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Generation Y: The Builders of Tomorrow's Business

Introduction 1
Who are Digital Natives? 3
Generation Y and Loyalty 4
Going Beyond Generational Shifts..... 7

Introduction

There have been a number of articles in the media about the impact that Generation Y is likely to have. They suggest that Generation Y is distinctly different from generations that have come before as it is shaped by tools like the mobile and the internet.

The changes in how businesses and consumers interact go beyond generational shifts. Therefore, critics have argued that the concept of the generational cohort lacks rigor. They suggest that it conceals more than it explains about consumer behavior and generational shifts. Banks and financial institutions will have to wrestle with these issues as they seek to reinforce and reinvigorate their brands.

The sociologist Karl Mannheim first defined generational cohorts in 1928, in a paper titled "On the problem of generations". He outlined his analysis of how a generational experience shaped people across class and geographical lines. To Mannheim generations were sources of opposition, challenging existing societal norms and values and bringing social change through collective generational organization.

Mannheim, writing at a time when social analysis was dominated by Marxist emphasis on class, argued that age groups had the ability to act as agents of social change and become carriers of intellectual and organizational alternatives to the status quo.

The main criticism of the concept of cohorts is that people's attitudes and beliefs tend to change gradually and are not associated with a single cohort. People pass through different stages of life such as - being educated, entering the job market, getting married. As a result, people's attitudes and beliefs are shaped by these challenges rather than the generational cohort they belong to.

Another argument is that the boundaries of a generation are often arbitrary – there is for instance little agreement on the dates that bind a generation. Wikipedia for instance defines Generation Y as "a generation, defined not by formal process but rather by demographers, the media, popular culture, market researchers and members of the generation itself, there is no precise consensus as to which birth years constitute this generation."

The argument for framing Generation Y as a category of consumers is that it defines a group of people who share a common experience. With the spread of mobile phones and

computers young people around the world are able to forge a national and at times even a global identity. In that sense, the concept of Generation Y serves a serious challenge to brand owners who seek to define the boundaries of their offerings and how they communicate with their consumers.

Metaphor is a powerful tool for framing information and Generation Y can be likened to "natives" in a world dominated by digital technologies – a digital world. In fact, John Palfrey and Uri Gasse have written a book "Born Digital Understanding the first generation of Digital Natives." Then those who were born before the advent of these technologies could be termed as "digital immigrants." They argue that there are three distinct characteristics of digital natives - they were all born after 1980, when social digital technologies, such as Usenet and bulletin board systems became widely used; they all have access to networked digital technologies and they have the skills to use these technologies.

Who are Digital Natives?

Not all those born in the 1980s and 1990s had access to digital technologies and were not Digital Natives to start with. With rapid diffusion of internet technologies the gap between natives and non-natives has narrowed.

A growing number of young people have adopted the internet and mobile phones to become part of a Digital Native ecosystem.

We can summarize, from already published material, the general traits of Digital Natives. The mindset of digital natives is social and their ability to network is high because of social networking tools like Facebook, MySpace and Orkut.

Their day does not start with a newspaper in the morning but they gather information in the course of a day. This drives them away from a logical shopping sequence that includes visiting stores. They follow a more “random” experience that allows them to gather information and then come to a decision. However, like digital immigrants, digital natives value “word of mouth” and direct feedback from their network.

Digital Natives are nomads and look for value in each transaction. They scout for the best deals that they can get from different providers. This behavioral pattern has provided business opportunities to ventures such as confused.com that allows visitors to compare and shop for the best deal and uSwitch.com that can help consumers move from their current provider to a newer cheaper one.

Digital Natives display distinctly different behavior from Digital Immigrants. Digital Natives unlike immigrants are comfortable with a mix of physical and virtual goods. Unlike immigrants, Digital Natives are open to a marketing pitch with a concept sans the physical delivery of a product.

Companies that seek to market to digital natives should seek to be “customer centric” and move away from a “product centric” approach that helped them survive in the immigrant’s world.

The expectations of Digital Natives and the expectations of the immigrant ecosystem are very different. Today Digital Immigrants lead and manage the financial services industry and the business models of the 80's and 90's have equated the expectations of Digital Natives with those of Digital Immigrants.

