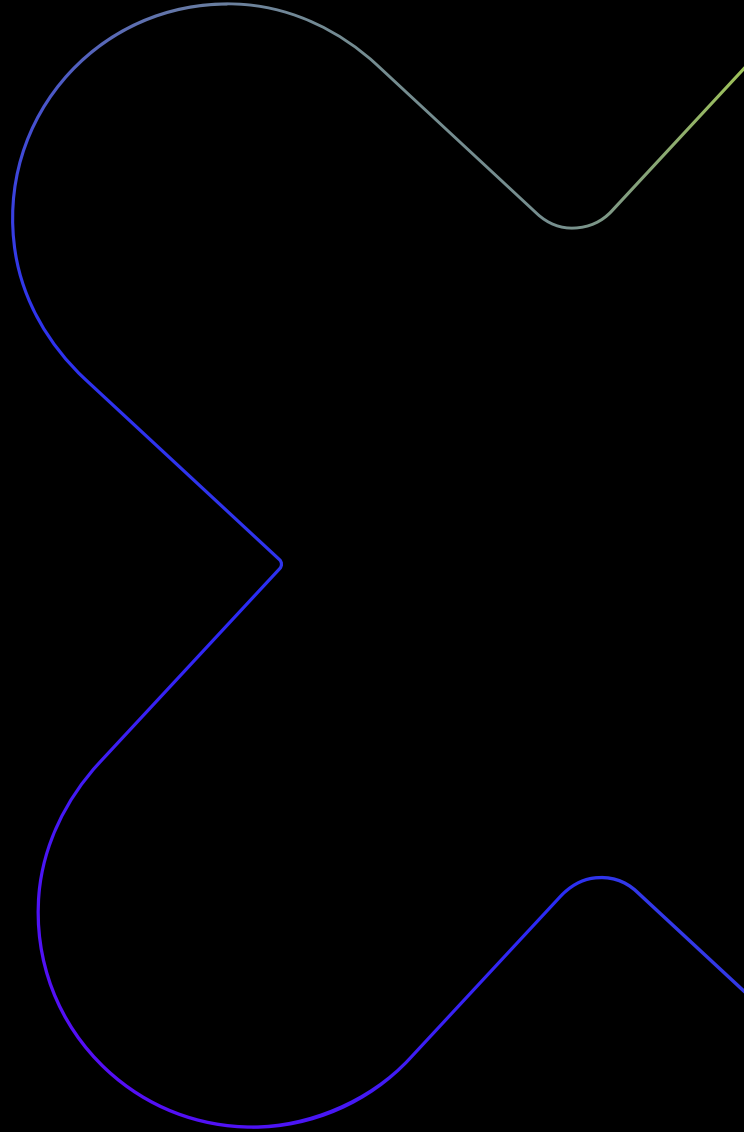


Are Payments the Key to Maximising Gen Z Appeal for the High Street?

Guide



The High Street is facing the fight of its life



2,481

Shops disappeared from UK high streets in 2018
(Source: PwC)



£93.82 billion

Total value of UK eCommerce sales in 2018
(Source: eMarketer)



2.2%

Drop in UK High Street shopping in 2018
(Source: British Retail Consortium)



One in every five pounds

was spent online in 2018
(Source: eMarketer)

Stories in the media don't paint a rosy picture for high street retail. High rents, business rates and staffing costs have made it increasingly expensive to run a bricks-and-mortar store. At the same time, shopping habits are changing rapidly, with consumers ditching the high street for the convenience and choice of buying products online. When Amazon and ASOS.com can guarantee delivery within hours of clicking the "Buy" button, why venture out to buy something?

For many retailers it's been difficult to stay afloat. Stores have closed by the hundreds. Once-dominant chains like Debenhams and House of Fraser have had to drastically restructure to fight off extinction. And other businesses have warned that rents will have to drop significantly if they are to survive in the future.

Salvation could come from an unlikely place

Research methodology

PXP surveyed 163 members of the Generation Z cohort, all aged between 18 and 25, through an online survey to learn about their experience of payments and the physical retail experience. All survey respondents were from the United Kingdom.

