SHIFTING BALANCE OF POWER
Millennials are inherently different. Their behaviors, habits, and likes are a product of their environment; an environment that is monumentally changed from the ones that Baby Boomers or Generation Xers grew up in. And, unlike in the past when older generations influenced younger ones, millennials have become the influencers. They’ve been changing the way we communicate, shop, pay, move about, view entertainment, and access information of all sorts. And now they’re moving into the position of power as the soon-to-be largest generation and, holders of the highest spending power. As wealth managers, it means we need to understand their values and how they influence demand, which companies will be winners and which will be left out in the cold.

A BRUTE FORCE

This paper is a continuation in our series addressing industry disruption. In past installments, we looked at reinventing automobiles, China 2.0, redefining retail, and the significance of cryptocurrencies and blockchain technology. In this paper we focus on changing personal behaviors, led by millennials, that are giving rise to new business models, and disrupting industries.

Many of us have read about, or experienced firsthand, “millennialness.” Whether considering how they dress, what they do in their spare time, or the undeniable attachment to their mobile devices, millennials have swept in a sea change. But interestingly, these characteristics are no longer uniquely theirs; many of these behaviors are gradually being adopted more broadly, and are changing common norms.

For investment managers, the last 10 years have been unusual. There have been few cyclical controversies, but secular shifts in personal behaviors are trickling through almost every industry. New industries are disrupting traditional ones; some existing companies are well positioned to benefit from these changing behaviors, while many others are faced with reinventing themselves or failing. Investment managers are faced with the challenge of understanding what future cash flows will look like in a world of this persistent secular change.

For new companies, like e-commerce and streaming media, the central question is the sustainability of their business model. Can they charge a price for delivering immediacy and convenience that generates sustainable cash flows and earnings growth? Access to cheap capital over the past decade fueled growth in companies like Amazon and Netflix, without regard to profitability. But how defensible is this model when capital is no longer cheap? Can they evolve and survive, or will incumbents, with deep pockets and transformed business models, sweep in and become the eventual winners?

For many established companies, are they in a position to compete, and if not, can they reinvent themselves? How long will it take to recognize the need to change, and do they have the resources to fully commit to the transformation?

The importance of millennials to many investment controversies today cannot be overstated. This generation spans 15 years; the oldest are 37 and the youngest just entered their 20s. Today, we are at a transition period: millennials will soon be the largest population group and have the greatest spending power. Our research is focused on how their behaviors will create new norms across the US economy and how companies will exploit these changes in the years to come.

In this paper, we look at a few market segments to assess how the key behaviors of millennials—immediacy and connectivity, sharing and experiences—are disrupting established business models. While some new companies may be winners currently, several existing players are well positioned to benefit while others are at risk (Display 1).

### DISPLAY 1: IMPACT OF CHANGING PERSONAL BEHAVIORS

<table>
<thead>
<tr>
<th>Behavior</th>
<th>Rising Players</th>
<th>Existing—Poised to Benefit</th>
<th>Existing—At Risk</th>
</tr>
</thead>
</table>
| IMMEDIACY & CONNECTIVITY | E-commerce (e.g., Amazon)  
Fresh, prepared foods  
Food delivery  
Streaming media (e.g., Netflix, Hulu, Amazon Prime, Spotify) | Foodservice Distributors (e.g., US Foods, Sysco)  
Payment networks (e.g., Visa and Mastercard) | Traditional media (e.g., Disney, Comcast, Warner Media)  
Processed/packaged foods (e.g., General Mills, Campbell Soup)  
Grocery stores (e.g., Kroger) |
| SHARING | Data owners  
Social media (e.g., Facebook, Twitter) | | |
| EXPERIENCE | Specialty, experiential retail formats (e.g., Ulta, Sephora)  
Ride hailing (e.g., Uber, Lyft) | | Traditional (department store) retailers  
Car manufacturers (e.g., GM, Daimler, BMW)  
Hotels |

The companies mentioned are used for illustrative purposes and do not constitute investment advice or trade recommendations and do not necessarily represent the views of all AB portfolio-management teams.
THE MAKING OF MILLENNIALS

GENERATIONAL DIVIDE

Much is made about the proclivities of generations. The Silent Generation, Baby Boomers, Generation X, and Millennials—all names given to generational cohorts that experienced similar events, such as geopolitical tensions, technological advancements, economic prosperity, or scarcity and social change (Display 2). While generalizations do not apply to every individual within that age group, grouping individuals does reveal striking differences in attitudes between them. Researchers look at these experiences to study how they influence maturation and shape views.

