

GEN Z'S GROWING INFLUENCE IN THE LATIN AMERICAN CONSUMER MARKET

—SHARING THE VALUES OF “ETHICS AND SUSTAINABILITY” WITH BRANDS IS THE PRINCIPLE OF CONSUMER BEHAVIOR —

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SUMMARY

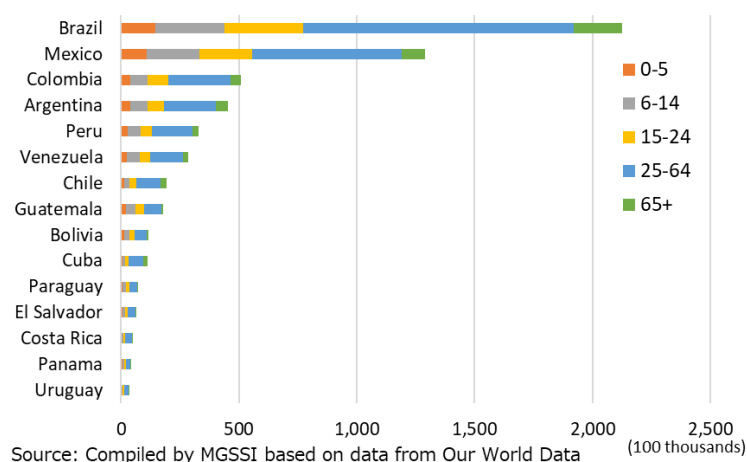
- Latin America's Generation Z (Gen Z) demographic numbers approximately 160 million people, accounting for 24.5% of the region's population as a whole. By 2030, this generation will have entered the labor market. Gen Z will constitute the main customer base in the region's market until 2050 when the demographic dividend period, during which consumer spending accelerates, comes to an end.
- Gen Z values “ethics” and “sustainability”, and views consumption behavior as a means to realize its own ideals. Latin America's Gen Z has developed a good economical sense, and tends to avoid purchasing products from companies that do not share its values with them. In order to overcome Gen Z's reluctance to make purchases, companies are also required to showcase their sustainability strategies.
- In the future, Gen Z will have a growing influence on Latin America's consumer market as it demands that companies reflect its own values for the “social good”. Companies will need to demonstrate an awareness of those values in their activities.

1. OVERVIEW OF LATIN AMERICA'S GENERATION Z

1-1. Latin America's Gen Z set to support consumption during the demographic dividend period

The total population of Latin America in 2020 was 620 million. Brazil had the largest number of people (210 million), followed by Mexico (130 million), Colombia (51 million), and Argentina (45 million) (Figure 1).

Figure 1 Populations of major Latin American countries by age group (2020)



With the exception of a few countries, the region is currently experiencing a “demographic dividend period” in which the growth of the working-age population (defined by the OECD as people age 15 to 64) exceeds that of the population as a whole. In particular, the majority of the countries, led by Mexico, are in the “first democratic dividend period”, and from here on, the gap between the working-age population growth rate and the population growth rate will rise to a peak (Figure 2).

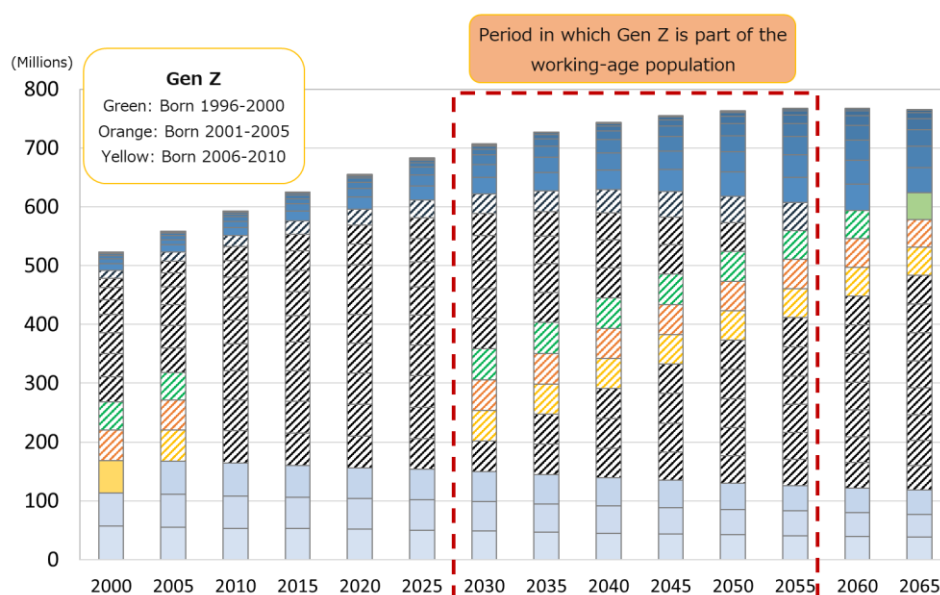
Figure 2 Stages of demographic dividend periods in Latin American countries

