

Maturing with the millennials

Are organisations prepared
for the millennial consumer?



A report from
the Economist Intelligence Unit

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Economist Intelligence Unit 2008

Preface

Maturing with the millennials: Are organisations prepared for the millennial consumer? is an Economist Intelligence Unit executive summary, sponsored by Genesys. In May and June 2008, the Economist Intelligence Unit carried out a survey of senior executives around the world on the steps they are taking to attract and retain millennial consumers. The Economist Intelligence Unit executed the survey, conducted the analysis and wrote the report. The findings and views expressed in the report do not necessarily reflect the views of the sponsor. Shaun Young was the editor and project manager. Marie Glenn was the author of the report. Danielle Noble was responsible for layout and design.

September 2008



Who took the survey?

Of the 164 executives who took part in the survey, 29% came from North America, 31% from Europe, 30% from Asia-Pacific and 10% from the rest of the world. Participants represented 19 different industries. One-third of respondents' organisations had annual revenue greater than US\$1bn and just over one-half (51%) had less than US\$500m in revenue. Board members and CEOs comprised 30% of respondents. CFOs, CTOs and other C-level executives made up an additional 19%. The remainder was split among other senior and middle management functions.

Introduction

The baby-boomer generation is a demographic group that has been studied closely for decades. Its influence on everything from consumer spending to public finance has captured headlines and shaped corporate attitudes. Yet, as baby-boomers move towards retirement, an even larger generation with potentially greater influence is emerging. These are the millennials or generation Y, approximately 80m individuals born between 1982 and 2001 in the US alone. This generation outnumbers baby-boomers today, and its ranks will continue to grow in influence as the majority of millennials reach adulthood in the next decade.

That the millennials will affect business and the marketplace is already assured. Social networking sites and Web 2.0 tools all bear their stamp. Millennials have grown up in the digital era and live in a media-saturated environment. Moreover, they have billions of dollars in collective purchasing power. In an era of text messaging and online interaction, what are companies doing to tailor the customer experience for the millennial generation?

To address this question, the Economist Intelligence Unit, on behalf of Genesys, surveyed 164 C-level and other senior executives from around the world to understand how they are attracting and retaining millennial consumers. The main findings of the survey are outlined below.

- Respondents overwhelmingly agree that the millennials have specific marketplace needs, but few organisations have formally prepared for the millennial customer in their strategic or marketing plans.
- When it comes to purchasing products and services, corporate reputation and brand are less important with the millennials than peer recommendation and viral marketing (that is, online promotional communications passed from one customer to another). Moreover, respondents say it is convenience, more than price, that drives millennial purchasing decisions.



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- Companies have not kept pace with the millennials' preference for interacting through newer, community-based technologies, as most firms continue to rely on telephone, e-mail and store/office-front points of contact.
- To attract and retain millennials as customers, organisations will need to adapt business processes to enrich the customer experience and allow greater choice in customising products and services.

An emerging market with high expectations

Executives overwhelmingly agree (81%) that each generation has specific work and marketplace needs, but are split on which demographic group should receive the greater share of market investment. Forty-two percent of respondents believe that a bigger share of investment should go towards younger millennial customers, and 39% say that it should be allocated to established demographic groups such as generation X and baby-boomers.

Although 60% of respondents report that millennials comprise less than one-quarter of their total customer base, three-quarters believe that this young and growing generation will have a modest to major impact on their business and lead to organisational change. Younger respondents, those under 44 years of age, tend to believe that millennials will have a greater impact on the organisation than their older counterparts. Still, any investment in serving millennials is likely to have a coat-tail effect as the technologies, customs and social norms favoured by millennials gain increasing public acceptance.



Convenience, customisation, community and “cool”

Survey respondents illustrated a sophisticated understanding of the consumer profile of the millennial. A sampling of comments point to convenience, customisation, community and “cool” as motivating factors for millennials. Others include “fast, reliable service”, “frictionless interaction”, a “tailored approach”, “honesty and trust” and a “personal touch”.

Customisation, or customer co-creation, is especially important to millennials, according to executives. Nearly 40% of those surveyed believe that companies should allow customers greater choice in designing or tailoring their products, with 32% noting that companies should solicit direct input from millennials in the product creation process. This idea of individually crafting the service or product received seems tied to this young generation’s interest in forming fluid, dynamic relationships with companies, which some survey respondents say help millennials “feel special”.

Seventy-one percent of the respondents say that when it comes to purchasing decisions, millennials care most about convenience, followed by overall style and taste (69%), peer recommendation (67%) and accessibility (65%). Even more striking, executives believe that price—a traditional influence on a purchasing decision—is one of the least important buying factors for millennials. “Top customer service is a priority,” says one survey respondent. “Price is not.”

Executives point to enriched content, enhanced online experiences and peer validation as among the most effective communication channels in serving millennials. Throughout the survey, executives downplay the importance of traditional corporate assets, such as reputation and brand, as key influencing factors for millennials. They recognise that many in this generation find direct one-on-one business-to-consumer (B2C) marketing to be less persuasive in shaping opinion than social consumer-to-consumer recommendations.

Convenience over cost

Percentage of executives that believe the following factors are more important in driving purchasing and service decisions among millennials than other demographic groups





“Customer service is essential. Millennials want to feel special.”

Respondent commentary

This shift has implications for customer service since peer recommendations are typically borne out of direct consumer experience. To the extent that interaction is positive or poor, millennials can (and often do) use their expertise with portable, real-time technologies to provide immediate feedback. The viral nature of these responses can have a swift and powerful impact on a business.

Mismatch between market awareness and business readiness

Executives surveyed attribute these leading characteristics to millennials: ease with technology, willingness to challenge convention and developing fresh, innovative ideas. Nonetheless, more than one-half of respondents say that their organisation does not have a strategy in place for targeting, servicing or retaining millennials as customers. In what may be a reflection of the high proportion of young people in their overall populations, the Middle East and Africa was the only region to deviate from this pattern: 60% of respondents in that region indicate that they have a specialised strategy for approaching millennial consumers.

