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The Buy Now, Pay Later Report, a collaboration with PayPal, examines consumers' shifting online shopping patterns and assesses their interest in using emerging credit solutions at the point of sale. The study was based on two surveys, each consisting of separate groups of respondents, totaling nearly 15,000 U.S. consumers.

# buy now pay later

**MILLENNIALS AND  
THE SHIFTING DYNAMICS  
OF ONLINE CREDIT**

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**MILLENNIALS AND  
THE SHIFTING DYNAMICS  
OF ONLINE CREDIT**



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# Introduction

**Mike and Sarah are pretty excited.** The high school sweethearts, who took the big step to get married in their late twenties after starting their careers, are expecting the birth of their first child and are about to buy their first home.

Mike and Sarah are millennials, those born between 1981 and 1996. Their habits as consumers differ from those of their parents — they use ride-hailing services and food-ordering apps, to cite a couple of examples. Their spending priorities, however, are hardly different from those of earlier generations when they were going through the same stages in life. A 29-year-old in 2020 is generally contemplating the same sorts of life decisions as a 29-year-old did in 1991: putting down roots, starting a family, buying a car and spending money on clothes, accessories, travel and entertainment. Millennials like Mike and Sarah are not averse to using credit to help pay for such things, contrary to some common assumptions.

Millennials are actually more likely than other generations to have credit cards, as nearly **9 out of 10 own one.**



Millennials, in fact, are more likely than other generations to have credit cards, with nearly nine out of 10 owning one, according to PYMNTS' latest research. Yet our research also shows that millennials have unique priorities when it comes to purchasing online, chief among them flexibility and budgetary control. This may help explain why a novel form

of online financing is gaining remarkable traction with this demographic. Buy now, pay later solutions (BNPL), defined within this study as installment loans or installment credit, allow consumers to finance purchases with specific terms at the online point of sale (POS).

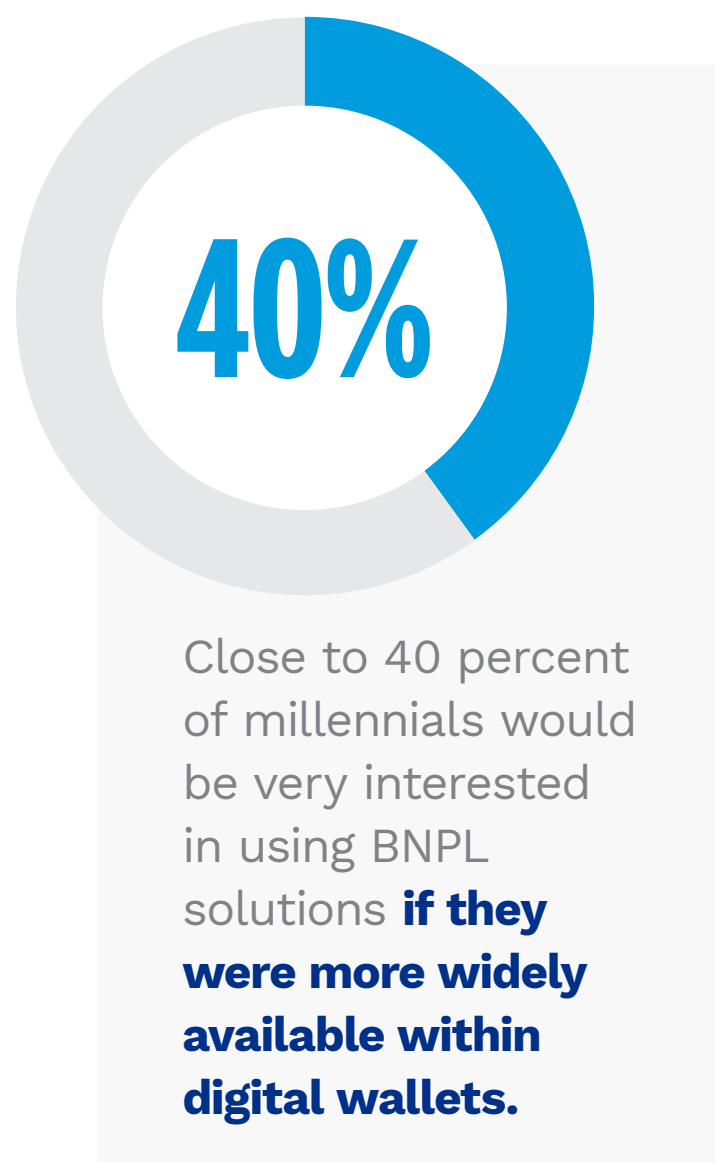
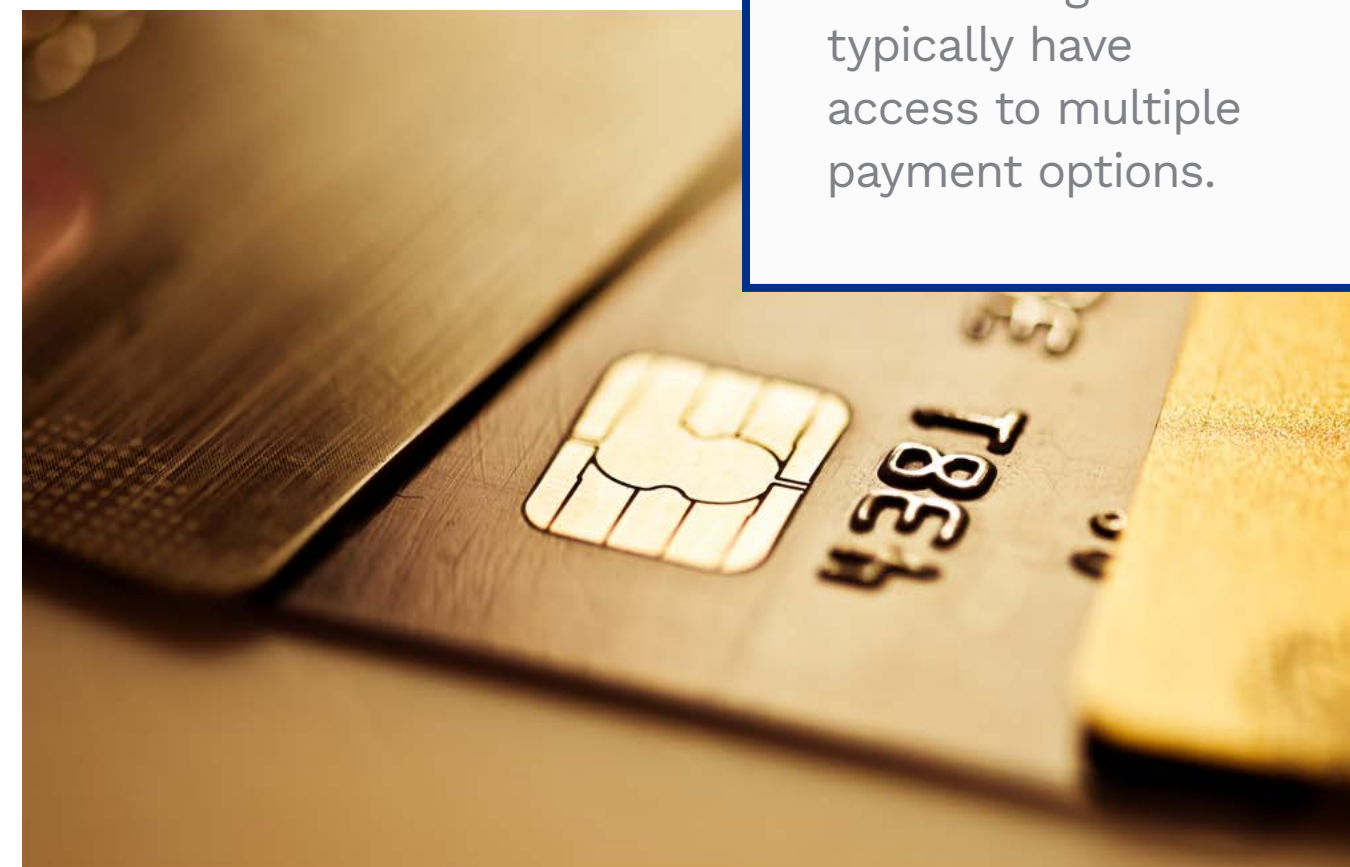
Our research shows that not only do millennials make up an outsized share of early installment credit adopters in the United States, but also close to 40 percent of them would be very interested in using such financing options if they were more widely available within digital wallets.

