

Consumer Packaged Goods and Retail Practices

# Gen Z and the Latin American consumer today

Our research shows that Generation Z is more pragmatic than millennials, and that Latin American consumers aren't as optimistic as they used to be.

*by Tracy Francis and Fernanda Hoefel*



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**If you think members of Generation Z** are essentially just younger versions of millennials, you're wrong. And if you've always thought of Latin American consumers as optimists, the latest consumer-sentiment surveys might make you think again. In this episode of the *McKinsey on Consumer and Retail* podcast, two Brazil-based McKinsey partners discuss their widely read article on Gen Z and their more recent research on the Latin American consumer market. An edited transcript of their conversation with executive editor Monica Toriello follows.

### Podcast transcript

**Monica Toriello:** Hello, or maybe I should say “Olà!” this time, since in this episode we'll be talking about research that McKinsey did in Latin America. Specifically, we'll be talking about research on Generation Z, which has been called the first generation of true digital natives.

Who are Gen Zers? Well, they are today's teenagers and people in their early 20s, and they're widely forecast to soon become the largest age group globally. The characteristics and preferences of Gen Z are of broad interest to the business world, and indeed, one of the most viewed articles on McKinsey.com over the past two years, with more than 1.5 million views, is “‘True Gen': Generation Z and its implications for companies.” The two authors of that article are here with us today. First, we have Tracy Francis, a senior partner based in the São Paulo office. Tracy is a native Australian but has lived in Brazil since 2004, and she leads our Consumer Packaged Goods and Retail Practices in Central and South America. Also with us is Fernanda Hoefel, a partner based on São Paulo as well. Fernanda has worked with many leading retailers and consumer-products manufacturers and she leads McKinsey's consumer insights work across Latin America. Thanks for joining us today, Tracy and Fernanda.

First, let's talk about Gen Z, and then later on we'll talk about the broader Latin American consumer market. Gen Z in Brazil currently makes up about 20 percent of the population, and many people, myself included, have members of Gen Z living with

them in their households—so maybe start by explaining the label, True Gen. You say that Generation Z is searching for truth. What does that mean? Unpack that for us a little bit.

**Fernanda Hoefel:** The thing behind truth for this generation is that Gen Zers are people who do not like to define themselves according to any labels. It's more important for them to connect to the essence of what they are and to the essence of what they see in things, as opposed to any labels. They're different from millennials. So when we talk about True Gen, I think it's about not defining oneself. It's also about the strong sense of community that this generation has. And they are OK with connecting to different communities, depending on their interests and depending on the causes that these different communities have. It's also about dialogue. It's not about fighting or about expressing your point of view in a fashion that does not invite dialogue; it's the opposite. So it's a lot about truth.

**Tracy Francis:** Perhaps to complement what Fernanda said, Gen Zers expect truth from others as well. They're quite tolerant. As Fernanda mentioned, they're very different from millennials. They are comfortable with errors and will forgive errors, but they do expect others, be they companies or individuals, to show the same authenticity that they seek for themselves.

### Less idealism, more pragmatism

**Monica Toriello:** Another characteristic that you point out about Gen Zers is that they're less idealistic, more realistic, and more pragmatic than millennials, and that's in large part because they grew up during a time of global economic stress—in Brazil, one of the biggest economic downturns in the country's history. Then along comes COVID-19. Your research predated the pandemic, but how do you think the COVID-19 crisis has affected or changed Gen Z?

**Tracy Francis:** Monica, that's a really interesting question. In Latin America, we had a series of crises during the period of time that Gen Z was growing

up; in the rest of the world, the global financial crisis was also a huge deal. So they were very much affected by this notion of a need for security. Our research showed that one of the things these teenagers most desired was a proper, registered, formal job. If you think about that from the standpoint of being a teenager, it's quite extraordinary. Gen Z is saying, "I want to be part of the system and change it from the inside," as opposed to totally breaking it down and starting from scratch.

