bread financial™

The rules of NextGen loyalty

Examining Gen Z, Millennials, and tomorrow's loyalty landscape

We live in a time where change and choice are the only true constants.

Their influence on Gen Z and Millennials is simply undeniable.

New experiences, innovative technologies, instant access to information, and an abundance of choices are continually changing how consumers engage with brands. It's critical that we understand the impact on shopping behaviors and the influence on loyalty. That's why Bread Financial is working to understand what's next for consumers.

Recognizing that our two largest consumer segments yet, Gen Z and Millennials, are coming into their own, The Rules of NextGen Loyalty were developed to help brands understand motivations that influence brand connectivity and facilitate lasting loyalty.

Focusing on data-driven insights and drivers to predict and motivate shopping, engagement, and loyalty behaviors.

Through an advanced and progressive research process, The Rules of NextGen Loyalty reveal how Gen Z and Millennials are shifting tomorrow's loyalty landscape.

360-DEGREE VIEW

To gain a 360-degree view of young consumers, we conducted the NextGen Loyalty research study in three distinct phases using market-leading techniques and generation-specific engagement.

01. Discovery
– Geo-fencing technology tracked mobile diary participants

– In-the-moment surveys collected shopping insights

– Digital app tracking provided insights on actual versus claimed behavior

– Follow-up surveys collected responses, videos, and photos

02. Going deeper
– Skype interviews provided the "why" behind the "what" with shopping and loyalty insights

– One-on-one conversations provided personal, intimate, and in-depth insights into brand behavior and path to purchase
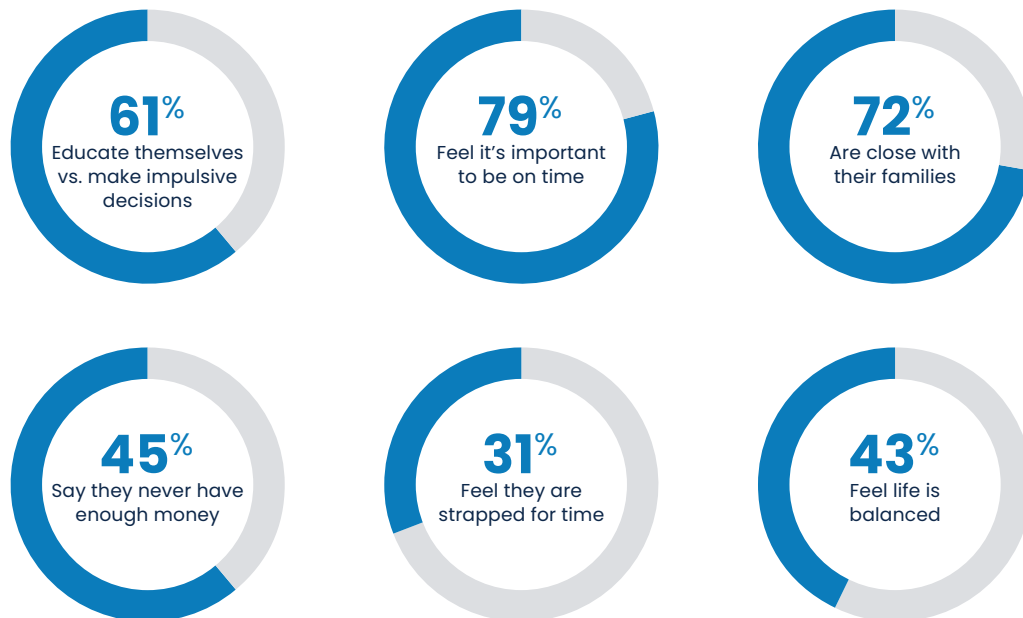
03. Completing the 360
– Analysis of previous phases informed the broader quantitative online survey

– Surveyed behaviors, attitudes, shopping habits, preferences, and loyalty

On the surface: a snapshot of today's youngest consumer segments

Each generation displays their own unique qualities and subtle differences in views on shopping. Understanding these differences and the influence of life stage on views, we segmented Gen Z and Millennials into three distinct consumer groups. Collectively, we refer to these groups as younger consumers.

Younger consumers have similar feelings about certain aspects of their lives:

61% Educate themselves vs. make impulsive decisions

79% Feel it's important to be on time

72% Are close with their families

45% Say they never have enough money

31% Feel they are strapped for time

43% Feel life is balanced

Gen Z Ages 8–20 (Born: 1998–2010)

Older members of this generation are likely beginning college, trade school, or their first jobs. They're moving out of their parents' houses and just starting to experience financial independence.