Currently in demographic dividend period		
First period		
Argentina	Guatemala	Paraguay
Bolivia	Honduras	Peru
Dominican Republic	Mexico	Venezuela
Ecuador	Nicaragua	
El Salvador	Panama	
Second period		
Brazil	Jamaica	Trinidad and Tobago
Chile	Puerto Rico	Uruguay
Colombia	Saint Lucia	
Costa Rica	Saint Vincent and the Grenadines	
Period finished		
Cuba	Antigua and Barbuda	

Source: Compiled by MGSSI based on World Bank data

Gen Z is broadly defined as the generation born between 1996 and 2012¹, which, as of 2022, roughly corresponds to young people between the ages of 10 and 26. In 2022, Latin America’s Gen Z numbers approximately 160 million, accounting for 24.5% of the population as a whole (Figure 3). Once Gen Z has become a part of Latin America’s working-age population, they are expected to shape the region’s consumer market until around 2050, when the demographic dividend period ends.

Figure 3 Latin America population outlook by age group



* Hatching indicates the working-age population (15-64).
Source: Compiled by MGSSI based on data from UN World Population Prospects

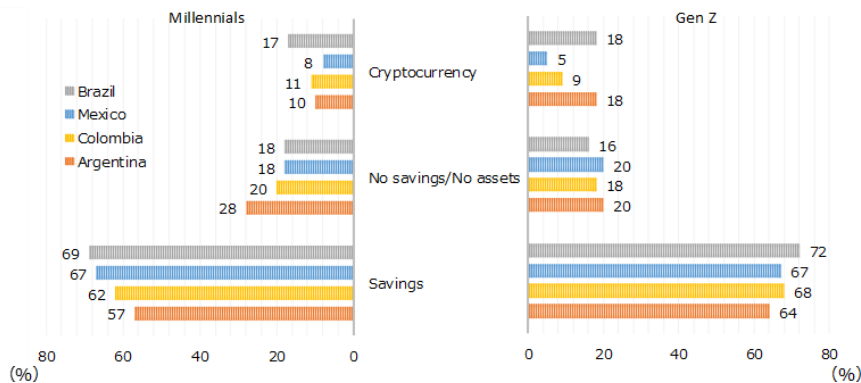
¹ Some studies have not specified an end date for Gen Z on the premise that generational classifications can only be defined retrospectively.

1-2. Two characteristics that contribute to changes in the consumer market

It is a global characteristic of Gen Z that its keywords as far as consumer behavior is concerned are “ethical” and “sustainable” and it perceives brand image differently from previous generations. According to the research company Tendencias Digitales, Gen Z prefers brands that focus on social contribution, which is considered by older generations to be of little economic value. Examples include TOMS, a US shoe manufacturer that developed the one-for-one business model (for every pair of shoes sold, the company donates a pair to a developing country), and the UK company LUSH, which sells bath products and other cosmetics made from natural ingredients under the banner of animal welfare. Whereas Millennials (Generation M, born between 1980 and 1995) view consumer behavior as a means of satisfying their own desires, there is a pronounced tendency among Gen Z to view it as a means of realizing their own ideals, and seeking “social good” in companies.