67%

of Generation Z shop in a physical store most of the time

(Source: IBM and National Retail Federation)

You probably wouldn't expect the first generation of digital natives to have an appetite for the physical shopping experience, but it's true. In fact, stores like Abercrombie & Fitch, Hollister and House of Vans are bucking the downward trend by harnessing the power of Generation Z and its growing love affair with bricks-and-mortar retail.

Considering Gen Z's huge spending power, retailers should take notice of what Abercrombie & Fitch, Hollister and House of Vans are doing to appeal to this demographic. What is the secret ingredient in their customer experience that has proven such a hit with an otherwise digitally obsessed demographic? And what role does payments play in creating a physical retail experience with maximum Gen Z appeal?

\$44 billion

Generation Z's potential purchasing power

(Source: Coresight Research)

This is what PXP set out to understand when it spoke to 163 members of the Generation Z group aged 18 or over. Respondents were asked what they look for when it comes to the ideal customer experience in a high street store. Questions focused on the role of payments in the shopping experience, and what's important to Gen Z during the instore transaction process.

In doing so, PXP aims to provide high street merchants with invaluable insight into what matters the most to Generation Z. Read on to learn more about this new generation of consumers and the data and tools needed to evolve the instore experience to meet their demands.

What do we mean when we talk about Generation Z

Before we share the research findings, it's useful to define Generation Z, especially in contrast to Millennials. There's a lot of misinformation around this, especially from middle-aged journalists and media pundits, who use the term "Millennial" pejoratively to refer to any teenager or twentysomething individual.

According to the most robust definitions, we can define the difference between the two cohorts as follows:

- A Millennial is anyone born between 1981 and 1996.
- Someone from Generation Z (or a "Gen Zer") is anyone born from 1997 onwards.

This means that the oldest members of the Gen Z cohort are now in their 20s, leaving university, joining the workforce, and enjoying the growing purchasing power that comes from salaried employment.

What is the Generation Z experience?

It's hard to make broad generalisations about an entire generation of people, but various sources have observed certain consistent characteristics across this demographic:

The first true digital natives

Unlike the Millennials before them, who experienced the internet boom and the rise of eCommerce, Gen Z has always had access to persistent high-speed internet, social media and on-demand streaming entertainment. The iPhone launched in 2007, when the oldest of Generation Z were 10 years old, and many will have only ever experienced smartphones. Whereas Millennials had to adapt to these innovations, for Generation Z they are a birthright.

What do we mean when we talk about Generation Z

(Continued)

Total immersion in social media

Generation Z is completely engaged with social media and digital life, with Snapchat, YouTube and Instagram the most popular networks. What's more, the dual-screen habits that Millennials exhibited are second nature to Gen Zers – they have no problem using social networks while simultaneously consuming other media on streaming channels (for example, Netflix or Twitch) or even activities in real life (IRL, to use some Gen Z lingo). This has led many to consider Generation Z excellent multi-taskers.

More financial responsibility

Many of Generation Z will have been children during the financial crash of 2008 and growing up in the shadow of a global recession has shaped Generation Z's attitudes towards spending. As a result, Gen Zers are savers - 60% already have a savings account and 74% claim they are more focused on saving for the future.

Different attitudes to brands and the shopping experience

Gen Zers are more likely to support brands that match their values, particularly on sustainability, equality and representation. They also praise authenticity and transparency in brand communications on any channel. Crucially, where 41% of Millennials "showroom" and try out products instore before buying them for cheaper online on their phones, 98% of Gen Zers prefer the experience of shopping instore. In fact, Generation Z is the generation that is most likely to say going to the shops is enjoyable (76%).

So what makes Generation Z so different?

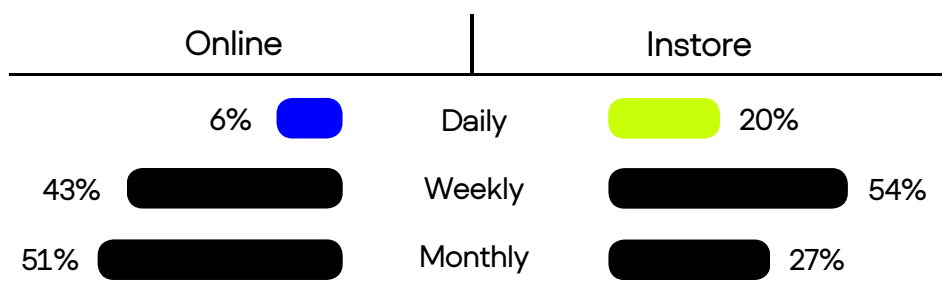
In the next section, we'll look at the responses to the online survey to find out what makes Gen Z unique, what they like about the instore experience compared to eCommerce, which retailers they visit, and what they're looking for from an ideal shopping experience.