Young Millennials Ages 21–28 (Born: 1998–2010)

Young Millennials are experiencing major life events. They're opening credit cards, getting engaged and married, purchasing cars, and starting their families.

Older Millennials Ages 29–36 (Born: 1982–1989)

Older Millennials are moving beyond early adulthood events. They've started their families and may be purchasing their first or even second homes.

How younger consumers are using their mobile devices based on digital app tracking insights:

Gen Z spent more than double the time on Snapchat than Millennials.

Young Millennials were more likely to spend time on Facebook than Gen Z and Older Millennials.

Older Millennials were more likely to spend time shopping on Amazon than Gen Z and Young Millennials.

Going deeper: relationships with brands

Gen Z and Millennials are products of their environments, and as a result high expectations are the norm.

They have grown up with instant access to information and brands that are available 24/7. This real-time connectivity informs and influences every decision regardless of time, place, or circumstance. However, they have not abandoned more traditional forms of brand engagement. In fact, they are finding ways to combine the digital experience with in-store visits.

Younger consumers were asked how they keep up with brands they love.

MORE THAN 50%
shop in store

62–67%
shop/browse online

USE A BRAND'S MOBILE APP NEARLY 2x more
than older shopping segments

Real people. Real conversations.
To further understand who they are, we conducted individual interviews. Meet some of our Skype interviewees:

Bethany, age 19, lives with parents, college student

She expects brands to have integrity. She's looking for a great experience while shopping at their stores and using their products. If something goes wrong, she expects a brand to make it right.

Shopping and loyalty are all about the experience and she hates when stores feel crowded.

Cassandra, age 27, married, substitute teacher

She keeps a close circle of friends and appreciates an open mind, patience, and understanding.

She feels invested in brands when they make her life easier, make her feel good, and don't give her any trouble. Customer service and a good return policy are important when choosing which brands to shop.

Lisa, age 31, married, teacher

She likes brands that are close to home and avoids the mall at all costs.

Convenience is very important to her. It's easier if she can see how things go together so she can make a quick decision and finish shopping in one trip.

THE RULES OF NEXT GEN LOYALTY

Loyalty through their eyes

As each generation evolves, so do their attitudes and behaviors. Bread Financial's The Generational Perspective (2017) established that attitudes and behaviors are also influenced by events and experiences unique to each generation. Ultimately, this changes the way these consumers approach brand loyalty.

Building relationships with today's younger consumers means getting loyalty right in their eyes.

Loyalty is:

Earned.
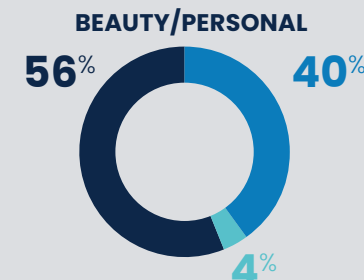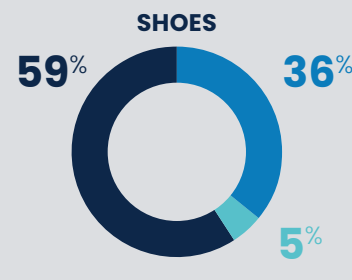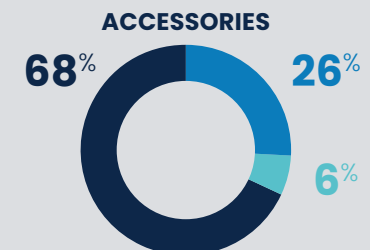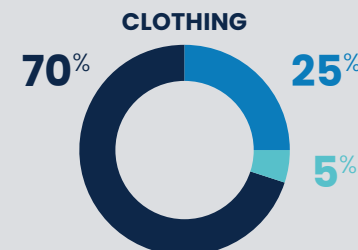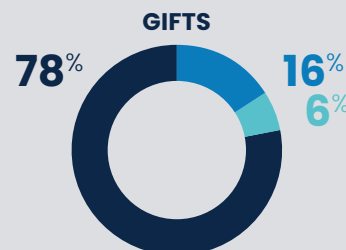## Complex.
Fragile.
Multifaceted.

Loyalty is earned

Instant access to information and greater choice have put consumers in control. Armed with choice, consumers increasingly have the ability to be more selective when it comes to where and how they shop. It's about what suits their needs at the time. And it doesn't matter where or how they're shopping. Gen Z and Millennials are extremely comfortable online or in store and expect a consistent experience from brands, regardless of the channel.

