



# Frugal Lifestyle Trend Among Generation Z

## How Do They Spend Money?

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**Abstract.** This research is based on the phenomenon of Generation Z's life as the next generation who spends their expenses sparingly due to several current global threats such as the depletion of global resources, the climate crisis, to the Covid-19 pandemic. This frugal lifestyle behavior is characterized differently and for different reasons over time. Therefore, it is necessary to understand frugal living and its relationship with Gen Z as frugal consumers' acceptance which is also the study's goal. Data analysis from a survey of 100 student respondents was conducted. Six dimensions of frugality studied were planning and control of spending, usefulness, deals as temptations, bargain-hunting tendency, the triumph of a good deal, and durability. The results of this study will show the relationship between frugality and behavioral intention to use.

**Keywords:** Frugal living · frugal lifestyle · frugal acceptance · behavioral intention to use · generation Z

## 1 Introduction

Indonesia is currently enjoying its demographic bonus. Interestingly, the 2020 population census results show that the composition of the Indonesian population mostly comes from Gen Z (27.94%), namely the generation born between 1997 and 2012 (BPS, 2021). The Millennial Generation is predicted to be the driving force of today's society. The existence of Gen Z plays a vital role and influences the development of Indonesia today and in the future.

Generation Z (Gen Z) is famous for spending money and eventually becoming their consumption habits. They are more cautious and sometimes have the characteristics to grow and conquer difficult times. They grew up seeing the reality of the global financial crisis, the potential of limited resources, climate change, goods and services more efficiently, and the pandemic era, which affected the economy, debt, and future success. In the Covid-19 era, for example, more individuals are adopting the longer term of greater self-control and new strategies to achieve it [1, 2].

Demographic changes include the rapid aging of the population. In short, consumers tend to be less interested in more expensive, multifunctional products and services that older people do not use. Instead, they prefer simple, user-friendly, and inexpensive products [3]. Frugal living is a lifestyle that is chosen as a form of reaction to a condition

and situation. Several factors, conditions, and situations cause Gen Z's financial priorities to change so that it affects their lifestyle and spending habits.

Frugality is usually conceptualized as individual differences characterized by discipline in acquiring goods and services and careful and controlled patterns of contesting (Goldsmith & Flynn [11]). These reasons are also based on social pressures and cultural contexts that can impact how individuals engage in restraint [4, 5].

Consumers most widely embrace the frugal perspective in developing countries regarding low-budget spending. However, various frugal innovations have been transferred from developing to developed countries. Quality products for low-income consumers are likely to become widely available in developing countries and developed countries [6].

Frugal living is a careful lifestyle related to Financial Independent Retire Early (FIRE). So, the concept of a frugal lifestyle is different from minimalism. Many people think that frugal living is the same as a stingy lifestyle. This happens because the concept of life applied is the same: setting aside money and avoiding buying useless things so that it is not wasteful.

Frugal living is a lifestyle-related to the concept of mindful living on expenses. A little consumption is the most basic type of frugality. Another feature of frugality is valuing and preferring such a way of life. Frugal consumers or frugalist will determine the priority of the money they want to use so that they can still enjoy life [7].

Kapitan et al. [8] stated five (5) dimensions from Interviews with Frugal Consumers, namely planning and control of spending, functional need or usefulness, deals as temptations, bargain-hunting tendency, and the triumph of a good deal. On the other hand, Costa et al. [9] suggested that intentions to buy products could be further explored by including another variable such as durability (i.e., innovations' life cycle). This research aims to examine the influence of frugality through six (6) dimensions on Gen Z's frugal acceptance or behavioral intention to be used in Indonesia as a developing country.

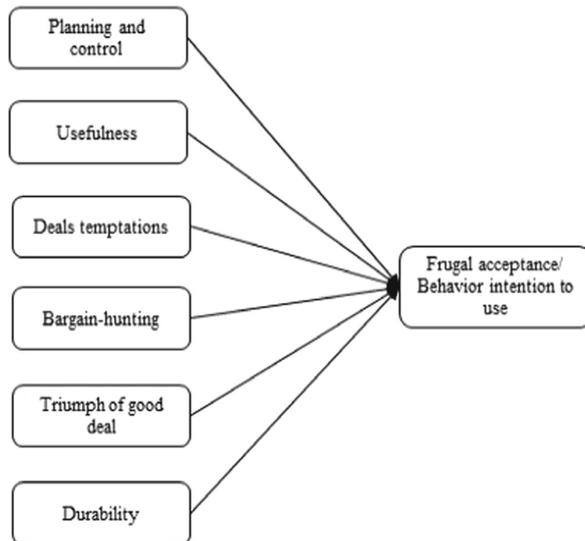
Frugality is a combination of knowledge, values, preferences, emotional reactions, practical skills, and habits. This combination makes the agent behave frugally. Frugal agents can live with fewer material resources as well as non-frugal resources. This capacity is paired with a stable placement for low consumption [10]. Frugality is a trait that balances spending restraint and exuberant exploitation of bargain opportunities [11]. Frugality dimension is shown in Table 1.

