Future of Retail: Is Gen Z leading the way?

November 2022
Retail and Gen Z have much to learn from one another. In a time of turbulence, the retail industry, should feel inspired by today’s youth, a generation coming of age in one of the most volatile times in history. Gen Z has had a truly challenging time for the whole of their existence: recession; climate emergency; political upheaval; pandemic; recession again. But as they navigate these tumultuous times, the generation has a clear sense of purpose and a steadfast grip on its values and priorities. And as the first digital natives, they’re also at home with technology like artificial intelligence (AI), robotics and automation – more so than any other generation that has come before it.

For retailers, this generation might seem elusive compared to more familiar older generations, and their digitally-savvy nature might be intimidating. But in reality, this presents plenty of scope for innovation, opportunity and disruption – which is good news for retailers as we head into a ‘golden quarter’ marred by inflation, recession and a cost of living crisis.

Alchemmy recently surveyed the shopping habits, preferences and ambitions of the UK population. This unlocked valuable insights into the hearts and minds of Gen Z, aged 16–24 years old, compared to their predecessors. Alongside this, we have uncovered valuable growth opportunities for retailers in the UK as the purchasing power of Gen Z increases, identifying areas where retailers can survive and thrive in the next decade.

Expecting the unexpected has been the only certainty in 2022. As our newest customers and young workforce, Gen Z will influence how we must respond to key issues. Tapping into their mindset with our research will help retailers understand how they can experiment and learn from these early adopters and develop innovative ways to build resilience and agility.”

Lucy Gibbs, Director, Retail & Consumer at Alchemmy
Section 1

Will Gen Z compromise value for values?
With inflation and a cost of living crisis hitting the purse strings of British consumers, which generation will sacrifice on their values to cut costs?

92% across all generations consider price as an important factor.

The cost of living crisis is undoubtedly front of mind for both retailers and consumers alike as we enter ‘the golden quarter’ in retail. The delicate balance between bearing rising costs and passing them onto increasingly price-sensitive customers has never been more challenging. How brands and retailers react and engage with customers over the upcoming months may dictate how they weather the storm and survive in the longer term.

82% of Gen Z rank price as high importance when considering a purchase, but despite this majority, Gen Z is the least price sensitive generation, at 10 percentage points lower than average (92%).

This indicates other factors beyond cost are influencing the decisions and loyalty of younger Britons. They were also the generational cohort most likely to say they would not change shopping behaviours because of the cost of living crisis (46% versus 33% across all generations), and least likely to compromise by cutting down on going out and other experiences (62% versus 73% overall).

% who rank price as important when considering changing retailer or brand
Companies need to carefully balance increased costs throughout the supply chain and how much will be passed onto the customer. The question is just how far will price elasticity stretch? It’s going to be more important than ever to explore tolerances between pricing and loyalty, ethics, values, experiences, innovation, rather than solely traditional factors such as price elasticity and promotions.”

Ben Fisher, Manager at Alchemmy

This suggests an increased level of loyalty; Gen Z is less likely to change brands simply for a better price 59% vs 74%. However, the cost of living is likely to impact the frequency of purchase; Gen Z is more likely to stay with the same brand but purchase less often (41% vs 34%).

Behind this sense of loyalty is a strong sense of connection and values. Gen Z is the generation whose buying decisions are most influenced by whether products and brands align with their own values (75% versus 67% across all generations). As we will explore further, ethics and particularly sustainability matter to them.

Price is a major factor, however with businesses also facing the effects of cost increases during one of the most uncertain economic and political outlooks, every penny counts. The most successful retailers will use tactical discounts, rewards, and messaging in order to create a connection with customers that will pay off. Capturing the hearts and minds of the latest generation early on is key to building lifelong loyalty with this demographic.
Gen Z shoppers are values-based consumers... and expect the brands they shop with to be too

Retailers need to earn their place with Gen Z. Building on the expectations set by Millennials (25 – 39 year olds), Gen Z now demands more when it comes to sustainable and ethical products. They are savvy about the latest research and wary of bold, unfounded claims. And the post-pandemic cost-of-living crisis does not appear to have dampened the importance they place on buying products that reflect their values: diversity, sustainability and ethics.

Values-alignment is more important than ever for this digitally native and environmentally conscious consumer group. Our survey found three quarters (75%) of Gen Z respondents say values alignment is important, increasing four percentage points compared to pre-pandemic. This is 11 percentage points higher than the overall population surveyed.

