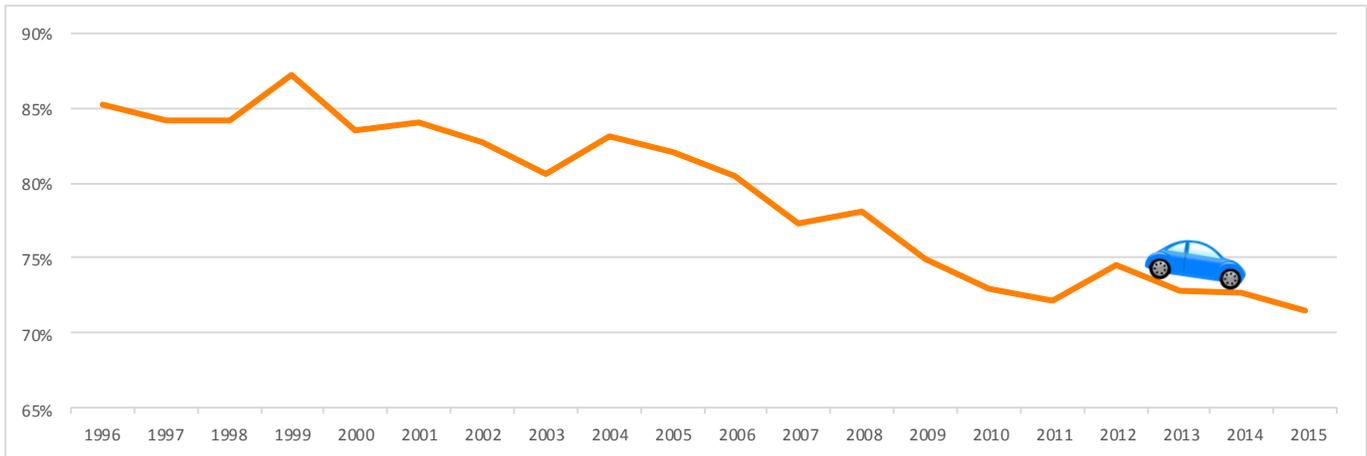


## ADULTHOOD CAN WAIT

Lode Devlaminck, Managing Director, Global Equities

FIGURE 1. SHARE OF U.S. HIGH SCHOOL SENIORS WITH A DRIVER'S LICENSE



Source: Pew Charitable Trust, Monitoring the Future Survey (University of Michigan)

Passing your driver's test was once a right of passage for American teens. However, a recent survey by the University of Michigan shows a steady and significant drop in the number of high school seniors that have a license. Part of the drop can be linked to the economy, particularly during the Global Financial Crisis when teen unemployment breached 20%. However, new rules imposed on young drivers and the explosive growth in ride-hailing services like Uber and Lyft have only served to strengthen the trend (Figure 1).

An article in *The Atlantic* titled "Have Smart Phones Destroyed a Generation?" by Jean M. Twenge showcased a very similar chart. Twenge is a psychologist who has researched generational differences for over 25 years. She points out that 2012 was the year that smart phones breached the 50% penetration rate while social media simultaneously began its mainstream meteoric rise. She believes the combination of these two factors is now impacting the behavior and well-being of teenagers irrespective of social status, ethnicity, or geography.

Twenge suggests the downward trend in driving teens is merely a part of broader changes being seen in their behaviors. For example, the percentage of high school seniors going out on dates fell to 56% in 2015 compared to 85% of Baby Boomers and Gen X'ers at the same age. It has also been found that younger people today are less likely to secure a job while in high school. Dubbed the iGen, kids today seem more comfortable staying at home socializing online than they are going to a party or driving a car. In short, it seems like for them, adulthood can wait.

Generational changes are typically attributed to key events in history or shifting trends in technology, parenting, and economics. Such shifts serve to shape the values and habits of each group. Just how have the internet and social media impacted our younger generations? Consider for a moment how teens choose to define themselves today relative to twenty years ago. Whereas Gen X'ers and Baby Boomers were more likely to express themselves with the clothes they wore or the car they drove, younger people today are more likely to define themselves and seek approval through apps like Instagram. Social media has become their outlet for self-expression.

Piper Jaffray's most recent "Taking Stock with Teens Survey" which assesses the preferred product categories, services, platforms and brands of teens today, reflects similar patterns. Results show Snapchat and Instagram are the favored social media sites while Netflix and YouTube are iGen's go to video services. Increasingly, teens prefer online only e-tailers over departments stores and specialty retailers. However, they are steadily shifting their budget away from clothing to limited service restaurants like Starbucks and Chick-fil-A. The change reflects their growing preference for experiences over material goods, which makes sense within the broader picture. Experiences are more conducive to social media posts than the purchase of physical goods.

Retailers are now looking to figure out how to capitalize on these trends. Some stores like Nordstrom have begun to set-up events and entertainment around new brand introductions. These types

of events reinforce that spending should be accompanied, or even incentivized, by experiences that can then be shared and judged on social media. Increasingly, retailers are also leveraging their customers to promote brand or product through various forms of crowdsourced advertising. For example, customers may be encouraged to post pictures or videos of themselves attending a store event or using the company's product on Instagram. These new advertising mediums have the dual benefit of providing a more personal and "real-life" assessment of the product, as well as a greater sense of diversity within the advertising experience. This approach may prove to be more effective in addressing an increasingly fragmented population (ethnicity, income, etc) of heavy social media users.

As investors, it is important to take note of the changes we are seeing among the younger generations. Although, the short to medium term impact will likely be negligible and have a limited impact on total demand, the changing habits of iGen can be material for two reasons. First, iGen can provide a glimpse into what future markets will look like provided their habits persist. Second, depending on the margin structure of the industry, even small shifts in demand can have a significant impact on the outlook and value of a company or industry. Some sectors and companies



stand to benefit from iGen behaviors, particularly insurance and eCommerce related companies. However, other categories will likely be penalized for changing lifestyles creating future headwinds for mall based retail, autos, and mainstream alcohol among others.

It would be prudent to keep a watchful eye on other technologies as well, including tablets and smart phones, as it remains to be seen if their impact has been fully appreciated both from a

social and financial market perspective. Due to a heavy reliance on cell phones, China may be a good indicator as to how mobile and tablets can impact the broader landscape. Case-in-point, it was reported that nearly 90% of Alibaba's \$25.3 billion in sales were conducted via mobile during their 2017 Singles Day event. It will be increasingly important to assess how the end consumer is using their device and how social media is influencing or facilitating their purchase decisions.

iGen, like preceding generations, will bring about change. How companies adapt and respond to these changes will define the next generation of market leaders. As Socrates said, "The secret of change is to focus all your energy, not on fighting the old, but on building the new."



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