Aggregate dimensions of frugality were adapted from Kapitan et al. [5] and Costa et al. [9], namely (1) planning and control of spending, (2) buying based on functional need or usefulness, (3) dealing with temptations, (4) bargain-hunting tendency, (5) the triumph of a good deal, and (6) durability.

Behavioral intention is an individual's motivation or willingness to exert effort to perform the target behavior to analyze consumer acceptance or purchase intent to frugal adoption (Holden and Karsh, [12]). This study assesses the determinants of Gen Z's acceptance of frugal adoption in a developing country. Figure 1 shows the proposed model of frugal adoption by Gen Z. The proposed model incorporated planning and control (PC), usefulness (USE), deals as temptations (DEA), bargain-hunting tendency (BAR), the triumph of a good deal (TRI), and durability (DUR) as reflective constructs for frugal acceptance or behavior intention to use (ACC).

**Table 1.** Frugality Dimensions

| Dimensions               | Indicators  |
|--------------------------|---|
| Planning and control     | Control over one's spending, planning for spending                                      |
| Usefulness               | Buying what is needed, buying what is useful/functional                                 |
| Deals as temptations     | Sales and discounts can be temptations, buy it as a priority                            |
| Bargain-hunting tendency | price comparisons, seeking discounts/sales, never buying at the full price              |
| Triumph of a good deal   | The excitement when find a good deal; has a feeling of winning when finding a good deal |
| Durability               | Buy a product that can be used for long time, buy products that can extend to use       |

**Fig. 1.** Research Model of Frugal Adoption

## 2 Research Method

The target population was university students. The sample of this research was 100 undergraduate students from various study programs at the University of Surabaya (Ubaya) in Surabaya, Indonesia. The target respondent is considered suitable because students are usually not financially independent because most of them depend on their parents - at least at the undergraduate level. As trendsetters and early adopters, students tend to be sensitive to environmental problems and increasing resource constraints, thus making the respondent's character more careful in their purchases. Students are also low-income.

The instrument used in this study was questionnaires measured using the 5-point Likert scale. Partial least squares structural equation modeling (PLS-SEM) through Smart PLS 3.0 was chosen as the data analysis method because of its compatibility with the theoretical framework. The test result would measure the relationship between frugality dimensions and Gen Z's behavior intention to use.

### 3 Results and Discussion

The 100 participants who completed the questionnaire consisted of 60% females and 40% males. 100 respondents have met the criteria for gen Z which are students aged 18–25 years. Respondents in this study varied from various backgrounds with shopping expenditures below 1 million to more than 5 million rupiahs. 40% of respondents have shopping expenses of 1 to 3 million Rupiah per month (Table 2).

The results of the outer model in Table 3 show the reliability of the latent variable as seen from the composite reliability (CR), which is greater than 0.7; thereby, it can be said that the construct has good reliability for measurement. This means that each latent variable must be able to explain the variants of each indicator. The validity test would look at the Average Variance Extracted (AVE) value. AVE value greater than 0.5 means that one latent variable can explain more than half the variance of its indicators in the average. The coefficient of determination (R Square) is a way to assess how much an exogenous construct can explain an endogenous construct. The R-Square value of this research model is 0.391. So it can be said that the model is fit.

Table 4 shows the relationship between frugality dimensions and frugal adoption. Hypotheses are supported if the T-statistic value is greater than 1.96 and P-value is less than equal to 0.05. The original sample estimate value indicates that the direction of the relationship is positive or negative.

The relationship between planning and control of spending (PC), usefulness (USE), and Bargain-hunting tendency (BAR) with frugal acceptance (ACC) were supported. PC, USE, and BAR have a significant and positive influence on ACC. Meanwhile, deals

**Table 2.** Respondents' Profile

|                                | %  |
|--------------------------------|----|
| Gender                         |    |
| Male                           | 40 |
| Female                         | 60 |
| Spending money per month (IDR) |    |
| Less than 1,000,000            | 45 |
| 1,000,000–3,000,000            | 38 |
| 3,000,000–5,000,000            | 12 |
| More than 5,000,000            | 5  |

**Table 3.** Construct's Reliability and Validity

| Construct | Composite Reliability (CR) | Average Variance Extracted (AVE) |
|-----------|----------------------------|----------------------------------|
| PC        | 0.821                      | 0.699                            |
| USE       | 0.902                      | 0.821                            |
| DEA       | 0.740                      | 0.540                            |
| BAR       | 0.825                      | 0.618                            |
| TRI       | 0.800                      | 0.667                            |
| DUR       | 0.758                      | 0.533                            |
| ACC       | 0.848                      | 0.652                            |

