

Gen Zers also have significant influence over family purchases. In the U.S. alone, consumer spending on Gen Zers totaled \$830 billion. The digital knowledge of Gen Zers often exceeds that of older members of their households and can influence family members' paths to purchase: from product evaluation, to purchasing methods, to post-purchase activities. This influence extends to purchases of household products, food and beverages, and particularly "big ticket" items like furniture and travel, where prices far exceed Gen Zers' budgets.

Gen Zers behaviors and attitudes are likely to change to support their different life stages, such as pursuing higher education, getting married, starting a family or purchasing a house. As Gen Z transitions to the workforce, their spending power will increase and allow for greater independence. Gen Zers with less spending money today are developing shopping habits likely to continue into adulthood.⁸ Companies of all types would be well-served to pay attention.

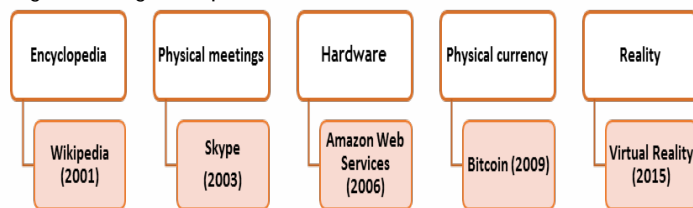
Digital Nativity

Gen Z is the first generation incapable of remembering the world without the internet. Technology has permeated Gen Z early in their lives in many ways⁹:

- Most Gen Zers could swipe before they could walk
- Screens were always a part of their lives
- Their parents shared their first birthdays, first steps and first words over blogs, Twitter, Facebook, and Instagram
- They have laptops in elementary school
- They use Google drive for homework assignments
- They make online friends around the world on video games and social networks

Further, Gen Z is the first generation born into the world where physical aspects (peoples and places) have digital equivalents. For Gen Z, the real world and the virtual world naturally overlap. Rather than adopting AOL, Napster, and iPods as digital successors of analog experiences, Gen Z is the world's first generation of "digital natives," as their lives continue to be immersed and permeated by technology and social media.

Figure 3: Digital Equivalent Timelines



Implications for Investment - Gen Z as Entrepreneurs

Entrepreneurship is in the DNA of Gen Z. In fact, 72% of high school students want to start a business someday.¹⁰ Further, 61% of high school students want to be an entrepreneur rather than an employee when they graduate college.¹¹ Also noteworthy is that 71% expect to experience significant failure before achieving success, and nearly 40% see failure as an opportunity to try again.¹² Coupled with the fact that 50% of Gen Zers will be university educated compared to 33% of Millennials and 25% of Gen X, Gen Z will have a strong foundation to deliver products and services to the marketplace. Surrounded by DIY education and crowdsourcing, the barriers to starting a business are at historical lows.

Gen Z also has access to better resources than previous generations. Platforms such as Facebook, Twitter, and LinkedIn allow prospective entrepreneurs to interact with successful entrepreneurs directly.

Colleges and universities are accelerating their entrepreneurship offerings which include dedicated courses, mentoring, coaching and support. Today, approximately one-third of business incubators are started at universities.¹³

Capital has also become more accessible as angel investors and venture capitalists both look to funding student projects and incubators for the younger generation. These programs allow Gen Z to receive mentorship and make professional connections early on in their development.

Implications for Investment - Gen Z as Customers

Gen Z and their preferences will affect a broad range of industries. Consumer foods, retail, and healthcare provide useful illustrations of the potential changes and opportunities.

⁸ IBM Institute for Business Value, National Retail Foundation

⁹ Sprout Social

¹⁰ Millennial Branding

¹¹ Millennial Branding

¹² Deep Focus

¹³ Kauffman.org

Consumer Foods

Preferences among consumer foods will become more fragmented, diverse and transparent. With the population becoming majority-minority, companies must diversify their product offerings. Gen Z's diversity will continue to drive food culture trends around the exploration of authentic, global food experiences. Early exposure to readily available information continues to spur demand for ingredient transparency among younger consumers. Because Gen Z is the first generation to grow up in the digital age, to them, almost every question can be answered.¹⁴ Where food comes from, how it is grown and how it is made are standard questions that constantly demand answers.

Modern eating is becoming more fragmented. Gen Z seeks innovative and ethnically diverse cuisines compared to boomers who have traditionally preferred familiar American fare. Food habits are also more variable, as Gen Z indulges in paleo, vegetarian, or unhealthy eating, all in the same day. This creates a growing opportunity set of new food categories. Companies such as Soylent and Impossible Foods develop differentiated food products using sustainable ingredients and are on the front-end of this shift. To remain competitive, existing companies must ensure that their sourcing contains high-quality ingredients and that their positioning aligns with the preferences of Gen Z.

