Gen Z brand relationships

Authenticity matters

In association with NATIONAL RETAIL FEDERATION

IBM Institute for Business Value

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Gen Zers: Facts not fiction.

Gen Zers have grown up in the era of "fake news." They are quick to spot misdirection and do not respond to hype. Instead, they are looking for brands to be transparent and authentic. Distinctive and disruptive, these young people wield influence far beyond their wealth and experience. And they have redefined loyalty as we traditionally know it. To attract this generation and build loyalty, brands must provide opportunities for engagement and co-creation. Most important, they must provide quality products and services and be clear about what they stand for in the marketplace and beyond. Brands must demonstrate they are trustworthy as well as relevant.

Gen Z — Digital natives with expanding influence

Born in the mid-1990s and beyond, Generation Z is estimated to encompass more than 2 billion young people.[1] This group of burgeoning consumers is the first to be born entirely within the digital age. Members, called Gen Zers, don't know a time without the internet, without apps or without instant communication to an extended network of opinion-influencing peers. They are self-reliant digital natives; they socialize, learn and have fun living in a fluid digital world — one in which the boundaries between their online and offline lives blur to the point they are nearly indistinguishable.

As they transcend from adolescence to adulthood, they are beginning to wield an influence on purchasing disproportionate to their ages and personal wealth (see Figure 1). And they have specific ideas about what they want, how they want it and how it should be delivered. They expect detailed personalized attention, and they want to be a part of creating the products and services they desire.

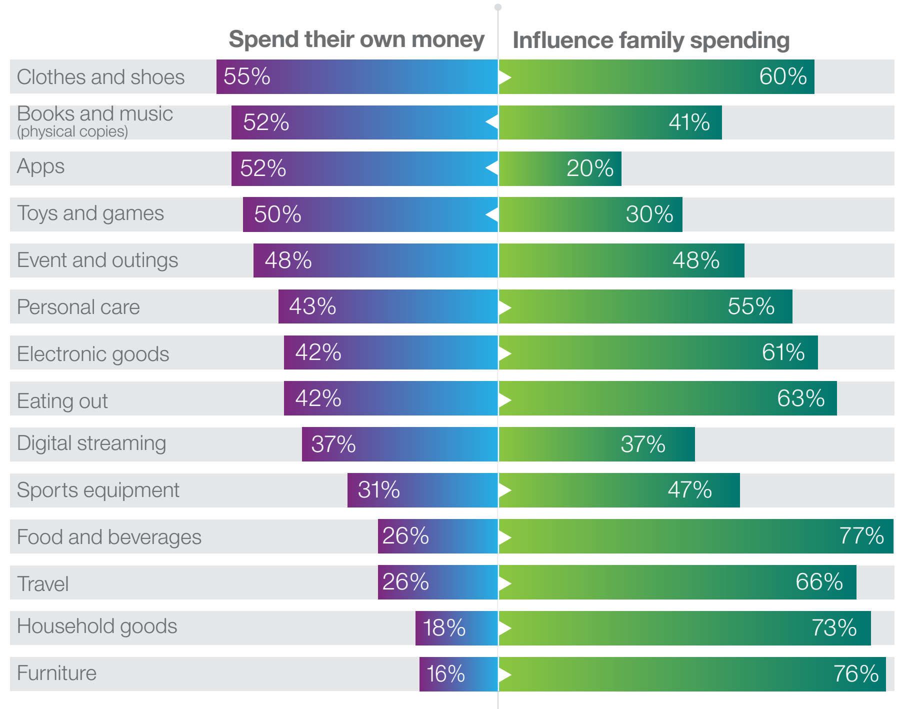
59% of Gen Zers said they trust the brands they grew up with.

44% of Gen Z said that, if given the opportunity, they would like to submit ideas for product design.

When Gen Zers share opinions, they provide **2X more positive feedback** than complaints.