Generations can hold distinctly different value systems which are most prominently shaped by the environment and experiences of early childhood. Some attitudes change over time, as individuals grow and mature, but analysis of generations shows that many views do not; they often persist through adulthood. The Silent Generation’s experience of the Great Depression in their early childhoods is a good example. It shaped their attitudes toward spending and saving, and these values lasted throughout their lifetimes.

PRODUCTS OF CIRCUMSTANCE

Millennials are inherently different from other generations. In developed countries, they were born into rising economic affluence. Their parents were, on average, more highly educated than those of older generations. Focused on obtaining degrees and pursuing careers, many delayed childbearing and restricted their family’s size. With fewer children, parents paid more attention to each individual child, and often showered him/her with constant praise and validation. This environment encouraged their children—millennials—to take a slower path towards engaging in adult activities, meaning they are waiting longer to work, get married, and buy a home (Display 3).

THE INFORMATION AGE

Millennials have been further profoundly influenced by the information revolution, as they came of age during the Internet explosion. They are the first generation to take for granted a world that’s always connected, where there is instantaneous communication, entertainment, and information.

Not only are millennials natives of this revolution, they are catapulting it ahead, and pulling the older generations with them (Display 4). The way all of us engage as consumers of products and services is shifting, and millennials are the change agents.

NOT PASSING TURBULENCE

Many, including us, have wrestled with the question of whether these differences are fleeting, and millennials’ behaviors would eventually revert to the “normal” conduct of older generations as they age. To answer this, we looked at the history of other revolutionary transformations.

We believe the Information Age is transformational. We liken it to the invention of the car. The automobile changed a generation’s entire way of life—from the speed of mail delivery to where persons could travel and live.

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There are numerous other examples of transformative, lasting change—the invention of the telephone, use of steam-powered engines, and mass communication through radio and television. Generations that underwent these revolutions never reverted to the behaviors or habits of past ways of life which were altered forever.

For businesses, the permanence of this generation’s inclinations is important for several reasons, the most prominent being that they will be the largest population group, surpassing baby boomers, next year (Display 5). Not long after, they will have the greatest spending power and their behaviors and preferences will affect every industry.

A WHOLE NEW WORLD

Meanwhile, their affluent upbringing has caused millennials to be less fearful of economic scarcity than earlier generations. Psychologist Abraham Maslow posited that human needs are arranged in a hierarchy; basic needs are satisfied first and when those are met, other, higher needs emerge. Millennials have not experienced scarcity, as their basic needs have generally been met, so their focus has been on satiating other needs. This explains why they are less motivated to acquire durable physical goods, but more inclined to seek out in-person experiences, such as prioritizing travel over buying a home.

Because of these factors, millennials possess three notable traits—an expectation of immediacy and the assurance of always being connected, an openness to sharing personal data, and the desire for experiences—that shape their behaviors, habits, and likes. We believe these traits are not transient, and will have real and lasting impacts on industries and business models. Without a thorough understanding of this large, and more importantly, influential and trend-setting consumer, many businesses will not survive.

IMMEDIACY AND CONNECTIVITY

Millennials demand immediacy, so much so they’ve been assigned their own acronym— IWIIWWIWI or “I want what I want when I want it!” Conditioned by instant messaging, on-demand TV and music, and Internet search, they are accustomed to getting what they want without delay.

