

## **How Gen Z is rewriting the rules of consumer engagement**

*By Ella Thomas, Global Sector Specialist, Consumer Staples at Schroders*

**Gen Z's digital-first approach to consumption rewards the most agile brands and poses challenges to established business models. Global equity investors need to be alert to the market mispricing that may ensue.**

Generation Z is rapidly reshaping the global consumer landscape, not only through its sheer demographic and economic weight, but through fundamentally different expectations of how brands are discovered, evaluated and purchased.

Below we explore why Gen Z represents a uniquely powerful and non-Western growth engine; how social media and creator-led commerce have shifted control from brands to consumers, particularly in categories like beauty; and what this means for competitive dynamics across the sector.

We argue that accelerating trend cycles, declining loyalty and rising customer acquisition costs are structurally changing the economics of consumer businesses. The key conclusion is that success will increasingly favour companies that are agile, digitally native and locally responsive, while those relying on scale, legacy brand equity and infrequent blockbuster innovation risk misalignment.

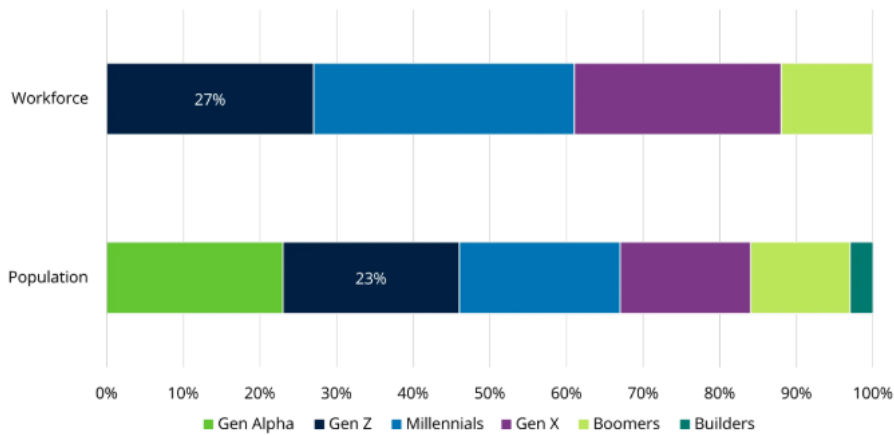
As these dynamics play out, we believe the market is likely to misprice both the challenges facing incumbents and the upside for companies that are genuinely adapting to Gen Z-driven change.

### **A demographic and economic force unlike those before them**

Gen Z are typically defined as those born between 1997 and 2012, now representing one quarter of the global population. They also represent an estimated 17% of spending power, despite many not even being in the workforce yet given the youngest of the Gen Z cohort are only 13 years old. At nearly two billion individuals, they are not only the largest generation in history they are also set to be one of the most economically influential.

Gen Z will also be the least Western generation with only 10% of Gen Z from North America or Europe, and the first generation where less than half of spend will come from Western nations.

### **Global population and workforce, by generation**



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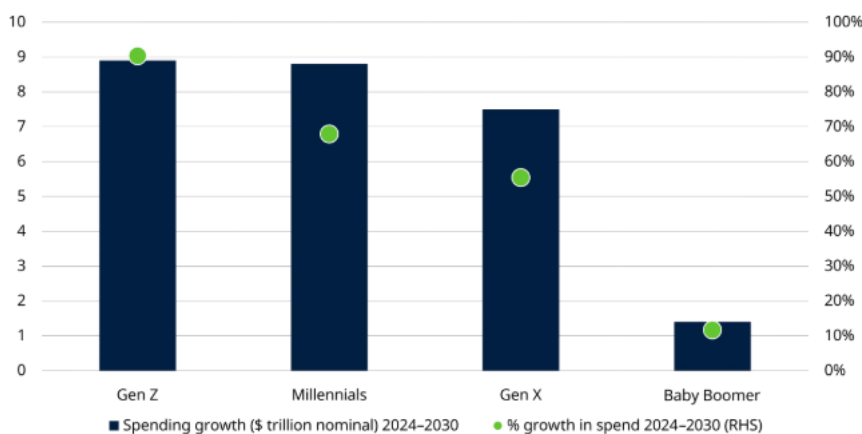
Source: McCrindle, 2023.

They also seem set to be one of the wealthiest generations, with income meaningfully higher than prior generations at the same age. A comparative study from [NielsenIQ](#), [World Bank](#) and [GfK](#) shows the average US Gen Z earner reports income above \$40,000, more than 50% higher than Baby Boomers at the same life stage, after adjusting for taxes, government transfers and inflation. This income power is expected to translate into real spending: with estimates of \$12 trillion in Gen Z spending potential by 2030.

While Gen X and Millennials will still command larger absolute spending pools by 2034, Gen Z will deliver the largest incremental dollar growth, with their spending share rising from 17% today to 19% and an incremental \$9 trillion in spending over the next 10 years.

As companies seek growth from this next major consumer cohort, understanding Gen Z’s distinct expectations, behaviours and economic power is becoming essential.

