

HOW GEN Z SHOPS AND PAYS

A guide for merchants



Beth Costa
Neeko Gardener

One of the enduring legacies of the COVID-19 pandemic has been the role that younger consumers have played in reshaping retail. Younger generations in the United States shop very differently from their elders, and understanding their preferences is essential for merchants designing and implementing payments strategies for the long term.

Younger generations' buying power, already strong, will only grow as they age into their highest-earning years. Millennials are already on the cusp, and Generation Z is following on their heels. Merchants need laser-like focus on these two increasingly powerful groups of consumers.

Generation	Gen Z	Millennial
Current age group	Age 9-24	Age 25-34
% of US population, 2020 ¹	20%	22%

Source: US Census Bureau 2020

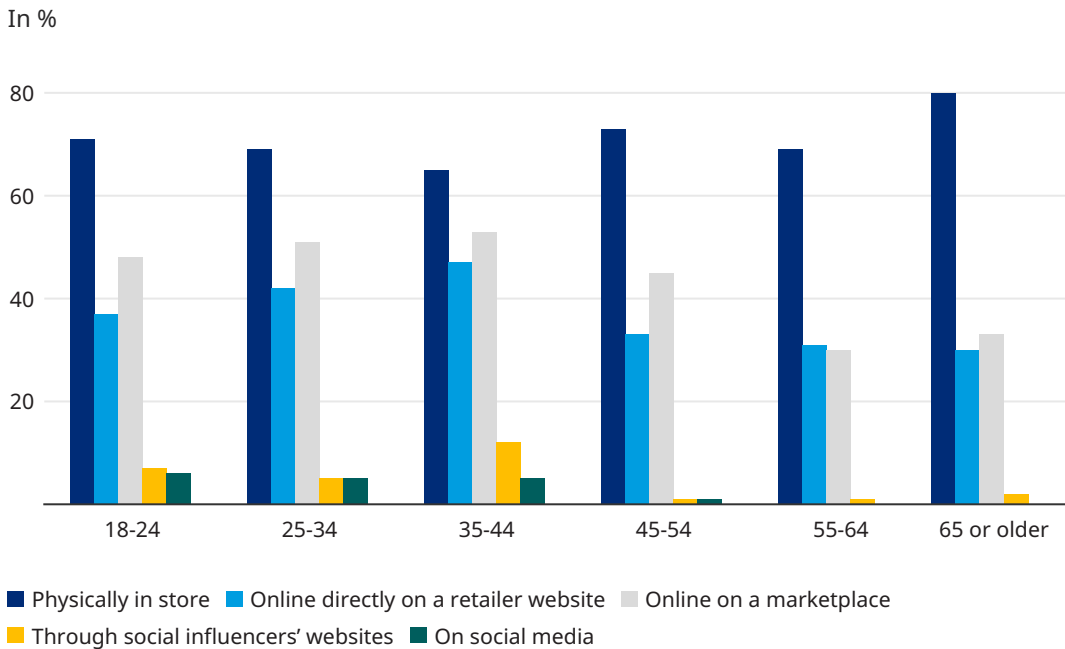
Shopping trends

Younger generations are much more comfortable than older ones with shopping online, particularly for non-necessities beyond the typical categories of food, medicine, and household goods. When asked if non-essential purchases were planned over the next week, 40% of Gen Zers and 50% of Millennials said “yes,” vs. 26% of older groups, according to Oliver Wyman’s retail payments analysis survey from June. With alternative payment methods like buy now, pay later (BNPL) and other forms of digital payment gaining popularity, these generations are leading the charge for change. Younger consumers are the core shoppers of the future and will reshape the way customers interact with merchants in the future.

We see a similar trend playing out in digital banking: Gen Zers and Millennials are more likely to use digital banks, although the majority still use traditional ones for primary bank accounts. Our June retail payments analysis survey showed that 21% of people age 18 to 24 use digital banks, compared with only 3% of those in the 55-64 age group. These new digital banks often have creative payment solutions that are attractive to younger customers.

Younger generations not only have a greater tendency than their elders to prefer shopping online for things other than necessities — they also are more likely to shop online on a marketplace, with roughly 5% shopping via the websites of social media influencers. We expect these markets will continue to gain popularity with younger consumers, mainly because Millennials were the first generation to grow up with social media.