These are among the key findings to emerge from PYMNTS' research report Buy Now, Pay Later: Millennials And The Shifting Dynamics Of Online Credit, a collaboration with PayPal. The report is based on two surveys – each consisting of separate groups of respondents – totaling nearly 15,000 U.S. consumers. The first group was surveyed in March 2020 — when the COVID-19 pandemic began taking hold in the U.S. — and the second survey took place in September 2020. This report thus seeks to offer insights into how the use of credit and BNPL have evolved over a year that has seen a massive pandemic-induced shift toward online commerce.

Our research not only dispels some common myths around millennials and credit but also offers a fuller, more complex picture of this generation's unique priorities and preferences in using credit and BNPL. This financing option is not a

last resort for users: BNPL users have higher incomes than average and typically have access to multiple payment options, including credit cards. Early adopters of BNPL instead value it as an important financing tool, a means of paying for specific products they want in a responsible and flexible way. The following pages explore these and other insights in detail.

This financing option **is not a last resort** for users: BNPL users have higher incomes than average and typically have access to multiple payment options.



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## Key findings

### Contrary to common perceptions, millennials are more likely than other generations to have credit cards, and they are as likely to use them to shop online.

The notion that millennials are averse to having and using credit cards is not just a little off base — our research shows that the opposite is actually true. First, some generational definitions are in order:

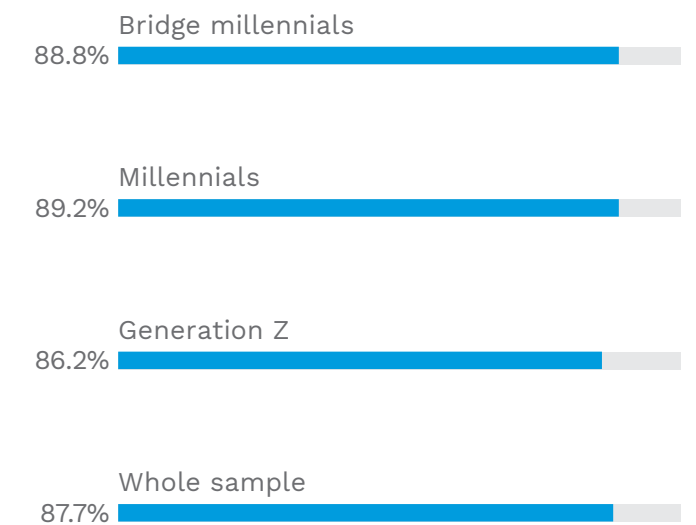
- **Generation Z:**  
23 years old or younger
- **Millennials:**  
24-39 years old
- **Bridge millennials:**  
32-41 years old
- **Generation X:**  
40-55 years old
- **Baby boomers and seniors:**  
56 years old and up

Bridge millennials are a subset of older millennials and younger Generation X consumers who tend to be more established in their careers and embarking on major financial responsibilities, such as having children and purchasing homes.

Younger and older millennials are the most likely generations to have credit cards: 89.2 percent of millennials have them, as do 88.8 percent of bridge millennials. Just over 86 percent of Generation X and Z members own cards, by comparison.

#### Figure 1: Credit card ownership demographics

Share of each generation who have credit cards, September 2020



(N= 4,838)

