Consumer Packaged Goods Practice

Meet Generation Z: Shaping the future of shopping

The newest consumer generations—Gen Z and millennials—are upturning retailers' expectations. Here's how—and what to do about it.

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In this episode of the *McKinsey Podcast*, Lucia Rahilly speaks with McKinsey partner Bo Finneman and associate partner Emma Spagnuolo about how Gen Z and millennials are influencing the future of shopping. An edited transcript of their conversation follows.

Lucia Rahilly: Hello, and welcome to the *McKinsey Podcast*. I'm Lucia Rahilly, and I sat in to host today's episode on the new age of the consumer: Generation Z and millennials. We recorded this podcast just before the outbreak of COVID-19 that has unexpectedly shuttered stores across the globe. But as retailers begin cautiously to reopen, the questions we discussed return to the fore: How does Generation Z differ from the millennial generation? And how are they reshaping the way that we shop, buy food, and do business? We'll find out more with Bo Finneman, a partner in our Miami office, and Emma Spagnuolo, an associate partner in our New Jersey office.

Bo, Emma, welcome to the podcast. Thanks for taking the time today.

Emma Spagnuolo: Thank you so much for having me.

Bo Finneman: It's great to be here.

Meet Gen Z

Lucia Rahilly: Great to have you. Before we get started, let's define terms. Emma, who are Generation Z? When were they born? How old are they?

Emma Spagnuolo: Gen Z is our latest generation. It's not super clear today where they end; it hasn't been defined. But they started out in 1996, and they're up to 24 years old. When you think about millennials, you're looking more at a 20- to a 40-year-old, so roughly 1980 to 2000.

Lucia Rahilly: And what's the importance of Gen Z as a demographic? How big a cohort do they represent, and what's at stake for the brands which are looking at them as they emerge over the coming years as consumers?

Bo Finneman: Great question. I think from a Generation Z point of view—although as a population, they won't peak for another ten years—we're really looking at them as the core influencers today that have a really big impact on both millennials and Gen Xers in terms of what they buy. In size, they will definitely reach scale in the next ten to 15 years, but it's about their influence today—that's what's so important.

Lucia Rahilly: And how do they have influence on Gen Xers?

Emma Spagnuolo: So I think it goes both ways, actually. On the one hand, you have Gen Z needing to influence their parents in order to get what they want. But on the other hand, if you look at the influence behaviors of Gen X, they're much more likely to be influenced by the people sitting at the dinner table. So as they listen to their kids talk to them, they're being influenced about what they want to buy for themselves.

Lucia Rahilly: It's so interesting, because I was visiting my in-laws over Thanksgiving, and there were multiple generations at the table. And I have to say, the teens, the moms, and the grandparents were all sort of dressed alike. It seems that there's no longer that division in generational approach to clothing that there used to be 25 years ago or whatnot.

So in order for brands to understand whether they're tapping into Gen Z's wants and values, we need to understand a little more about what those needs and wants and values are. When we think about Gen Z, what are some of the characteristics that come up? How is this younger generation typically described?

> **"They're looking beyond tangible products and actually trying to understand what is it that makes the company tick. What's its mission? What's its purpose? And what is it actually trying to build for us as a society?"**

–Bo Finneman

A shift in values

Bo Finneman: I think the way in which it's described is not always in the most positive of terms. So you may actually have some things come out from executives saying, "Are they entitled? Or are they a bit elitist in terms of their beliefs and their perspectives or their demands on brands?"

But I think there's a real authenticity to the Gen Z generation in saying they want to breathe new life into what corporate responsibility looks like. And one of the biggest elements that's come out of the research in the last few years has been the focus on values. They're looking beyond tangible products and actually trying to understand what is it that makes the company tick. What's its mission? What's its purpose? And what is it actually trying to build for us as a society? And to me, it's that lifeblood of thought that's been quite compelling for them.

Lucia Rahilly: Do you see that same shift happening with millennials? Is that common across both cohorts?

Emma Spagnuolo: Yes. What we see is an acceleration. These are trends that started for sure with millennials over the last couple of years. And now what we see is, as Gen Zs are coming up, they're pushing it even further and accelerating a lot of these trends.