More choices, places, and ways to buy: where they're shopping

Dual channel consumers

In a "digital world," younger consumers aren't exclusively digital. They shop in multiple channels for multiple products based on their needs.

- ■ Dual
- ■ In store
- ■ Online

GIFTS
78% 16% 6%

CLOTHING
70% 25% 5%

ACCESSORIES
68% 26% 6%

SHOES
59% 36% 5%

BEAUTY/PERSONAL
56% 40% 4%

FURNITURE/HOME DECOR
53% 43% 4%
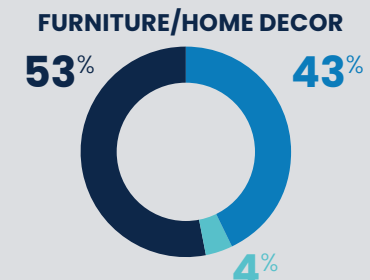
More choices, places, and ways to buy: how they're shopping

43%
of Gen Z say it's important a brand be **"accommodating to my needs"**

Compared to:
34% of Young Millennials
33% of Older Millennials

61%
of Young Millennials shop online and on their phone for **price**

Compared to:
52% of Older Millennials
46% of Gen Z

55%
of Older Millennials **rarely purchase something different** if they like a brand

Compared to:
53% of Young Millennials
51% of Gen Z

Nearly 7 in 10
Gen Z and Young Millennials **shop in store for the experience**

Compared to:
42% of Older Millennials

More than 70%
of Millennials **shop online and on their phone for convenience**

Compared to:
62% of Gen Z

"I like browsing my favorite stores online. If there are a lot of good deals, the store is nearby, and/or I need the products sooner than can be delivered by mail, I'll go to the actual store."

YM, female

LOYALTY IS EARNED

The reality is that greater choice means consumers no longer see loyalty as something they freely give—brands now must earn it.

Price and quality are the top influencers for all younger consumers when deciding which brands to shop. However, when we remove price and quality, all view selection and convenience as must-haves. At the same time, Gen Z and Older Millennials value consistency while Young Millennials value rewards.

Beyond the table stakes of price and quality, these are the most important factors when deciding which brands to shop:

	Table stakes		Other key factors			
Gen Z	**88%** Price	**85%** Quality	**70%** Selection	**62%** Convenience	**58%** Location	**45%** Consistent product
Young Millennials	**93%** Price	**84%** Quality	**70%** Selection	**62%** Convenience	**58%** Location	**45%** Rewards program
Older Millennials	**88%** Price	**84%** Quality	**68%** Convenience	**67%** Selection	**57%** Location	**43%** Consistent product

Increased discounting in recent years has trained younger consumers to expect more.

71% of Millennials and 56% of Gen Z seek out a discount or coupon before making a purchase.

When purchasing products, Young Millennials are willing to sacrifice different things based on what's important to them right now.

63% of Young Millennials, 54% of Older Millennials, and 52% of Gen Z will seek an alternative when a product isn't available.

Consumers are loyal to brands because brands are loyal to them.

63% of younger consumers agree they have lots of choices of where to shop, so it is important for a brand to show them loyalty to earn their business.

Playing by the rules
Understanding the role of and influences on choice is more important than ever before. Once brands recognize the unique motivations of Gen Z and Millennials, they have taken the critical first step in building deep brand connectivity and lasting loyalty.

Loyalty is complex

Consumers are evolving and so are their expectations

Consumers now expect brands to be loyal to them. Research shows that when it comes to life loyalty and brand loyalty, a continuum spanning a range from functional to emotional emerges. Different types of brand loyalty span the continuum, from traditional to brand love. Traditional exhibits more functional attributes, while brand love is more emotional and aspirational. We defined this as The NextGen Loyalty Continuum.

The NextGen Loyalty Continuum

Functional
(Traditional brand loyalty)

Emotional
(Brand love loyalty)

Even though it is complex, at the core all loyalty is built on: Trust, honesty, and reliability.

Describe life loyalty

Gen Z	Young Millennials	Older Millennials
Trustworthy (80%)	Trustworthy (74%)	Trustworthy (73%)
Honesty (79%)	Honesty (67%)	Honesty (69%)
Reliable (70%)	Reliable (66%)	Reliable (60%)

While the core remains important for brand loyalty, other factors begin to influence the conversation.