Source: PYMNTS.com

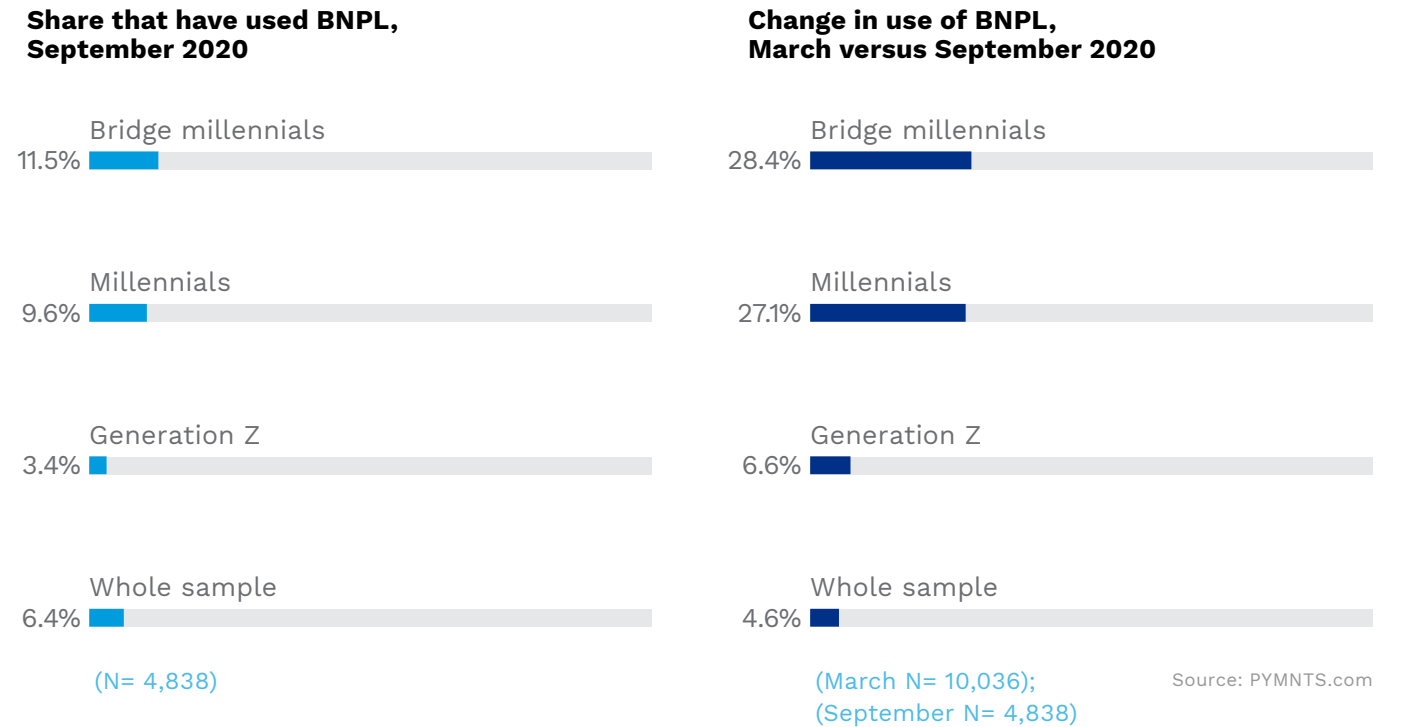
Our research supports one common assumption about millennials: They like variety and flexibility when it comes to online shopping. They most certainly use their credit cards to shop online but are more likely than other generations to employ multiple payment methods. More than three-quarters of millennials and bridge millennials use more than one payment option for online purchases.

Our September results indicate that credit cards are the most common online payment method overall, as nearly 69 percent of consumers employ them. Millennial consumers use credit cards slightly less often than other demographics, which likely relates to the fact that they tend to employ a more diversified array of payment methods. We found, for example, that 68.2 percent of bridge millennials report using credit when paying online, while 66.3 percent use debit cards and 42.1 percent use digital wallets.

### Millennials and bridge millennials are the early adopters of buy now, pay later, and their usage of it has grown this year.

BNPL is currently used on a fairly limited basis: 6.4 percent of consumers overall in September reported employing the solution. Usage is significantly higher among millennials, however — especially older ones — and use has grown considerably since March. Our research shows that 11.5 percent of bridge millennials have used BNPL, close to double the share overall. This demographic also increased its usage of the financing solution most since March, with use surging from 8.9 percent to 11.5 percent, a 28 percent rise.

**Figure 2:**  
The growing use of BNPL



## Transparency, spending control and convenience are key motivations for using BNPL solutions.

Most consumers can choose from several payment methods when making an online purchase and have certain motivators for using one payment



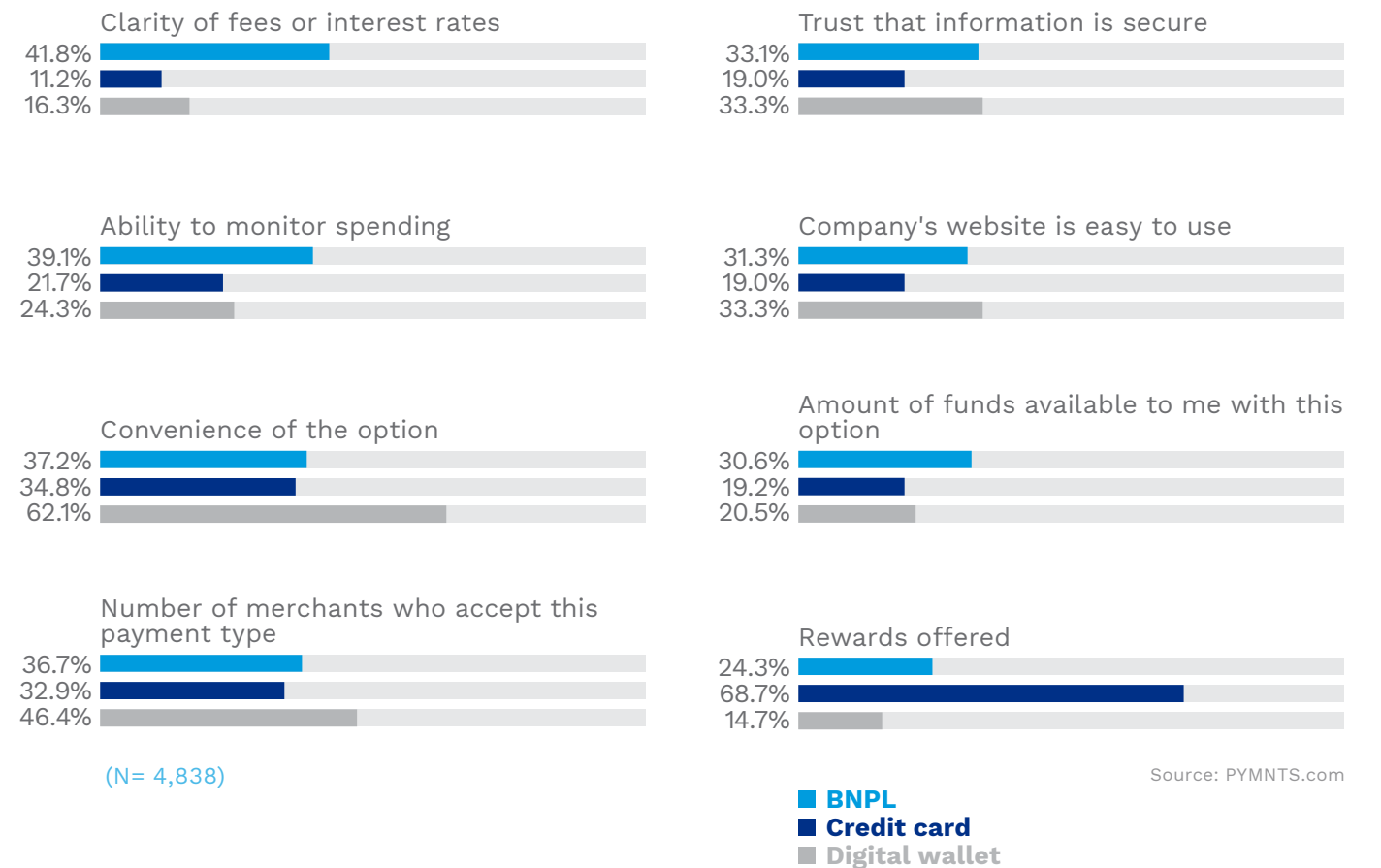
method versus another. For example, 68.7 percent of credit card users cite rewards as the main driver for using that payment option for purchases.