There appears to be little sense of urgency in addressing the gap between market awareness and business readiness. Most respondents seem comfortable with their present competitive standing: more than three-quarters believe that they fare as well or better than their peers in serving the needs of millennials. This stance presents both risks and opportunities, however. On the one hand, it presents an opportunity for companies seeking to assert themselves in targeting this young and influential market. On the other hand, companies will face increased pressure to reach millennials through their favourite channels, such as social networking, or risk losing competitive ground.

Attracting and retaining millennials as customers

The proliferation of blogs, podcasts, videos, chatrooms, social networking sites and other online interactive communication has changed the corporate-customer relationship. In the past, customers tended to go directly to the company to enquire about a product, make a purchase or raise a complaint; today they increasingly go online. On the web, they learn, shop and share their experiences, both positive and negative, with sometimes startling consequences. Many companies took note of the widely publicised example of the frustrated AOL customer who, upset at how difficult it was to cancel a subscription, recorded every step of the negative customer service experience online. The story went viral from there, eventually making its way onto MSNBC and *The Wall Street Journal*.

For many companies, these customer experiences serve as cautionary tales. No generation is more active online than millennials. In a pre-Facebook world, companies could largely control the message; today, that is no longer the case. Far from serving as a back-office function, customer service will increasingly act as the public face of the organisation.

While survey respondents appear to acknowledge the need for new tactics to target the millennial customer, their responses indicate a gap in readiness. The majority of executives point to “edgier” marketing techniques, such as viral marketing, peer-to-peer recommendations and targeted sponsorship of programmes with high millennial concentrations as the most popular forms of customer contact for millennials. Yet, at the same time, respondents acknowledge that such marketing tactics



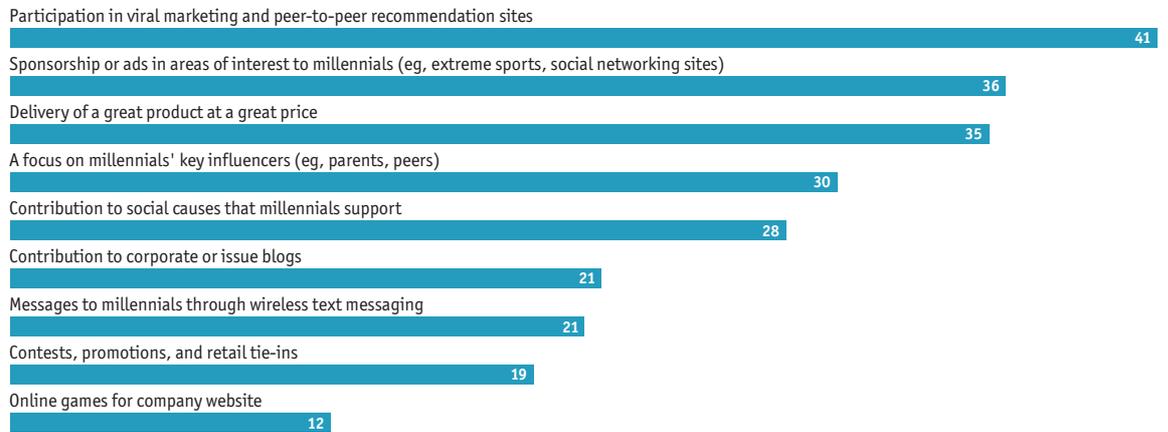
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Methods to reach millennials

Percentage of executives that believe the following techniques are most effective in targeting millennials



require both cultural and technological changes and are not the technologies that their organisations predominantly use for attracting and retaining millennials today.

Around the globe, telephone, e-mail and physical store or office fronts remain the primary points of contact for organisations, although regional differences exist. Asian respondents rely most heavily on physical locations (45%), while North American respondents say that the telephone is their principal channel (50%). West and east Europeans leverage e-mail technologies more than other regions (52% and 56%, respectively), while the Middle East and Africa are split evenly between telephone, e-mail and storefront (7% each).

Across all regions, few respondents appear to have embraced new technologies such as webinars, online customer service and blogs as a means of providing consumer information and access. These instantly accessible, online tools are not used even though 44% of respondents indicate that communicating the right messages in the right medium and at the right time ranks as their biggest challenge.

Customer contact implications

More than one-third of all executives cite the goal of offering superior customer service and value as their main customer priority over the next three years. Moreover, nearly two-thirds of respondents agree that customer service is a competitive advantage and critical to growing and retaining their customer base.

Companies such as Dell Computer, Comcast and Southwest Airlines increasingly monitor social networking traffic. Recognising that customer loyalty ties directly to customer experience, these organisations see their customer contact departments as the profit centres of the future—and not the cost centres of the past. This is especially true when it comes to courting millennial customers. Some millennials have been pleasantly surprised to find that a customer service grievance aired on Twitter (a micro-blogging, social networking service) can generate an almost immediate corporate response.

But these companies are still largely the exception. Survey results show that most organisations around the world recognise that more needs to be done to prepare customer service professionals to



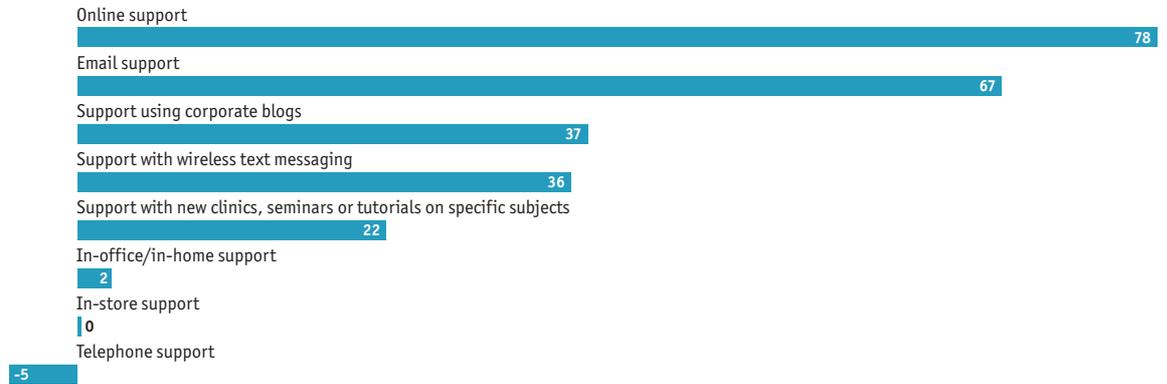
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Support millennials electronically in the future

Net percentage (percentage of “less important” subtracted from “more important” responses) from surveyed executives showing their group opinion on the importance of the following customer service preferences for millennials compared to other generations, over the next three years



respond to the new technological and communications environment. This requires both resources and training to use customer contact communications to gain a competitive advantage.