Lucia Rahilly: And so how is that emphasis on values and sustainability—how does that relate to value as a priority? Are Gen Zs, in other words, willing to pay a premium for sustainable goods with a story that makes them feel guiltless about consumption and so forth?

Bo Finneman: There's a real shift in the generations in terms of how you even think about value delivery to a customer. Before, it was pretty easy. You could almost think about it as what does the overall price look like and the quality of the item and what's the trade-off I'm making?

And now that simplistic lens—we've actually seen it really diminish. And when you look across generations, it's very significant in terms of the folks that say, "I make a decision based on pure value or lower cost." And now that equation of how we even evaluate what something is worth is so much more multidimensional. To your point, it goes to societal values, it goes to status, it goes to social influence, et cetera. That dimension has become far more important than what it was before.

Lucia Rahilly: How does Gen Z feel about luxury?

Emma Spagnuolo: So it's interesting, Gen Z is definitely willing to spend on luxury, which is different than what you hear a lot of times out in the press. The difference is that Gen Z doesn't think of luxury as a name brand that they want to slap onto their bag or their shirt and wear as a badge. They're really looking for unique items that set them apart.

And this is a place where millennials and Gen Z diverge. Whereas a millennial is looking more for that kind of showcaser status—"Look at me wearing this brand item"—a Gen Z is looking more for this item that shows that they're different, they're unique. And if they find it from a luxury brand, then they're absolutely willing to pay for it.

Lucia Rahilly: To what do you attribute that shift in mindset from exclusivity to uniqueness?

Emma Spagnuolo: I think part of it is just the world that we're living in today. They're growing up in times where things can be difficult, both from a geopolitical and a climate perspective.

There's a lot of contradictory things they're hearing out there, and so trust is kind of difficult for them. They don't want to fit in with a certain crowd or be labeled a certain way. They want to be themselves, and that's where they find their security.

Bo Finneman: The piece I would add, too, is it feels to me like the convergence of generational mindsets, where you have Gen Z saying, "I like the aspect of being an individual. I like the aspect of having true thoughts of my own." And we see in the marketing where Gen Zs will say, "I'm not interested in what the brand is saying about itself. I'm interested in coming up with my own perceptions based on all these sorts of sources."

And the other thing that ties in is that the overall ecosystem in which Gen Zs are buying is fundamentally different. And maybe three quick sources. One is that niche brands are popping up more than ever. Second is the way in which you can buy them is becoming more and more available and distributed. And the third is the overall importance and scale of social media as a platform to showcase yourself has grown. And it's been really fascinating to see the convergence of those creating a bit of a perfect storm for these types of situations to come to life.

Lucia Rahilly: How do Gen Zs look at the phone? How much are they using their phones? Are they using their phones to shop more than previous generations?

Emma Spagnuolo: So there are two points to this answer. First of all, yes, they're absolutely using their phones to shop more than prior generations. However, they don't think of it as this external, new, exciting thing that they can use, the way that a lot of millennials and some Gen X may think about it. Instead, it's a tool they've always had.

So they don't think about shopping in this binary way: if I want to buy item X, I must go to the department store, and if I want to buy item Y, I must go to the grocery store. They shop across all types of formats. So they're looking at pop-up boutiques, they're shopping on Instagram. Then they're going into the department store. Then they're going into the specialty store. Then they're going online on their laptop. They're not thinking, "This is the place I need to go." They're experiencing these brands every step of the way, at every moment, and their phone is just one super important tool for them to do that.

Bo Finneman: I remember even five years ago, when we would work with chief marketing officers, the concept was your overall annual plan and your major campaigns and what you were going to release across a multitude of media channels. And now it's such a more complicated, dynamic world. I think to be a chief marketing officer, you suddenly wake up and have the realization that you need to be a part of a conversation and that you're part of the social fabric. You're no longer the core orchestrator of the dialogue. You're purely one other voice in it.

That's a more complicated world to be in. It certainly is a massive amount of change in terms of both how you approach it day to day and the capabilities you need to have. But the most successful brands we see today have used that to their advantage, versus feeling as though it's a risk or something they have to try to minimize.

Emma Spagnuolo: It's like building a community. I think you can see it even in the rapid way influencer marketing has shifted over the last few years. So even two, three years ago, brands were talking about how they need to now have their Instagram and their YouTube influencers: "This is where my customer is, and this is how I need to reach them."

