Retailers Play the Generation Game: Lessons From Adapting to Millennials

Consumers are a moving target, powered by major generational shifts. How does the do-it-yourself supercenter adapt to the way Millennials shop for their homes? As Generation Xers enter their 50s, how might an older women's apparel retailer respond? And then there's Generation Z. Where to begin with a group of consumers that's largely unknown, digitally native and now at the cusp of maturity?

Retailers that ignore generational change risk obsolescence. Paint each generation with the same brush, and the consequence could be obliteration of the nuanced customer targeting that led to success in the first place. Recently, L.E.K. Consulting surveyed more than 3,800 Americans, including roughly 2,200 Millennials aged 18 to 34, about their shopping preferences. The results reveal important insights into how to win the generation game.

First, let's review what a turnover in peer groups means for retailers, and who the Millennials really are.

Generational change: A significant transition of purchasing power

These shifts don't happen immediately, of course. But change has a habit of sneaking up on us all. Already, about 30% of U.S. adults — some 75 million people — are Millennials.[1] Millennials account for approximately 90% of all first-time mothers today.[2] They spend about $1.2 trillion a year, or one-fifth of the nation's total consumer expenditure, and the eldest of them are only now entering their peak spending years. As more Millennials crowd into the post-35 age group, expect their aggregate spend to increase as their share of earnings grows.

Millennials: a diverse group of people

The Millennial cohort is big, but it's not a monolith. As consumers, Millennials are actually a collection of subgroups with significant differences in behavior.

To understand this better, let's look at our recent survey. In it, we identify five segments of Millennial consumers, each of which shops differently (Figure 1). The key delineators appear to be parenthood and a college education.

Retailers Play the Generation Game: Lessons From Adapting to Millennials was written by **Robert Haslehurst**, Managing Director, and **Shang Saavedra**, Consultant, in L.E.K. Consulting's Retail practice. Rob is based in Boston and Shang in based in New York.

For more information, please contact retail@lek.com

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Figure 1
Millennial consumer segments

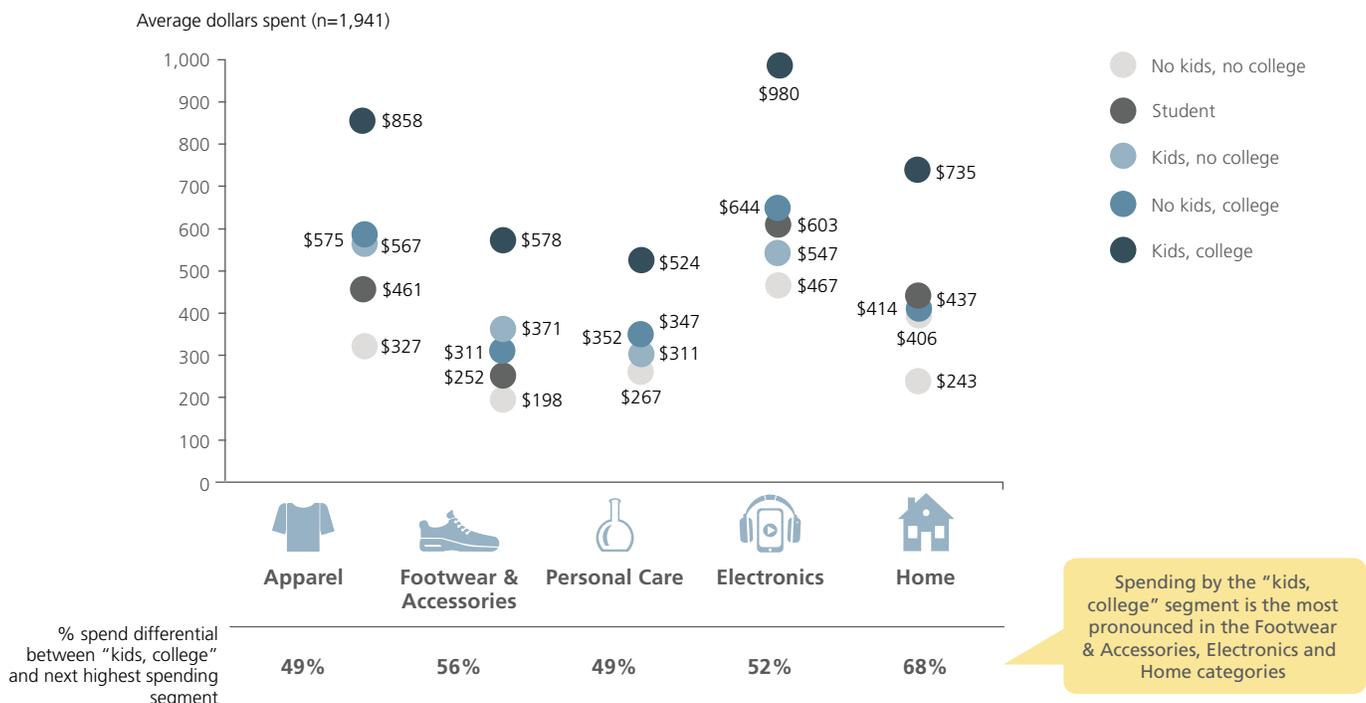| Segment	Average age	% HHI > $50K
No kids, no college	24.2	51%
Student	21.9	N/A
Kids, no college	27.3	68%
No kids, college	26.3	82%
Kids, college	29.3	91%