Figure 1

Gen Zers have significant influence on family spend



To better understand how they prefer to engage with brands and prioritize purchase decisions today, the IBM Institute for Business Value conducted a global survey of 15,600 Gen Zers between the ages of 13 and 21, as well as interviews with 20 senior executives. This executive report, developed in collaboration with the National Retail Federation (NRF) and the second in a series of three, explores in-depth how brands can build strong brand relationships with this cohort. We will look at how Gen Zers interact with brands and each other, their expectations and desires, as well as how they are changing the dynamics of engagement.[2]

We found three distinguishing characteristics that separate Gen Zers from previous generations:

- Gen Zers are both practical and skeptical. Their focus is on quality and authenticity — not on marketing hype. After all, Gen Zers are growing up at a time when "alternative facts" has become a newsworthy phrase, and their familiarity with technology means they are not easily fooled.
- One size does *not* fit all. On the surface, Gen Z is one connected community with similar habits, but technology has provided a vehicle for Gen Zers to interact with brands on their own terms. The fluidity and speed with which GenZ cycles through media platforms and apps potentially make them more challenging to target.
- Technology has made Gen Zers into brand enthusiasts, but not all display the same level of enthusiasm.[3] They are less likely than other generations to be brand loyal as traditionally defined. If brands are slow to engage or break their promises, then Gen Zers will quickly switch to a competitor.

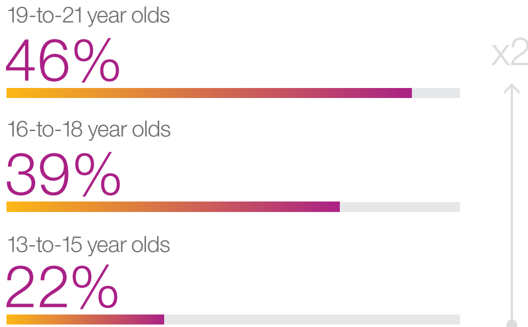
Brand loyalty versus brand enthusiasm

Brand loyalty and brand enthusiasm are often incorrectly used interchangeably. But they have significantly different meanings. When brands assess loyalty, they look only at repeat purchases. Brand enthusiasm, in which there is active engagement between the brand and consumers, allows an organization to understand consumer preferences and behaviors. It also creates the opportunitiy to gain insight about consumer attitudes toward the brand as well as the level of trust.

Practical and skeptical

Figure 2

Percentage of Gen Zers that say they have a strong connection or loyalty to any brands



Gen Z represents the latest iteration of consumer evolution — one in which control of the brand experience has gradually migrated from organizations to individuals. Companies no longer direct the conversation. At best, they can be willing participants and engage the new generations of consumers according to the preferences of individuals. Those brands that make promises Gen Zers don't trust — or that ignore their attitudes, preferences and styles of engagement — stand to suffer.

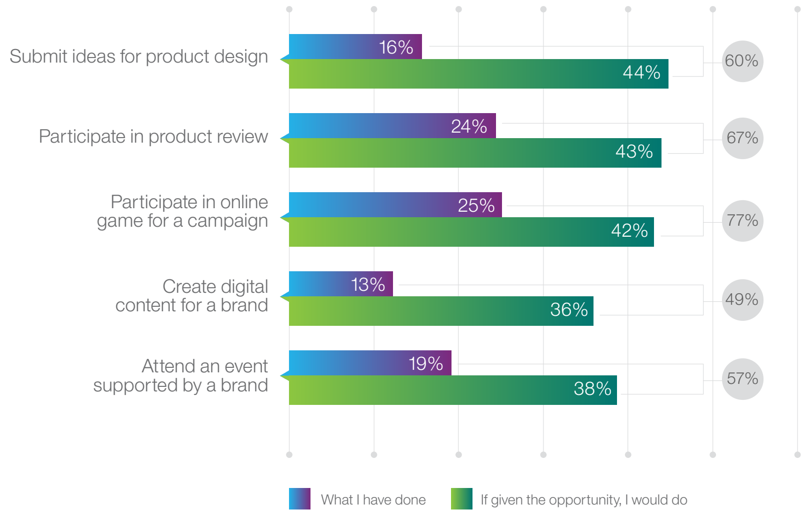
Overall, only 36 percent said they feel a strong connection or loyalty to any brand. However, the percentage of Gen Zers that admit to having a strong connection or loyalty to a brand increases dramatically as they age and begin to understand what they like and who they are. Among those aged 19-21, 46 percent say they have a strong connection or loyalty to a brand (see Figure 2). As a result, only a short window of opportunity exists for brands to create strong connections with Gen Zers as they mature.