IWIIWWIWI

E-commerce has made spontaneous purchases so easily accomplished from your bed or couch; it’s instant gratification! Traditional retailers have felt the repercussions of e-commerce.
It’s not only stolen share, but e-commerce has forced retailers to reexamine the size and layouts of their physical stores, and the products and services they offer, to be more in line with the values of millennials. In our recent blog, Redefining Retail, we explain how retailers who compete on price and assortment are most at risk of being displaced by e-commerce, which is clearly here to stay and will encroach upon the market share of those traditional retailers who cannot adapt their format or use technology to compete. But interestingly, profitability in e-commerce is trickier; for example, Amazon’s platform makes a very small margin by itself, but add-on services like third-party fulfillment and on-platform advertising greatly enhance the overall profitability. So while e-commerce is gaining share in some, but not all retail categories, online companies still need to figure out how to create profitable long-term business models.

FRESH, LOCAL, DELIVERED
There’s an expediency with food and dining as well. Today, grocers sell far fewer raw ingredients than in the past; instead they’re seeing a ramp-up in demand for fresh, prepared foods. Although millennials demand immediacy, wellness trends have spurred a move away from packaged and processed foods. That’s the main reason why packaged goods companies, like General Mills and Campbell Soup, have struggled to grow earnings, forcing investors to reevaluate the companies’ sustainable earnings growth in the face of this secular change. It’s also why revenue growth for restaurants is coming from takeout and delivery orders. This in turn is powering growth in newer businesses that cater to millennials’ demands for fresh, prepared foods to eat at home; companies like Grubhub and Uber Eats, are just two of many online and mobile food ordering companies that connect individuals with local restaurants that deliver. Millennials are more apt to support local rather than national chains and these online ordering platforms make it easy for them.

Local restaurants are using their exposure on Grubhub and other platforms to gain social media followings as a way to market themselves. In addition, local restaurants are better able to accommodate the shifting tastes of their customers by rapidly changing their menus. The combination of online ordering platforms and menu flexibility allows local restaurants to compete more effectively against national chains. This growth in local restaurant revenues is also benefiting their well-established suppliers. Foodservice distribution companies like US Foods and Sysco are finding that the fastest driver of their sales growth is coming from independent, local restaurants, and not national chains.

Grocery stores also must evolve. Those that expand their fresh, prepared offerings, change the physical layouts to emphasize the food experience, move away from the one-stop shopping format, and improve the robustness of their online ordering and delivery or pickup offerings will be better positioned for the millennial consumer. The latter—emphasizing delivery—is an important trend that is without a doubt disrupting the grocery model. Amazon acknowledged this opportunity with its acquisition of Whole Foods. Amazon’s skills in delivery threaten other supermarket chains like Kroger, who may face pressure from new entrants or new models. Legacy grocery models will likely see lower sales growth in their current forms or be forced to adapt by making expensive investments to obtain delivery capabilities, or creating partnerships.

Delivering immediacy is made easier because millennials are constantly connected. Not only are they digital natives, they are mobile natives as well. Nearly 90% say their smartphone never leaves their side; two-thirds bring it into the bathroom, and even more sleep with it within reach. This unwavering attachment to mobile devices has dealt blows to several industries; media is a prime example.

MEDIA MELTDOWN?
Live TV is no longer the only option, nor is it the preferable way to consume entertainment for many. Streaming services—Netflix, Hulu, and Amazon Prime—have sprung up to meet the demands of millennial viewers (Display 6). So have nontraditional forums, sites like YouTube, as millennials turn to homemade content that features “regular” people for entertainment.

Today, shows are viewed when it’s convenient. They’re increasingly consumed on the go, on computers, tablets, and mobile devices. Viewers have choices—they can decide what to watch, when, and on which device. They can choose to watch one episode, or binge watch a full series in one night.

When the network TV model broke down, so did the flow of dollars advertisers paid to traditional media companies, forcing them to reimagine how they would deliver content to consumers, and how they would get paid for doing so. Cable companies like Comcast are experiencing the aftereffects of the rise of streaming: pay-TV subscribers and revenue are declining, while high-speed, Internet subscribers and revenue are growing. Comcast and its peers are not concerned about whether consumers will continue to watch TV shows and movies; rather they’re trying to foresee which delivery mechanism viewers will use to access content in the future.