Source: L.E.K. 2016 Millennial Retail and Travel Survey

Parenthood. Children (of any age) in the household appear to have the greatest effect on Millennial spending habits. The presence of children influences purchasing frequency and category, as well as the number and kind of trips Millennials take.

Education. After children, higher education has the next-largest effect. Millennials with at least some college or technical training tend to have different income potential, use different sources of information and live in different types of places. Household income and location of residence have some influence too, but not as much as education.

What about Millennials with kids *and* college? They have the highest income and expenditures of all. These consumers are approaching their peak earning years and are putting much of those earnings toward their children, making those in this segment some of the highest-value consumers in the market. Compared with other Millennial segments, parents who have higher education spend up to 68% more on retail goods (Figure 2).

Figure 2
Average annual dollar spend by retail product category and millennial segment

Average dollars spent (n=1,941)

Legend:
- No kids, no college
- Student
- Kids, no college
- No kids, college
- Kids, college

Apparel: $858, $575, $567, $461, $327
Footwear & Accessories: $578, $371, $311, $252, $198
Personal Care: $524, $352, $347, $311, $267
Electronics: $980, $644, $603, $547, $467
Home: $735, $437, $414, $406, $243

	Apparel	Footwear & Accessories	Personal Care	Electronics	Home
% spend differential between "kids, college" and next highest spending segment	49%	56%	49%	52%	68%

Spending by the "kids, college" segment is the most pronounced in the Footwear & Accessories, Electronics and Home categories

Source: L.E.K. 2016 Millennial Retail and Travel Survey

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More than an age group

The reasonable reader might ask: Aren't these observations typical of 20-somethings, period? Technology may bring new options — but haven't consumption habits always varied by life stage?

The answer is yes, but that's not the whole story. When we asked older consumers to "look back" to their purchasing frequency in their 20s, we discovered a genuine shift in shopping habits that neither age nor technology can explain. Compared with prior generations, for example, home and personal care are up, and apparel and footwear are down (Figure 3).

It's one thing to know about these behaviors, and entirely another to understand what's driving them. Our survey uncovers fundamental disparities in how each generation sees the world. Consider "authenticity," a term we hear a lot relative to brands. It turns out that Millennials view authenticity quite differently from older generations (see Figure 4).

Millennials differ in a number of ways

Time and resources are precious to them. Millennials grew up under the twin pressures of instant information and rapidly evolving digital technology. With their work and lives in high gear, they'll aim for the most convenient solution, even if it costs a bit more.