**Table 4.** Results of Frugal Adoption Model

| Hypothesis | Original Sample | T- Stats* | P Values** | Results       |
|------------|-----------------|-----------|------------|---------------|
| PC → ACC   | 0.250           | 2.501     | 0.013      | Supported     |
| USE → ACC  | 0.304           | 2.491     | 0.013      | Supported     |
| DEA → ACC  | 0.154           | 1.507     | 0.133      | Not Supported |
| BAR → ACC  | 0.287           | 2.880     | 0.004      | Supported     |
| TRI → ACC  | 0.147           | 1.183     | 0.237      | Not Supported |
| DUR → ACC  | 0.140           | 1.464     | 0.155      | Not Supported |

\* T Statistics > 1.96 \*\*P Values ≤ 0.05.

such as temptation (DEA), the triumph of a good deal (TRI), and durability (DUR) have no significant influence on ACC, so the relationship was not supported.

The results of this study are supported by previous research. Kapitan et al. [8] stated that frugal consumers feel that shopping and buying are most appropriate when a product or service is deemed needed. There is such a clear distinction between necessity and luxury. This guide helps frugal consumers determine when spending money is necessary. Reliance on this principle suggests beliefs about an offer's functional need or usefulness (USE). Saving does not mean cutting the needs and wants. However, being frugal means being more careful in detecting desires and considering expenses.

It is important to resolve the potential conflict between the bargain-hunting motive (BAR) versus the spending control motive when presented with an unexpectedly high discount. Price comparison and discounts search are frugal adoptions. There are many ways to spend money smartly, like keeping track of important days. Nowadays, e-commerce is offering lots of discounts and cashback on important days. So, Gen z takes advantage of this to meet their needs. This is an example of adopting a careful and frugal lifestyle in managing something without compromising the value of an item.

Deals as temptation (DEA), the triumph of a good deal (TRI), shows that unexpectedly finding heavily discounted items can potentially be a difficult situation to navigate

for frugal individuals [9]. In this situation, frugal consumers are faced with the temptation that there is a good deal on offer and that this will benefit them. Given that the evaluation of a product as a necessity is more important than a luxury, frugal individuals may be more flexible in this assessment regarding consumer needs versus luxury. In particular, if frugal consumers can convince themselves that a large discounted product or service is something they need, then an unplanned purchase of such an offer can still be considered consistent with frugal principles. The results of this study contradict the previous study because the characteristics of the Gen Z respondents in this study are not easily tempted by discounts because of the budgeting that is applied and the priority of needs.

Frugal consumers or frugalists must have a budget for everything. Therefore, planning and control of spending (PC) have a significant effect on the behavior of Gen Z in adopting a frugal life. The behavior of saving Gen Z reflects budgeting and control of spending that is centered on investment so that the money saved can become passive income. These results are supported by Goldsmith & Flynn [11]. Frugal behavior is caused by circumstances; a frugal lifestyle is more voluntary, but without self-control, it is hard to turn down an offer as frugality is more difficult for those who have low self-control, such as losing weight.

Durability (DUR), which does not have a significant effect on frugal adoption, may be caused by Gen Z, which has the principle of a frugal life. This is contrary to previous research, which states that frugal is closely related to sustainability, which requires repeated use so that the product has a long shelf-life [6]. Therefore, this is also contradictory to developing expensive consumption habits. In Indonesia, products with good quality and long durability are more expensive.

## 4 Conclusion

This study focused on understanding frugal adoption by Gen Z in Indonesia as a developing country. This study provides insight into the frugal lifestyle adopted by Gen Z. Gen Z's behavior in spending money is by planning and controlling expenses, prioritizing functional needs or usefulness of a product, and bargain-hunting tendencies.

There are several ways to apply the frugal acceptance or behavior intention to use. The first way is budgeting. This principle emphasizes planning and controlling each expenditure according to needs. Second, prioritize spending according to need. Buying something according to need, not wants, and buying valuable products. When Gen Z finds an item they like, but the price is relatively high, they tend to look for information about how they can find something similar and of the same quality at a lower price. So, the third way is to implement a shopping strategy. It is an essential thing in frugal adoption. This strategy includes price comparisons, finding the best discounts, and as much as possible not buying at a normal price.

Being a frugal individual is learning not to be easily tempted by only the sale price, causing impulsive buying. This behavior forms the habit of spending money intelligently that upholds a balance between budget and value of needs. Frugalists have a purpose in life and think about how changing their finances can help achieve that goal. So frugal living does not mean being stingy but smart in managing finances.

Therefore, this study provides a scientific contribution to the Gen Z frugal lifestyle, especially in developing countries. From a business perspective, the results in this study can be used as a basis for companies to provide products and services that have Gen Z as their target market. Companies can also implement appropriate strategies such as frugal innovations to address the needs of Gen Z by considering their spending money habits.

This study has limited respondents who are only at one university in Surabaya, Indonesia. The variables of frugal behavior used were also still limited. For further research, the researcher suggests adding the sustainability variable. This is a form of frugality for sustainability-conscious consumers.

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