Talking to Gen Z

Generation Z is flocking to bricks-and-mortar stores

As expected, the survey found that Generation Z visits physical stores on a regular basis. Looking at Figure 1, we can see that Gen Zers are more likely to shop instore daily and weekly than they are to do so online. However, Gen Zers are more likely to shop online on a monthly basis than they are to shop instore monthly.

Figure 1. How often do you shop online and/or instore? (Q11 & Q13)



What’s interesting is the reason why they largely prefer the instore shopping experience over online. Figure 2 shows us that the main reasons Gen Zers favour instore are because they can try items out before buying and then make an immediate purchase, which 73% and 62% of respondents preferred. Even in an age of next-day Amazon delivery and free returns on ASOS.com, there appears to be no substitute for trying something out and being able to buy it that very second. No surprise for a generation conditioned to expect instant gratification.

Talking to Gen Z

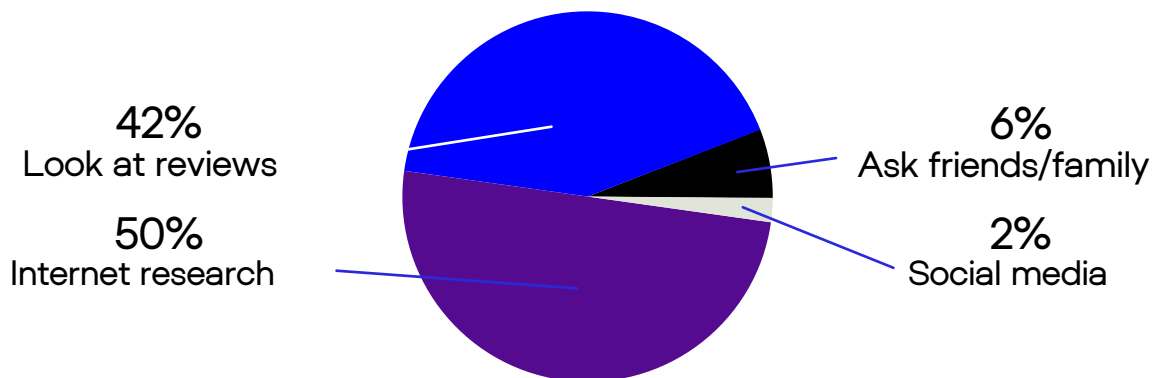
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The lack of shipping costs (42%) is also appealing, exactly the kind of money-conserving attitude that one might expect from such a financially conscious demographic. It also appears that the customer experience (20%) and expert sales advice (13%) offered by bricks-and-mortar stores are less compelling reasons to go instore. This is likely because Gen Zers will turn to internet research and online reviews to inform their purchasing decisions (see Figure 3). Retailers with bricks-and-mortar stores should not, however, rely on the immediacy of the service they offer as a competitive advantage. They should instead consider it an opportunity to create a compelling, unique customer experience that brings Gen Zers through the door.

Figure 2. What would make you go into a store instead of making an online purchase? [Q14]



Figure 3. What research would you undertake when making a big purchase?

