

A photograph of two young women standing in front of a green metal shutter. The woman on the left is wearing a bright orange raincoat over an orange top. The woman on the right is wearing a bright orange raincoat with purple accents over a white top. The background is a green metal shutter with horizontal lines. The overall mood is urban and modern.

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RETAIL

Unlocking Gen Z's luxury spending power in 2023

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Unlocking Gen Z's luxury spending power in 2023

Many assumptions are made about Gen Z. They are the “most sustainable generation”, the “most digitally savvy”, the “laziest”. But they are not easy to put in a box when it comes to shopping behaviours. As the world around them changes, Gen Z consumers are interacting differently on and offline — and the next generation, Gen Alpha (born after 2010), is maturing in similarly unexpected ways.

With many now in their early 20s, Gen Z is becoming a more significant consumer group. “The Gen Z workforce is in the process of doubling in size from what was 13 per cent in 2022 to 27 per cent in 2025,” says Walker Post, senior strategist at US youth-focused agency DoSomething Strategic. “In 2021 they had about \$360 billion in disposable income. That’s going to seem like a drop in the bucket when their workforce has doubled.”

Luxury brands have relied on targeted digital advertising and tracking to boost brand awareness with Gen Z. However, over the last three years, executives say increased data privacy regulations and economic uncertainty have made it more difficult (and costly) to target young

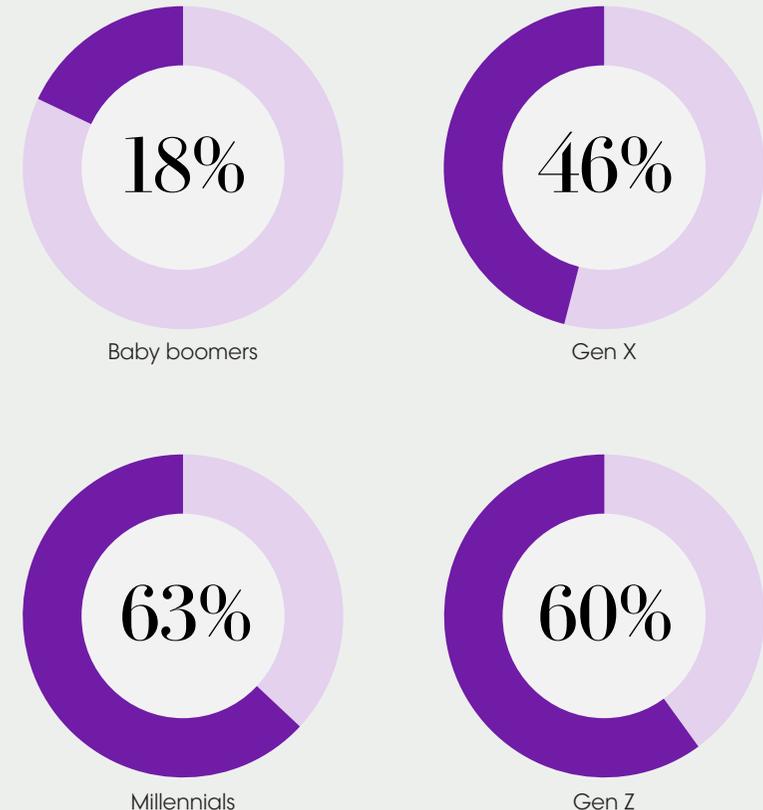
consumers. “Measurement has become increasingly tricky,” says Sarah Willersdorf, head of luxury at Boston Consulting Group (BCG). “Faced with stricter government regulation of third-party customer data sharing and beefed-up privacy features in new operating systems and browsers, digital marketers are rethinking their data strategies.” This means strategies designed to inspire Gen Z — and eventually Gen Alpha — to purchase, need to be more informed, tapping into the platforms they’re using and understanding their mindset on global issues.

“The senior-most clients that we work with have actually still been pretty scared when it comes to Gen Z,” says Courtney Miller, head of US strategy at consultancy Edelman. “They sort of knew that they needed to understand Gen Z, but were so fearful of getting it wrong.”

