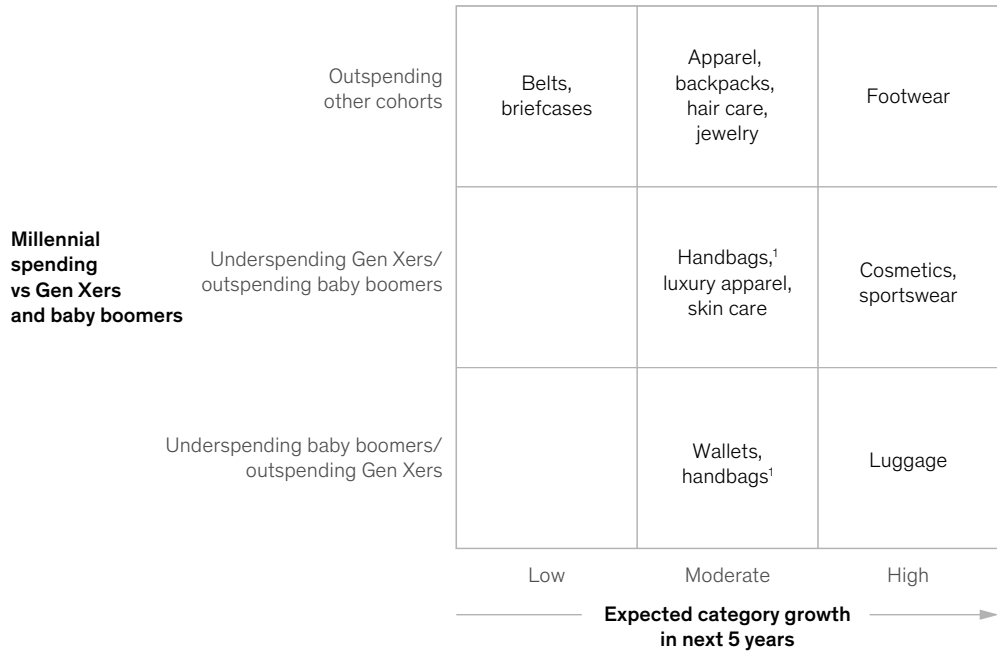
Influencing millennials

Millennials are thoughtful buyers. They look (and can find) a lot of information before making purchase decisions. More than half of millennials say that they

Exhibit 3

Millennials outspend Gen Xers and baby boomers in categories with expected moderate to high growth.

Millennial spending on select product categories vs expected category growth



¹Millennials underspend both Gen Xers and baby boomers on handbags.
 Source: Euromonitor; McKinsey Millennial Survey, May 2016

“almost always research before buying,” which is sharply higher than other cohorts. Yet millennials are less persuaded than older generations by brand-directed marketing. They are more likely to rely on brand and product recommendations obtained via word of mouth, online reviews, and social media. Nearly half get most of their apparel inspiration from social media (versus 28 percent for Gen Xers and 7 percent for baby boomers). Millennials are also far more likely to share their opinions of products and brands, both on- and offline. Once millennials have children, they are far more likely to advocate for products and brands online.

Consumer-facing companies must adapt to having less direct control over the information that consumers get about their products. Leveraging different modes across a customer’s decision journey and tapping into customer advocacy is essential. Hispanic millennials, for instance, identify more with generation than ethnicity. To understand the relative importance of generation and ethnicity in the attitudes and behavior of Hispanic millennials, we compared their survey responses with those of non-Hispanic millennials and Hispanic Gen Xers and baby boomers in the same segments. What we found was that there was a much stronger

correlation with generation than ethnicity among Hispanic millennials in all seven segments (Exhibit 4). There was a distinct difference between male and female Hispanic millennials, particularly around where and how they like to splurge. This suggests that there is more upside in targeting older Hispanics with more unique products and considering millennial segments rather than homing in on a narrower demographic-based segment.

into the equation. This cohort already has real marketplace potential, which will increase significantly over a relatively short investment horizon. Many Generation X- and baby-boomer-rooted businesses are struggling. Reaching a meaningful share of the millennial potential requires having different capabilities. Marketers, operators, and merchants need to take the following steps: one, penetrate the right segment; two, unlock what motivates that segment to spend money; and three, act on strategies that build loyalty through ongoing consumer engagement. When vetting organizations that claim to have a millennial opportunity, consumer companies and investment firms should probe and measure the extent to which they have done all three actions.

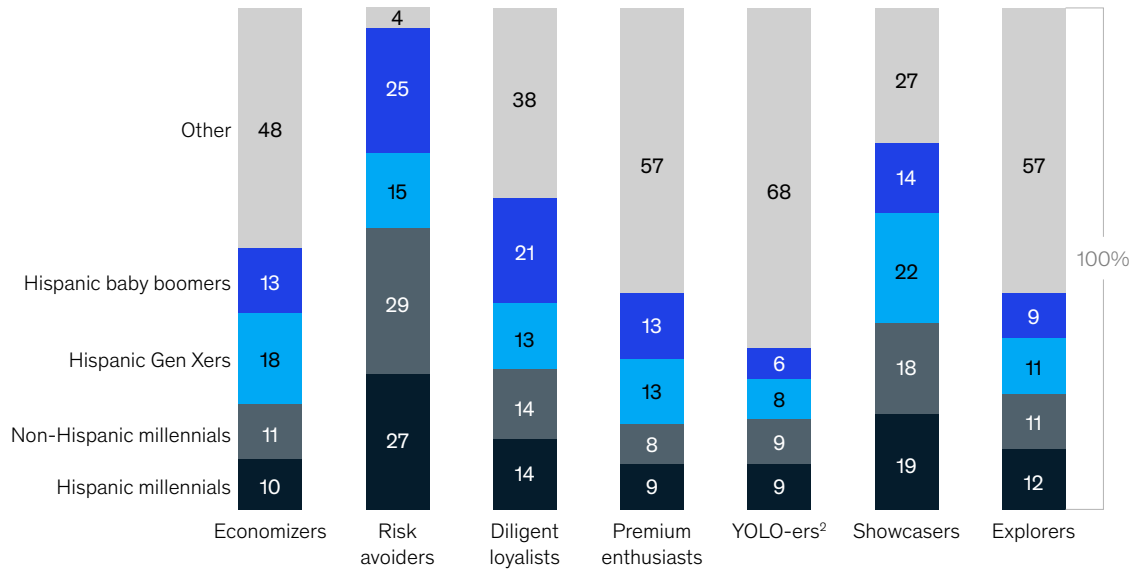
Implications for consumer companies and investment firms

As consumer companies and investment firms consider portfolio-growth opportunities and new assets, they would do well to factor millennials

Exhibit 4

There is a much stronger correlation with generation than ethnicity among Hispanic millennials in all seven population segments.

General consumer-population segments¹ by ethnicity, % of population segment



¹Representative sample of millennials, Gen Xers, and baby boomers.

²"You only live once" millennials.

Source: Euromonitor; McKinsey Millennial Survey, May 2016

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