My sense is that the COVID-19 pandemic has intensified that feeling. I think we've seen even greater levels of disruption and instability. One of the interesting things that our research shows is that during the pandemic, some of the mindsets that characterize Gen Z have actually expanded into the broader population. You can imagine that perhaps it's because people are more together, but it's also driven by this fundamental sense of insecurity—economic, health, and societal insecurities.

**Fernanda Hoefel:** Another thing we observed among Gen Z is that this generation is very used to analyzing lots of information. They are true digital natives, so their ability and their need to analyze a lot

of information in order to make decisions is very big and different from other generations. They're more analytical and therefore more realistic as well.

## Ecosystems and platforms

**Monica Toriello:** Another characteristic or attribute that the pandemic might make stronger is this attitude toward consumption that you point out about Gen Z. You say that for Gen Z, consumption is about access rather than ownership, so business models such as ridesharing and handbag rental are popular with that generation. One of the implications for consumer-goods companies and retailers, as you say in your article, is that "they should consider creating platforms of products, services, and experiences that aggregate or connect customers around brands." What are some examples of that? What companies have done this successfully? What can you envision other companies doing in the future?

**Fernanda Hoefel:** I think Nike was really innovative when it introduced its sports platform many years ago. Now we see a lot more companies doing similar

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things. I'll also mention Mars Petcare, which went from focusing on selling pet food to having a whole ecosystem for pets. The company tracks information and provides services for pets and for their owners. Of course, feeding is at the center of that as well, but the company is going way beyond pet food.

**Tracy Francis:** Another good example is Natura, which is a Brazilian cosmetics company that has made a series of acquisitions of product companies and retailers around the world, including The Body Shop, Avon, and Aesop, and has recently started to expand into services. It bought a company here called Singu, which offers beauty services provided by manicurists and other service professionals. Natura has also recently started offering financial services to those who are part of their family of companies. So you start to see these ecosystems becoming much more commonplace, even within consumer goods and retail.

**Monica Toriello:** I want to ask you a question that you yourselves posed in your article, and it's about Gen Z's inclusivity. Your article says Gen Z is radically inclusive. You asked, "How long will clothing collections grouped by gender continue to make sense?" Any thoughts on that question?

**Tracy Francis:** I was doing some shopping for one of my kids the other day, and I was on a website with departments for boys, girls, and unisex. So I think we're already going in that direction. If we think about Gen Zers, what they want is to be a segment of one, as opposed to a member of a tribe. As Fernanda mentioned earlier, that's very different from millennials. Gen Zers want to be who they are in any given moment of time, and that identity is fluid—so I think it's possible that we are going to see collections that cater to anyone in any given moment. It's not that we're going 100 percent to unisex, because a Gen Zer today might want to be wearing clothes that aren't gender-specific. They might be having a Billie Eilish moment today, but then next week, they may want to dress like a princess. So, I think what we'll see is a much broader offering in fashion.

**Fernanda Hoefel:** I agree. And companies that cater to these younger audiences will, of course, have to move faster than companies or brands that cater to different audiences.

## Being authentic and transparent

**Monica Toriello:** Speaking of brands, global research from McKinsey and others suggests that Gen Zers are much more likely to believe that newer, smaller brands are usually better or more innovative. Gen Zers are also much more likely to avoid buying products from big food companies. In your own research, you found that the majority of Gen Zers believe that big brands are less ethical than small ones—and ethics are very important to Gen Zers. As you say, their consumption is "anchored on ethics." So what can big brands do to appeal to Gen Z?

**Fernanda Hoefel:** I would say the most important thing is to be authentic and to really connect with consumers in a way that does not come across as artificial. Gen Z consumers are very sensitive to the idea that whatever a brand is saying should be what is happening inside the company. They want full transparency and they want congruency: whatever the brand is communicating outward needs to be the reality of the brand inside the company.

**Tracy Francis:** They know what's happening inside a company because everyone has a smartphone. That's the big difference. Given that it is easy to find out what is happening inside a company and whether that's congruent with what's being communicated outside, this authenticity that Fernanda mentioned is absolutely critical.