58% indicated they were more likely to buy products that made sustainability claims, higher even than Millennials (53%) and much higher than Gen X (39%) and Boomers (37%).

Over 50% of Gen Z also said they would pay more for products with sustainable credentials, meaning priorities trump price for these young shoppers.

Just over half Gen Z believe what brands say about sustainability (52% versus 48% for Millennials and 40% overall). They are the generation that actively researches brand claims the most (50% vs 40% across all generations). The trust Gen Zs accord brands is clearly subject to pre-screening.

The evidence is clear – Gen Z is the sustainability generation. It is also the generation of values-based ethical shoppers.

% consider values when selecting a retailer or brand

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>16-24 (Gen Z)</td>
<td>75%</td>
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<tr>
<td>25-39 (Millennials)</td>
<td>71%</td>
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<tr>
<td>40-54 (Gen X)</td>
<td>67%</td>
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<tr>
<td>55-74 (Boomers)</td>
<td>63%</td>
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<tr>
<td>75+ (Silent Generation)</td>
<td>64%</td>
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Section 1 - Will Gen Z compromise value for values?
How does Gen Z influence cross-generational consumer behaviour?

This sensitivity to values and sustainability doesn’t just stop with Gen Z – this age group has valuable influence over older generations’ consumer behaviour, shaping shopping attitudes of entire families. A recent Interactions study found more than two thirds (70%) of parents say their Gen Z children influence buying decisions about apparel and meals. The Bank of Mum and Dad is clearly facing pressure from youngsters – and this influence should not be underestimated. The share of Boomers (55 – 74 year olds) who say that values alignment is important in their purchasing decisions has risen from 59% pre-pandemic to 63% today.

Retailers focusing on growth should look to harness the influencing power of Gen Z consumers to increase sales across generations. By ensuring their offering mirrors such values, they are likely to enhance their brand attractiveness across generations and boost growth prospects.

It is not enough to just appear as though sustainability is important – Gen Z is much too wise to greenwashing. These shoppers are looking for products from businesses that are genuinely making a positive impact on the environment, and whilst there is an innate trust, it is increasingly vital to act with auditable integrity. Alchemmy is helping both our public and private sector clients to drive forward their decarbonisation journeys, and more broadly through our work on Digital Responsibility, help measure and drive transformations for positive impact on society and the planet.”

Rob Price, Executive Director at Alchemmy, Co-founder of Corporate Digital Responsibility
Section 2

Thinking beyond the physical and digital; will the metaverse be the next frontier for retail?
Retailers must be bold in reimagining how they operate across all retail channels.

The boundaries of physical and digital have never been more blurred. New ways to shop have brought virtual recreations of physical experiences to life and digital shopping is more on demand than ever, never more than a few clicks away when scrolling video content on social media. Digital is more than online.

Gen Z uses a wider spread of channels in their purchase behaviour than any other generation and favours a blend of online and offline.

Gen Z shop through social, voice and apps more than the rest of the population, though most generations expect their use of these channels will increase in the future.

Gen Z is most likely to make a purchase directly on social media platforms (23% vs 13% across all generations).

When asked to speculate where they would most likely look to shop in future, Gen Z predicted a further decline in bricks-and-mortar stores as well as a decline in website stores, as they move more into the applications and social ecommerce channels.

To prepare for these changes in shopping mediums, brands need to act now to experiment and innovate across all platforms, or risk being left behind.
Spontaneous purchases or well-researched retail?

70% of Gen Z predict they will spend more time researching and planning purchases, the highest than any other generation (60%). However, where they research is the differentiator. Although the use of web research is the predominant channel across all generations (59%), it is comparatively lowest for Gen Z (41%) as they turn to social media as a research channel. Even less (23%) consider visiting a physical store for this purpose.

When it comes to customer experience, in-store ranks highest across all generations (45%), indicating there is still a draw to the high-street, however this drops to 29% for Gen Z. Web and social are almost equally important to the generation at 28% and 21% respectively. These channels also come with expectations of seamless interactions and integration across different channels.

Apps and social are ranked highest for both inspiration and impulse purchases, with social commerce having increased rapidly over the last few years. Social and video commerce is quickly becoming a highly influential channel, targeting consumers where they now spend an increasing amount of their time. As younger generations, including Gen Z and Millennials, place a high significance on community and recommendations, it’s no surprise that the influencer industry has boomed over the last decade – the term ‘influencers’ is no coincidence, instead it’s a nod towards the impact they yield on their audiences.