Describe brand loyalty

Gen Z	Young Millennials	Older Millennials
Quality (61%)	**Rewards (59%)**	**Rewards (55%)**
Reliable (70%)	**Quality (57%)**	**Quality (54%)**
Discounts (55%)	**Discounts (55%)**	**Discounts (50%)**
Trustworthy (80%)	**Coupons (52%)**	Reliable (48%)
Rewards (49%)	Reliable (51%)	Trustworthy (45%)
Convenience (45%)	**Free Shipping (44%)**	**Coupons (44%)**
Free Shipping (43%)	**Helpful (43%)**	**Free Shipping (43%)**
Honesty (79%)	Trustworthy (43%)	Honesty (41%)
Helpful (42%)	**Convenience (38%)**	**Convenience (37%)**
Coupons (41%)	Honesty (34%)	**Helpful (37%)**

The NextGen loyalty continuum

The continuum also illustrates the relationship between price and quality, which is defined as value. Price is important as it influences consumers' perceived value versus the money they're comfortable spending. If the perceived price is high, the perceived quality should match. However, consumers will shop a brand frequently based on price alone. This is more of a transactional relationship lacking any emotional connection. True loyalty is both functional and emotional.

Playing by the rules
Traditionally, loyalty has been viewed as simply one dimensional. Yet, loyalty is anything but simple. Re-thinking the approach to loyalty means further defining it and understanding your place on The NextGen Loyalty Continuum.

Value: balancing price and quality

Brand relationship/ frequency	What it means	Perceived value	Customer association
Love, shop frequently	An amount the consumer is comfortable spending. It **meets their expectation**.	A balanced equation when it comes to the value received for the money spent. (A combination of emotion and function)	**Amazon Nike Victoria's Secret**
Love, rarely shop	An amount that is **higher than the consumer's personal comfort zone**, yet they are willing to spend when they are able.	An aspirational element exists. The consumer places more weight on the quality/value of the product, and is therefore willing to spend more/splurge to obtain it. (More emotion on a foundation of function)	**Gucci Nordstrom Michael Kors**
Shop, don't love	An amount that is easily attainable and when **quality becomes a non-issue**.	More weight is placed on the physical price of the product, versus the quality of the item. (More function with little emotion)	**Walmart Target JCPenney**

Loyalty is fragile

Breaking up with you is easy to do and winning them back is hard.

Consumers expect great service and an ideal experience across all channels. When that isn't the case, they will take action and voice their opinion.

Price, quality, and selection are all top factors when deciding where to shop, and equally important when deciding why to stop shopping a brand.

76% of consumers **only give brands 2–3 chances** before they stop shopping them.

"I used to shop at Target a lot. One day I realized, you think you are saving money when you go there. They give you gift cards or you use their coupons, but I realized after shopping around that I really wasn't. So, I felt kind of misled and stopped shopping there."

Mary, age 34, married with children, works from home

Top 10 reasons consumers stop shopping a store or brand:

1 High prices
59%

2 Poor quality
52%

3 Poor selection
47%

4 Poor customer service
45%

5 Poor experience
43%

6 Items are always out of stock
41%

7 Hard to find, get what I need/ inconvenient location
37%

8 Difficult to shop
36%

9 Stopped carrying brand(s)/ products I love
29%

10 Store or brand not trustworthy
28%

Once consumers are lost, it is extremely hard to get them back.

1 in 3 consumers said nothing could be done when asked what a brand could do to win them back.

To keep younger consumers happy—and ultimately loyal—remember that beyond price and quality, younger consumers expect good service and a great experience.

Playing by the rules
Today's younger consumers are increasingly unforgiving. They're empowered by instant access and greater choice to want more and "put up" with less, which means every brand experience needs to be exceptional.

Social media amplifies every customer's voice.
Social media has given today's youngest consumers a prominent and highly visible platform. The actions and views of brands by friends and family (both positive and negative) are discussed openly and seen by many.

34% of Gen Z are **influenced by bloggers and YouTubers** on what to purchase, compared to 29% of YM and 26% of OM.

35% of young consumers say they **keep up with brands they love via social media**.

27% of young consumers **connect with brands via Facebook**.

Loyalty is multifaceted

NextGen loyalty is functional, emotional, and everything in between.

Traditionally, brands have used transactions to measure loyalty. And most brands still operate that way today. However, loyalty can be thought about and measured much differently. That's because transactions aren't the only indicators of brand loyalty.

Traditional brand loyalty

For most, loyalty is built on a blend of functional and emotional attributes. This is traditional brand loyalty as we know it.

When measuring traditional brand loyalty, it can be gauged by looking at frequency, monetary impact, and recency in shopping a particular brand.