**Fernanda Hoefel:** We even heard consumers say, "Oh, Company X just announced this diversity committee, which is great—but we looked them up, and when we see their top team, there is no diversity there." These are young people analyzing the information that is at their fingertips and having a critical point of view about it. This is what Generation Z does. So authenticity is very important, as is really connecting with consumers.

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—Tracy Francis

Larger brands are used to marketing in a way that is more mass-oriented. That’s what marketing used to be. Now, of course, marketing is changing radically—it’s becoming increasingly personalized. Big brands can have more of a gap to bridge in that regard than smaller brands.

**Tracy Francis:** Monica, to come back to your point about ethics, one of the things that we’ve seen during this pandemic is a dramatic acceleration of consumers’ desire to see companies focus on sustainability and ethics. The jury’s out on how long that will last, but the reality is that this desire has been dramatically augmented in the minds of consumers, and Gen Z was at the forefront of that. Many large businesses—not all, obviously, but many—are trending in that direction. One of the things that’s wonderful about Gen Zers is that they’re not in favor of breaking down the whole world; they’re actually a very patient and a tolerant audience. So, for a company, signaling where you’re going, being congruent about going there, and asking for forgiveness if you get it wrong is an approach that works with this base of consumers.

A local example is Ambev, which is the South American part of the beer company Anheuser-Busch InBev. It launched a campaign that could almost be construed as a type of apology: it had a local artist redesign what beer posters from past decades would look like today. It was very much focused on

women’s empowerment and on recasting the communication styles of old. That’s just one example among a whole host of things the company is doing, but it’s the notion of, “We need to be coherent both inside and outside. If we want to attract women to beer as a category, then we better talk to them about issues that matter, and we better also recognize what we did in the past.”

**Monica Toriello:** Much of what you’ve been talking about resonates with me because it reminds me of my kids, even though your research was done in Brazil. Which attributes do you think are unique to Gen Z in Brazil or Latin America, and which are common to Gen Zers around the world?

**Fernanda Hoefel:** The more deeply we dive into this research—and into other research that is being done around the world—the more we see that Gen Zers are more similar than different. That’s very interesting, because even when we did the survey within Brazil, we were always looking for regional differences. Brazil is a continental country; it’s very big. Usually, when we do consumer surveys in Brazil, we need to do at least three cuts because the country is so big and people across regions are very different from one another. Yet, what we saw in Brazil is that Gen Z was more about things that unite them versus things that set them apart. I’m convinced that this is also the case in other parts of the world.

**Tracy Francis:** We replicated some of the research in Argentina and found huge commonalities. And when we compared it with the research that McKinsey has done in the United States, what we saw is a much more sophisticated consumer market, but with similar underlying mindsets. Fernanda and I were surprised that our article was so widely read around the world, but it's because it was one of the first pieces of research about the mindset of this generation, and this mindset turns out to be very broadly held.

## The Latin American consumer market

**Monica Toriello:** Let's spend the last few minutes of this podcast moving a bit beyond Gen Z and talking more broadly about the Latin American consumer. These past few months you've been working alongside leaders of consumer-goods and retail companies. What would you say are the two to three most top-of-mind issues for them right now?

**Tracy Francis:** Here, as in many other parts of the world, there's a big question about digitalization. There's been a few years of development in just a few months. How do you take what's been achieved and embed it? How do you give it the structural substance required for it to be sustainable? That's one area.

A second area is, will the consumer come back? In what form? The answers will obviously depend on which subsector you're in. How lasting are the changes that we've seen in behavior over the past few months—behaviors like people leaving large centers and moving to interior cities, or demanding sustainability and ethics, or trading down from midtier brands to much cheaper brands? Will those be lasting trends? How can companies organize themselves to be able to monitor what's sustainable and what's not, and then act very quickly to ride some of those trends?