It has now taken on the life of the celebrity, where these are players who are less trusted by the Gen Z population. So now, instead of needing to have one major influencer—where you could shift your marketing money from a magazine to this influencer—now you have to cultivate this community of micro-influencers who each talk to 30,000 people, no more, and are creating a collaborative discussion or dialogue, to Bo's point, around your brand and what it stands for. And you need to guide that.

Lucia Rahilly: And are those formal brand influencers, or are those informal evangelists, fans, and so forth? Brand loyalists?

Emma Spagnuolo: It can go both ways. It often starts as the latter, and then you end up striking up a relationship with that person. The brand often reaches out to that person and says, "Hey, it looks like you love my brand." They go from there.

Bo Finneman: I think this is an interesting shift when you think about it in terms of pictures in your mind. For a boomer, the concept was television as a family and seeing what advertisements would come out. And there was a degree of excitement around that. And you really felt as though you were learning something about innovation and what was being offered.

You go then to Gen Xers, who suddenly start to realize word of mouth. And there's a combination of what I hear on television but also what my friends and family tell me at the dinner table. Then you go to millennials, who for the first time have social-media platforms where you now have access to what your friends and family are saying, even if they're not at the dining table every night.

And now you have Gen Zs, who are saying, "I can take the concept of social media, but I can now filter. So I can listen to my friends and family when I feel like they're credible on the topic, but I also have means by which I can access influencers and experts that have points of view in this space that might align with mine."

"You have to get away from all of the noise and conflicting messages you hear and really start to dig down into who your true consumer is and not just how am I going to blanket-target the Gen Z consumer."

–Emma Spagnuolo

And it's been that snapshot over time that's created such a different change in how you, as a brand, need to think about communicating and actually working with customers so that they understand who and what you are.

Adapting the narrative

Lucia Rahilly: So it sounds like brands' access to consumers gets refracted through a kind of prism. And does that shift emphasis to brand story, for example, and the way that brands can create a coherent narrative about themselves, versus specific advertising campaigns, et cetera?

Bo Finneman: I think that's absolutely right. And in the context of today's marketing world, where it's easy to get lost in data and analytics at your fingertips, I don't think we can forget the core essence of how marketing was initially built up.

It's the concept of emotional connection, which we know is differentiating and sustainable over time, along with the ability to communicate that in a manner that resonates with customers, that feels authentic. And the need for that in our world today—when you look at some of the facts in terms of the amount of media at our fingertips and in front of our eyes, whether it's the number of emails, the number of social-media stories that you see, to break through the clutter requires emotional connection and quality storytelling, for sure.

Emma Spagnuolo: It's really the only way that you can maintain your brand's positioning and your brand's perspective, because if you have anything that's not authentic within your brand story, it's going to be exposed immediately. Just the way that people are rapidly consuming this information, they're finding things. And we talk about "cancel culture": the second something doesn't match with what you're saying, you're going to be skewered for it.

So it's really important, as we move beyond being omnichannel and more to this concept of being omnipresent, that brands are really keeping within their story and making sure that they are true to it and authentic. You can't talk about sustainability if you're not doing sustainable practices. Things that in the past you could hide by selecting and choosing what you wanted to show to the public—today everything is fair game.

Bo Finneman: To build on the point, there is an authentic spirit to Gen Z individuals where I think they just really want to know and understand who they're buying from. I would describe them as tremendously discerning and disciplined.

Some of us in other generations would spend money and not necessarily ask ourselves the question "Do I want my $20 purchase to go toward this company?" I'm not a Gen Z, but I could learn from that degree of value to say, "If I'm going to spend money, big or small, I want to make sure it's going toward something I believe in. And in addition, if I'm going to be presenting it as attached to myself, I want to feel even more pride that it's something that I am connected to."

Lucia Rahilly: Yes, there's that concept of eco-indulgence, too. When I think of my own kids, if they came to me and told me that they wanted to buy from a brand that engages in sustainable and local practices and so forth, I would probably be likelier to support that and give them the dough for it.

Bo Finneman: I do think that's why we see the degree of willingness to pay that we see among these individuals. When there's a greater degree of thinking and discipline behind purchases, it seems to also open the aperture to say, "I'll pick up my wallet and spend it because I'm spending it on something I believe in."