The opportunities for brands that get it right are clear. Gen Z’s spending has proved more resilient than other generations during recent economic downturns, says Samantha Phillips, leader in McKinsey’s consumer packaged goods and growth, marketing and sales practices. Gen Zs tend to be more optimistic about

Spend from younger consumers is growing 3x faster than other generations

Percentage of shoppers who bought luxury in the past 12 months



DATA: RAKUTEN AND VOGUE BUSINESS SURVEY OF VOGUE AND GQ READERS

what the future holds and many of them have more disposable income because of living at home or having fewer dependents, she explains.

Gen Z and millennials are also more likely to seek luxury items than previous generations. "Higher spending is kind of ingrained in the way that they think. They view higher cost items and luxury items as investment pieces," says Phillips.

Vogue Business partnered with cashback platform Rakuten Rewards to survey 1,200 *Vogue* and *GQ* readers in early 2023, to gain a new understanding of today's luxury shopper. The survey shows that Gen Z luxury spending is growing 3x faster than other generations. Around 60 per cent of Gen Z respondents have made luxury purchases in the last 12 months, compared with 18 per cent of baby boomers, says Kristen Gall, president of Rakuten Rewards.

Consumers are feeling more cautious about their spending in the current economic climate, and Gen Z consumers are no exception, says BCG's Willersdorf. While they tend to have less debt than other generations, some Gen Zs are reducing spending, selling things they don't need, and taking steps to earn more money (such as working more hours or moonlighting with second jobs). "That said, Gen Z will still save for coveted items, especially luxury ones,"

Willersdorf says. "Often, these are more opening price point items."

Gen Z is slowly adopting conspicuous consumption, otherwise termed "recession core" or "quiet luxury", says Chris Beer, data journalist at market research firm GWI. According to a GWI survey of Gen Z consumers in the US, this generation is less likely to want their lifestyle to impress others than in the past (the number agreeing that they want to impress others fell 20 per cent between 2020 and 2022).

Meanwhile, Gen Alpha is estimated to represent 2 billion people by 2025, according to research firm McCrindle, making it the largest generation in history. The eldest members of this generation will become teenagers in 2023, and many children in this generation are already using social media and influencing or even making purchases. While there's less data about Gen Alpha consumers given their young age, brands including Nike are already watching and targeting this generation.

"We absolutely can't ignore Gen Alpha, although they are obviously younger than most shoppers right now," McKinsey's Phillips says. "They will be similar to Gen Z in the sense that they will grow up completely online savvy. But, even more than Gen Z, you're going to have questions for Gen Alpha:



PHOTO: SU SHAN LEONG

how they make trade-offs between these big global issues that are weighing heavier on their conscience than previous generations versus practical and personal considerations like price sensitivity," she says.

The non-linear path to purchase

The purchase funnel used to start with digital advertising and lead to a conversion. However, the rise of social media platforms such as TikTok and Instagram has created a "shoppable mid-funnel world" and the formerly linear path to purchase is now anything but, says Rakuten's Gall.

"We often think about the path to purchase as four components: inspiration, research, purchase and post-purchase," says BCG's Willersdorf. BCG tracked how shoppers divide their time across the purchase journey as an important indicator of consumer patterns. Gen Z luxury and fashion consumers spend 30 per cent of their time finding inspiration; 24 per cent researching; and 21 per cent in post purchasing (including sharing their purchases on social). Only 24 per cent of the journey is spent on the actual purchase.