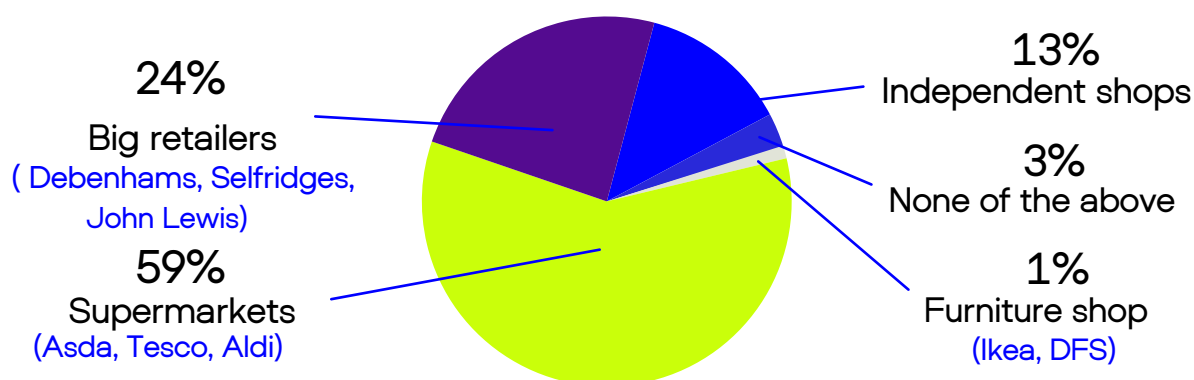


Talking to Gen Z

(Continued)

These attitudes might be explained by the kinds of stores that Gen Zers prefer to visit in person. Looking at Figure 4, we can see that 58% prefer to shop instore at supermarkets like Tesco, Asda or Aldi. Roughly one in four (24%) prefer to shop instore with big retailers and department stores like John Lewis or Debenhams, and only 13% prefer to shop instore with independent shops. Interestingly, only 1% of Gen Zers prefer to go instore at furniture retailers

Figure 4. Where do you prefer to shop in-store?



With the eldest of Generation Z currently aged 25, members of this demographic are still largely in the early stages of their careers, if in employment at all. This lack of disposal income could explain why the vast majority of visits to physical retailers are to supermarkets, followed by other retailers – the vast majority of Gen Zers' disposal income will be spent on essentials like food and drink, and the rest on items like clothing, electronics, etc. It's also likely that Generation Z will primarily be renting or living at home, meaning big-ticket purchases like furniture would not be relevant.

However, it's worth noting that this will change as Gen Zers age, progress further in their careers, and have more money to spend on luxury items. Understanding the payment preferences of Generation Z now is important, as people in this cohort will carry their payment behaviours with them into later adulthood.

Generation Z's payment preferences

One thing that our research made clear was the importance to Generation Z of payments in the shopping experience. The table in Figure 5 ranks the most popular payment methods for Generation Z according to those surveyed.

Unsurprisingly, debit cards are the most popular payment method, with mobile wallets and cash a joint second. So, while cash is still popular, cashless methods are more favoured, particularly digital ones. Over half of respondents (56%) use a banking app every day, with over a third (37%) using a banking app every week. Offering the opportunity to pay with digital methods should therefore be a key priority for any retailer wanting to reach Generation Z shoppers.

Interestingly, credit cards and prepaid gift cards are the joint third most popular payment method. Given the popularity of gift cards, retailers should think hard about how they can make this payment method more in line with Gen Zers and their habits. For example, digital gift cards accessed through a retailer's app could be an interesting way to appeal to these shoppers.

Figure 5. Most popular payment methods



Generation Z's payment preferences

(Continued)

Wearables are the fourth most popular payment method, and there could be many reasons for this. Smart watches and other wearables are still not widely thought of as payment devices, and only certain models are equipped to do so. The high average cost of these devices also puts them outside of the budget of many in the current Gen Z cohort. However, retailers should consider that wearables will grow in popularity as a payment peripheral in the coming years and offering them before competitors do could secure a competitive advantage.

Cryptocurrency is the least popular payment method, which is understandable given that digital currencies are still relatively niche, and few physical stores accept payments in this way. However, Facebook could potentially take the concept mainstream, particularly among the more technologically experienced Gen Z demographic, with its Libra currency, due in 2020. Retailers should consider now whether it is worth investing in the capabilities to accept cryptocurrency payments instore in the future.