Quality and engagement

To create a brand connection requires quality products and services and active engagement. Quality was identified by 66 percent of respondents as the most important attribute. Further, 66 percent also said that, once they find a brand they like, they will continue to buy for a long time. And 60 percent said they were happy to be associated with their favorite brand. Fifty-nine percent said they trust brands they have grown up with.

A key element in attracting Gen Zers is understanding their desire to contribute. For example, 44 percent of respondents said that, if given the opportunity, they would like to submit ideas for product design. Forty-three percent said they would like to participate in a product review, and 42 percent indicated they want to participate in an online game for a campaign (see Figure 3).

Figure 3
Gen Zers indicate they want to contribute and have more active brand engagements



These numbers show that brands can convert Gen Z consumers into enthusiasts by creating authentic opportunities for contribution and participation. To do so, however, brands need to be knowledgeable about the different digital behaviors of Gen Zers across countries. For example, our survey shows that Facebook is the overall favorite for 81 percent of Gen Zers. Yet, it does not make the top five in Japan and has not been available for public use in China since 2009.[4] App usage varies as well: Sixty-six percent of respondents in growth markets said apps are easier to use than web pages, compared to less than half in mature markets.

"Gen Z wants to be heard and we must listen to them as we strive to innovate and to reflect what is happening in the market place."

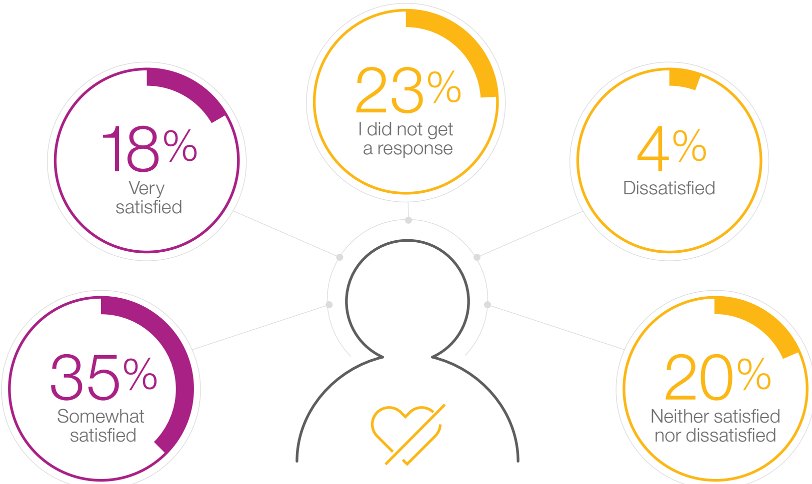
CIO, multi-brand online retailer

Interaction and transparency are key, yet brands are falling short

To build a successful relationship with Gen Zers, brands need to gain their trust by being transparent and allowing them to feel in control. In our study, 60 percent of Gen Zers said it is important for brands to value their opinions. Further, 55 percent want to have control over what information to share, and 54 percent want to have control over how brands contact them.

Gen Zers share opinions in different ways, and when they do provide feedback, they are, on average, twice as likely to share positive feedback as to complain. However, brands have failed to make the necessary or proper engagements. Almost half of Gen Zers surveyed indicated that they either didn't get a response from the brand or were not satisfied or neutral about the interaction they did get (see Figure 4).

Figure 4
Almost half of Gen Zers indicated that they either didn't get a response or were not satisfied or neutral about the response from the brand

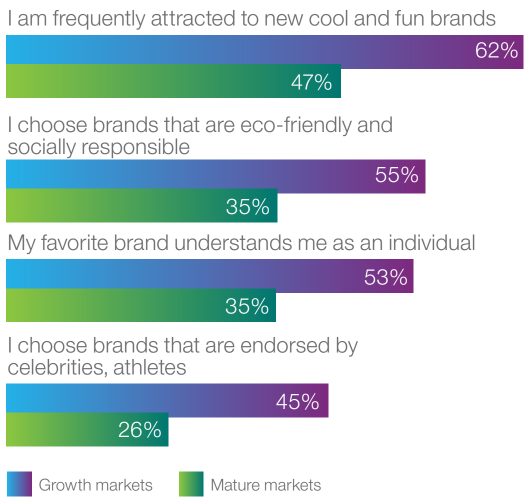


Empowered, savvy and fast

Gen Zers are digitally empowered, always on, and they expect brands to be ready to interact with them 24/7 on their choices of channels and devices. They want to be heard and valued as individuals. They are keenly aware of the power of words via social media and are fiercely protective of their reputations in the digital world. In communicating with them, brands should understand this generation expects two-way engagement. They want brands to be transparent in intent — real, not fake. For Gen Zers, the bottom line is simple: if a product, service or experience does not live up to expectations, they will take their business and their influence elsewhere.