### Gen Z spending to deliver most incremental growth



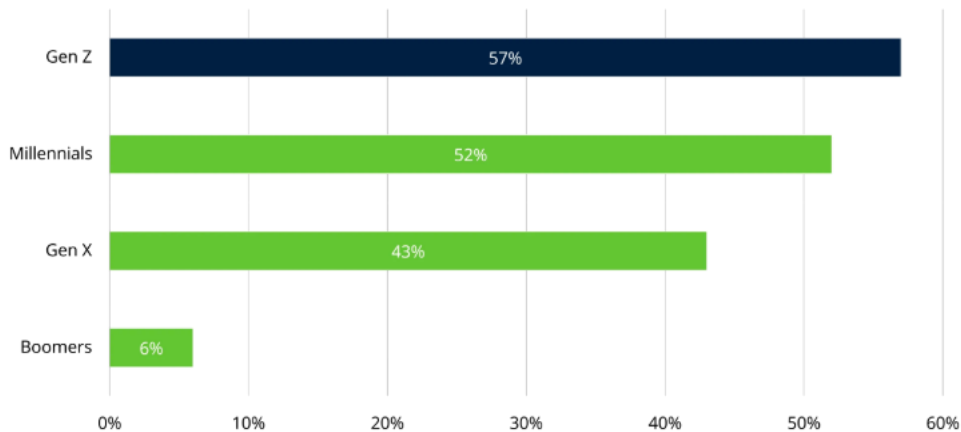
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Source: Global Gen Z Spending Report, NielsenIQ and GfK, 2025

### When consumers take control: beauty in the age of social media

The rise of social media is not new, particularly for Gen Z, but shopping through social media is more nascent. Covid accelerated this behavioural shift dramatically, transforming platforms that were once purely discovery channels into full-funnel commerce ecosystems.

### **TikTok usage: % of each generation that follows and buys from TikTok accounts**



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*Source: A Gen-Z report Oliver Wyman Forum, 2023*

Historically, the path to brand influence relied on mass advertising, TV and magazine ads, and the ability to secure prime retail shelf space to make sure the consumer had access to the products.

Today, that model has been upended. Social media has levelled the distribution playing field and enabled small brands to both market and sell directly to consumers. Indie brands now account for ~30% of beauty sales globally (NielsenIQ), reflecting this diffusion of competitive power.

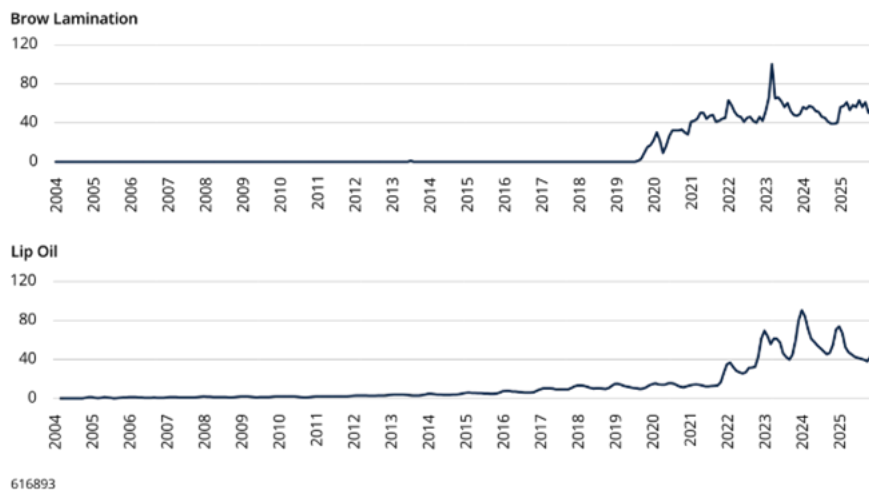
Simultaneously, Gen Z buying decisions are increasingly shaped by:

- Algorithmically curated content
- Creator and peer recommendations
- Visible, real-time product testing
- Millions of aggregated reviews
- Hyper-specific product search (“the best moisturiser for oily, acne-prone skin”)

What started with long-form YouTube tutorials has now exploded into short-form video across platforms like TikTok and Instagram. Today’s consumers evaluate products through evidence-based, user-generated content rather than brand-crafted messaging.

The rise of social media and the proliferation of smaller, more agile brands have accelerated trend cycles dramatically. New products and micro-trends can gain rapid traction online. While these trends often persist in the category, the hype around them tends to peak and fade quickly. Google search data in the US illustrates just how short-lived many recent beauty trends have become.

