**Young Consumers Pinch Their Pennies**

By [Matt Townsend](http://www.businessweek.com/authors/1768-matt-townsend) March 22, 2012

Millennials were supposed to be the next golden ticket for retailers. A cohort of 70 million consumers roughly between the ages of 18 and 34, this was the first generation of Americans to grow up with cell phones and the Web. Marketers could reach them in myriad ways—tweets, Facebook pages—that were unavailable when their boomer parents started out. “Marketers thought, ‘Here come the Millennials, we’re going to have an awesome time selling to them,’” says Max Lenderman, a director at ad agency Crispin Porter & Bogusky. “They were waiting for a boom. Then comes the financial crisis, and all of a sudden the door has almost slammed in their face.”

No group was hit harder by the Great Recession than the Millennials. Their careers are stalled. They hold record levels of education debt. And an estimated 24 percent have had to move back home with parents at least once, according to a recent Pew Research Center survey. Almost a quarter of them describe lives of financial desperation, reports researcher WSL Strategic Retail. “It’s a culture shock because this generation has grown up entitled,” says Wendy Liebmann, WSL’s chief executive officer.

That’s bad news for the movie studios, clothing retailers, and home improvement chains that had hoped for better. Walt Disney ([DIS](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=DIS)) and Sony Pictures Entertainment ([SNE](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=SNE)) need Gen Y-ers to fill seats at summer blockbusters. Gap ([GPS](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=GPS)) and Abercrombie & Fitch ([ANF](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=ANF)) are counting on 18- to 34-year-olds because they typically spend big on clothes. Williams-Sonoma ([WSM](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=WSM)) and Home Depot ([HD](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=HD)) thrive on household formation—economist-speak for marrying, having kids, and buying a home—but many cash-strapped Gen Y-ers have put those modern rites of passage on hold. Twenty percent of 18- to 34-year-old respondents in a recent Pew survey said they had postponed marriage for financial reasons, while 22 percent put off having a baby for similar reasons.

It’s easy to understand why: In 2009 households led by those younger than 35 had 68 percent less inflation-adjusted wealth than such households in 1984, according to Pew in November. That compares with a 10 percent increase in net worth for all Americans over the same period. One contributing factor: Average student loan debt for 2008 grads receiving bachelor’s degrees hit $23,000, up 35 percent from $17,000 in 1996.

The job climate also hurts. The share of employed 18- to 24-year-olds in 2009 was 54 percent, the lowest since the U.S. began collecting data in 1948. “This customer doesn’t pay up for product, and they might not turn into a 45- to 50-year-old who will,” says Eric Beder, an analyst at Brean Murray Carret. “Retailers need to worry about how to build a relationship with this consumer.”

Hooking this generation was always going to be a challenge. Plugged into the Web’s endless information and choices, Millennials are pickier and less brand loyal than their parents. They also came of age amid eroding respect for institutions, including corporations and brands. Even before the recession they craved authentic products—for example, buying footwear from Toms Shoes, which donates a pair to poor children for every one it sells. The Millennial credo is “buy less and do more,” says David Maddocks, who runs an eponymous consulting firm that’s advised such brands as Nike’s ([NKE](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=NKE)) Cole Haan and Keds. “Boomers were about abundance, whereas this generation is about having enough.” The disproportionate impact of the recession could make Gen Y even less acquisitive.

Carmakers have struggled to woo the group. While Toyota Motor’s ([TM](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=TM)) Scion has the youngest buyers of any car brand, sales have been paltry. And Honda Motor’s ([HMC](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=HMC)) youth-oriented Element sold so poorly that it’s no longer offered in the U.S. Clothing chains, however, have little choice but to chase Gen Y. Americans 25 to 34 spend the most on apparel and services annually of any age group.

Gap’s namesake brand chose Millennials as its target customer in 2010 and has since run ads featuring residents in young, hip enclaves such as Austin, Tex., and done design collaborations with fashion blogs popular with younger consumers. “Based on our research, we know style is important to them and they’re willing to spend money on pieces that are ‘trend right’ yet timeless in terms of quality and style,” says Art Peck, president of Gap North America. Macy’s ([M](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=M)) on March 21 unveiled its own Gen Y program, saying it will use social media, mobile shopping, and merchandise designed around locales and lifestyles popular with Millennials (say, college town or first adopter) to boost sales to them.

Unfortunately, getting 18- to 34-year-olds in the door increasingly means discounting, says Beder. This age group “is only drawn in by sales and promotions,” he says. “Maybe they want to be wired and fashion-driven, but they’re not willing to pay for it.” So companies that want to attract Millennials often cut prices. MGM Resorts International ([MGM](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=MGM)) is offering spring break vacations at its Las Vegas properties starting at $29 a night with such perks as $25 buckets of beer and $1 Jell-O shots. After starting with its budget inns, MGM has expanded the deals—a room for $69 a night—to its higher-end Mandalay Bay and MGM Grand hotels.

Gen Y frugality could eventually hurt the luxury market, too, says Pam Danziger, president of research firm Unity Marketing. She says a 25-year-old who shops at Gap typically trades up to Nordstrom ([JWN](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=JWN)), Saks ([SKS](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=SKS)), and perhaps Tiffany ([TIF](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=TIF)) decades later. But today, Danziger says, “We have a group of people who are seeking only to live within their means.”

Aware that Millennials can’t afford its wares, Be & D, a New York-based purveyor of luxury bags and shoes, is layering in lower-priced goods, such as an entry-level tote for $300. The company doesn’t expect to generate many sales from Gen Y that way; instead it hopes to build brand awareness for the future. “Without that generation, we’re missing a huge percentage of sales,” says co-founder Steve Dumain. “We need to stay relevant to them and be patient as they eventually will come back.”

***The bottom line:*** *Retailers have long sought 18- to 34-year-olds. But with their wealth down 68 percent since 1984, spending is at risk.*

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