Figure 5

Gen Zers have a range of priorities when choosing their brands



One size does not fit all

As the first truly digital generation, a high-level view of Gen Z would seem to indicate a homogenous connected collective. However, Gen Zers are as uniquely individual as members of past generations in their priorities for choosing brands.

Gen Zers from growth economies have a different range of priorities from their counterparts in mature markets. They tend to value more cool and fun brands and those that are eco-friendly and socially responsible (see Figure 5). They are significantly more likely to believe their brands understand them as individuals, and they are more prone to choose brands endorsed by celebrities and athletes.

Many Gen Zers wish to be actively engaged with brands, but this, again, is particularly true in growth markets (see Figure 6).

Brands need to take into consideration differences in interest and engagement among Gen Zers in different markets when creating campaigns, brand messages and content. A worthy goal is to engage Gen Zers in co-creating what the brand means to them.

Gen Zers have access to global content, which allows them easy access to global trends and creates an appetite for products. Capturing global data securely becomes critical, especially when activating a global brand in market.

Finally, brands should understand that Gen Zers in growth markets have a higher communication and shopping dependence on mobile devices and apps. These are the most connected, the most vocal, the most engaged Gen Zers. For example, 49 percent of Gen Zers in growth markets indicated they wanted to submit ideas for product design, compared to 39 percent in mature markets.

Figure 6

Gen Zers want active engagement, especially those in growth markets

	Mature markets	Growth markets
Submit ideas for product design	39%	49%
Participate in product review	41%	47%
Participate in online game for a campaign	38%	48%
Create digital content for a brand	29%	44%
Attend an event supported by a brand	32%	44%

Gen Z engagement more common in growth markets

As illustrated in Figure 6, Gen Zers in growth markets are more willing to share their opinions with brands across a range of different channels than those in mature markets.* For example, 53 percent said they had posted comments on social media, compared with 40 percent of those in mature markets. Twenty-nine percent said they had posted comments on the brand's website, versus 22 percent in mature markets. In growth markets, 27 percent said they had telephoned a customer service representative; only 17 percent of those in mature markets had done so. And 12 percent said they wrote about a brand in their personal blogs, versus 8 percent from mature economies.

**Note: Growth markets are those with rapidly expanding economies, such as some nations in Asia, central Europe and Latin America. Mature markets are those with economies that have developed a significant degree of equilibrium, such as the United States, western Europe and Japan.*

Brand enthusiasts… but only with authentic brands

"We know that the experience has to be authentic for Gen Z. We don't want to pander to them — we want to influence them."

Emerging Media and Content Manger, specialty retailer

Based on our survey responses, Gen Z members, while generally less likely to form brand attachments than previous generations, are still keen to engage with organizations. As a result, brands have a tremendous opportunity with Gen Z — not just to sway them, but to create a meaningful connection that can influence their level of brand enthusiasm. And authenticity is the key. Having grown up in a time in which "fake news" generates over 33 million results on Google (as of June 2017), Gen Zers are not likely to succumb to hype.[5] Instead, they are looking for their brands to be transparent, to be "real." If your brand leads on sustainability but images of child labor appear on social media, then Gen Zers are likely to feel betrayed.

In looking at the degrees of brand enthusiasm, we analyzed responses to our survey and came to a stark realization that the categories of brand loyalty have changed for Gen Zers. No longer can we talk in terms of advocates, apathetics and antagonists.[6] Technology has made these obsolete. Today, three new categories have emerged: Brand Devotees, Brand Connectors and Brand Pragmatists.

Brand Devotees

Brand Devotees (28 percent of survey respondents) are highly enthusiastic about brand engagement and are happy to associate themselves with their favorite brands. For brands, these are the crown jewels of Gen Z, as they are most willing to advocate on the behalf of brands. They place the highest value on "brand authenticity" and are highly likely to call "fake" brands out (on social media, for example). Brand Devotees are the most insistent that brands refresh the range with new and cool products.