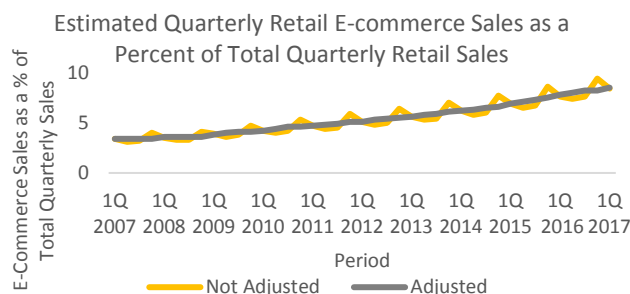
Affected Foods
<ul style="list-style-type: none"> • Processed Foods • Non-cultural foods

Opportunities
<ul style="list-style-type: none"> • Organic foods • Ethnic foods

Retail

In retail, methods of shopping continue to become more virtual and dynamic. For the Gen Z shopper, the world is constant, and purchases must be permissible around the clock anytime, anywhere. One main advantage of e-commerce compared to traditional retail is that e-commerce allows for 24/7 purchases, while physical retail is confined to store hours. To cope, physical stores must offer superior experiences. Figure 4 shows the growth in e-commerce and Gen Z shows no signs of disrupting the trend.

Figure 4: E-Commerce Growth



Data: Census Bureau

Distribution aside, the Gen Z shopper is as socially-conscious as they are brand-conscious. Retailers and brand owners must promote their supply chains and overarching mission. Existing companies that leverage technology to become customer-centric will remain competitive.

For example, Starbucks utilizes its digital rewards card to enhance the ordering experience, reduce wait times and make the sales process more convenient for the customer. New companies that bring quality niche products to market stand to compete against existing companies with cost advantages and established supply chains.

Affected Retailers
<ul style="list-style-type: none"> • Poor e-commerce capabilities • Siloed departments

Opportunities
<ul style="list-style-type: none"> • Engaging Retailers • Full service e-commerce • Customization

Healthcare

"Patient Z" is coming to healthcare and will demand tailored, individualized care that encompasses all aspects of their day-to-day health. They will want to be engaged in healthy living care, not just when they are sick. Patients will likely utilize wearables that track their fitness, and they will expect their clinicians to use that information to personalize their health.¹⁵ Periodic check-ins are likely a thing of the past, and society should expect more continuous interactions throughout the physician-patient relationship. Gen Z will be focused on curing diseases rather than chronic treatment, and reimbursement models are adjusting for quality outcomes instead of traditional fee-based services.¹⁶

¹⁴ Food Business News "How boomers and Gen Z are changing Food" June 2016

¹⁵ Healthcare Informatics

¹⁶ Healthcare Informatics

Affected Industry
• Fee-for service

Opportunity
• Personalized healthcare

progressive venture capital and private equity firms best positioned to succeed. We actively consider the full range of factors, including generational shifts, that will affect firms and their investments.

Implications for Investors

For early stage investors,

Thoughtful firms are already looking ahead and pursuing themes that cater to the preferences of Gen Z. For instance, the innovation and level of interest in e-commerce and mobile technology have been closely monitored by venture capitalists. Further penetration throughout the ecosystem will help companies adapt to the demands of Gen Z.

For later stage investors,

Differentiation has always been critical to buyout and growth equity investing. For mature brands, repositioning may become a larger theme to better cater to Gen Z. However, at the company level, management must also be well-positioned for the Gen Z workforce. New categories are likely to emerge and demographics will continue to be important as consumer tastes become more fragmented.

In addition, environmental, social and governance (ESG) practices will become more of the norm. Venture capital and private equity firms cannot avoid ESG practices as portfolio companies institutionalize these practices to reach new customer segments and limited partners will amend their investment policies to incorporate these factors.

Limited Partners should continue to evaluate their asset allocation and manager selection approaches to ensure their strategies are well positioned for the future with Gen Z. Changes will come faster than expected and manager selection must consider this.

Conclusion

Institutional Investors need to recognize the generational shift occurring and ensure that they have the appropriate approach to capitalize on the disruptive trends. These opportunities will require fresh perspectives from all investors. Key themes reflect a more fragmented market, mass customization, better predictive analytics, increased scalability and innovative ways to engage the up and coming cohort. Demographic shifts, new attitudes, new methods of collaboration and changes in expectations will reshape today's industries. Private equity and venture capital investors have a unique opportunity to gain access to and impact these trends.

New and next generation firms have also emerged and are well-positioned to invest in new categories and next generation entrepreneurs. At Fairview Capital, we target

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