Traditional media companies—the content providers—are likewise grappling with the rise of streaming. Just recently, Disney agreed to acquire most of the TV and movie production businesses of Fox to compete more effectively with streaming services. This acquisition provides Disney with the production and library resources to drive its own streaming service, which it plans to launch in 2019.

Others are seeking mergers. In its year-and-a-half-long dispute with the Department of Justice, AT&T and Time Warner argued the need of content owners and distribution channels to come together to effectively compete against streaming companies. Without the ability to match the capabilities of online content companies, traditional media would not be able to adapt to the changing viewing habits of millennials.

Advertisers also need to find alternative avenues to reach the now dispersed audiences. Many have turned to social media. Instagram, owned by Facebook, has a strong brand presence where users exhibit loyal followings. Marketers use this to their advantage to get frequent touches with consumers. And they use Internet celebrities, who resonate more with millennials than sports stars, pop stars, actors, and actresses, as endorsers. Others have pursued product placements; they are less obvious, inexpensive ways to get products in front of consumers.

Despite the transitions within media and the expectation that streaming services will continue to reshape television, companies like Netflix may not be the ultimate winners. That’s because they have yet to demonstrate an ability to generate profits. Instead, it is possible that the large media companies—Disney, Comcast, Warner Media (owned by AT&T)—could capture audiences through their own streaming platforms because they have deep pockets to work through developing optimal platforms and longstanding relationships with viewers who may be willing to stick with them. Initial disruptors, as history tells us, don’t always win, even if they do reshape industries.

**SUMMARY: INVESTING FOR IMMEDIACY AND CONNECTIVITY**

E-commerce, streaming media, and food delivery are rising players answering the call of immediacy and connectivity. But even with the demand of immediacy, millennials are selective. They desire food on the go, but want it to be prepared fresh and not packaged. They favor local restaurants, with locally grown ingredients, over national chains. This secular shift appears strong and here to stay. But rising players are not necessarily shoo-ins to be the eventual winners. Questions related to what equilibrium will look like remain. Can these companies mature to become profitable businesses or will existing companies reinvent themselves to compete, and eventually win?

**SHARING**

Every minute, individuals—led by millennials—send over two million photos on Snapchat, send almost 500,000 tweets, post nearly 50,000 photos on Instagram, and send about 13 million texts.³ Online sharing has grown many fold over the last several years, and is the foundation upon which social media businesses are built.

**OPEN-DOOR POLICY**

Unsurprising, millennials are more open to sharing than other generations, particularly if they receive something in exchange, such as discounts or exclusive benefits. This openness is what many online companies bank on. Just recently, the Facebook/Cambridge Analytica scandal highlighted the importance of user data.

Social media and its users have a symbiotic relationship: users share data in exchange for customized experiences, and companies collect that data to understand perceptions, motivations, and behaviors. In many cases, the data collected is the most valuable part of a company’s business model. Data is used to improve customer experiences, by allowing marketers and advertisers to deliver more targeted and personalized messages, and modified brand and product offerings. Millennials, more than any other generation, are willing to accept the tradeoff between privacy and personalization to receive targeted ads that enhance their experience.

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Millennials also use social media as a conduit to stay in touch. They share with other users, but expect others to share back. But because there’s competition for their attention—they are relentlessly bombarded while being constantly connected—they prefer visual exchanges—pictures, emojis, and video clips. And when they post anything, they count on their friends’ likes and comments. Having grown up in an environment of constant praise and participation trophies, they often turn to sharing on social media to receive that validation. That’s why many gravitate toward networks like Facebook’s Instagram. Simple and clean, with visual images that require only short attention spans and still offer continual affirmation, Instagram offers the experiences that millennials crave.