I think the third thing is people. People are exhausted. Everyone's been running a million miles an hour for

nine months [because of the pandemic]. CEOs and top executives are looking at their workforce and seeing this, so they want to look after people's safety and health. At the same time, there's a bit of a bifurcation between companies who are going to try to stay working at home for a long period of time and those who are trying to bring the workforce back. How do you do that when some of the schools aren't open yet? How do you do that without penalizing mothers? All of these thorny HR issues are absolutely top of mind.

**Monica Toriello:** Digitization, speed and agility, people and HR issues—that's certainly a lot to think about. If you could gather the entire population of Latin American consumer-goods and retail CEOs in one room, and you had to give them just one piece of advice, what would it be?

**Tracy Francis:** Authentic leadership of your people and of your company right now is critical to continuing to have engagement from the people who work with you, and to creating a secure and stable environment. That's one answer. A second answer, honestly, is digital, digital, digital. They're obviously answers at totally different registers, and I think that they're both super important.

**Fernanda Hoefel:** Well, before the COVID-19 crisis, people were saying, "The world is changing." The pandemic accelerated or made clear that the world has changed, and companies need to shift very quickly to adapt to this change. It's no longer about, "What's your plan for two years from now, when things will have really changed?" The world has transformed already, so a sense of urgency is important at this time.

**Monica Toriello:** The world is indeed changing, and one of the things that McKinsey has been doing every few weeks is these pulse surveys—the consumer-sentiment surveys where we find out how consumers are feeling. Is there anything in the Latin American surveys that you feel was surprising or counterintuitive or particularly revealing, and that companies should pay attention to?



**Fernanda Hoefel:** We've been doing consumer surveys for a very long time in Brazil, and Brazilians are usually very optimistic. Our optimism is something that almost defines us as a population. One thing that struck us is that, in this crisis, Brazil is one of the most concerned nations among the nations that we surveyed. That was very surprising, and I think that this is deeply related to the nature of this crisis: it is not only an economic crisis but a crisis that touches on who we are, on our safety, on the safety of those we love. That has made Brazilians a lot less optimistic.

We've observed that this lack of optimism has translated into a lot more realism and planning among Brazilian consumers. I expect that going forward, Brazilians will analyze their consumption much more; they will question or analyze their spending levels a lot more.

**Tracy Francis:** I definitely agree. The other thing that I found interesting is that when the COVID-19 crisis started, there were countries that were already highly digital—China, for example—and there were other countries, like Brazil, where penetration of online shopping or online use of services was really low. What's happened within each country has very much depended on the consumer experience. In Brazil, we believed that there were several factors that prevented people from buying online, related to lack of trust in the retailer, or to the incredibly complicated logistics in Brazil, or to online payments, et cetera. But what we've seen during this crisis is that people are up for it; consumer

experience has been extremely positive in our surveys. People are just loving online shopping. That creates a host of opportunities for companies and lot of competitive activity across sectors that we previously didn't see so much in Brazil.

**Monica Toriello:** Fernanda, your comment about optimism struck me. What have you seen recently in the business world in Latin America that gives you optimism, that makes you feel like things will be fine, companies will innovate, and businesses will roar back?

**Fernanda Hoefel:** Many things give me optimism. This was a period in which we all had to step up individually and collectively. I can think of many companies doing amazing things for society and taking on a bigger role. A good example is Alpargatas, a Brazilian company that is more than 100 years old. It has iconic brands such as Havaianas, the flip-flop brand. At the onset of the crisis, of course the first thing that the company thought about was the safety of employees and consumers. Soon after the outbreak, Alpargatas started producing masks and gearing a substantial part of its production capacity to helping society at large. The company is also very connected to sustainability initiatives. That's just one of many examples.

**Monica Toriello:** Let's end on that optimistic note. Thank you, Fernanda and Tracy, for joining us today. And to our listeners, thanks for sticking around. I hope everyone stays healthy and safe. Until next time, this is Monica Toriello.

**Tracy Francis** is a senior partner in McKinsey's São Paulo office, where **Fernanda Hoefel** is a partner. **Monica Toriello** is an executive editor in the New York office.

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