Technologies and customer feedback mechanisms must evolve to rebalance the customer contact portfolio. In the future, telephone and in-store contact will occupy a smaller share of contact offerings, say executives, to be replaced with increasing use of online support, e-mail, blog and wireless text messaging support. In Europe, 84% of respondents indicate that online support will be the customer service channel of choice for millennials. The Middle East and Africa underscore this finding, citing e-mail (90%) and online support (80%) as the most popular support tools over the next three years. Wireless text messages appeal to many across the regions, while blogs rank low on the priority list everywhere except North America and the Middle East and Africa. Regional differences aside, the survey data clearly point to the widening global preference of online technologies as the primary means of future customer connection.

Customer contact can offer a great opportunity for a company to distinguish itself in the digital environment. Forty-one percent of survey respondents recognise that online communities in which customers can post comments are the most effective way to serve millennial customers. While some organisations have been quick to adapt, using social networking sites and other new media to answer questions, exchange information and increase response times, many others find themselves tied to more traditional forms of communication. Yet, senior executives currently cite e-mail, telephone and online customer support as the channels of customer support on which millennials rely. In the light of this gap between market awareness and business readiness, customer service will increasingly become a key strategic consideration and priority for C-level executives over the next five years.



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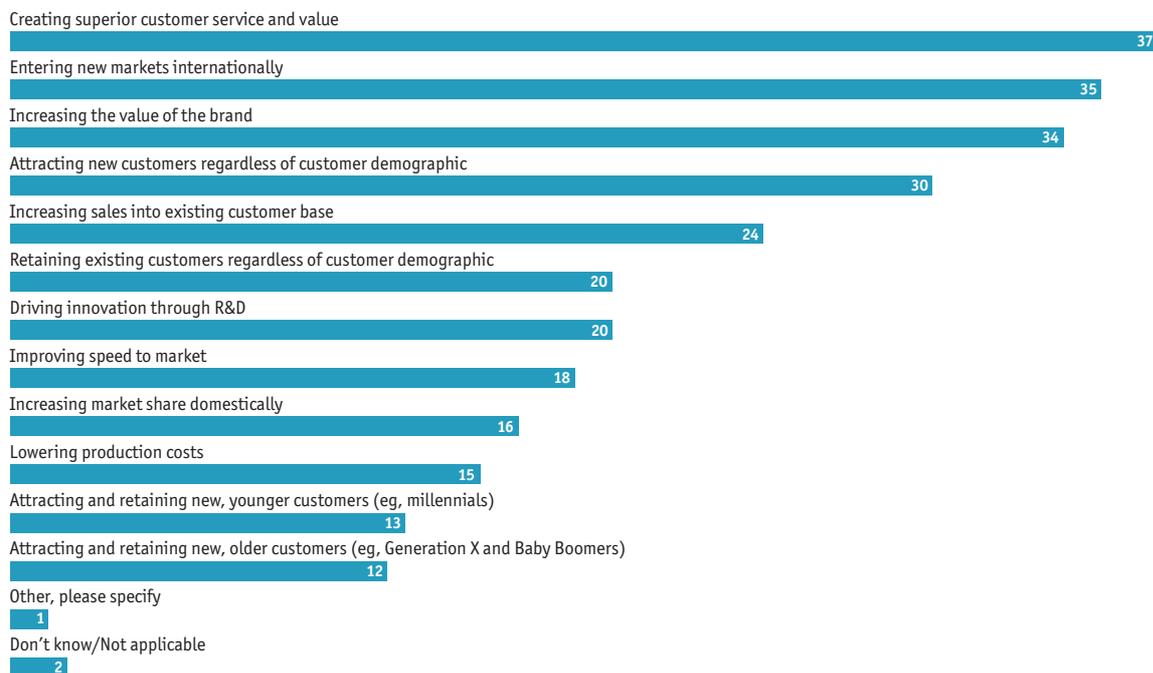
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Conclusion

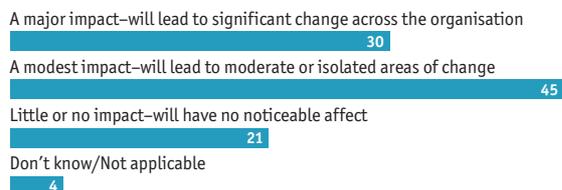
Millennial influence has yet to reach its peak, but its force is already being felt. The young demographic group continues to grow in buying power and as a percentage of the overall population. No generation in history has been so prepared at so young an age to use technology as an agent for change. Millennials' ease and access to on-the-go, anytime computing has, in a few short years, spawned new channels of communication, collaboration and commerce. These channels increasingly shape the millennial buying experience. With superior customer service identified as a strategic cornerstone for most global organisations, executives will need to adapt business processes and exploit technology to enrich and personalise the customer experience. Indeed, failing to consider the customer contact preferences of millennials would be WOMBAT (a waste of money, brains and time), as millennials would note in text messages.