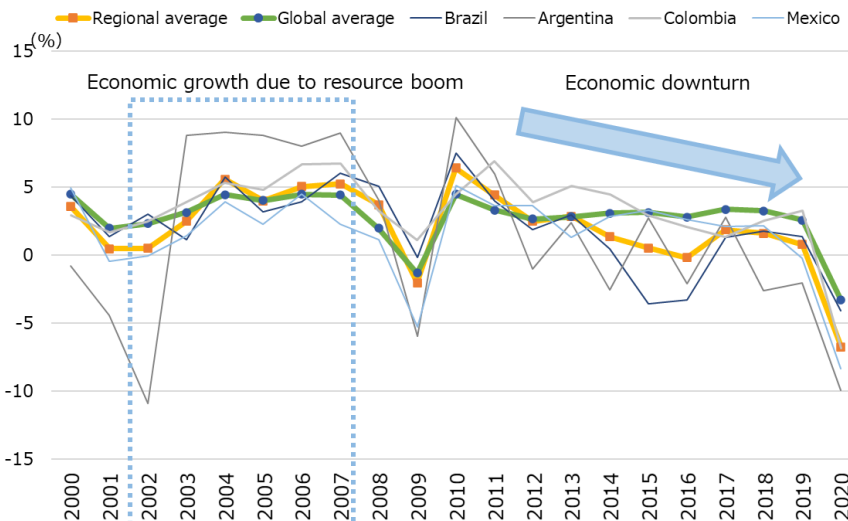
On top of this, another thing that characterizes Latin America’s Gen Z is its cost consciousness. Latin America’s Gen Z places emphasis on saving for the future, and has little appetite for consumption. The percentage of savers among Gen Z is greater than among Millennials (Figure 4). In a survey conducted by VICE, a digital media outlet popular with young people, 35% of Gen Z respondents said that they started saving for retirement in their 20s, compared to 12% of Millennial respondents. In terms of job search criteria, Gen Z cited “salary level” as the most important factor (65%), in sharp contrast to Millennials, who cited “work-life balance” (47%), placing the emphasis on a comfortable lifestyle. Long-term stagnation of GDP growth in the region (Figure 5), and the experience of growing up in an environment where “tomorrow may be poorer than today”, have caused Gen Z to tighten the purse strings.

Figure 4 Comparison of assets held by Millennials and Gen Z (2021)



Source: Compiled by MGSSI based on survey data from LLYC

Figure 5 GDP growth rates in major Latin American countries



Source: Compiled by MGSSI based on World Bank data

On the other hand, according to a survey of purchasing patterns conducted by Boston Consulting, 51% of Gen Z respondents said that they would pay more for “better quality” food (while refraining from purchasing non-essentials such as entertainment and luxury items) compared to 45% of Millennials². It can thus be seen that Latin America’s Gen Z is highly inclined to purchase quality products, but reluctant to purchase non-essentials such as entertainment and luxury items that have little practical benefit.

2. INFLUENCE OF GEN Z IS BEING FELT IN THE FOOD SECTOR

2-1. Gen Z seeks sustainable business development

The challenge going forward will be finding a brand strategy that is likely to be right for Gen Z. According to a survey of the purchase patterns of Gen Z conducted by the market research firm Attest, 62% of respondents said that they are likely to “stop buying from a brand that doesn’t meet their personal values” (42% said “likely”, 20% said “very likely”)³. McKinsey & Company analyzes that Gen Z tends to (1) believe that newer, smaller brands are better or more innovative, and (2) likely to avoid buying from big food companies⁴.

Mexico’s Grupo Bimbo, a leading Latin American company and the world’s largest bakery company, is sensitive to this trend. In May 2022, the company announced a new corporate strategy that represents the interests of Gen Z, including soil regeneration through raw material procurement, food traceability, and contributing to local communities. This strategy consists of three pillars: food diversity, including considerations for vegetarian and vegan customers (see below), care for the environment, and contributing to communities (Figure 6). Grupo Bimbo aims to increase its corporate value by creating an overall corporate image that shares values with Gen Z. It is the only food company in Latin America that has been designated as an “ethical company” by a US think tank, and it has enormous influence on other companies in the region.