BNPL users are focused on the clarity of fees and interest rates and the ability to monitor spending: 41.8 percent cite the former and 39.1 percent cite the latter as the reasons they use installments for making online purchases. This reinforces the finding that BNPL users tend to be budget-conscious and financially responsible — they want to stay within their means and not blindly put charges on their credit cards or accept unclear financing terms.

This does not mean that budgetary considerations are all that motivate BNPL users. In fact, another way the payment method distinguishes itself from others is the degree to which consumers want it to check several boxes, including convenience, wide merchant acceptance and security. At least 30 percent of consumers consider convenience (37.2 percent), the number of merchants that accept it (36.7 percent) and trust that their information is secure (33.1 percent) as important BNPL usage drivers.

**Figure 3:**  
Online payment method priorities

Share of credit, BNPL and digital wallet users citing select reasons for using respective payment methods, ordered by this payment type, September 2020





**BNPL has substantial untapped potential. On average, 39 percent of millennials who haven't used BNPL would be very interested in doing so through digital wallets.**

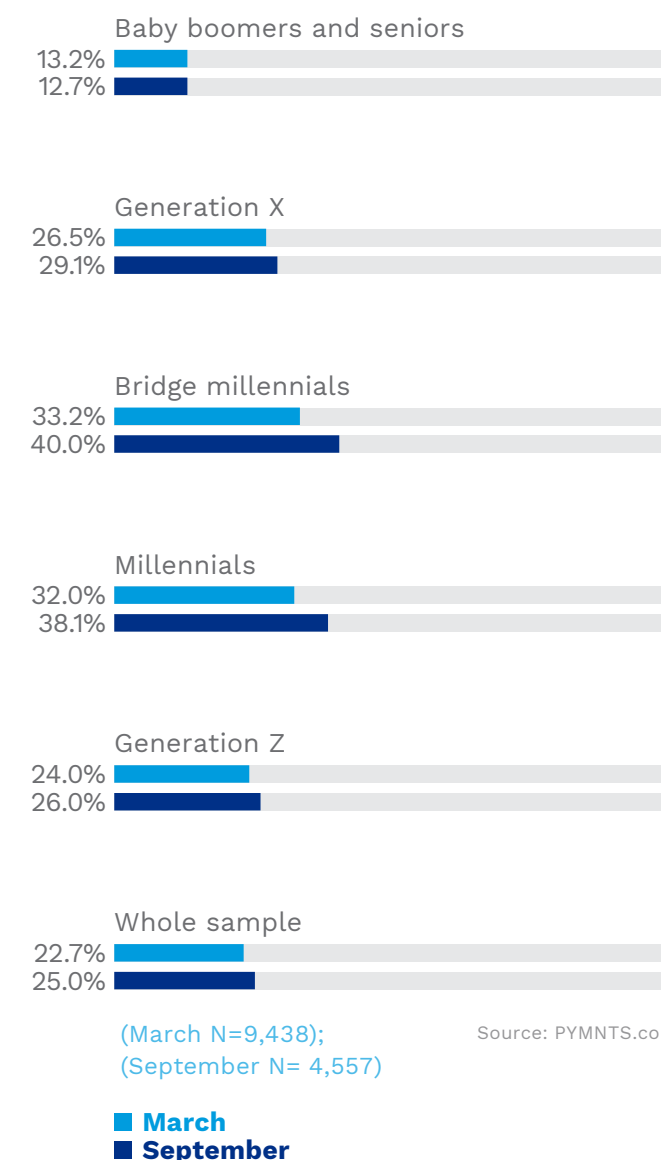
BNPL may not be widely used today compared to other online payment options, but the same cannot be said for BNPL's market potential: The share of those who have not used BNPL but who would be "very" or "extremely" interested in doing so is more than three times greater than the 6.4 percent of current users. There may be a key ingredient to driving this level of adoption, however: integrating them into digital wallets, which our study defines as tools or apps that can be used to make online purchases, pay for services, and make online payments to family and friends.

Our research shows that 25 percent of consumers who have not used BNPL would be highly interested in using such solutions as part of digital wallets.

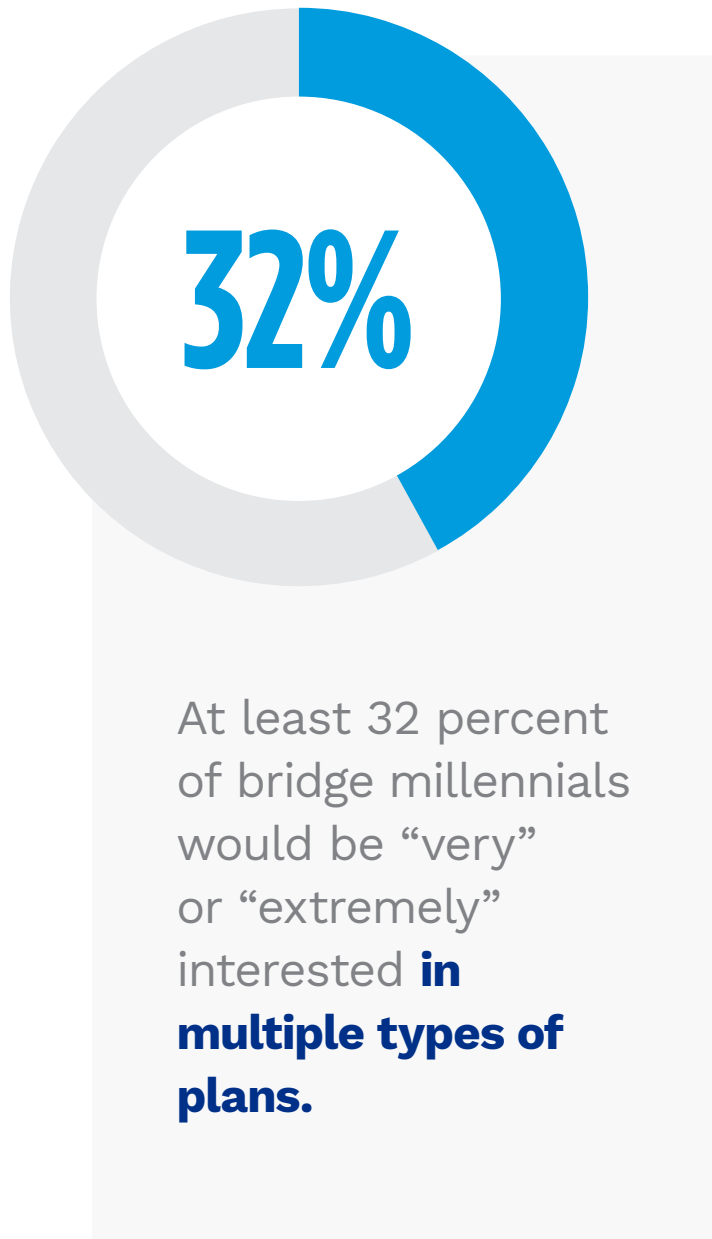
Interest in this type of BNPL solution has also grown since the onset of the pandemic in March, particularly among millennials. At that time, 32 percent of millennials indicated they would be highly interested in using BNPL services. This share rose to 38.1 percent in September, a 19 percent increase. The share jumped from 33.2 percent to 40 percent among bridge millennials. This suggests that consumers' appetites for novel financing options grew as more and more consumers went online to do their shopping.