Appendix: Survey results

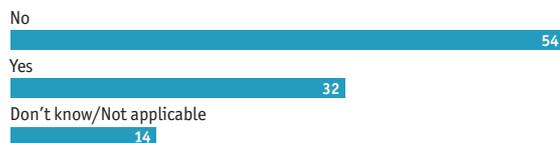
What are your organisation's top customer priorities over the next three years? Select up to three
(%)



Over the next three years, what impact do you expect the millennial generation to have on your organisation as customers?
(%)

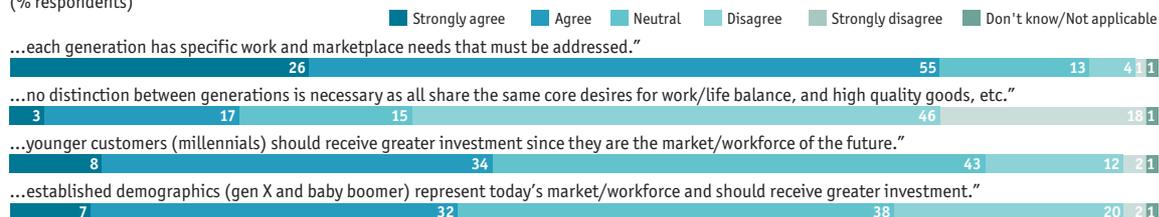


Does your organisation have a strategy for targeting, attracting or retaining millennials as customers?
(%)



How strongly do you agree with the following statements? Please rate each option. "When determining where to make business investments over the next three years, management should recognise that..."

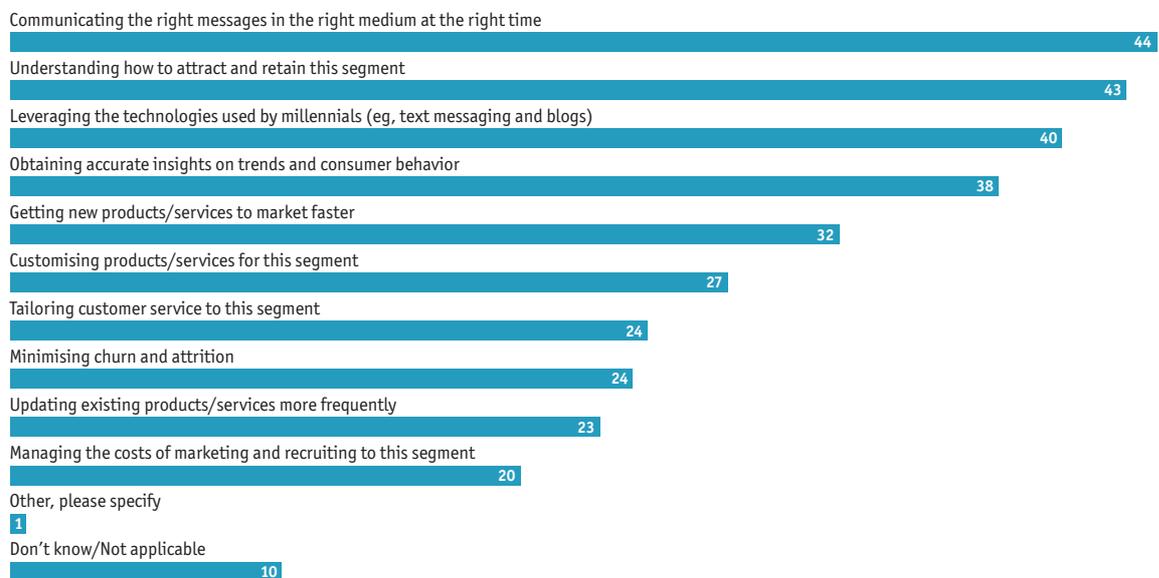
(% respondents)



Which of the following are the biggest challenges for your organisation in addressing the needs of the millennial customer?

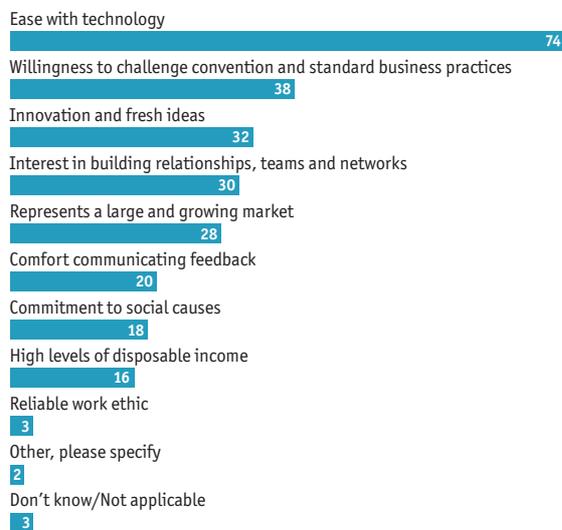
Select all that apply

(%)



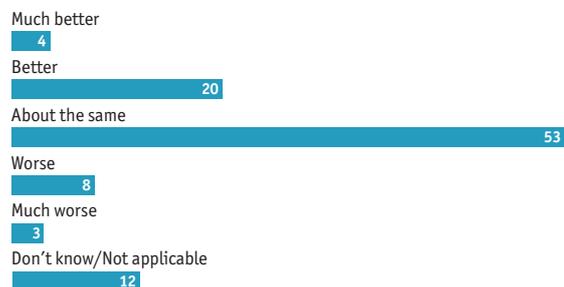
In your opinion, what do you consider to be the most distinctive characteristics of millennials?

Select up to three
(%)



Compared to your competitors, how well do you think your organisation has responded to serving the needs of millennial consumers?

(%)

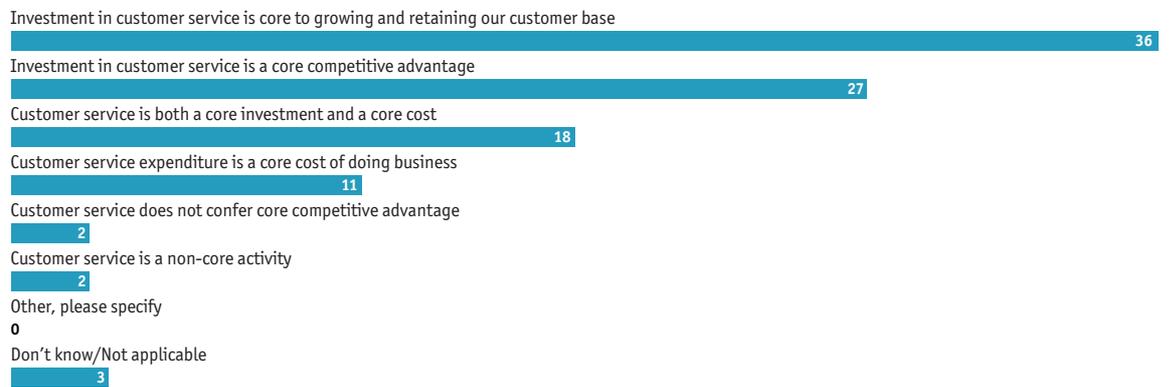


Compared to other generations, how important are the following factors in driving purchasing and service decisions among millennials?