I don't want to make light of prior generations, but with millennials, boomers, or Gen Xers, I think there was a degree of "I make purchases that are more routine and habitual, and I'm not necessarily analyzing them deeply," versus Gen Z having a unique twist and really thinking about what they spend on.

If you're an established luxury brand, what does this mean for you? I think we have consistently seen across this research and our consumer-decision-journey research that loyalty is elusive; it's almost by the wayside. We see it in our segmentation. The concept of "I buy the same brand because I bought it last time and I'm sort of happy"—that just doesn't work. The inertia is not as strong.

And there's something about winning every purchase. There are different reasons you're going to win it, but I think there's a need to get under the concept of winning every purchase and finding a degree of innovation or newness—or something by which you can compel someone to buy you again—that every brand is facing, almost regardless of how strong you've been in the past. Resting on your laurels is certainly not an option in today's world.

Lucia Rahilly: So that emphasis on variety—I think in part what you're saying is it creates an opportunity for new brands as well. We see these new and smaller brands cropping up. Obviously, new brands can crop up in part because it's not as capital intensive to start a clothing company as it was when we were purely brick and mortar. But does that also create an opportunity for these smaller brands to enter the market and broaden the brand variety that consumers are looking for, if they're looking to stand out?

Emma Spagnuolo: Absolutely. If you look at the cosmetics market today, that's where we're seeing all the growth. It's in these smaller brands that—whether or not they're backed by an influencer or an incubator or a celebrity—are finding a way to get online, because it's not capital intensive. They don't need to find a way into a large distribution network. And now they offer something new just by being a new brand. So a consumer is going to continue to buy all these different items simply because they want to try and test and see and feel, and it's exciting and innovative to them.

Lucia Rahilly: Is Gen Z expressing a preference, then, for smaller versus larger brands? Are you seeing growth in that space?

Bo Finneman: Yes. One of the elements we considered was is it just the degree of newness or excitement around new? We looked at the data, and what we found is that small brands are by far outpacing in terms of their share of growth across consumer categories. When we compare small versus large, it's a substantial differential in terms of small brands really being able to grow way above their share.

Lucia Rahilly: We've talked a lot about sustainability and the value that Gen Z places on sustainability. How are you seeing that reflected in the research?

Emma Spagnuolo: It's super interesting. Actually, I think we need to take a step back first and think a little bit about millennials. When we look at millennials over time—so when we started this effort in 2016, versus today, in 2019—a large majority of their attitudes started to temper as they got older and achieved new milestones in life.

The one that did not—that got significantly stronger—was sustainability. This is the one area millennials are even more convinced that they care about than they were in 2016. So this is not going to be a fleeting flavor-of-the-year kind of trend. This is something that is simmering and growing and is going to continue to go on as one of the only values they care even more about since 2016.

Of course, when you look at Gen Z, they care about sustainability even more than millennials. But it's very interesting to see that millennials care even more so than they did in 2016, so that when you compare them to Gen Z, this is a trend that will continue to move forward.

Lucia Rahilly: I'm wondering if Gen Z is focused on wellness and how that might affect products like food and grocery. How is food shopping changing, and how does wellness affect that?

Bo Finneman: I think there are two parts to it: there's both what are they buying and then where are they buying. In terms of what they're buying, a lot of what we test for is, is this a buzz term, an excitement trend? Or are there real dollars being put behind it by consumers in terms of demand?

And I do think that the explosion of niche diets and the aspiration to have real understanding of the supply chain of your food is continuing to grow. You see that in niche diets, whether it's vegetarianism, veganism, keto, paleo, you name it. Those are becoming sizable enough that folks are having to actually build offerings around them. That, I think, will continue.

The other shift that's potentially even stronger is where younger generations are willing to buy their food. And this is where we're seeing a real shift out of traditional channels and a real explosion into some of the other areas—online-only grocery as an example, taking real share from traditional grocery, going into some of the specialty suppliers as well.

Emma Spagnuolo: It's actually so significant that today roughly 35 percent of Gen Zs say that they're shopping somewhere that's not either a traditional grocery store, a mass store, a club store, or a grocery store, compared with other generations.