This in turn influences the way they shop for goods and services. Millennials prize fast, free shipping. They're quick to embrace
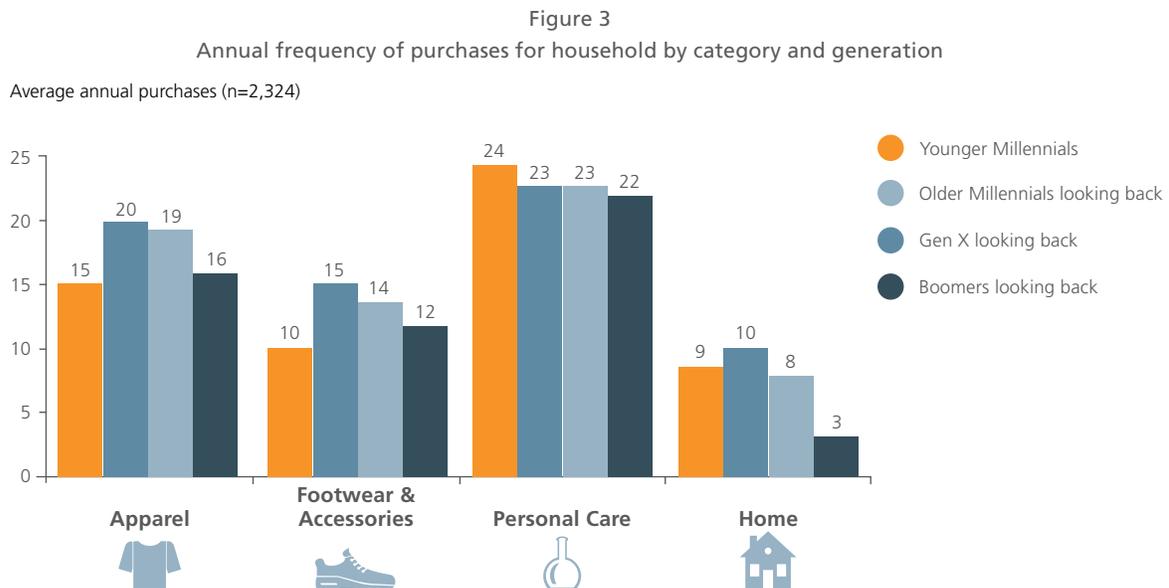
new, more convenient payment options. They're much more likely to opt for prepared meals, takeout food or meal subscription services. And if new technology makes life easier (as with ride-sharing), they'll take it.

They research their purchases. Millennials might pay for convenience, but they're careful spenders in other ways. They turn to online resources to help them choose their purchases wisely, and they value instant feedback where they can get it. Even with these digital efficiencies, Millennials invest considerably more time researching apparel, footwear and personal care — often 30 minutes or more per purchase than Generation X, and nearly an hour more per purchase than Baby Boomers.

They sidestep traditional retail formats. Traditional department stores and mass retailers aren't as popular among Millennials as they have been with previous generations. Instead, today's young adults lean toward small-format specialty, off-price and convenience stores. E-commerce continues to make gains among Millennials as well, particularly for beauty products and electronics.

Next generation, new spending and purchasing habits

Just as retailers come to grips with Millennials, another generation is poised to shake up the industry. But some things about Generation Z have already become clear. First, they're very comfortable with technology. They grew up with (and are highly accustomed to) rapidly changing technology, making the term "digital native" especially apt for this group.

Figure 3
Annual frequency of purchases for household by category and generation

Average annual purchases (n=2,324)

Source: L.E.K. 2016 Millennial Retail and Travel Survey

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Millennials value authenticity. That much is well-documented, but retailers shouldn't assume they know what that means.

Each generation has a subtly different take on authenticity. Among older generations, an authentic consumer brand translates to "genuine, timeless products." To Millennials, however, it means "honest values" (Figure 4). Theirs is the first generation to demand products and brands that are associated with social good.[3]

To address this expectation, consider explaining the mission and purpose of your brand. Also consider telling Millennial consumers about where you source your materials, how your products are made and ways that your products can make a difference.