Brand Devotees also want to actively engage and co-create at every touchpoint and moment of truth (see Figure 7). Brands need to provide creative opportunities for Gen Zers to contribute to such activities as new product design and development, product evaluations and the creation of digital content.

Brand Devotees are especially good at attracting new converts to the brand by speaking positively about their brand experiences, particularly via social media. Brands should make sure that user-generated content (recommendations and reviews) are easily accessible for other consumers. The densest concentration of Brand Devotees can be found in growth markets, such as China, India, Mexico, South Africa and the Middle East.

Brand Connectors

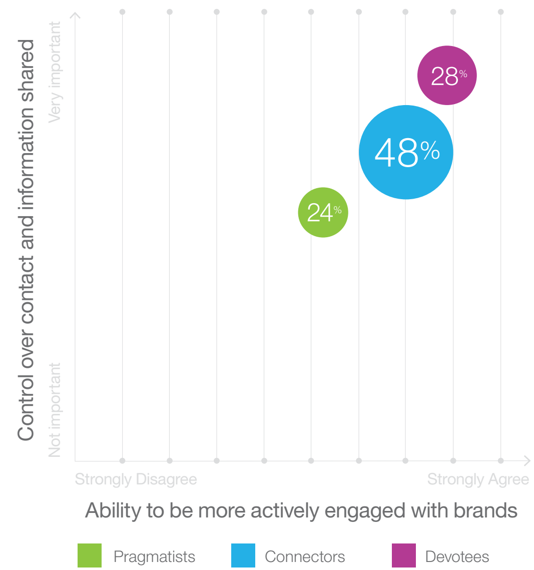
Brand Connectors (48 percent of survey respondents) represent the largest group among the Gen Z clusters. These consumers identify with their favored brands, and they want their voices to be heard. For them, the notion of brand authenticity is still important, but they are more tolerant compared to Brand Devotees.

Brand Connectors have a contribution they want to make, and brands need to facilitate this by empowering them to make their views known.

The flexibility, adaptability and agility of a brand's engagement strategy is most important when dealing with this group of consumers. The size of this group of consumers and the spread of their expectations means that satisfying is complex and challenging — more so than the two other classifications. It is pivotal to really get under the skin of individual preferences and behaviors to win them over.

Figure 7

Gen Zers, particularly Brand Devotees, say they want to actively engage with brands



Brand Pragmatists

Brand Pragmatists (24 percent of survey respondents) know what they like and like what they know. Pragmatists are looking for consistent delivery of the basics: quality, value and availability. Given this, it is unlikely they will switch if brands honor their promises and continue to deliver against them. For Brand Pragmatists, brand authenticity is secondary to the reliable delivery of product benefits.

Brands can continue to enjoy Pragmatists' loyalty without having to devote much time and investment in branded content and engagement to attract them. They tend to remain loyal to a brand once they like its offering, and they are likely to continue buying its products and services for a long time — longer than the other two groups. Also, compared to Devotees and Connectors, they are the least attracted to new and cool products.

Key for brands among this group is to remain alert and value the opinions of those pragmatists willing to contribute. This category of consumers must feel very strongly about an issue to provide feedback; it is therefore up to the brand to respond appropriately. After all, such Pragmatists may be candidates for elevation to Connectors.

Gen Z and authenticity

Gen Z has a strong focus on quality and authenticity: they're not easily swayed by marketing, and they have the digital savviness to navigate between real and fake claims.

They want to have evidence from friends, family and celebrities and transparency from brands to make up their own minds whether something is real or not and of good quality.

For a brand to be authentic means being able to demonstrate: continuity, credibility, integrity and symbolism (see Figure 8).

The chief merchandising officer of a major clothing brand said, "Authenticity really matters to Gen Z. They respond to brand value. They may be attracted to newness, but they do look beyond that . . . they look for substance. This generation can tell whether it's fake or real, and they will call you out if you are not being honest."

One of our participants went as far as to say that "authenticity is (now) a core brand value," and the way it is addressed is by "events and experiences that allow (Gen Z) to be a part of."