Digital versus in-store

Lucia Rahilly: Emma, you referred to Gen Z shifting toward brick and mortar on clothes shopping, whereas millennials have moved much more toward online only. Say more.

Emma Spagnuolo: It's very true, actually. You see Gen Z shopping across all formats. I think what it really gets back to is that millennials were given online shopping as this new, fun, exciting, convenient tool. During the course of their lifetime, they went to the department store with their parents, and now they're able to go online and shop.

And for them, that's not only fun but also convenient. And when you think about the life stage that they're in right now—buying homes, moving to the suburbs, having kids—this need for convenience matched with this excitement around this being a new tool for them has really made online shopping exclusively a big thing for them.

Gen Zs, on the other hand—they want to shop across both types of channels all the time. So they might go online while they're at school, look at something there, then decide they want to go to the store for fun, enjoy the experience. They see something; they haven't made a purchase yet. They get home; suddenly they see an Instagram ad for their new favorite beauty brand, and they hit "shop now," and they purchase through Instagram. But that shopping journey touched on brick and mortar, it touched on e-commerce online on their laptop, and it touched on mobile. It's a holistic experience.

Lucia Rahilly: Do you think that's more about the seamless integration of mobile into their lives, or do you think it's traditional retail therapy? Is it addressing their need for social interaction? What forces do you attribute the shift to brick and mortar to?

Bo Finneman: One is that there's a new and more profound resurgence of the experience of retail and in-store. The number of clients we talk with and the number of tactics they're deploying to make brick-and-mortar experiences better have definitely gone up.

There's a second piece, too, which is just the overall frequency of shopping we're seeing among younger generations. The concept is no longer once a week or once a month or once a quarter I'm going think about this purchase. They're almost always-on purchasers. And you can imagine it, that when they get triggered—whether it's through social media or something else—they've also been primed to know that they can go make very small-ticket purchases at any point in time, and that's become OK. So I think there's a frequency aspect to it that has opened the aperture for online and brick and mortar.

And then maybe the last one is the degree of community and social nature that can happen in meeting spots. We're starting to see this in communities.

Lucia Rahilly: Are you finding that they prefer curated, multibrand outlets? Or are they looking at small, single-brand shops more?

Emma Spagnuolo: What we see in the data is that they're pretty agnostic toward that. They're shopping each of those as frequently as the other, and they're shopping all of them more frequently than other generations. So it's really about "If I see something I like from this brand and I go into this store, I'm interested in their curated assortment, and I'm also really interested in the experience that that brand is going to give me."

But you can have a brand that's a company creating product and selling under its brand name, and you can also have a brand that's a retailer that has created this curated experience. And so that brand is more of the experience and the types of products I see, versus the name that's on the tag. You can have experience and brand in both formats.

Bo Finneman: The other piece to add on from a business standpoint, when you think about this dynamic, is that both lenses bring new challenges and difficulties. So if you are a multibrand retailer, it's all about making sure you're actually on trend with the assortment and that you're willing to switch it up enough to keep it new, and that you're always going to be on the forefront.

And there's an aspect of "What are you adding to my shopping experience? Why should I buy from you? Is it expertise? Is there something unique in-store? How are you using technology?" On the other end of the spectrum, you see more specialty plays where they're only displaying their own brand in-store, at which point you have to say, "I really need to stay on top from a product-innovation standpoint in what I'm building to keep reasons for people to come in."

And interestingly, part of what we've also seen is the blurring of the lines between the two and really having to think "If someone has an opportunity—30 minutes or an hour of free time—how do we ensure we're top of mind in terms of being the place they want to come for both browsing and, ideally, purchasing?"

Lucia Rahilly: We know that Gen Z is a diverse cohort. How do they break down in terms of archetypes? There must be some categories of consumer that we use to look at them.

Emma Spagnuolo: We've run a segmentation on Gen Z in isolation from the rest of the population. And when you do that, they actually break down into the same seven segments that we see in the total population as well. We like to think of these segments within three clusters that are all driven by a single value.

"We've run a segmentation on Gen Z in isolation from the rest of the population. And when you do that, they actually break down into the same seven segments that we see in the total population as well."

–Emma Spagnuolo

First, we have our value customers, who are really thinking about what they're getting for their money and are much more price sensitive.

Second, we have our quality customers. They're really looking for the top-quality item they can get and making sure their purchases will fit exactly what they need and are willing to spend.