The desire for validation is also the motivating factor for joining blogs and posting product opinions. And all of the shared data is useful when conducting online research, particularly around health and wellness. Often millennials do their homework on their symptoms and reasonable courses of care, researching on health websites, joining blogs, and looking at online reviews of providers and sites of care (Display 7). This is loosening the connection with traditional doctors. This consumer involvement in healthcare decision-making is driving a price discovery and fee transparency revolt, and disrupting the healthcare industry.

Social media is here to stay; social media companies, like Facebook, and search engine companies, like Google, have capitalized on their user bases to attract highly profitable advertising dollars. But how these companies utilize data is now coming under scrutiny. Concerns about privacy has caused governments to force companies to voluntarily limit the exploitation of data or explore regulations that protect users. These limits and regulations, at the very least, undermine the short-term growth story for many of these companies, making it more difficult for investors to forecast sustainable earnings and cash flows.

**NETWORK EFFECTS**

For social media companies, capturing user data has its advantages. The strong relationship with users can be parlayed into other businesses within a company’s ecosystem that can ultimately improve returns on capital. Many have expanded their networks to include businesses that speak to millennials, like mobile payments.

Smartphones are becoming the virtual wallet for many. Millennials put their movie tickets, boarding passes, and reward cards on them, as well as online banking and other payment applications. They are increasingly using online payment methods in place of cash and checks, and many are using apps, like Apple Pay, Venmo, and Square Cash, to make transactions.

Internet giants—Facebook, Amazon, and Google—have recognized this potential and expanded their reach by offering payment functions. But there is virtually no risk here for the existing payment network operators like Visa and Mastercard, because most mobile payment applications use the existing systems to process transactions.

The Visa and Mastercard payment systems are everywhere. In 2017, Visa and Mastercard combined processed over $11 trillion of payments, equal to roughly 17% of global GDP, across over two billion cards, 40 million merchants, and 16,000 financial relationships across the globe that run on the card networks.

The only prominent payment app that does not rely on the card networks is Venmo, owned by PayPal. A favorite of millennials, Venmo is primarily used for person-to-person transactions. But the payments business is hard and acceptance issues are pushing Venmo to consider moving onto the card networks.

Nowhere is mobile banking more prevalent than in China. Chinese social media giants Tencent and Alibaba expanded their networks to include mobile payments with WeChat Pay and Alipay. They recognized the tremendous market potential in China, where mobile payment transactions are 50 times greater than in the US. But unlike companies in the West, they do not rely on the card networks. They clear transactions and fund wallets directly from banks. The Chinese government, however, is now regulating their activities and potentially disrupting their model of making money off the float. And recently, card networks were approved to operate in mainland China and are starting to compete for wealthy consumers.
SUMMARY: INVESTING IN SHARING

Social media and owners of consumer data are rising players that benefit from the culture of sharing. The importance of collecting, analyzing, and effectively using data is massive. For years, grocery stores collected data from our store cards; but they’ve never used it effectively. Customers often receive coupons AFTER they pay, and would have to remember to bring that coupon with them on their next shopping trip to reap the benefits—a very ineffective way to target customer preferences. Today, successful companies do it differently.

Millennials willingness to share data has led to the creation of social media platforms that exploit the data to target advertising to users, making these networks effective marketing platforms. This ability to exploit data, however, is now being questioned, and the business models of companies like Facebook are being revised, creating some uncertainty about their future profitability. Nonetheless, they remain very powerful franchises with the ability to expand into other areas, like mobile payments. But, despite the apparent disruption represented by the new businesses, like mobile payments, incumbents don’t always get displaced. The infrastructure underneath mobile payments looks very much like the traditional card payment business—dominated by Visa and Mastercard.

EXPERIENCE

Millennials seek passion, and strive to meet their higher psychological and self-fulfillment needs. Experiences don’t have to be grand or life altering; they can be simple and every day. Take shopping for beauty products, for example.

Imagine the beauty section at a department store, with its counters devoted to a few major cosmetic brands like Clinique, Estée Lauder, and Lancôme. Products are not available for individual trials; sales associates need to assist you as part of the process to push new items. There are limited brands, and brand loyalty is demanded. This is the way the Silent Generation and baby boomers bought beauty products.