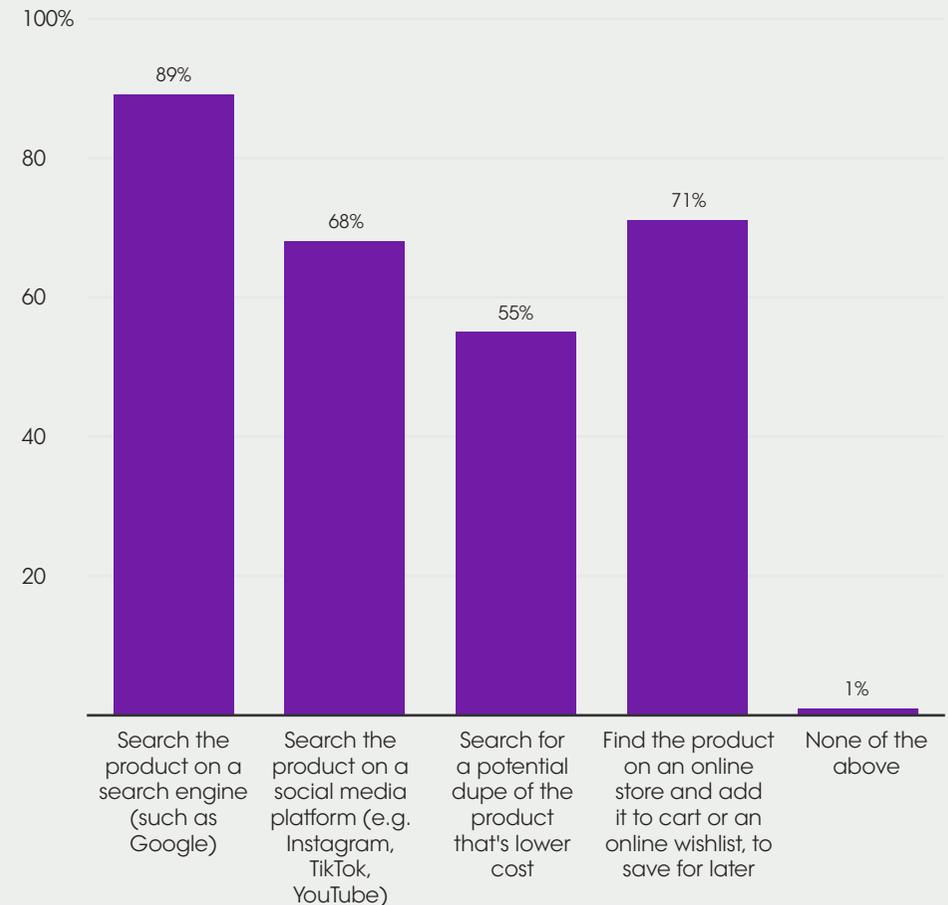
Within the research phase, young consumers are deep-diving into products to make sure they fit their needs. In a *Vogue Business* snap survey of 166 *Allure*, *Glamour* and *Teen Vogue*

readers aged 16-24, 89 per cent of respondents said that once inspired to purchase an item of clothing or accessory, they search the product on a search engine. More than two-thirds (68 per cent) search the product on a social media platform, and a similar proportion (71 per cent) find the product on an online store and add to cart or add to a wishlist, to save for later. And 55 per cent search for a dupe (duplicate) of the product that's lower cost.

A consumer might see a product in an advertisement, in an Instagram post or in a Netflix show. They might then search the item on social media, leading them to a "mid-funnel moment" that can include content around products, be it hauls, unboxings or reviews, typically from nano- or micro-influencers, that are often shoppable. If brands can be part of this, then perhaps they can drive purchase with Gen Z when they're in the research phase. If not, they could lose out to competitors. Or to dupes, as influencers promote viral product replicas on their Amazon storefronts, where they make affiliate revenue.

"I was doing research for a vitamin brand and I was watching Gen Zs meticulously read the little insert that comes in the inside of boxes, which no one reads — checking the clinical claims!" says Edelman's Miller. "My mind was blown.

Gen Z's purchase journey is non-linear



n = 166 respondents.

Q: 'If you've seen an item of clothing or accessory on social media that you'd potentially like to buy, would you complete any of the following actions? (Tick all that apply)'.

DATA: VOGUE BUSINESS SURVEY OF GLAMOUR, ALLURE AND TEEN VOGUE READERS (US)

Vitamins are a little outside of fashion, but I don't think it's that far removed in terms of the discovery process."

To capture young people in the various stages before purchase, savvy luxury brands are increasingly experimenting with social commerce, live-stream shopping, conversational commerce, augmented reality and virtual appointments to connect with younger consumers, says BCG's Willersdorf. "To succeed with these channels, brands need to be prepared to test and learn. Brands that are prepared to experiment with new platforms and partnerships are likely to create stronger engagement with the next generation."

Stores without 'bells and whistles'

Gen Z are the most omnichannel generation to date, McKinsey's Phillips says, meaning they also like to shop in stores. "The most online-only shopping cohort is actually Gen X. And for millennials, there's a huge amount of convenience in digital," she says. "For Gen Z, stores are a human touchpoint enabled by tech." This penchant for in-person shopping in has led brands and retailers to invest heavily in experiential, Instagrammable stores for the younger generation, from [Tiffany's revamped New York flagship](#) to Selfridges's Corner Shop pop-ups on the likes of [Casablanca](#) and [Jacquemus](#).