Meanwhile, voice has remained a fairly untapped source of commerce – only 5% of customers overall are using it today. Comprising of technology like placing an order with Amazon using an Alexa device, voice shopping is used mostly for planned and repeated purchases. Without a strong browsing capability, it is predominantly considered a convenient way to shop only when customers know what they want.
Gen Z demands unique and inclusive community experiences and is willing to explore new frontiers like never before. They also have heightened expectations and expect unlimited choice.

So much so that even as we enter the cost-of-living crisis, experience and going out are not areas they will compromise on, compared to other generations.

Retailers have embraced new ways to use physical space to incorporate new services and interactive experiences, increasing dwell time and engagement with the brand. For example, Nike’s concept stores allow members to enjoy bi-weekly run clubs, yoga training and other workshops led by Nike trainers. The brand also offers services like bra fit consultation, styling sessions and online-to-offline (O2O) offerings such as click-and-collect.

Gen Zs are also technologically adventurous; 51% of them are very interested in the potential retail dimensions of metaverse (versus 50% of Millennials, 41% Gen X, 16% Boomers and drops to 7% Silent Generation (75+)).

For now, some brands are experimenting. They are using the early metaverse to develop awareness, engagement, loyalty and to learn. Luxury brands are setting the tone: Gucci, Burberry, Dolce & Gabbana, and Hermès are creating experiences similar to a gaming environment and using NFTs to generate interest. Even Starbucks have launched an NFT loyalty scheme. There is huge potential to provide a tool for consumers to explore and discover, to bring online shopping closer to what they can experience in stores, without ever leaving home.

Augmented reality and virtual reality have been around for several years, for example IKEA’s augmented reality furniture app, IKEA Place, allows customers to virtually place furniture in their own home. These technologies helped provide customers with an ‘in-store’ experience at home during the pandemic. Although virtual reality may still be regarded with scepticism from many generations but the demand from younger consumers will only increase, especially with tech-hungry, digital native Gen Z’s eager to embrace these experiences. The question now is not whether to embark on this journey, but when.
Another shift in retailing we are seeing this year is a move to a marketplace model. Both Boots and B&Q, for example, are developing online marketplaces which offer the ability to find new customers and make their operations easier through a neutral platform where customers have larger choice and access to reviews and deals. As they do, they are expanding their SKUs largely based on what their customers have been searching for on their websites.

Retailers have long known that their future lies in a different kind of retail experience: a more digital, integrated, personalised and sustainable encounter. The pandemic has accelerated this demand, but few retailers were fully prepared for the scale of the digital shift and its impact on the bottom line. Now is the time for retailers to commit to fully integrating online and offline – and resetting the purpose, function and operating model of stores.

Understanding the true value of physical space, interactions and touch points across the customer journey is imperative to inform how to respond to the ever evolving digital and physical proposition. The most successful retailers will be capable of continuous innovation to create unique and tailored customer and community experiences and will also be able to continuously implement them across all channels.

Charlotte Callinan, Associate Director, Head of Growth Strategy at Alchemmy

Changes in channels shopped since the pandemic (all generations)
Section 3

Moving towards an automated world
Section 3 - Moving towards an automated world

Have the digital natives embraced automation?

Generation Z is the first true digitally native generation. They have never known life without the omnipresence of the worldwide web. So it’s unsurprising they’re particularly curious about the applications of technology in retail — and particularly the opportunities provided by automation. Our survey shows 54% of Gen Zers are happy to see automation used if it provides a faster service, against 42% across all generations.

Almost half (49%) of Gen Z is happy with the use of automation if it results in improved recommendations on products and offers, versus 37% across all generations.

Gen Z’s embrace of automation has implications for online and in-store. It can further accelerate the in-store purchasing process, notably through robotisation, as well as the obvious benefits for online customer interactions.

41% of Gen Z respondents believe AI could provide a comparably good service to human interfaces (versus 30% overall), including the use of chatbots.

This will help meet Gen Z’s appetite for tech-enabled faster services across both channels. Contactless self-checkouts and automated pick-up points, already adopted by high street brands such as Zara, can enhance the in-store experience and help retailers tap into Gen Z’s influential spending power. Fully automated checkouts — that leverage a combination of deep learning and sensor fusion technology to automate the payment process — will also enable customers to enter a store, pick-up items and leave without queuing, while the payment is automatically made through an app.