Now walk into an Ulta Beauty or Sephora store. There are no counters; instead, an open floor plan where customers can go from station to station. There are salespeople, men and women alike, but their job is to direct you to various parts of the store or recommend a product among all the brands. And there are many brands—up to 500 with 20,000 SKUs. Some are the traditional high-priced department store brands, others are common to drug stores, but many are new and innovative “hot” brands. These brands are typically promoted on social media, with YouTube videos, or on beauty blogs.

These specialty stores are incubators for cosmetic entrepreneurs, and this willingness to expand the brand universe of premier cosmetics is pressuring the oligopoly of legacy brands, like Estée Lauder. Unique brands will flourish or fail based on customer preferences.

PENNY PINCHERS

Despite the average millennial being born into affluence, there is a large faction that was not, and are facing rising income inequality. They are also contending with unprecedented high student debt (Display 8). Earning less while holding higher debt, many millennials have a net worth that falls well below that of prior generations.

This subset of millennials that are economically worse off possess values and behaviors that are less like their peers, but more in line with older generations. They hunt for bargains; it’s one of the reasons they are open to sharing personal details online—to get discounted products or promotions. It’s also a reason why discount retailers are popular with millennial shoppers as well as with baby boomers.

TJX stores (TJ Maxx and Marshalls) and Ross Stores are beneficiaries of this trend. Off-price retailers offer name brand merchandise nearly 20%–60% below full retail prices. The stores are generally overflowing with unrelated goods—racks upon racks of merchandise that need to be meticulously picked through. They have a wide selection, and if shoppers have the patience, they can frequently find one-of-a-kind or unique treasures at value prices.

Off-price retailers have gained share of younger consumers over the last decade. But share gains from older consumers have been even higher, suggesting broad-based appeal for off-price, even among digital natives. Interestingly, even as consumers have become wealthier, they haven’t switched to traditional apparel retailers. Instead they have used incremental income to shop more from off-price retailers, who are not considered just a way to save money, but as a viable shopping choice.

DISPLAY 8: STUDENT LOAN DEBT

USD in billions
Source: Federal Reserve Bank of New York
*Through June 30, 2018
feedback and experience, not advertising dollars. Just ask Kylie Jenner and her purported $1 billion cosmetic line! But it’s not just the variety and plethora of products and brands that draw millennials; it’s the experience. You can try every product yourself; experiment with different looks and feel the cosmetics firsthand.

Traditional retailers will continue to be under pressure from specialty stores, like Ulta and Sephora, who develop formats better suited to millennials’ desire for experiences.

A SHARED EXPERIENCE

This prioritization of experiences over goods is also a reason millennials tend to participate in the shared economy, more than any other generation4 (Display 9). They enjoy being able to access services on demand, because they would rather spend money on an experience than purchase a vehicle or a vacation home outright.

The sharing economy is not new. It’s really a return to times when villagers shared resources. Now it just takes place on digital platforms. In our blog, Reinventing Autos, we discuss the strong global growth of ridesharing, particularly in urban areas, but carsharing, Zipcar for instance, and lodging services like Airbnb, are also growing in popularity. There’s also a shared economy for goods and equipment, and even music, using Spotify.

The shared economy will undoubtedly have implications for various legacy businesses. Hotels are already feeling the squeeze (and protesting vigorously) as more competition from operators like Airbnb pressure room and occupancy rates. Car manufacturers—GM and Daimler, for instance—are expected to experience lower demand for new vehicles. Some auto companies have responded by creating their own carsharing services—GM’s Maven and BMW’s DriveNow alliance with Daimler’s Car2Go—are examples. Others are providing new services or features that will help them differentiate in the more crowded and changing landscape.

SUMMARY: INVESTING IN EXPERIENCE

Rising players are transforming mundane acts into social events. Specialty retail, and ride hailing are examples of everyday activities that have mutated to become experiences. Retail that’s personal and unique with products consumers can feel and try is an experience; stark, efficient, non-customized shopping is an act. Hailing a car to arrive on demand is an experience; waiting on the corner in the hope that a taxi drives by, is an act. Industries that can create the experience versus the act will likely succeed, while others need to adapt.