Fifty-five percent of Gen Z prefer to shop in-store according to the 2023 State of US Consumer Trends Report by marketing and software firm Hubspot. However, it's a myth that the only way to capture Gen Z is experiential retail, according to Edelman, which produced its recent ZCommerce report to better understand some common misconceptions about young people for its clients. "I came into our research with a concept that everything should be like Sephora and Apple with very digital-first, exciting store experiences," says Brigitte Fahrland, executive vice president of connected commerce at Edelman. "What I heard from our Gen Zs is 'I want to be respected when I walk into a store. I want to feel a sense of welcome.' It doesn't have to be digital-first."

Many young consumers are using stores for functional reasons — like checking fit and fabric, in-store pick-up or easy returns. "I like to have the checkout experience in person, I like to feel the texture of the clothes, I like physically going into the fitting room and I don't like online returns," says Giselle Huasipoma, influencer marketing coordinator at Edelman and a member of its Gen Z consulting lab. She likes some experiential elements, like Sephora's in-store quiz to find your fragrance, which emails you the results so you can go back and purchase at a later date without pressure.

Of 3,508 Gen Z consumers surveyed by GWI, almost half of them said items on sale (49 per cent), availability of products (48 per cent) and a clean and tidy store (47 per cent) were important to them when it came to bricks-and-mortar shopping. Good customer service (45 per cent) and friendly service (42 per cent) were also important factors. Free gifts (29 per cent) or product demonstrations (16 per cent) were less important to Gen Z compared with other generations.

Chiming with these findings, Edelman found that feeling welcome is a major factor in in-store footfall and purchase among Gen Zs. While she loves stores, Huasipoma will shop luxury online because she doesn't feel welcome in luxury flagships. "I feel like when it's a higher price point, the welcoming piece is more important to me. I don't feel welcome to walk into a luxury store (and browse) unless it's an outlet and it's busier and more accessible."

Gen Z is quick to call brands out for poor customer service or poor management and is not afraid to boycott brands that they don't feel are doing good, Huasipoma points out. "If we have a bad experience with a brand, in store or online, we're going to talk about it (online). That perception gets planted like a seed. Then people start doing research and start seeing even more claims of other people

having the same issue — it snowballs."

Environmental concerns

DoSomething Strategic conducted a survey of its 2,454 members, to delve into which issues that matter to them. Education was at the top: 60 per cent said it was most important. Then the economy (54 per cent) followed by health (51 per cent) and equity in terms of race, gender, disability, etcetera (50 per cent). The environment came in fourth (41 per cent). "Some people would argue that the environment is the most important issue for Gen Z," says DoSomething's Post, referencing the multitude of articles published to that effect during the pandemic. "But, they have other expectations for brands, too (ranging from social impact and responsibility to diversity and inclusion in hiring practices)."

Edelman found that Gen Zs are more focused on personal consumption and making investments than "shopping green" or buying from brands that make sustainability claims, says Miller. Huasipoma agrees, based on her conversations with peers in the Gen Z lab. "For me it's more about timeframe versus sustainability of how it was ethically sourced," she says. "I will shop pre-loved, but I will also still go to Zara or H&M. In those stores I'm going to buy a winter coat that's going to hopefully last me for 10, 15 years."

This could be partly due to a sense of “doomerism” amid the current economic climate, where they feel less interested because they don’t believe climate change can be stopped or controlled, observes GWI’s Beer. That doesn’t mean brands need to hit the brakes on sustainability efforts; it’s more about finding a way to become “value driven brands *at* value (in terms of price)”, according to Edelman. Gen Z won’t necessarily switch to a brand because of its sustainability claims, but they might if they like the product, it is good value (or an investment) — and it is also responsible, Fahrland adds.