**Figure 4:**  
The growing interest in using BNPL integrated into digital wallets

**Share of age groups who have not used BNPL in the past 12 months and who would be "very" or "extremely" interested in doing so, March versus September 2020**







**Consumers who haven’t used BNPL solutions would be highly interested in multiple digital wallet-based plans.**

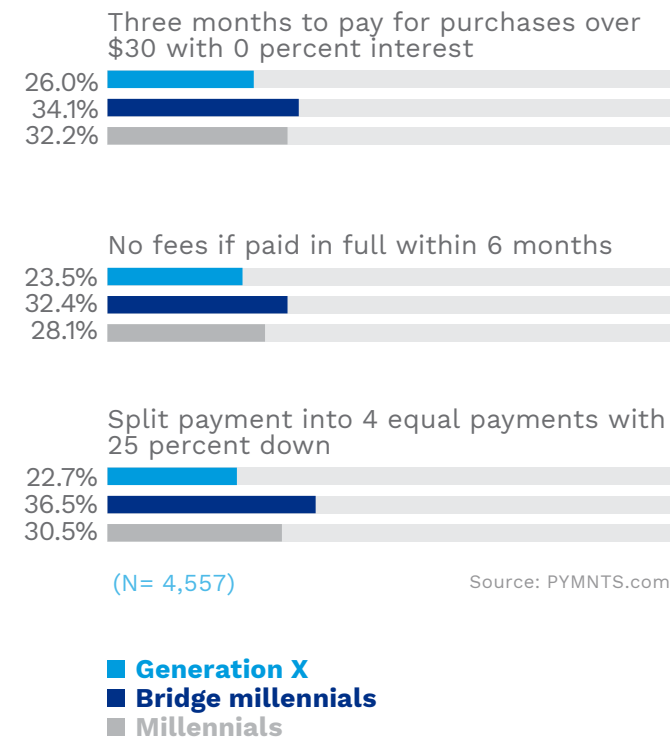
Our survey presented respondents with several hypothetical BNPL plans that had varying payment terms and fees that adopters could use in conjunction with a digital wallet. One might assume that one plan would be considerably more popular than others, perhaps one that had no fees or interest if users paid within a certain window of time. The popularity of each proposed plan type was actually quite similar — and bridge millennials have elevated interest in each one.

We found that at least 32.4 percent of bridge millennials would be “very” or “extremely” interested in each of the plans. This suggests that the ability to opt for financing methods tailored to their unique circumstances and preferences helps make BNPL particularly attractive to this demographic.

This broad pattern contains some subtle but significant differences between older and younger millennials. The

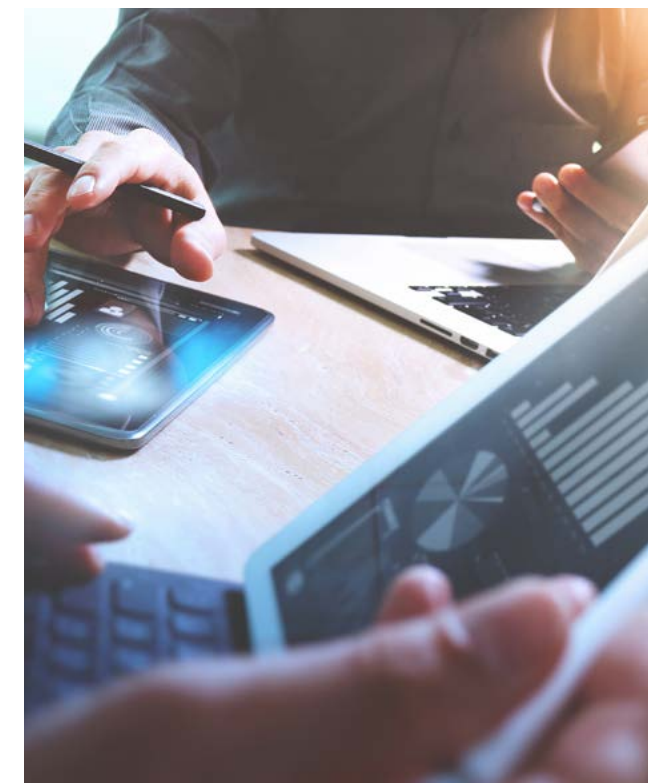
**Figure 5:**  
Interest in BNPL digital wallet options among nonusers

**Share of Gen X, millennials and bridge millennials who would be “very” or “extremely” interested in using digital wallets that offered select BNPL plans, September 2020**



largest share of bridge millennials, 36.5 percent, would be interested in splitting payments into four monthly installments with 25 percent down. This reinforces the finding that these consumers have financial resources but are looking for a responsible way to finance purchases without incurring fees and debt.

The takeaway from these findings is clear: Plan option flexibility is itself an attractive aspect of BNPL. The financing tool extends the ability to control the terms of repayment to consumers, not just credit card companies or banks.