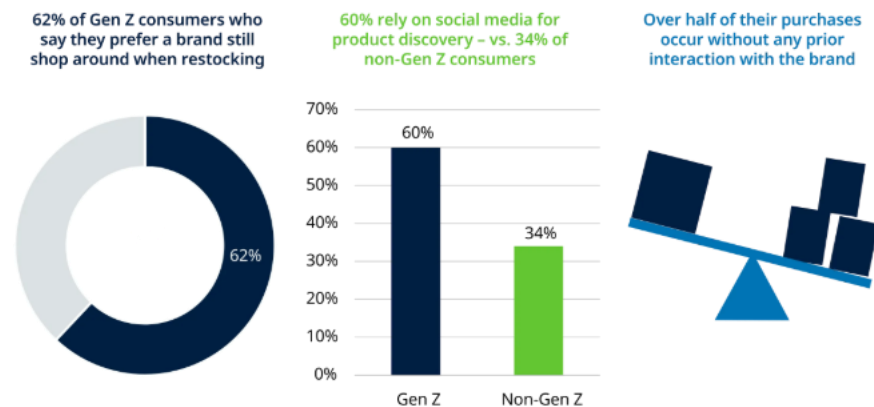
## Google search reveals how trends peak rapidly



Source: Google.

As a result, brands no longer control the narrative in the way they once did. Traditional brand-building strategies are proving less effective against a consumer who is more willing to try new brands, less inclined to repeat-purchase, and is increasingly reliant on social media for discovery.

## Gen Z shopping preferences



Source: Oliver Wyman Forum, A Gen Z Report, 2023

## The consequences for companies: rising costs, rising urgency

1. Customer retention is becoming more expensive:

As brand loyalty diminishes, companies are being forced to spend more to reacquire or re-engage consumers. This is particularly challenging in an attention economy shaped by short-form video, where staying front of mind requires constant content and renewed investment in engagement.

2. Agility is becoming a competitive advantage:

Many multinational consumer companies are struggling to keep pace with the speed of smaller start-ups. Trend cycles are accelerating and consumer demands are increasingly fragmented. As a result, companies with faster decision-making and shorter innovation cycles are gaining ground. This requires investment in both supply chains but also in technology to monitor these trends.

### 3. "Fewer but bigger" innovation strategies may be misaligned with Gen Z:

The industry trend toward large, blockbuster launches designed to maximise global scale risks overlooking the micro-trends and niche preferences that resonate with younger consumers. This is especially relevant in emerging markets, where Gen Z spending is concentrated and where localised, agile innovation tends to outperform more centralised approaches.

### 4. The rise of disruptor brands:

Gen Z consumers are more open to trying new brands, creating opportunities for smaller, more nimble players. Companies that can innovate quickly, adopt new platforms early (e.g. TikTok Shop, live streaming), and sustain ongoing engagement rather than relying on episodic campaigns are well placed to win share. We only have to look at the success of Rhode, e.l.f, and skinceuticals to see this in real time.

## Who can emerge as a winner?

While the landscape is shifting, the outcome is not binary. We expect to see divergence within the sector. Key markers of potential outperformance include:



#### Increased agility

We're watching for companies that can shorten the idea-to-shelf cycle. Those with the capability to move from concept to campaign at speed will be better positioned to keep pace with Gen Z dynamics.



#### Online channel execution

Brands investing in online infrastructure, and those that view digital not as a series of one-off marketing events but as a repeatable, scalable engagement model, stand to benefit.



#### Differentiated innovation

With majority of Gen Z located outside Western markets, meeting specific local needs is essential – but so is demonstrating real, measurable product benefits that this generation expects.

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## The key question: where is the market mispricing this?

We're watching for signs the market is underestimating structural changes. That could be an assumption that legacy consumer brands can maintain past levels of efficiency and loyalty at the same cost, despite the rising cost of digital engagement and growing Gen Z churn. Conversely, there may be underappreciated upside where a company is actively evolving - pivoting towards more agile innovation, improving digital engagement, or localising its strategy to better capture future demand.

This helps us to build a differentiated view to the market on the future growth and returns of these businesses, which is what our team call 'growth gaps'. This is a key

driver in the Global and International Equities team investment process, where we want to find opportunity for earnings revisions ahead of the market.

These consumer shifts are evident across a variety of industries, from food and beverages to household and personal care. The impact of these shifts is unlikely to be uniform across categories, with growth gaps likely to emerge at a sub-category level. We expect the risks to manifest more quickly in areas such as make-up, where product differentiation is lower, innovation is highly trend-driven and barriers to entry are more modest. This dynamic has already enabled a wave of new entrants to gain share, with e.l.f. Beauty a clear example of how social media led discovery and rapid trend adoption can translate into sustained growth.

By contrast, skincare typically requires greater investment in science, clinical testing and regulatory approval, making it harder to replicate and less exposed to the shortest trend cycles. While skincare is not immune to the changing consumer landscape, these features provide more avenues for companies to defend brand equity and pricing power.

This distinction matters when assessing valuation signals. For example, Beiersdorf, which is predominantly a skincare business, has seen its shares come under pressure over the past year. This prompts the question of whether its core categories are structurally impaired or whether their strategy is the wrong one. If neither is the case, the market's concerns may be overstated, creating scope for positive growth gaps.

Conversely, businesses such as L'Oréal, while a high-quality business and well positioned, have seen little valuation adjustment despite the evolving cost and complexity of engaging younger consumers. Even if they emerge as winners, the critical question is whether future growth is being achieved at a higher cost than in the past - and whether this is fully reflected in current valuations.