While research has often pointed to younger consumers being the most concerned about global issues, early data suggests Gen Alpha’s care for the environment might also be declining. A GWI survey of 12-15 year olds in 14 countries found 41 per cent said they care about recycling, down 2 per cent on 2021. Those interested in vegan food fell 26 per cent, says Beer. “Kids are following the same trend we’re seeing with Gen Z — that when the economy isn’t a good place, those sorts of concerns fall away a bit as people tend to focus more on their immediate circumstances and surroundings,” he adds.

YouTube and gaming

Gen Alpha, like Gen Z, grew up with

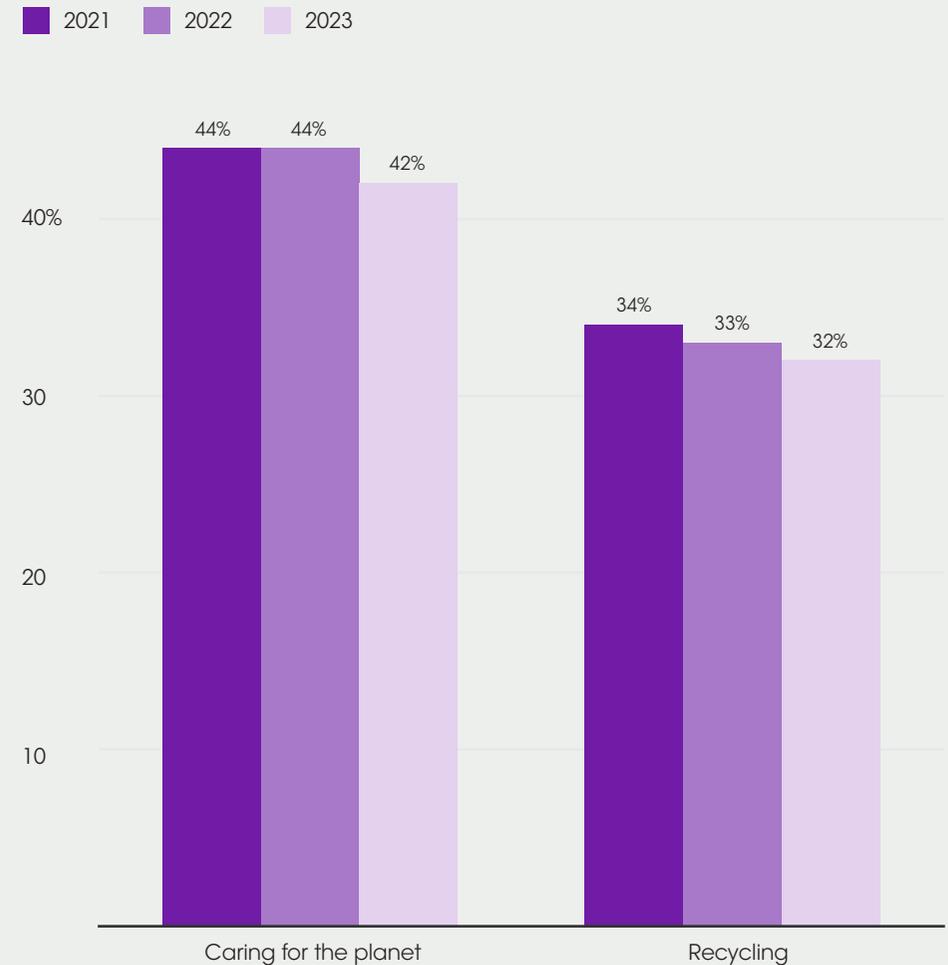
devices in their homes and their hands. Gen Alpha is using social media for more personal sharing than Gen Z, as well as to see what’s trending to stay up to date with their peers, Beer says. Gaming videos are the most popular content format, hosted on platforms like YouTube and Twitch. For 8-15 year olds, gaming videos are more popular than playing sports, Beer says. “It’s obviously a broad category, but it’s a big thing to be aware of, especially as gaming videos are more popular than actually playing games (it’s not just gamers who watch them).”

YouTube is a popular channel with this cohort, with child influencers like siblings Vlad (9 years old) and Niki (7) racking up \$70 million a year from monetising their videos of unboxing and playing with toys. “These YouTubers are often the first influencers children today come across,” says Marcel Hollerbach co-founder and chief innovation officer of product-to-consumer platform Productsup, which helps small brands sell product across platforms like Amazon. He is also founding partner of venture capital fund Cavalry Ventures, specialised in Web3 startups.