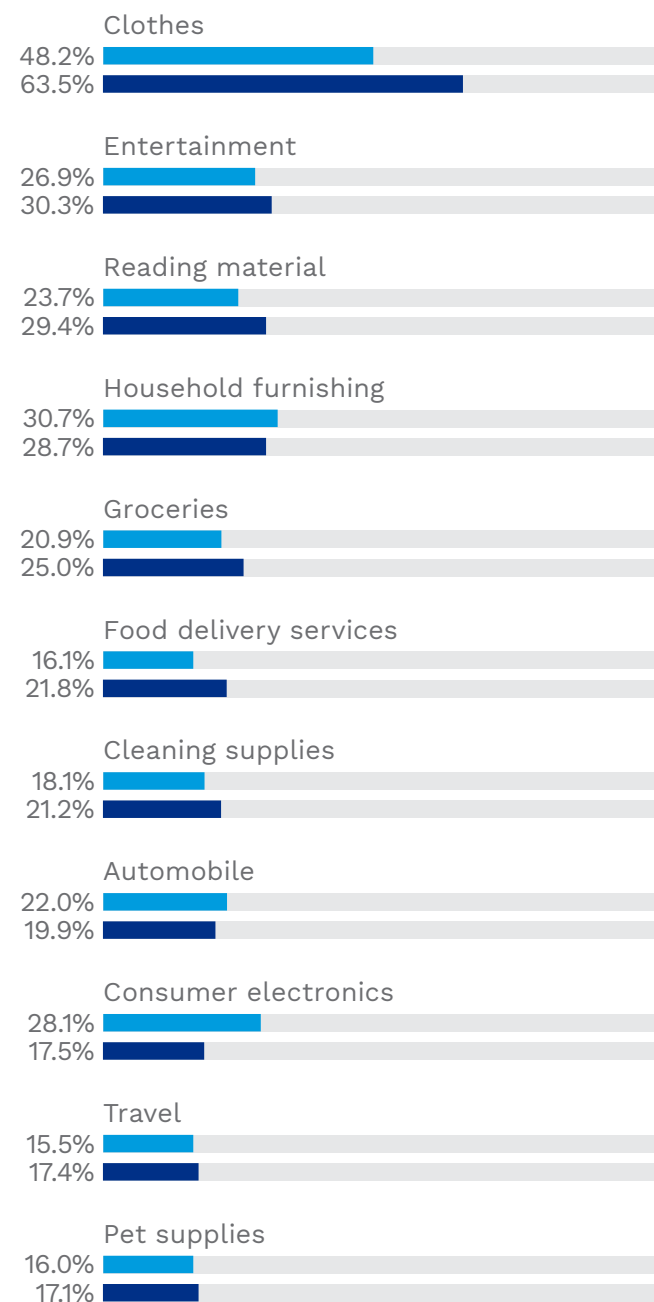
## Clothes are a dominant use case for BNPL, but such services are used across product categories.

Consumers tend to use BNPL for both discretionary purchases and staples, but no category dominates like clothing. Our research shows that 63.5 percent of BNPL adopters use the solution to purchase clothes, more than double the share for any other product type. This is followed by entertainment at 30.3 percent and household furnishings at 28.7 percent.

An analysis of how BNPL use has changed since March — the onset of the pandemic in the U.S. — also shows how the financing solution is uniquely responsive to shifting market demands. Clothing was the most common category for BNPL purchases in March but had grown considerably by September. This suggests that after being confined inside for months in sweats and T-shirts, consumers were ready to update their wardrobes and venture out again — if to a limited degree.

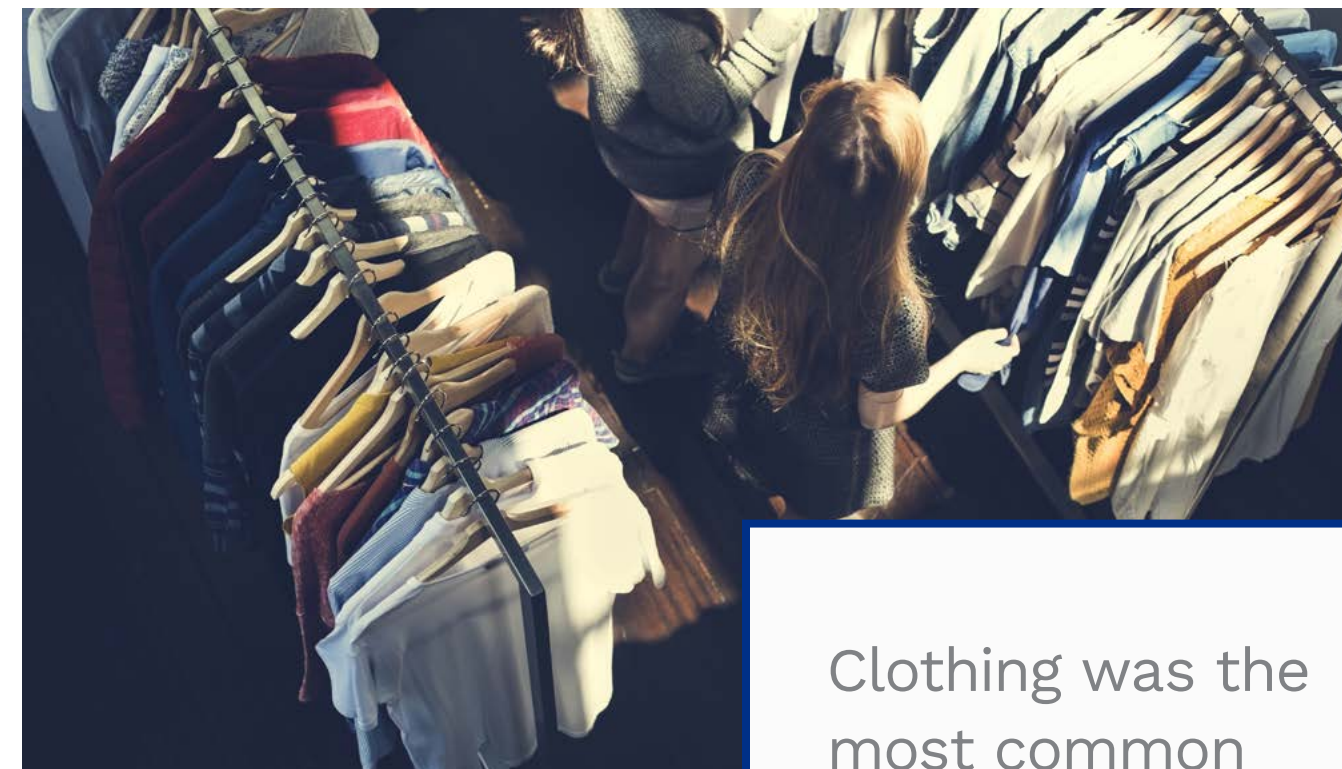
**Figure 6:**  
Use of BNPL across purchase categories

Share of BNPL users who purchased select types of goods with BNPL, March versus September 2020