Some companies, like Ulta and Sephora, that understand millennials’ desire for experiences are on a path to success, but others have yet to build a sustainable business model. In the sharing space, companies like privately held Airbnb and Uber, and publicly listed Spotify are trying to create a sustainable model. It appears to be working for Airbnb, but not yet for Uber or Spotify. Ultimate success will depend on the competitive landscape, the creation and growth of a strong platform, and the ability to translate a user base into sustainable earnings.

UNDERSTANDING IS BETTER THAN KNOWING

Insights into millennials, born out of the research on generations, provide important clues into how companies can develop a strategy around millennials’ behaviors, habits, and likes. But because the generalities do not apply to all millennials—there are factions within the generation that differ—industries need to understand the various offshoots and how they can take advantage of their divergent attitudes or mitigate negative impacts to their strategies.

Complicating the picture, millennials’ traits—immediacy and connectivity, willingness to share, and experiences—do not exist in isolation; they are often interconnected. Sometimes they go hand in hand; the demand for immediacy is an outgrowth of being constantly connected. Other times, they are dichotomous; they often connect digitally, but crave in-person, social experiences. And sometimes, the interrelatedness makes understanding their tendencies truly difficult; the constant bombardment of images, data, and information can inspire loyalty, but can also cause it to be fleeting.

A few industries and companies already understand these values; many do not. Companies that can adapt and tailor their businesses to serve the unique behaviors, habits, and likes of millennials will be

4 Millennials Drive the Sharing Economy, Forrester, 2018 [https://www.forrester.com/report/Millennials+Drive+The+Sharing+Economy/-/E-RES141974].

DISPLAY 9: SHARING ECONOMY SERVICES USE BY GENERATION

<table>
<thead>
<tr>
<th>Service</th>
<th>Millennials</th>
<th>Boomers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle for hire/ridesharing</td>
<td>34%</td>
<td>3%</td>
</tr>
<tr>
<td>Room/lodging/homestay</td>
<td>15%</td>
<td>3%</td>
</tr>
<tr>
<td>Vehicle sharing/carpooling</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>Goods or equipment</td>
<td>7%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Base: 32,072 US Online Adults
Source: Forrester Data Consumer Technolographics® North American Online Benchmark Survey (Part 2), 2017
long-term winners; all others will likely fail. The challenge we face as investment managers is understanding whether these traditional companies can adapt, and, if they can, what sort of cash flows and earnings will they be capable of sustaining.

For new companies, the central question is whether they can create a sustainable business model. Many new business concepts have been built around behaviors that were once just millennials, but are now the norm. Some have been successful—Facebook, for example—but it faces challenges on limits and regulation on data collection and usage, potentially impacting advertising revenues. Social media completely reshaped the advertising market, but even their business models will not be static because consumer preferences will change, or regulations will force investment in infrastructure and other privacy capabilities.

Other companies—e-commerce, streaming media, and many in the sharing economy—have yet to demonstrate that they can build sustainable business models. While e-commerce is clearly here to stay, it is hard to determine their steady-state market share until companies can set prices that deliver an acceptable return on capital. This presents an opportunity for traditional retailers to establish a platform—a combination of a physical store and e-commerce—that could potentially produce higher returns on capital. Streaming media is faced with a similar challenge. While streaming reflects the way media is increasingly being consumed, it is not clear that the initial disrupters, like Netflix and Hulu, will dominate in the future. Traditional media companies have deep pockets and the resources to build platforms that can rival those of first movers to compete more effectively in the future. Shared economy players, like Uber and Spotify, face significant competitive pressures as well.

As investors, knowledge of values that drive consumer behavior is important. But understanding how those values and behaviors impact which business models will succeed over time, which companies will prove to be winners, and whether stock prices are correctly estimating future growth are keys to making profitable investments. That understanding is built upon a strong research capability and an active approach to making investment decisions.
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