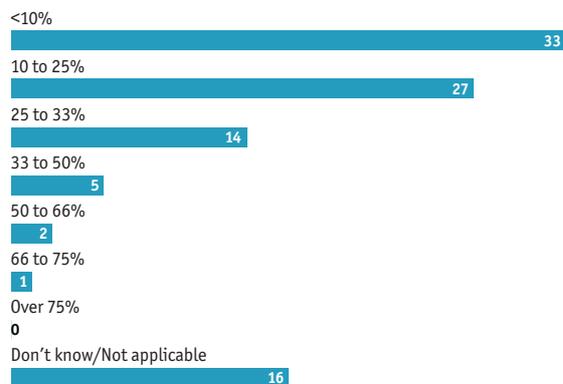
Please rate each option
(% respondents)



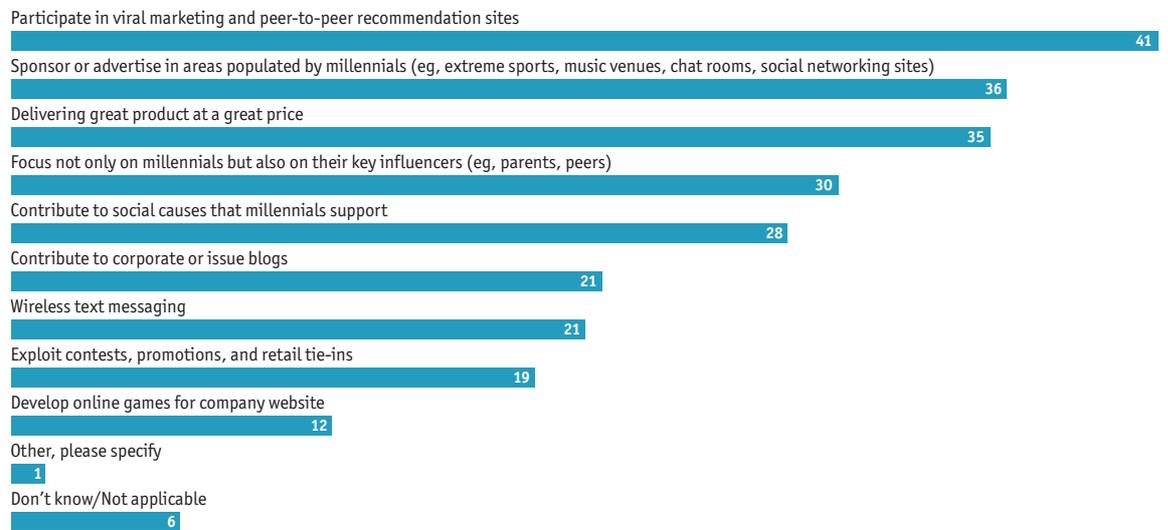
Which statement best describes your view on how customer service is perceived within your organisation?
(%)



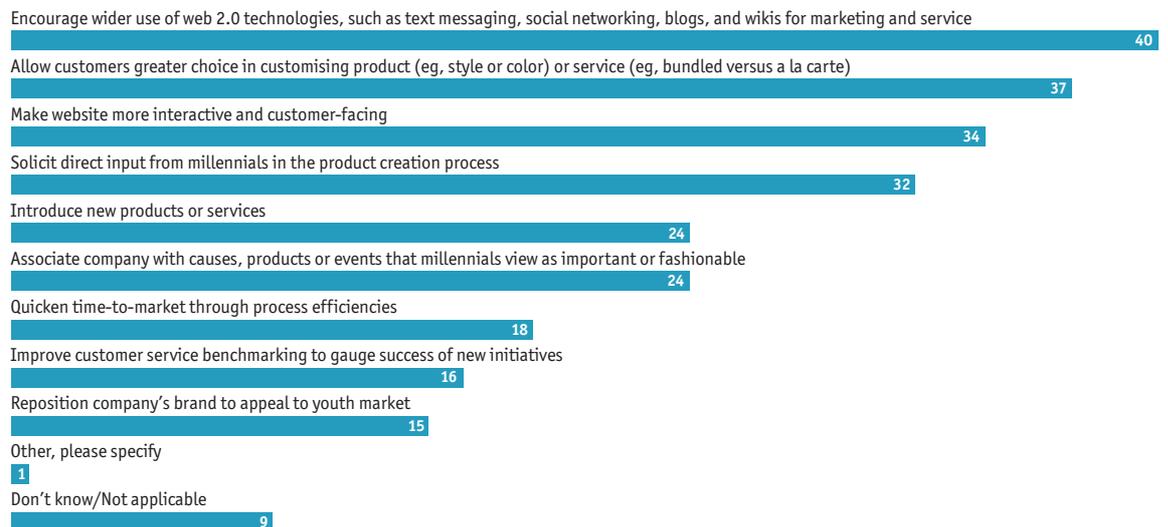
To the best of your knowledge, what percentage of your customer base do millennials currently comprise?
(%)