55% are also happier to see automation used to reduce prices, versus a national average of 45%.

The role intelligent automation may play in retail reaches beyond this customer-facing function.
This technology must be integrated across the supply chain to drive efficiency gains thereby generating cost reduction. By incorporating intelligent, autonomous systems that draw on robotic process automation and artificial intelligence, retailers will be able to speed up supply chains, increase their resilience and improve the accuracy of demand forecasting. Greater operational efficiency can ultimately reduce operational expenditure and grant retailers the extra capital to offer consumers retail goods at a competitive price.

The automation theme also provides a beneficial overlap for retailers. It links the strategic imperative of engaging with a digitally savvy generation to the near-term necessity of saving money and coping with skills and labour shortages. However, retailers should not respond by wildly automating everything in their organisation. Technologies deployed must be interoperable. Specialist skills are needed to get the most from them. Automation should be designed around human beings, customers and staff alike. Automation is a great opportunity for retailers – but it must be intelligent automation.

Many retailers have focused on automation and AI in the delivery of personalised customer journeys, but what we now see as critical is the use of intelligent automation to accelerate the speed of the back office and supply chains. Gen Z will want integration across all channels and consistency of experience, whether in store, online or virtual in the metaverse. At Alchemmy, we are working with expert specialists in our Digital Alliance to help accelerate the speed of business, and increase resilience, agility and traceability across the supply chain.”

Sandy Nijjar, Intelligent Automation Lead at Alchemmy

% agree with the following statements

<table>
<thead>
<tr>
<th>Statement</th>
<th>Gen Z</th>
<th>Average</th>
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<tbody>
<tr>
<td>I am happy with use of AI/Automation</td>
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<tr>
<td>I am happy with use of AI/Automation if it results in faster service</td>
<td></td>
<td></td>
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<tr>
<td>I am happy with use of AI/Automation if it reduces price through reducing company costs</td>
<td></td>
<td></td>
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<tr>
<td>I think AI provides a similar quality of service to in person (e.g. chat bots)</td>
<td></td>
<td></td>
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<tr>
<td>I am happy with the use of AI for better product recommendations</td>
<td></td>
<td></td>
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<tr>
<td>I am concerned about the bias that AI can introduce in real enforcement</td>
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<td>I am concerned about the ethical use of data in AI</td>
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But Gen Zs demand digital ethics to trust retailers

Gen Zs may have adopted the use of technology in retail but this does not make them uncritical champions of it. Our survey highlights the generation still has concerns about the implications of digital technologies and AI engines. 47% worries about the ethical uses of AI, only one percentage point below the cross-generational figure (48%). Furthermore, 42% of Gen Zs are also concerned about bias in automated retail.

Data abuses and data mismanagement have become prominent issues. There are campaigns, often led by young activists, for citizen data ownership. 40% of Gen Z respondents say they trust companies with their data, the same as the cross-generational norm. It is possible that commercial retention of data in exchange for reciprocal benefits has been normalised for this minority. But it is still a minority. Indeed, Gen Z’s trust level is rather lower than the 46% of respondents among Millennials who say they trust companies with data.

What Gen Z expects in exchange for its data creates new obligations for retailers. Less keen than other generational cohorts on price reductions or loyalty points schemes, they are the most likely to want opportunities to ‘review’ brands and outlets (21% to 16% overall). This is not just symptomatic of the omnipresence of star ratings and ‘likes’. It is connected to Gen Z’s desire to associate with brands with the same values and the appetite for personalisation. Brands and retailers who respond to these sentiments will understand and fulfil their obligations in holding Gen Z data. This understanding may help protect them from adverse consequences of poor stewardship.
How can retailers help mitigate these worries?

They ought first to ensure their tech spending is not only focused on the bottom line but also comprises corporate digital responsibility. Retailers must have the appropriate policies and structures in place to respond to cybersecurity breaches and possible AI bias. This could also mean developing an AI code of ethics, actively training employees on digital ethics, and building out formal digital ethics governance structures. Ensuring good data management and governance will help build greater trust with customers.

Debates about digital ethics and responsibility are finding an attentive audience in the emerging generation of shoppers. The importance of frictionless shopping is paramount. If consumers are already stressed about how they are spending their money, the last thing a retailer would want to do is add more stress. Retailers cannot afford to have their profits further diminished by fraudulent chargeback claims, which are already a major cause of preventable losses. If there was ever a time to shore up anti-fraud defences, it’s now.