Brand love loyalty

As more emotional elements of loyalty are introduced, the relationship changes. It moves beyond the transactional and into the aspirational. This is known as brand love loyalty.

When measuring brand love loyalty, a traditional model is no longer applicable, requiring brands to review how they approach and measure it.

Multifaceted loyalty requires multi-dimensional metrics. Understanding motivating factors outside of transactional history helps drive shopping behavior and foster NextGen loyalty.

Loyalty across the continuum.

When asked why they shop and engage brands, younger consumers prioritized what they value based on attributes spanning the entire loyalty continuum

The NextGen Loyalty Continuum

Functional (Traditional brand loyalty) ◄||||||||||||||||||||||||► **Emotional** (Brand love loyalty)

Don't love, shop frequently
1. Price
2. Convenience
3. Discounts
4. Coupons
5. Easy to shop
6. Proximity
7. Selection of merchandise
8. Free shipping
9. Quality
10. Rewards program
10. Makes my life easier
11. Carries products I love
12. Dependable
13. Exclusive product
14. Customer service
15. Fun/enjoyable experience
16. Personalized experience
17. They care about me

Love, shop frequently
1. Price
2. Quality
3. Easy to shop
3. Carries products I love
4. Selection of merchandise
5. Discounts
6. Convenience
7. Consistent products
8. Free shipping
8. Dependable
8. Rewards program
9. Coupons
9. Customer service
10. Fun/enjoyable experience
11. No surprises, know what I'm getting
12. Makes my life easier
13. Always on trend/trendy
14. Proximity
15. Exclusive product
15. They care about me
16. Personalized/exclusive experience
17. They know me and make recommendations
18. Socially responsible

Love, rarely shop
1. Quality
2. Price
3. Selection of merchandise
4. Carries products I love
5. Always on trend/trendy
5. Exclusive product
6. Fun/enjoyable experience
7. Easy to shop
8. Discounts
9. Customer service
10. Convenience
10. Dependable
11. Free shipping
12. Coupons
12. Rewards program
13. Makes my life easier
14. Personalized/exclusive experience
15. Proximity
16. They care about me
16. They know me and make recommendations

Loyalty doesn't always lead to brand love loyalty. And that's okay.

While some consumers may be loyal to a brand, not every consumer has the ability to reach brand love loyalty status.

"Nordstrom has really, **really good customer service**, and they are very loyal to their customers. I always shop there because I know that they'll take care of me if something is wrong with an item."

Renee, age 30, married, no children, employed full-time

"I go to CVS because it's **just a walk up the block**. It's literally the closest drug store, which makes it easier than driving to Walmart. CVS is more expensive, but it's right there so I just go anyway."

Alexandria, age 27, stay-at-home mom

"Brooks really **has the customer's best interest at heart**. They just put a lot of thought into helping you find the right shoe. And then if something goes wrong, like if you are getting a bunch of blisters or something from them, they'll replace the shoe and give you a different one and they don't care if it's worn down. They just care about getting you in the right shoe."

Lisa, age 31, married, teacher

Playing by the rules
Loyalty is built on expectations and needs. That's why it is important for brands to understand how to differentiate one set of consumers from the other.

Change and choice

have had a major impact on how the next generations view loyalty. Brand engagement is now being shaped by new experiences, innovative technologies, mobile devices, and an unprecedented number of options. To build a connection and ultimately trust, brands need to see loyalty through the eyes of Gen Z and Millennials.

About Bread Financial

Bread Financial™ (NYSE: BFH) is a tech-forward financial services company providing simple, personalized payment, lending and saving solutions. The company creates opportunities for its customers and partners through digitally enabled choices that offer ease, empowerment and financial flexibility. Driven by a digital-first approach, data insights and white-label technology, Bread Financial delivers growth for its partners through a comprehensive product suite, including private label and co-brand credit cards, installment lending and buy now, pay later (BNPL). Bread Financial also offers direct-to-consumer solutions that give customers more access, choice and freedom through its branded proprietary credit card, personal loan and saving products. Formerly Alliance Data, Bread Financial is focused on creating value and driving mutual, sustainable success for its stakeholders. An S&P MidCap 400 company headquartered in Columbus, Ohio, it is a growth-oriented business powered by 6,000+ global associates.

It is committed to delivering an exceptional customer experience, developing responsible products and empowering customers through an evolved mix of products and services. To learn more about Bread Financial products and services, visit BreadFinancial.com or follow us on Facebook, LinkedIn, Twitter and Instagram.