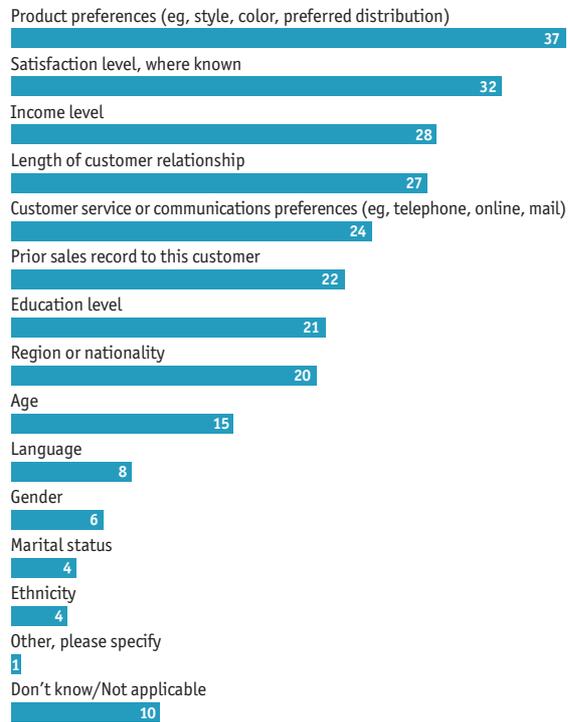
What techniques do you believe are most effective in targeting millennials? Select up to three
(%)



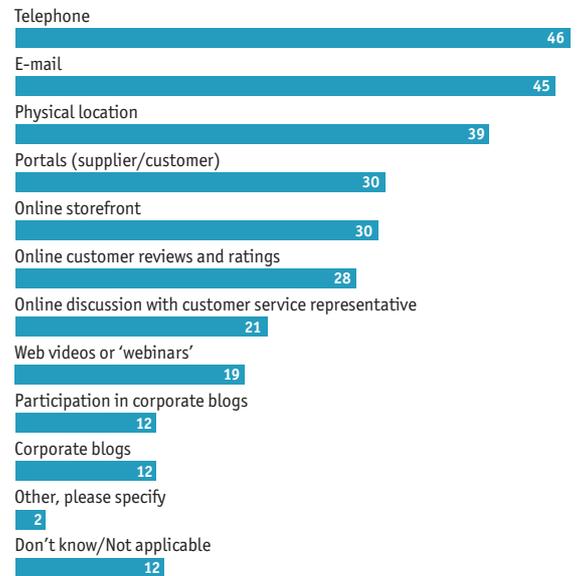
What are the most important steps your organisation can take to retain millennials as customers? Select up to three
(%)



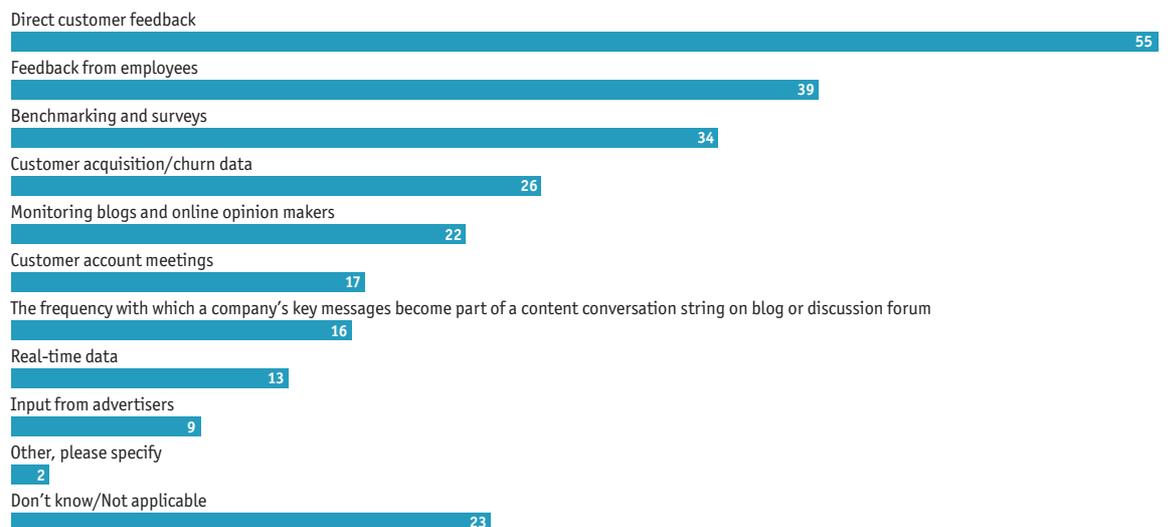
To the best of your knowledge, what top demographic factors does your organisation consider in tailoring its customer contact strategy? Select up to three (%)



How can millennials currently research or purchase your organisation's products? Select all that apply (%)

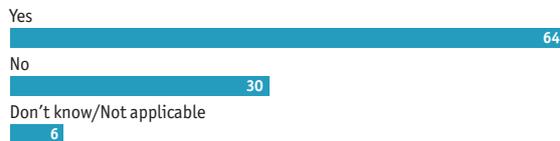


How do you monitor customer satisfaction among millennials? Select all that apply (%)



Does your organisation have formal programmes in place to track and respond to negative customer feedback?

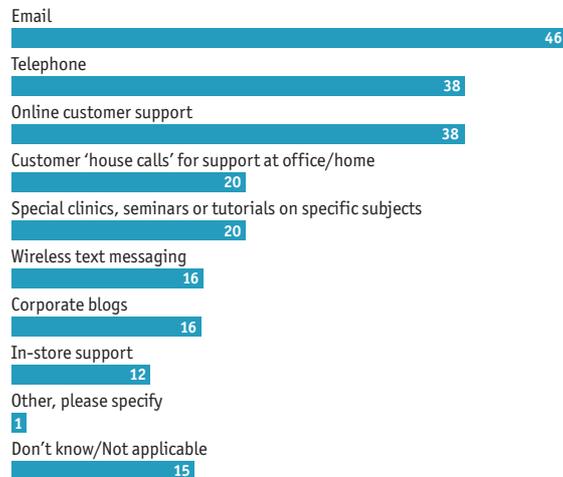
(%)



To the best of your knowledge, what forms of customer service do millennials currently rely on most at your organisation?