Co-branding on household items can also be a powerful way to reach this generation where appropriate, he says, using characters or influencers they’re familiar with to influence parents’

Gen Alpha is changing the way it thinks about the environment

Percentage of 12-15-year-olds who say that the following is important to them



n = 24,598 kids aged 12-15 in 14 countries

DATA: VOGUE BUSINESS SURVEY OF GLAMOUR, ALLURE AND TEEN VOGUE READERS (US)

purchasing. “On yoghurts, on milk, you find Paw Patrol. It’s really impactful.”

Roblox is one of the most powerful platforms among younger generations today. “It’s not just that games (like Roblox or Minecraft) are popular (and therefore have potential for brand activations), it’s the possible broader cultural influence they might have,” says Beer. “If we assume Instagram helped grow interest in art and photography, TikTok for books and dancing, then it’s interesting to think about how (Roblox) might impact Gen Alpha — we might

just see a generation of architects.”

Roblox has already proven successful for fashion players. Gucci launched its Gucci Garden on Roblox in 2021 and continues to expand its presence, combining worlds with Vans two weeks ago and launching new co-branded digital products. Tommy Hilfiger launched Roblox space Tommy Play in July 2022, attracting 18.9 million visits in the first 90 days. Plus, Burberry sells Roblox wearables. Yet, many fashion brands are yet to invest in the platform, allowing young digital fashion designers to cash-in

on millions from in-game fashion sales.

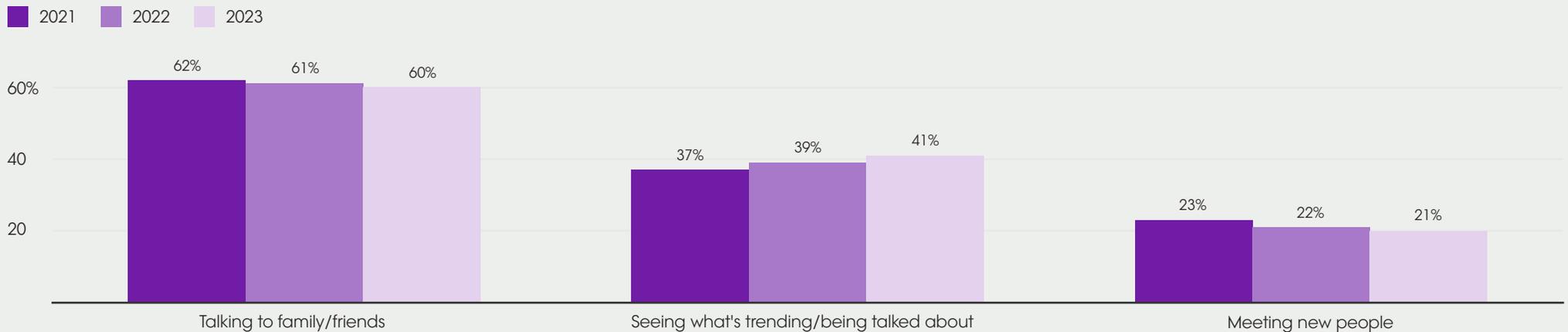
“Digital fashion will be an industry that — when Gen Alpha becomes solvent — could outgrow major brands, not necessarily in terms of revenue but certainly in terms of profit margin,” Productsup’s Hollerbach says. The digital fashion market value will reach \$50 billion by 2030, according to Morgan Stanley — and, brands already involved are more likely to benefit as Gen Alpha matures. “Brands not participating in the digital world (gaming, metaverses, augmented reality, etc) could become irrelevant for

Gen Alpha because they are invisible to them,” Hollerbach adds.

Key takeaway: Gen Z and Gen Alpha’s spending habits and needs are changing in line with the evolving socio-economic climate. To engage younger consumers today, brands must understand their new sources of inspiration (from YouTube to Roblox), and the steps in their non-linear path to purchase; and should tweak communication around sustainability and value for money.

Social media is used less to speak to people online

Percentage of 12-15-year-olds who say they use social media for the following reasons



n = 24,598 kids aged 12-15 in 14 countries

DATA: 'GETTING TO KNOW GEN ALPHA', GWI Q1 2021-Q1 2023