Figure 4
Top words respondents use to describe brand authenticity
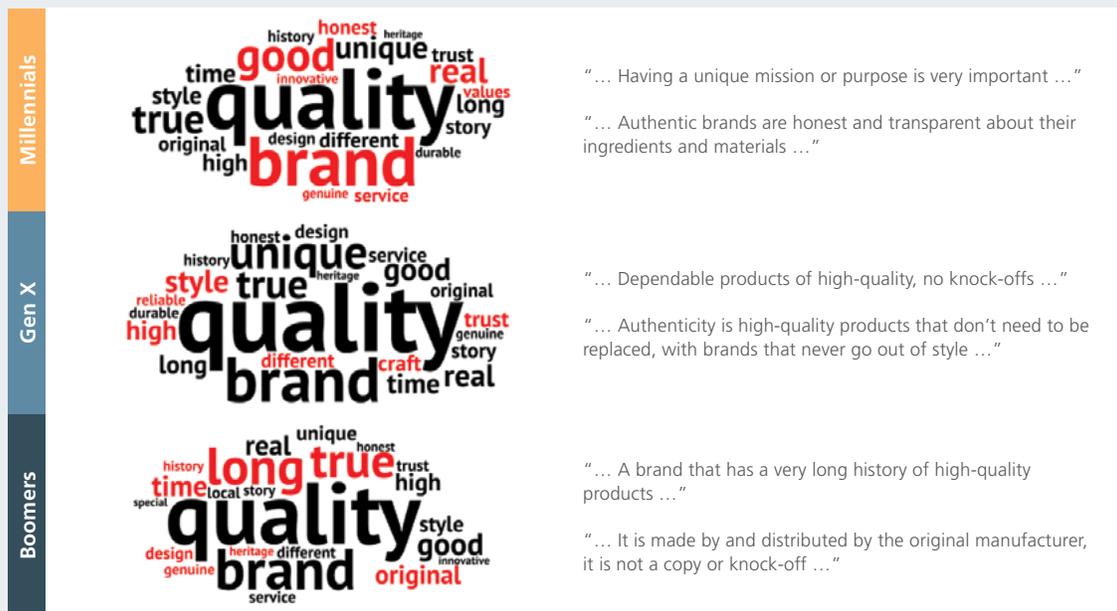
"… Having a unique mission or purpose is very important …"

"… Authentic brands are honest and transparent about their ingredients and materials …"

"… Dependable products of high-quality, no knock-offs …"

"… Authenticity is high-quality products that don't need to be replaced, with brands that never go out of style …"

"… A brand that has a very long history of high-quality products …"

"… It is made by and distributed by the original manufacturer, it is not a copy or knock-off …"

Source: L.E.K. 2016 Millennial Retail and Travel Survey

As a result, to Generation Z, physical and digital occupy the same realm. They're so comfortable with online shopping that digital ads now double as storefronts for them — they enter shops via the content they see on social media and email.[4] They still like to visit brick-and-mortar stores, however. In store or online, it's all part of an integrated experience.

More so than Millennials, the members of Generation Z are engaged with video-based platforms such as YouTube, Instagram and Snapchat (Figure 5).

Even on Facebook, video ads are what resonate with this group. Facebook video drives six times the engagement of other ad formats such as status, link or photo.[5] Small wonder that today, on average, advertisers spend more than $9 million a year for digital video advertising — a 67% increase over two years ago.[6]

Likewise, compared with Millennials, instant feedback from peers and social media is even more important to Generation Z. That's especially so for retail purchases within apparel, footwear and accessories. But other Generation Z purchasing behavior is not as well-known. Our survey suggests, for example, that they still use the same purchasing channels as their parents. Expect this generation to set their own path once the vanguard enters the workforce in a few short years.