Retailers will also need to keep abreast with the ever-evolving regulatory environment to preserve their reputation. This goes beyond GDPR and the current EU cookie law (ePrivacy Directive). The EU Digital Services Act (DSA) is notably set to increase transparency requirements for online retail and place new limits on targeted advertising. Failure to comply may result in fines of up to 6% in annual turnover which would cause significant reputational damage, particularly amongst the ethically aware Gen Z consumers.

At Alchemmy, we are leaders in digital ethics, responsibility, and organisational resilience. Every retailer is one data breach or biased algorithm away from a reputational crisis. Organisational resilience can depend on having a proper understanding of what data you hold and why. Data belongs to those that give it and should be used and governed in accordance with their values. We can help organisations map the relationship between their approaches to digital ethics, their ambitions for technology and automation, and what their customers desire and need.

Olivia Belton, Senior Consultant and Data Ethics SME at Alchemmy
Young people have always embodied the zeitgeist of their societies, profoundly influencing trends and behaviour alike.

The influence of Gen Z—the first generation of true digital natives—is now radiating outward, with a deep sense of values, and a search for truth in a world without frontiers as central characteristics in their behaviour and consumption patterns.

Technology has given Gen Z an unprecedented degree of connectivity among themselves and the rest of the population. This not only sets the expectation for shopping experiences to mirror this, but it also speeds up technological trends as well.

To avoid being left behind, Retailers must respond urgently on 3 fronts to adapt, grow and thrive:

**Intelligent Automation** must now finally reach the heart of Retail operations to enable a truly connected business. Retailers with teams that understand the power of deeply integrated automation will be able to find the efficiencies needed to contend with the cost-of-living crisis and volatile global supply chains. However, future generations demand that automation is sustainable and ethical. When designed well, automation can play its part to deliver the openness and transparency Gen Z need alongside resilience and agility.

**Innovation** is needed more than ever to bring together the immersive community experiences so cherished by Gen Z with the powerful world of social media channels. When dealing with cost-of-living challenges, it will be tempting to prioritise business-as-usual but Retailers competing for attention must take the time to deeply understand the most digitally native and progressively thinking customers. Retailers will need to think bigger embracing technology advances and social experience channels, but obsessively measure its resonance with target customers.

**Conclusion**
Data-driven decision making will sit at the heart of all of this to unite customers with ultra-personalised experiences and the infinite choice of global marketplaces. There will be a conflict between the ethical collection of behavioural insights and the deep understanding of customer engagements that will enable leading retailers to compete for market share when faced with nuanced and complex multi-channel customer journeys. Data in the supply chain will be a vital component of satisfying curiosity that people are buying in a sustainable and ethical way.

Above all, Alchemmy knows that sustainability and ethics must be at the core of Retail operations to win hearts and minds in the future. Any retailer missing this point can expect their influence to subside in the coming decade.

Whilst this report focussed on Gen Z, understanding this group is inspiration for unlocking the future of retail for all of your customers and a deeper understanding of their wants and needs. Alchemmy can help you with the breakthroughs you need in these unprecedented times.
Key takeaways

Know your customer: Price is paramount, but Values win loyalty with our newest customers
Retailers must establish the connection with their customers. Listen to consumer wants and needs, to drive data driven decision making; identifying the right messaging, offer and experience for your customers.

Be transparent to earn your place with Gen Z
Sustainability is no longer a differentiator but a must have for a business. Be clear on what you stand for and live it by embedding in the business in a clear and measurable way. The ability to create auditable record of impact on society and the planet and ability to share this with customers is a must have for your business.

Innovate, experiment, and adapt to grow and thrive
Gen Z demand unique and inclusive community experiences and are willing to explore new frontiers like never before. The most successful retailers will use insight driven experimentation to stay relevant, creating the ability to measure the impact of new initiatives and build continuous forward learning into strategy decisions.

Embrace Automation, but use it Intelligently
Use of Intelligent Automation to optimise the value from business process at scale to transform operations to increase efficiency, resilience and agility across the supply chain.

Unleash the power of data to drive trust and value with customers
Collecting data across all interactions is key for a unified, relevant and seamless experience. However, Gen Z is more aware when it comes to the risks of sharing data, so building trust through compliance and improved experiences is key.