



Millennial behavior: Making sense of hidden influences

A HOST OF BIASES CREATED BY TECHNOLOGICAL AND SOCIAL CHANGE
MAY INFLUENCE THE GENERATION'S LIFESTYLE CHOICES

BUSINESSES SEEMINGLY NEVER tire of analyzing millennials: what they like, how they buy, where they spend. After all, there are 66 million people born between 1980 and 1995 in the United States alone, comprising a sizable part of the population, workforce, and economy.¹ And while all individuals are unique—and uniquely different—there are certain characteristics that make millennials who they are, shaping how they think and behave. The question is: what do we know about millennials that allows us to more accurately predict their choices and behaviors? Viewing them through the lens of behavioral economics may help.

One millennial trait is their comfort with—and reliance on—technology. After all, it's a generation that had technology in their lives for the majority of their existence, and thus may view this as something their lives would be incomplete without, rather than something merely “nice to have.” The decision-making bias explaining this likely persistence of technology in millennials' lives is known as the **endowment effect**, which suggests individuals have the tendency to overvalue something that they already possess.²

Millennials have also often been considered key drivers of the sharing economy, preferring to rent or share, instead of buying.³ A couple of economic factors may drive this trend. First, this is a generation on which the Great Recession may have left a significant impression, instilling an aversion to making big-ticket purchases that entail long-term commitment.⁴ Second, millennials in the United States are also often burdened with significant student debt.⁵ All factors considered, it shouldn't be surprising that the behavioral bias of

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loss aversion—the propensity to avoid losses at the expense of missing out on similar or even slightly greater gains—may play a significant role in their decision-making.⁶

They are also typically enthusiastic participants of the “review economy.” Be it a restaurant or a date, millennials seem to rely on **social proof** to guide their decision-making.⁷ While other generations have done it as well, what helps set this generation apart is the ease and transparency with which technology provides them this real-time data. And, far from being burdened by choice overload, many millennials rely on technology to learn the “most popular” or “most highly rated” option—in other words, **the default option**.⁸ And, of course, it’s often social media they turn to for these reviews.

One thing that some millennials have been accused of is their need for “immediate gratification.”⁹ In behavioral economics terms, this is closely associated with the concept of **present bias**, which refers to the tendency of focusing more on a payoff closer to the present time when considering two future events.¹⁰ They’ve also been called “**experience seekers**”—that is, their immediate gratification may come in the form of spending on “experiences” such as entertainment, eating out, and travel—goods and services consumed immediately, rather than, say, durable goods that last for a longer time.¹¹ However, a closer look at spending data reveals that this is not really the case—they are in fact saving on health care, insurance, and pensions as part of their total expenditure, which suggests they are saving for tomorrow, rather than just spending on today.¹² And just because they say they *prefer* experiences, it doesn’t mean they are actually doing so.¹³

Clearly, a mix of factors—technological, economic, situational, and behavioral—have shaped many millennials’ minds and spending decisions. Nevertheless, like every generation before it, millennials are defined by certain characteristics that are a byproduct of the times they live in. Understanding these traits can provide valuable insight into how they think and behave. ●

For the full article explaining how economic and behavioral insights can help companies better understand millennials, read Akur Barua and Susan K. Hogan’s *What weighs on millennials’ minds ... and wallets?* on www.deloitte.com/insights.