Select top three

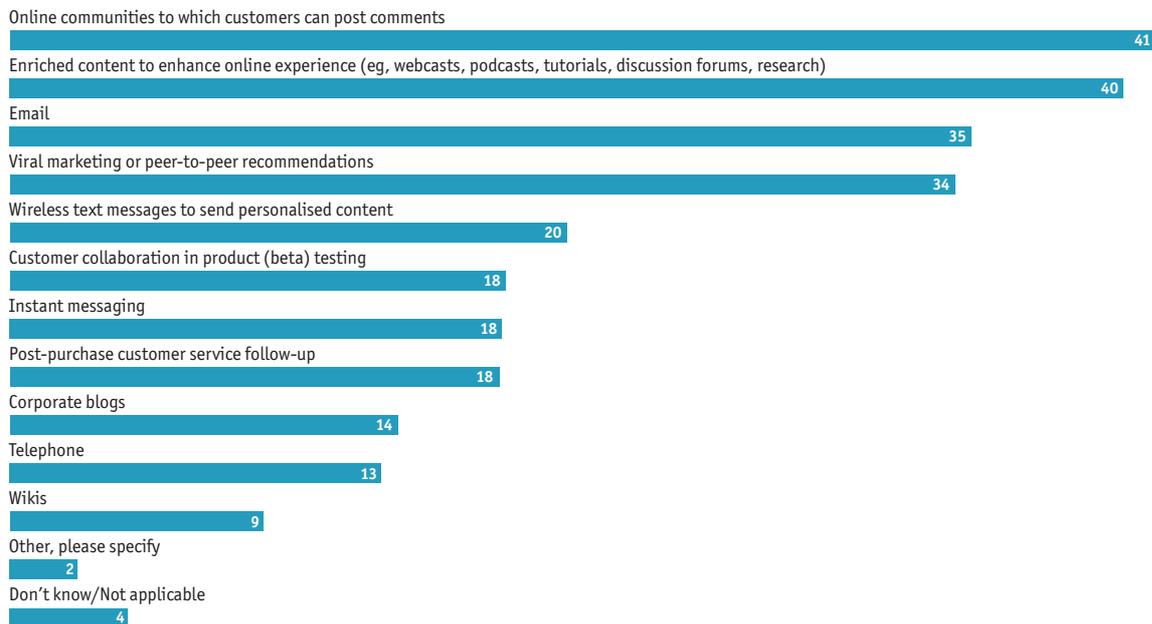
(%)



Which communications channels do you believe are most effective in serving millennial customers?

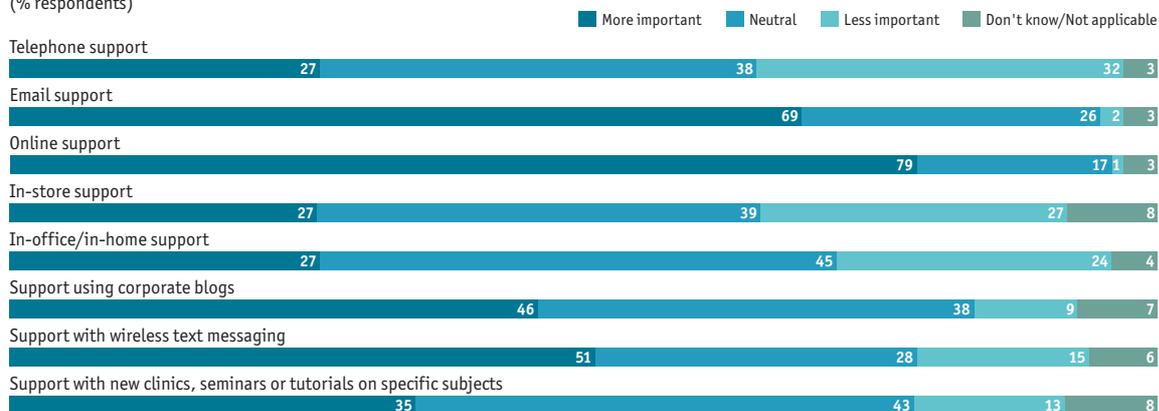
Select top three

(%)



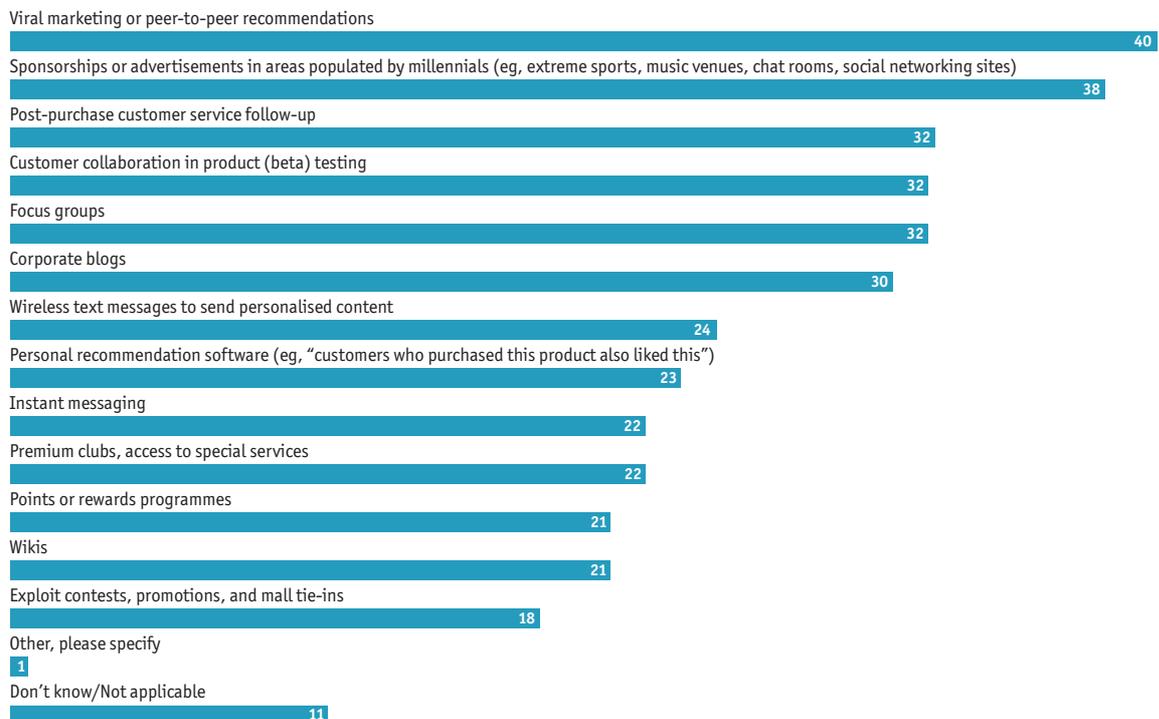
Over the next three years, how important do you see the following customer service preferences to millennials, compared to the preferences of other generations?