(March N= 598); (September N= 281) Source: PYMNTS.com

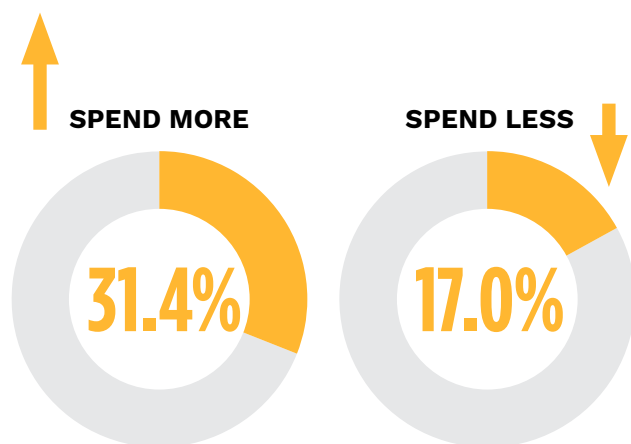
■ March  
■ September



Clothing was the most common category for BNPL purchases in March **but had grown considerably by September.**

Household furnishings and consumer electronics, on the other hand, were stronger categories in March. One possible explanation is that consumers in the early days of the pandemic were in “nesting mode” — they wanted to make their homes as comfortable as possible, having realized they were going to be spending a lot more time there.

We found that **31.4%** of Generation Z consumers plan to spend more on holiday shopping this year than last year, close to **twice the share** that plan to spend less.



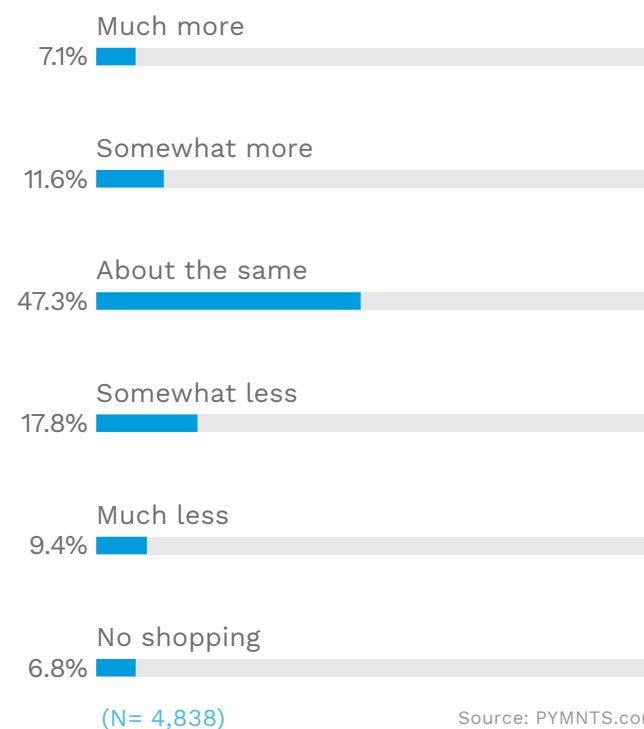
**Millennial consumers still plan to make purchases this holiday season, and they will do more of their gift shopping online. The current unique economic circumstances could create increased demand for BNPL services.**

The holiday season is taking place under challenging circumstances this year due to the pandemic and its ongoing economic impact. Our research, however, suggests that these conditions do not appear to be dampening the holiday shopping plans of one key demographic: millennials. Our data actually suggests that the season's unique conditions could create more demand for alternative online financing services like BNPL.

While 34 percent of consumers plan to tighten their belts slightly and not spend as much as they did last year, 47.3 percent plan to spend the same amount and 18.6 percent plan to spend somewhat or much more. Younger consumers are among those more likely to increase their spending this year, with roughly 30 percent of Generation Z and bridge millennials, respectively, expecting to increase holiday purchases.

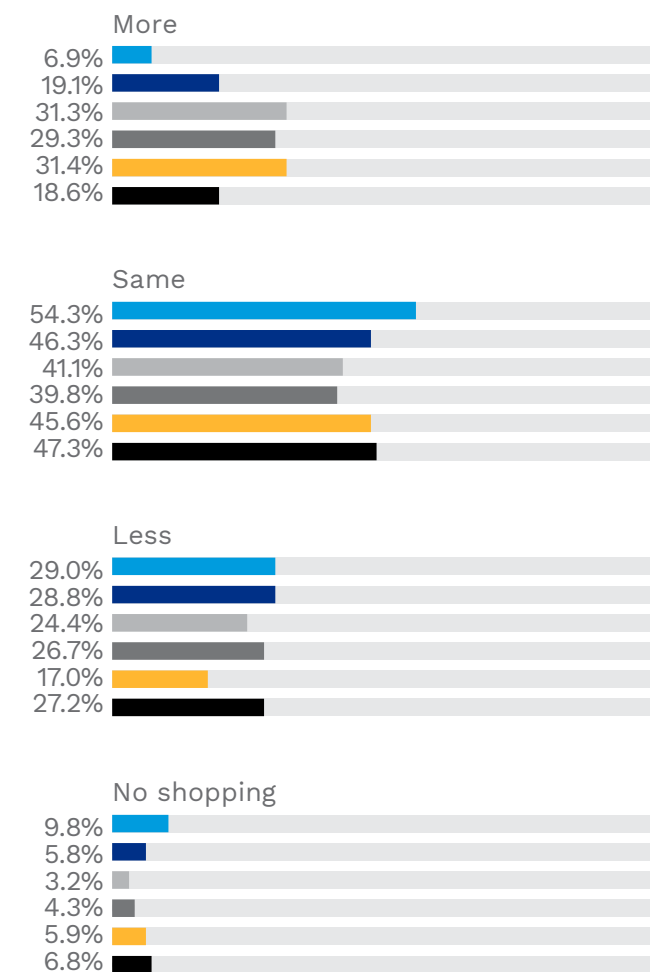
**Figure 7:**  
Holiday spending plans

Share planning to increase or decrease spending from last year, September 2020



**Figure 8:**  
Holiday spending plans

Share planning to increase or decrease spending from last year, by generation, September 2020



(N = 4,838)

Source: PYMNTS.com

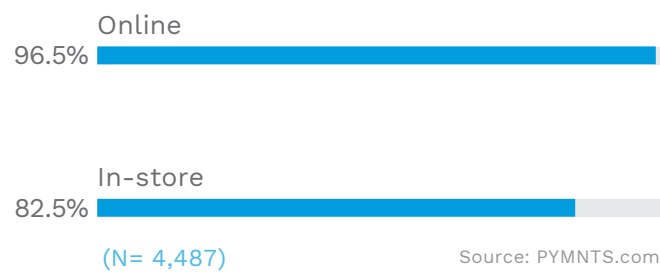
- Baby boomers and seniors
- Generation X
- Bridge millennials
- Millennials
- Generation Z
- Whole sample

One thing that unites consumers across age groups is that they are more likely to be doing their holiday shopping online versus in stores, which almost certainly reflects continued anxieties around the pandemic. Nearly 97 percent of consumers who plan to do holiday shopping expect to do least some of it online. Although 82.5 percent of consumers still plan to shop in stores, 50 percent of consumers expect to shop in person less than they did in 2019 or not at all.