Factors	Brand items	
Continuity	• A brand with a history • A timeless brand	• A brand that survives time • A brand that survives trends
Credibility	• A brand that will not betray you • A brand that accomplishes its value promise	• An honest brand
Integrity	• A brand that gives back to its consumers • A brand with moral principles	• A brand true to a set of moral values • A brand that cares about its consumers
Symbolism	• A brand that adds meaning to people's lives • A brand that reflects important values people care about	• A brand that connects people with their real selves • A brand that connects people with that which is really important

Recommendations

Gen Zers are challenging companies at their core. They are very quick to separate “fake” from “authentic.” To help win the hearts and minds of today’s youngest generation of consumers, brands should:

1. Be there when they want you; meet them where they want: A reliance on nostalgia and past glory will not be enough for Gen Z. Many iconic brands will need to challenge long-standing business practices and marketing strategies to remain relevant to Gen Zers and meet their experience expectations:

- Fight much harder for their love as Gen Zers are inherently skeptical. However, our survey indicates that brands currently fail to effectively accomplish this. Gen Zers expect brands to be on their channels and to interact with them on a personal level, just as they engage with their peers. Programmatic and static marketing planning and execution are simply not enough with this generation. An “always-on” marketing model is needed to live up to the high expectations of Gen Zers. Such a model needs to be able to automatically take contextual cues and individual preferences into account to engage with an individual at the right time, in the right context, with the right message.
- Develop strategies that have the needs of Gen Zers at heart and provide a seamless offline and online experience.
- Assess whether your organization has the necessary capabilities that enable personalized experience and engagement with Gen Zers across the marketing value chain and across touchpoints at scale.
- Make sure that an individual’s experience and response to the brand is monitored and reported back into the organization to continuously optimize marketing activities and inform strategy going forward.

2. Understand how you can use the window of opportunity as Gen Zers mature to create synergies with your brand and their creativity. As they mature, they form their preferences, attitudes and habits. This is the time when they decide the brands they like or dislike. Therefore, brands only have a short window of opportunity to bond with Gen Zers. And the key to their love is engaging their creativity. Gen Zers only share their creativity with brands that they feel are relevant to them and reflect their values and preferences. To achieve this relevance and alignment, brands will need to identify the economic and cultural factors that shape different territories and consumer groups:

- Study Gen Z to understand the local differences, trends, language, behaviors, preferences and attitudes that shape who they are and how they want to be engaged. Social media listening is an efficient and effective way to learn about them.
- Once local differences in Gen Zers are understood, global brands need to tailor campaigns to have local relevance. Capitalizing on opportunities that matter to Gen Zers can help create relevance and stimulate their creativity to co-create and activate their networks — all factors that could provide a competitive advantage in the marketplace.
- Global brands should develop campaigns around “leverageable” building blocks to benefit from global efficiencies, while maintaining local relevance. This enables a global organization to make efficient investments and to continuously optimize and learn from the local performance of brand activities.

3. Revisit the core of your brand and your brand strategy to maintain authenticity: Brands need to revisit the essence of their brands and make sure that products, brand strategy and activation truly align with the what the brand stands for. This is the foundation for authenticity:

- Create meaningful value propositions that enable a continuous value exchange for all interactions with Gen Zers. Creative room needs to be left so that Gen Zers feel compelled to co-create and contribute to the brand's meaning.
- Bond with Brand Devotees and influencers — stimulate them through individual engagement, recognition and rewards. Experiment with new systems of engagement and involve them directly in discovery and development activities. They will reward you with authentic contributions to your brand.
- Seize the Brand Connectors — they represent the battleground for growth. Invest in learning more about them, value their opinions, be authentic when approaching them. Test your engagement strategy with them and learn their priorities and responsiveness.

Going forward

Gen Zers may have little equity today, but they are already influencing family and friends. Investing in engaging them with your brands in the channels they prefer is key to brand enthusiasm. But authenticity is the key. Make sure you are transparent and true to your brand promise at every touchpoint.

Are you ready to win over Gen Z?

To determine where you are in the capabilities needed to attract loyal Gen Z consumers, ask the following:

- How well do you know your Gen Z consumers?
- Is your brand perceived as authentic or fake by Gen Zers?
- What are your strategies to capture the opportunities that matter to Gen Zers in different markets around the world?
- What capabilities do you have in place to meet Gen Zers' high experience expectations and engage them in co-creation?

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National Retail Federation

The National Retail Federation is the world's largest retail trade association, representing discount and department stores, home goods and specialty stores, Main Street merchants, grocers, wholesalers, chain restaurants and internet retailers from more than 45 countries.

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