Please rate each option
(% respondents)



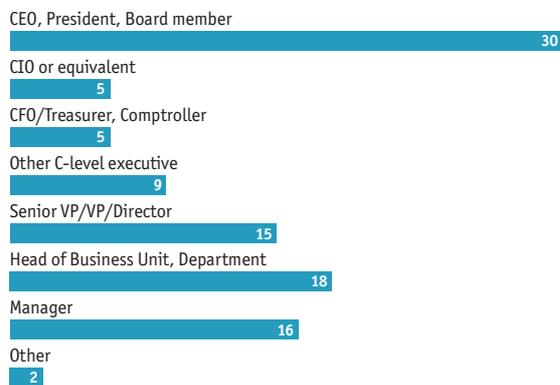
To build customer loyalty with millennials, what marketing channels should your organisation focus on over the next three years?

Select all that apply
(%)



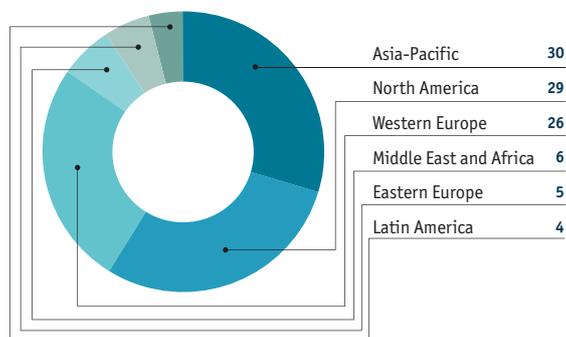
Which of the following best describes your job title?

(%)



In which region are you personally based?

(% respondents)



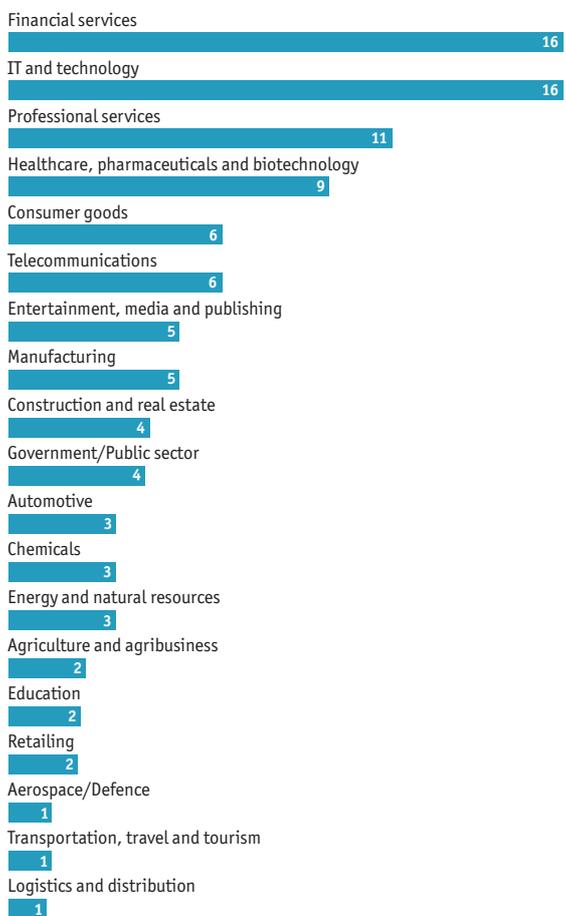
How old are you?

(%)



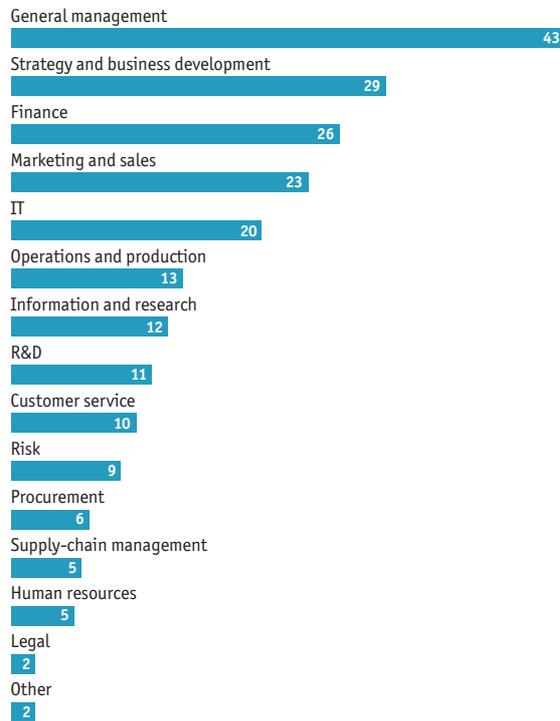
What is your primary industry?

(%)



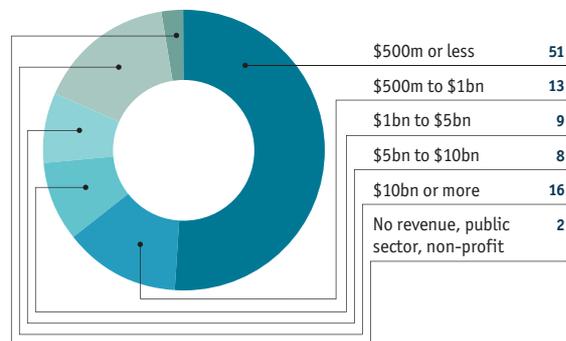
What are your main functional roles?

Please choose no more than three functions
(%)



What are your company's annual global revenues in US dollars?

(% respondents)



Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in the white paper.

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