Figure 6 Grupo Bimbo’s new sustainability strategy (announced May 22, 2022)

Food diversity (by 2030)
Provide products with nutritional value at their heart using simple and natural recipes
Provide healthy products using whole grains and other fully plant-based ingredients
Realize transparency and traceability in terms of both nutrition and sustainability
Care for the environment
Achieve net zero carbon by 2050 in accordance with the Science Based Targets initiative (SBTi) framework.
Obtain principal raw materials from practices that encourage soil regeneration (regenerative agriculture) by 2050
By 2030, ensure that all packaging supports a circular economy, achieve a 20% reduction in water use and a 50% reduction in food waste in the production process
Contributing to communities
Strengthen projects that contribute to communities neighbouring plants, factories, and workplaces
Strengthen value chains focused on small farmers and customers

Source: Compiled by MGSSI based on announcements by Grupo Bimbo

² Boston Consulting Group “BCG Consumer Sentiment Study in Argentina, Colombia, Chile, and Peru, 2020, “Consumption in Times of Crisis”” <https://media-publications.bcg.com/SSA-Consumer-Sentiment-En.pdf>

³ Attest Technologies “How brands can win the trust of Gen Z” <https://www.askattest.com/blog/attest-investigates/how-brands-can-win-the-trust-of-gen-z/#h-results>

⁴ McKinsey & Company “Gen Z and the Latin American consumer today” <https://www.mckinsey.com.br/industries/consumer-packaged-goods/our-insights/gen-z-and-the-latin-american-consumer-today>

2-2. "Meatiness" in demand as the vegetarian and vegan population grows

Gen Z is impacting the food sector in another way - it contains a high percentage of vegetarians and vegans. The vegetarian and vegan population is growing rapidly in Latin America, and makes up a particularly large share of the populations in Brazil, Mexico, and Argentina⁵. In Argentina, which traditionally has one of the highest per-capita meat consumption rates in the world, a total of five million people, approximately 12% of the population, are vegetarians or vegans. In Mexico, the percentage of vegetarians and vegans increased from 19% in 2019 to 28% in 2021. In Brazil, it jumped from 14% to 32% in the two years from 2018. The main reason for the rapid increase is the number of young people who have chosen not to eat meat due to the environmental impact of the production processes and from the perspective of animal welfare. In Argentina, for example, 17 to 24-year-olds make up 17% of the vegetarian and vegan population. In major cities such as Buenos Aires, Sao Paulo, Mexico City, and Santiago, the number of schools offering vegetarian and vegan meals in their lunchtime menus is increasing in response to the growing number of elementary school students seeking vegetarian and vegan meals.

At the same time, also expanding rapidly is the market for meat substitutes derived from plant sources such as soybeans and chickpeas. The Latin American meat substitute market is expected to grow at an average annual rate of 12.4% between 2022 and 2024⁶. In Latin America, where a meat-centric food culture is deeply rooted, there is a marked tendency to seek meat substitutes that are "meaty" in texture, appearance, and other aspects. At present, the meat substitute market in Latin America has not become an oligopoly, and it is easy for newcomers to enter the market. Among such newcomers, the Chilean unicorn company NotCo, which has attracted attention for its use of AI to produce a milk substitute with a taste close to the real dairy milk, announced in November 2020 the "Not Burger" that uses plant protein to reproduce a taste and texture closely resembling those of meat. In March 2021, Brazil's Fazenda Futuro announced a new product that looks more "meat-like" than the conventional meat substitutes. Going forward, food tech that pursues "meatiness" will continue to emerge in the region.

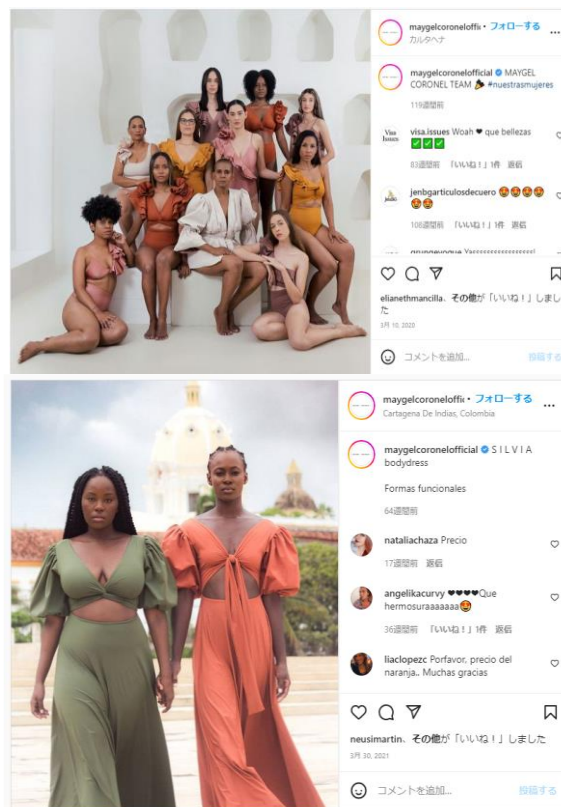
3. GEN Z'S INFLUENCE ON THE FASHION INDUSTRY