Generation Y and Loyalty

Gen Y is very loyal to brands and their employers as long as their interests match – but its loyalty is not blind. As a result, it is more expensive for the companies to build stickiness with them than it was with Generation X. As a result, traditional Auto, Entertainment and Consumer brands are re-architecting their interaction models to target them.

Generation Y values credit and is willing to service credit extended to them. Today the collective debt serviced by Generation Y for their education and later for their first mortgage is sizeable. The question to be answered is “do we have the products and services that are specially defined for events in these customers' lives?”

Non-traditional players like ZOPA, PayPal or Wesabe have been able use social networking approaches to target digital natives comfortable with digital technologies. As a result, they have increased their presence in the financial services industry and enriched their brands. By contrast, most traditional financial services organizations have invested in creating channels that deliver financial services away from the branch. But do these channels serve Digital Natives or do they assist immigrants in interacting with the banks?

I strongly believe it is the latter mainly because most retail banks have focused on reducing costs to service customers. Traditional financial institutions need to develop a strategy that deals with those who are comfortable with digital technologies, including social networking, and offer both a social and an interactive experience. None of the banks that I deal with as a customer in UK or India offer features that enable me to share, communicate, and build a dialogue with the bank.

The bank's advice and research notes regarding my investments are still delivered by mail or at best as a PDF to my email. The best experience I have had, thus far, has been

to re-mortgage my home online and buy home insurance rather than the more traditional activity of placing a deposit with a bank..

Some banks have set up new businesses to incorporate services for digital natives. Using new business models have proved to be more valuable than morphing existing business to address Generation Y. A recent example is UBank, a division of National Australia Bank

Many Generation Y customers understand and value the non-cash elements of an interaction that includes credits, points or virtual currency equivalents. If banks can capture these non-cash elements early enough from the Digital Eco-system and include a facility to bank these and pay with them online, it would be welcomed by other service providers and customers. Generation Y has also found ways to aggregate and disaggregate services from other providers. Also building an “exchange to barter” provides better coverage.

One visible example of such behavior is in the mobile phone business in Asian countries. Young customers buy a bundle of calling minutes and text messages from mobile operators and subsequently transfer these in smaller packets to other customers to get a better unit price and also earn a small fee on such transfers.

Mobile phone operators find this approach attractive as they do not have to bill and collect for these small packets of services. In the area of financial services today microcredit exists but is not very well distributed or accessible to those who use a mobile phone. A partnership between mobile phone operators and banks could lead to a more active distribution of these services in the addressable market space.

Such an approach to business calls for a significant shift away from today's methods of credit authoring and rating; engaging with the Generation Y participants when they are younger could be a compelling business proposition.

Generation Y needs more access to credit and a credit rating that they can share in a borderless digital world. As access is global, service providers must collaborate with each other and with local regulators.

Generation Y customers would be most pleased and find it attractive to build assorted bundle of services and products specific to each individual from a variety of service providers. Partnerships are critical in offering these customer specific bundles. The mechanisms for pricing the non-financial service and financial service products to Generation Y does call for a change in the way revenue is channelized to participants and billed to the customer. Softer mechanisms exist today with card providers but they are not flexible enough for the deployment of core services on a shared revenue model. Finally, would this change the role of banks in addressing Generation Y? No. The fundamentals of the business - around the credit decision -- will still remain with the bank not with the utilities or phone companies. But it does call for a larger and more flexible participation by the banks in securing transactions with Generation Y early enough and actively participating in the entire life-cycle of events that they experience. If banks hesitate in working out arrangements with their partners to offer credit to Generation Y, they would see other businesses assuming the risk, and would lose the opportunity. The need for mobility and transparency in the digital world would support the idea of "One Account for a Person" that is being contemplated by certain countries and regulators. This raises another question - can banks be trusted utilities to provide services to individuals and companies – those with the money and those who need access to money?

It is also a different cup of tea for regulators who are addressing Generation Y. The traditional post event reporting, reconciliation and control processes do not work well with this community. This implies that there needs to be a complete overhaul of regulations that would allow more online surveillance to detect deviations as the event happens.

Going Beyond Generational Shifts

What is striking is that changes in the way that the internet is being used go beyond neat categorization about generations; in the recent past the age group with the maximum number of new Facebook users has been from 31 to 49 years. This suggests that while Generation Y may be the pioneers in the use of social networking, people of other ages have been quick to follow. That makes Generation Y even more important because they are shaping how business will be done tomorrow.



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