Exhibit 1: Preferred shopping methods, by age group (for non-necessity items)^{1,2}



1. Non-necessity items refer to those other than food, medicines, or gas; 2. Respondents were asked to select all preferred shopping methods that applied, so totals may not sum to 100%

Source: Oliver Wyman analysis survey, June 2021 N = 1,138

Payment trends

Younger generations diverge from older ones in the payment methods they prefer. They have a greater propensity to use cash and debit than older segments and a much lower tendency to use credit cards. Yet this population is willing to use alternative payments, opening themselves to new ways of engaging with merchants that offer payments options integrated into their daily lives. We expect this trend to continue as alternative payment offerings such as BNPL solutions, cryptocurrency, and super apps become the preferred way for consumers to shop and pay.

The majority of BNPL users, for example, are under the age of 35. These shoppers are generally wary of traditional credit cards; Gen Z usage of store credit cards is only 27%, compared with 48% for Baby Boomers. BNPL represents an alternative, allowing shoppers to enhance their purchasing power by splitting up the payments over several months, without interest.

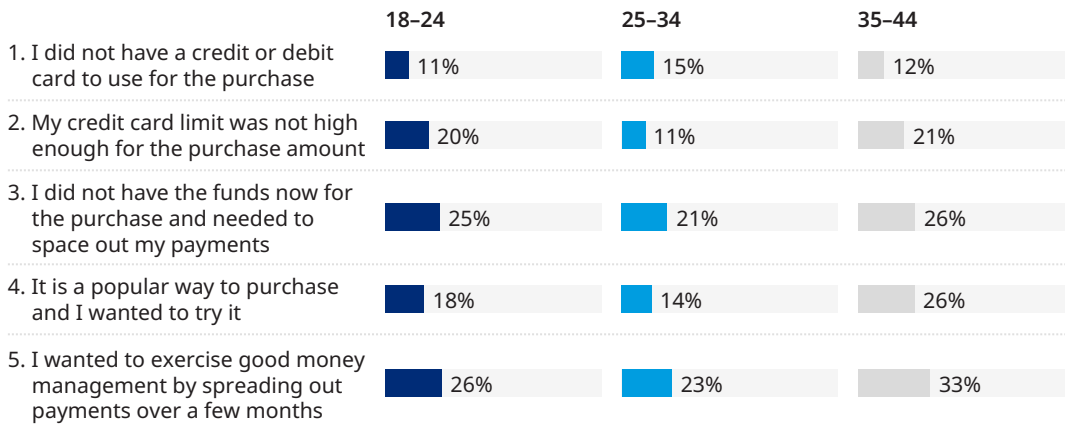
This younger generation also has expressed a need for an alternative form of payment that does not make them feel more indebted but rather makes them feel confident they can afford the purchase. For this reason, 24% of Gen Z shoppers reported using BNPL to avoid revolving debt, vs. just 9% of Gen X shoppers. The prevailing view among younger shoppers is that BNPL financing isn't credit. They feel they are exercising good money management by choosing alternative payment solutions.

Exhibit 2: Reason for using a BNPL solution

By age group

There are roughly two evenly split reasons for using BNPL:

- Did not have the funds needed (#1-3)
- Wanted to manage money better (#4-5)



Source: Oliver Wyman analysis survey, June 2021 N = 1,138

These younger consumers are digital-first buyers who demand an immediate transaction and the freedom to make a choice without conditions attached to it. And so BNPL companies are answering these digital-first customer needs with two product approaches: a monthly installment loan model and a short-term installment payment model. The longer-term monthly installments are for larger purchases, involve a credit check, and have interest on the purchases. They are typically paid over the course of many months. The latter approach are short-term installments for smaller purchases and are “Pay-in-X” solutions where the consumers pays a set amount three to four times over the course of the six weeks. For example, if someone buys a \$100 item, they may use this option, and it will be four payments of \$25 at no interest. The short-term installment approach typically does not have a hard credit check.

BNPL is no longer a payment option that is configured and offered primarily by merchants — major providers are going straight to consumers with their solutions. One BNPL player is even enabling consumers making larger purchases to pay in monthly installments via a credit card already in their wallet rather than sign up for a new service at the point of sale.

Another clear adoption trend we are seeing is young, first-time users embracing BNPL for smaller purchases. 70% of Gen Z shoppers’ BNPL purchases are for less than \$100. Younger generations don’t perceive BNPL as a solution only for large-ticket purchases.

The August announcement of a planned acquisition of a main BNPL player for \$29 billion, a 30% premium above its last closing price, underscores the prevalence of the belief that BNPL is an essential form of payment for the next generation of buyers.

What's next for merchants and BNPL

We see three reasons for merchants to consider BNPL payments. First, BNPL can increase incremental sales, especially in impulse-purchase product categories. Next, they offer increased customer touchpoints and upselling opportunities. Finally, BNPL payments offer merchants improved targeting opportunities for Gen Z and Millennial audiences.