Latin America's Gen Z demand "Latinidad" (Latinness) from fashion. Designs employing traditional indigenous weaves and patterns, historical elements such as the Argentinian gaucho, and cultural elements such as the Mexican luchador, are attracting attention. In addition to design, Gen Z has substantial interest in ensuring the traceability and transparency of raw materials, in the use of organic materials and easily recyclable single materials (mono materials), and in biodegradable materials. There is a movement underway towards reassessing the value of traditional dyes and natural fibers that have a lighter environmental impact. In 2021, the fashion magazine Vogue Mexico selected emerging designers in the region who have applied these techniques, under the headline "40 sustainable designers who are changing rules of fashion". Reducing waste in the manufacturing process is important from the viewpoint of environmental protection. A Colombian swimwear brand, which offers one-size-fits-all garments (Figure 7), won the 2019 best designer award at the Latin America Fashion Summit (LAFS), a gathering of the region's emerging designers. The company was awarded the top prize because its production technique that accommodates any body shape helps to reduce cloth and dead stock in the manufacture and sales processes.

⁵ There have been no surveys that show the population of vegetarians and vegans across the region as a whole. According to the results of surveys conducted by various research institutions using their own criteria, vegetarians and vegans are said to make up 32% of the population in Brazil, 28% in Mexico, and 12% in Argentina, compared to 39% in India, 14% in the UK, 12% in Australia, 10% in the US, and 5% in Japan (all figures are estimates).

⁶ Mordor Intelligence "SOUTH AMERICA MEAT SUBSTITUTE MARKET - GROWTH, TRENDS, COVID-19 IMPACT, AND FORECAST (2022-2027)" <https://www.mordorintelligence.com/industry-reports/south-america-meat-substitute-market>

Figure 7 Colombian one-size-fits-all swimwear brand Maygel Coronel



Source: MAYGEL CORONEL [@maygelcoronellofficial]
 "MAYGEL CORONEL TEAM" March 10, 2020,
<https://www.instagram.com/p/B9eZh8jv-F/>
 "SILVIA bodydress" March 30, 2021,
https://www.instagram.com/p/CNBOFUJPN_/

As already noted, however, Gen Z is reluctant to spend on non-essential items. Against this backdrop, it is the second-hand clothing market that is currently growing rapidly. Traditionally, second-hand clothing has had a strongly negative image as being for people with limited financial resources. While on the contrary, it has recently been attracting the attention of Gen Z, firstly because it is a departure from fast fashion, and secondly because quality products can be purchased at low prices. Annual sales in the Brazilian second-hand clothing market reached US\$5.54 billion (1 real = US\$0.2) in 2019, and are expected to grow to US\$12.66 billion by 2028. Troquer, a Mexican company selling second-hand clothing online, notes that demand for its products marketed under the "Vintage Fashion" banner has surged and there has been a rapid increase in young people looking for clothes from the 60s and 70s and well-sewn high-end brands with high durability. In addition, the second-hand clothing website Go Trendier, which operates in Mexico and Colombia, achieved strong annual sales growth of 200% in 2020, 150% in 2021, and 100% in 2022 (forecast), and expects its total sales in the region to reach US\$77 billion by 2025.

4. CONCLUSION

The keywords of Gen Z as far as consumer behavior is concerned are "ethical" and "sustainable". Whereas previous generations have regarded these as a single preference, Gen Z has values such as care for the environment, animal welfare, and corporate social responsibility. It also demands companies to have those values for the "social good". In addition to this global characteristic, Latin America's Gen Z exhibits a highly cost-conscious consumption pattern as a result of having experienced a prolonged economic downturn. The growth of the vegetarian and vegan population, the high degree of interest in sustainable fashion, and the rapid expansion of the region's second-hand clothing market are all reflections of Gen Z's values and cost consciousness.

To tap into the purchasing power of Latin America's cost-conscious Gen Z, companies will need to demonstrate their commitment to ethical and sustainable practices such as ensuring the traceability of raw materials and disclosing information on production processes. If companies can display this commitment to Gen Z, they will be perceived as a brand that shares the same values.

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