And then, finally, one of the more interesting groups we have is the image cluster. And in these three segments, it's very important to them how they're expressing themselves with their purchases. It doesn't mean that they need to fit in. Some of them want to fit in and look like they're showcasing their life to the world. But some of them are looking to be unique. It's all about self-expression and the image they're putting forward when they make purchases.

Bo Finneman: Just to add on that, I think this shift—if you just look at generations across a map and boomers and Gen X, we would have said this is the bank of the economy. These are the people that are spending day in and day out. Those individuals—a significant portion of them are price shoppers. And we've seen this for a decade in research—the folks that are saying, "What's the value you deliver? I'm price sensitive. Let's go for it."

In millennials and in Gen Zs, we're seeing that cohort shrink. It's becoming a more multidimensional decision-making process. It's no longer as simplistic as "That's $2.99, and this is $3.25, hence I will buy that." There's an aspect of the simplistic lens of pure price and value that seems to be diminishing.

And the group that's growing is more image focused. They have different desires: some want to be more on the forefront of trends, and some want to be trend followers. But there's an aspect of that showcasing and ability to demonstrate who you are that's becoming a much bigger portion of how people make decisions.

Lucia Rahilly: And how much is this about life stage, and how much do you think these trends will have durability ten years out, for example?

Emma Spagnuolo: When we look at the segmentation, this is not necessarily about life stage. What we see is that even some boomers have shifted into the image category. While it's definitely true that the majority still remain in the other categories, the movement is into the image cluster. And the other thing we saw is the shift of millennials.

When you look at it, roughly 13 percent of people have shifted from being in the value cluster to being in the image cluster. This is not the newest generation making this most significant jump. So I think it's definitely something that's here to stay.

Bo Finneman: Just to emphasize that, part of why we're so focused on longitudinal research is to try to uncover this. And when we look over three years, we don't see that the trend is receding; we see that it's accelerating. The shift out of what we call economizers or risk avoiders and into image—now millennials are looking more like Gen Zs. As we've started to discuss this even among our own groups, it's hard to imagine this change isn't here to stay.

The concepts of what is the value of the company, how do you contribute to the social fabric, how do you think about sustainability, how are you omnipresent, how are you bringing something new for me every time?—it's almost hard to imagine that those are fleeting concepts that a couple of years from now will be completely new.

Lucia Rahilly: If there are a few things you'd like us to walk away with, what would they be?

Bo Finneman: To me, there's one point, which is that we need to deeply understand the seismic shifts happening in the consumer base and what's driving decision making, because it's not marginal.

Second is really having the sobering moment to tell yourself, “I have to win the purchase every time.” The loyalist, the price plays—those are becoming less and less successful. And we have to really focus on how we engage consumers who have a new degree of demands—really be honest and hold the mirror up and say, “Am I delivering, or am I not?”

And third is then to say, tactically, “What am I willing to do differently?” And we see it from marketing—to say, “I have to figure out how to engage in a dialogue with consumers, all the way through purchasing,” when you say, “I’ve got to figure out how to make my store more exciting or how to compete in a marketplace that’s ever changing.”

Emma Spagnuolo: The only thing I would add is that you really can’t, as a brand, think about how I’m going to capture Gen Z or how I’m going to capture millennials. There’s a very diverse group of people within that. And there’s actually a way to target Gen Z through boomers, if that’s what you want to do, by looking at their needs and what they want out of their shopping experience.

You have to get away from all of the noise and conflicting messages you hear and really start to dig down into who your true consumer is and not just how am I going to blanket-target the Gen Z consumer.

Lucia Rahilly: Fantastic. Bo, Emma, what a great discussion. Thanks so much for being with us here today.

Bo Finneman: Thanks for having us.

Emma Spagnuolo: Thank you.

Lucia Rahilly: Thanks for tuning in to this episode of the McKinsey Podcast. To learn more about the shopping habits of Gen Zs, millennials, and the rest of us, visit us at McKinsey.com or download the McKinsey Insights app.

Bo Finneman is a partner in McKinsey’s Miami office, and **Emma Spagnuolo** is an associate partner in the New Jersey office. **Lucia Rahilly**, a member of McKinsey Publishing, is based in the New York office.

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