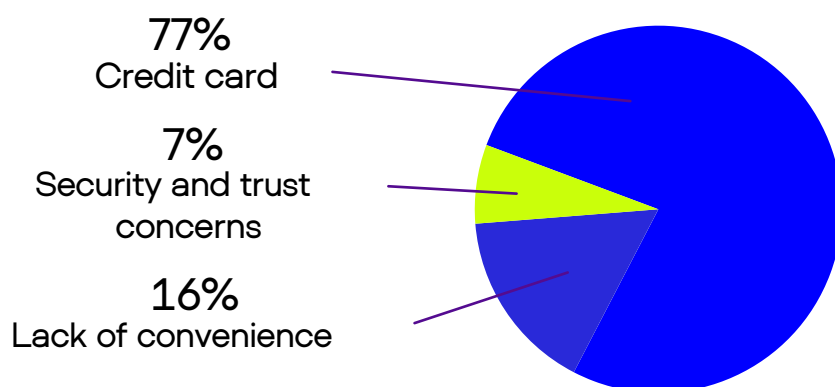
Generation Z has clearly embraced cashless payment methods, particularly digital banking and mobile payment apps. What is important to understand here is that the preference for these payment methods is entirely about convenience – only 9% of Gen Zers consider security the main benefit, and just 1% enjoy the excitement of modern payment methods.

Generation Z's payment preferences

(Continued)

It's also clear that cash is not just declining in popularity, but an actual inhibitor of sales. Nearly three-quarters (74%) of our respondents would consider a cash-only store a deterrent to paying. However, the reasons why (see Figure 6) are interesting. For 77% of those surveyed, a cash-only till is off-putting because they simply do not carry cash. Factors such as the inconveniences of cash (16%) or worries about security (7%) were distant factors for the respondents. There's no way to dress that one up: retailers that do not support cashless payment methods instore are missing out on Gen Z sales.

Figure 6. Why are you put off by a cash-only till?



How can bricks-and-mortar stores meet the needs of Gen Z?

57%

Of Gen Zers are comfortable using biometrics

94%

Of Gen Zers have never used VR or AR when shopping

Offer cashless and contactless

If there's one thing that our research made clear, it's that Generation Z has taken up cashless methods of payments. Failing to offer them means Gen Zers won't be able to pay the way they want to. It also means that you can support payment from digital wallets and mobile banking apps, which are increasingly offering biometric authentication methods – something that Generation Z is enthusiastically embracing.

Invest in the instore experience

Generation Z is flocking to bricks-and-mortar stores, but you have to offer something more than just shopping - you have to offer an experience. Create a store environment that's unique, engaging, and, most importantly for this demographic, worth putting on Instagram. Consider how you could augment the shopping experience with cool tech like Virtual Reality or Augmented Reality. They're not widely implemented in retail yet, but that means there's an opportunity to do something no one else is doing – and attract the attention of Gen Zers.

How can bricks-and-mortar stores meet the needs of Gen Z?

(Continued)

69%

Would shop in a store where payment is taken from the shopper's mobile as they leave

Make the payment experience invisible

The Amazon Go Store model has been gaining a lot of press recently. There are no tills or checkouts in these stores, customers simply pick up what they want and leave. Smart sensor technology registers which items the shopper has taken and automatically charges their Amazon account. This kind of instore shopping setup, in which there is no explicit payments moment, is hugely appealing to Generation Z, a group that is rapidly moving away from cash and has been raised on the instant background payments of apps like Uber. Retailers might want to consider how they can implement an experience like Amazon Go.

It's time to prepare for the next generation of shoppers

The behaviours of consumers constantly evolve from one generation to the next. The rise of eCommerce is an example of how the shopping habits of Millennials and Generation X changed, abandoning the high street for the speed and convenience of online retail.

But Generation Z is bucking this trend, sticking with the high street and actively seeking out the instore retail experience. If retailers want to harness the power of Gen Z and compete with digital rivals, merchants need to ensure they have the tools to meet this demographic's shopping and payment needs instore. By building a compelling, credible, developing a strong presence across all channels, and working hard to bridge the gap between the online and instore experience, the returns could be huge.

PXP's research and recommendations will help retailers enhance their store portfolios and appeal to Gen Zers. Following the guidance in this white paper, and by talking to PXP's payments experts, your business can prepare for the next generation of shoppers.

It won't be long before Generation Z becomes the largest, highest-spending consumer demographic. Retailers that learn how to meet the needs of Gen Z now will benefit for years to come.

Case study

Abercrombie
& Fitch

[Click here to read how Abercrombie & Fitch transformed its instore payments experience with PXP.](#)