We see several developments on the horizon for BNPL. First, we expect increased competition for users as BNPL providers battle to capture market growth, fueled by low user loyalty to any given provider and the entry of traditional banks in BNPL. We also expect growth in in-store use cases as providers become increasingly omnichannel and BNPL providers market directly to consumers. We anticipate BNPL increasingly will be presented as a preferred payment method for online purchases. And we expect added scrutiny from regulators seeking to protect consumers, especially for longer loans with interest claw-back on missed payments; a recent study by The Ascent showed that 31% of users made a late BNPL payment and incurred fees as a result.

The trend toward alternative payments

Gen Zers and Millennials increasingly are willing to pay with alternative forms of payment beyond BNPL. Cryptocurrency and the increasing usage of person-to-person (P2P) payments and mobile wallets are far more popular with younger people than with older generations.

Cryptocurrency has been experiencing explosive, albeit volatile, growth in recent years, and has gained considerable traction with established institutions. According to the May 2021 Cryptocurrency Payments Report, 48% of Gen Zers and Millennials have owned or currently own cryptocurrency. Consequently, a growing contingent of networks, big tech, and ecommerce merchants is encouraging cryptocurrency as a form of payment.

Cryptocurrency payments bring opportunity but also uncertainty. Accepting cryptocurrency at checkout could allow merchants to capitalize on emerging trends, offering quick transactions, lower fees, strengthened security, and a broad market, without needing to convert currency or prices based on the sale's location. But there are some unknowns. Merchants might suffer less direct fraud, but buyers could face more. There is also the question of whether crypto can facilitate cross-border trade over the long-term. It might be too early to tell whether accepting crypto drives new sales and customers for business or merely represents an alternative form of payment. It is also difficult for merchants to manage returns and refunds of crypto purchases because blockchain transactions are irreversible. And volatility remains one of the biggest issues faced by buyers and sellers.

Person-to-person payments and mobile wallets are also rapidly gaining traction. Currently there are five major P2P players in the United States, and \$1.152 trillion is expected to transact annually via mobile P2P apps by the end of 2023, according to eMarketer. By the end of 2025, 62% of Gen Z smartphone users in the United States are expected to transact via P2P payment apps.

Merchants have become increasingly amenable to P2P as a form of payment. In the United States, merchant apps have strong adoption thanks to the better shopping experience and personalized communications they allow. But that may be changing as delivery aggregators expand their capabilities, new functionality emerges from third-party apps, social platforms move into payments with social shopping, and select companies develop super apps to reposition themselves in the center of the customer's life.

Super-apps, popular in emerging markets, are becoming more prevalent around the globe and are positioned for growth with Millennials. In the United States, merchant apps typically have greater usage than third-party super-apps in merchants' point-of-sale transactions. So whether a one-stop app for lifestyle needs catches on in the United States (vs., say, China) remains to be seen.

Delivery aggregators that shot to popularity during the pandemic are expanding their capabilities significantly in the eyes of consumers. This bears watching as players reposition themselves to be in the center of customers' lives. Payments are the critical component in their effort to reposition and enable activities from end-to-end in the shopping experience.

Social commerce adoption in the United States is limited today, but could gain more traction as "social literate" Millennials and Gen Zers acquire more wealth. We are seeing more social media platforms moving into payments in an effort to keep visitors on their sites.

What this mean for merchants

Merchants should offer the most relevant forms of payment to attract the next generation of buyers. An April study by PPRO showed that 44% of customers overall — 51% of Millennials and 48% of Gen Zers — will abandon a purchase if their favorite payment method isn't available.

While P2P payments for larger merchants is still nascent, there is potential for these payment methods to become more prevalent.

The adoption of cryptocurrency as a payment method is minimal today, but this is an area that should be monitored for potential growth and more widespread use going forward.

Merchants should be sure they have a Gen Z and Millennials payments strategy in each of their markets globally and each channel to know which forms of payment to accept everywhere they operate. They also need to know what partnerships to set up to ensure they have control over customer relationships. And they must understand shoppers' preferences — and the tactics necessary to drive those preferences — for each of their segments.

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For more information, please contact the marketing department by phone at one of the following locations:

Americas
+1 212 541 8100

EMEA
+44 20 7333 8333

Asia Pacific
+65 6510 9700

AUTHORS

Beth Costa

Partner

elizabeth.costa@oliverwyman.com

Neeko Gardner

Engagement Manager

neeko.gardner@oliverwyman.com

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