Smart retailers: positioning themselves for generational change

As we see, up-and-coming consumers can bring a lot of disruption. Fortunately, store operators have strategies to deal with it. For instance:

Figure 5
Social media usage by generation

Number of accounts and percentage of generation who opened an account with one of the top seven companies

Average number of social media accounts	Gen Z	Younger Millennials	Older Millennials
	n=201	n=817	n=1,402
	6.2	7.1	6.5
Facebook	69%	88%	92%
YouTube	86%	82%	75%
Instagram	63%	66%	56%
Snapchat	58%	63%	42%
Twitter	55%	60%	57%
Skype	48%	58%	50%
Pinterest	40%	49%	50%

Shading indicates percent of respondents:	30% or less	30% to 40%	40% to 50%	50% to 60%	60% to 70%	70%+

Source: L.E.K. 2016 Millennial Retail and Travel Survey

Learn from the winners. They may not be competitors, but other retailers' successes can still work for you. Consider Best Buy's Renew Blue turnaround, which re-engineered the shopping experience in every channel and transformed Best Buy into a truly omnichannel retailer. In doing so, Best Buy built differentiation with new generations while keeping current customers happy. Or take a page from recent deals — such as Walmart's acquisition of Jet.com or PetSmart's acquisition of Chewy.com — and buy your way to relevance.

Court the most relevant consumers. Each generation has segments that often behave differently. Find the ones most suited to your brand, and figure out ways to meet their specific needs. Online-only retailers and subscription services, for example, are beating grocery and pharmacy stores at attracting Millennials for beauty and personal care.

Target the behavior, not the age. In some categories, preferences are not so much tied to generation. Look at how consumers shop for electronics, for instance. Technological savvy is the predominant influence: Within this sector, a Gen Xer is as likely as a Millennial to shop in similar channels.

Make it personal. Among these strategies, the common thread is personalization. It's the heart of consumer communication for retail and brands. It also pairs well with technology. As artificial intelligence becomes more accurate and agile, retailers can use it to quickly bring forth products and offers that consumers want.

In retail, generational turnover is a fact of life. It's tempting to respond with a "peanut butter" approach to cross-generational appeal. Nevertheless, it's worth taking a more strategic tack instead — with clear targets, the right voice and an ability to adapt. In this way, retailers can remain relevant for many years to come.

[1] Population and Housing Unit Estimates, U.S. Census Bureau, https://www.census.gov/programs-surveys/popest.html

[2] Millennial Moms, Goldman Sachs, May 11, 2015

[3] Valuing Entrepreneurship and Uniqueness, Generation Z Is Shaping the Future of Shopping, National Retail Federation, May 30, 2017, http://stores.org/2017/05/30/they-say-they-want-a-revolution/

[4] Mary Meeker, Internet Trends 2017 – Code Conference, Kleiner Perkins, May 31, 2017, http://www.kpcb.com/internet-trends

[5] Hilary Givens, Which Advertising Formats Have the Highest Engagement?, Salesforce, April 19, 2016, https://www.salesforce.com/blog/2016/04/advertising-formats-highest-engagement.html

[6] IAB Video Ad Spend Study, April 2017, https://www.iab.com/wp-content/uploads/2017/05/2017-IAB-NewFronts-Video-Ad-Spend-Report.pdf

About the Authors

Robert Haslehurst is a Managing Director and Partner in L.E.K. Consulting's Boston office and is focused within our Retail and Consumer Products practices. He has been with L.E.K. since 2000 and has extensive experience working with both retailers and consumer brands in the U.S. and globally. Rob advises clients on a range of issues, including corporate strategy, consumer insights, new product development, program management, corporate finance, and mergers and acquisitions.

Shang Saavedra is a Senior Consultant in L.E.K. Consulting's New York office and a member of the Retail and Consumer Products practice. She has experience in advising a variety of retail and investment clients, and is also an Advanced Analytics Expert. Shang received her B.A. in Economics from Harvard College and an MBA with concentrations in Marketing and Entrepreneurship from the University of Chicago Booth School of Business. Shang previously worked for Victoria's Secret developing customer insights for its CEO and business leaders.

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