Our research reveals an interesting dynamic when it comes to how consumers plan to pay for gifts this holiday

**Figure 9:**  
**Change in online holiday shopping**

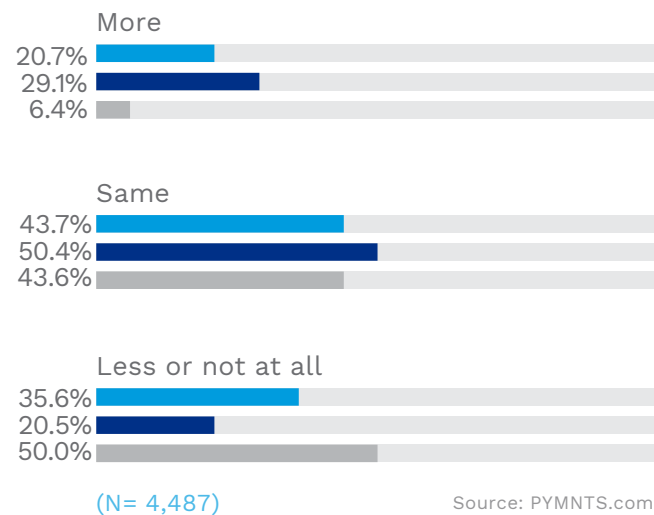
**Share that plan to do at least some of their holiday shopping online and in-store, September 2020**



season. Credit cards remain the most likely means of payment for holiday shopping, as is the case other times of the year: 42.7 percent of consumers plan to use credit cards for gift purchases, whether they have cash to cover charges (31.8 percent) or do not (10.9 percent). However, a significant share of consumers (35.7 percent) plan to use debit cards.

**Figure 10:**  
**Change in online holiday shopping**

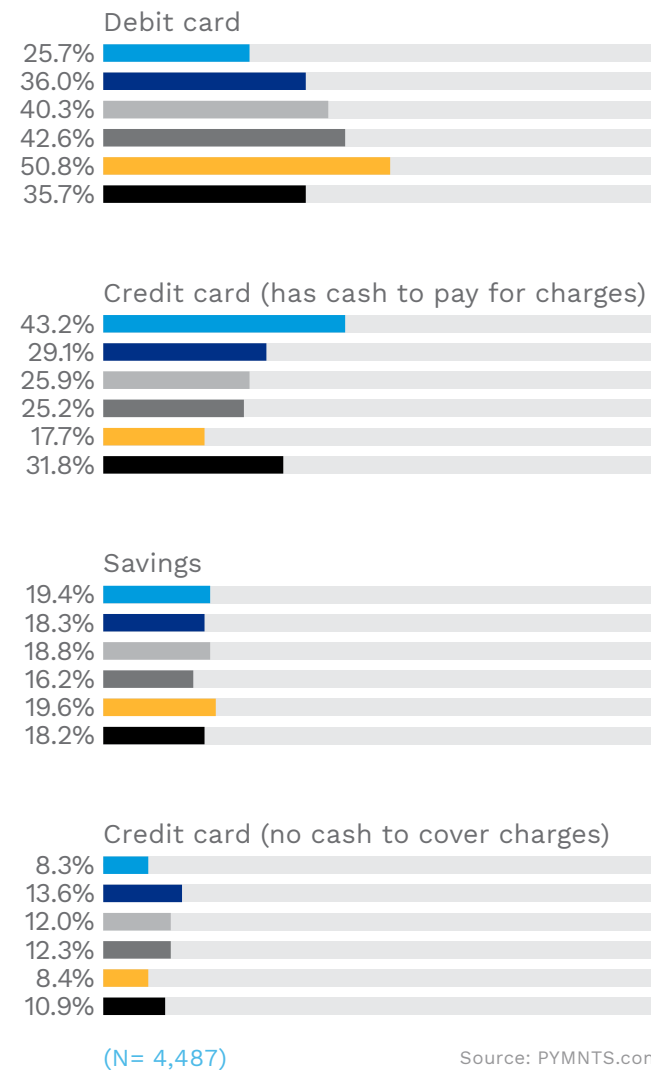
**Share who plan to use select shopping channels more or less during the holiday season compared to last year, September 2020**



- Online using mobile devices
- Online via laptop or desktop
- In-store

**Figure 11:**  
**How shoppers will pay for holiday purchases**

**Share planning to use select sources of funds for holiday purchases, by generation, September 2020**



- Baby boomers and seniors
- Generation X
- Bridge millennials
- Millennials
- Generation Z
- Whole sample

This preference to use debit to pay for holiday gifts is most pronounced among Gen Z and millennial shoppers: 50.8 percent of Gen Z and 42.6 percent of millennials plan to make purchases using debit.

Our research thus shows that millennials on the whole are interested in doing as much if not more holiday shopping this year than last and will be doing it more online, yet they are reluctant to spend beyond their means and add to credit card debt. These circumstances could create increased demand for alternative financing solutions like BNPL, which in many ways is uniquely suited for the bigger-ticket discretionary purchases that can make for great gifts.

# Conclusion

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Consumers are doing more of their shopping online than ever before. One could say the pandemic has indefinitely suspended the institution of “going shopping” at the mall or the local business district. This means that merchants — lacking the ability to physically display their goods or otherwise drive foot traffic — may have to do more to seal the deal with shoppers, specifically at the online point of sale.

Buy now, pay later financing services can play an important role in motivating consumers to make purchases, particularly the key demographic of millennials. Our research shows that this cohort is not averse to using credit, contrary to some common assumptions. These consumers do have priorities in how they use credit, however. They want to have flexibility in their use of credit, and they want to utilize it in a budget-conscious way.

This may help to explain why millennials are so well-represented among the early adopters of BNPL, as our research has clearly established. This has profound implications for merchants. The current use of BNPL just scratches the surface of its market potential. The share of millennials that are very interested in using BNPL services through digital wallets is nearly four times their current rate of BNPL usage.

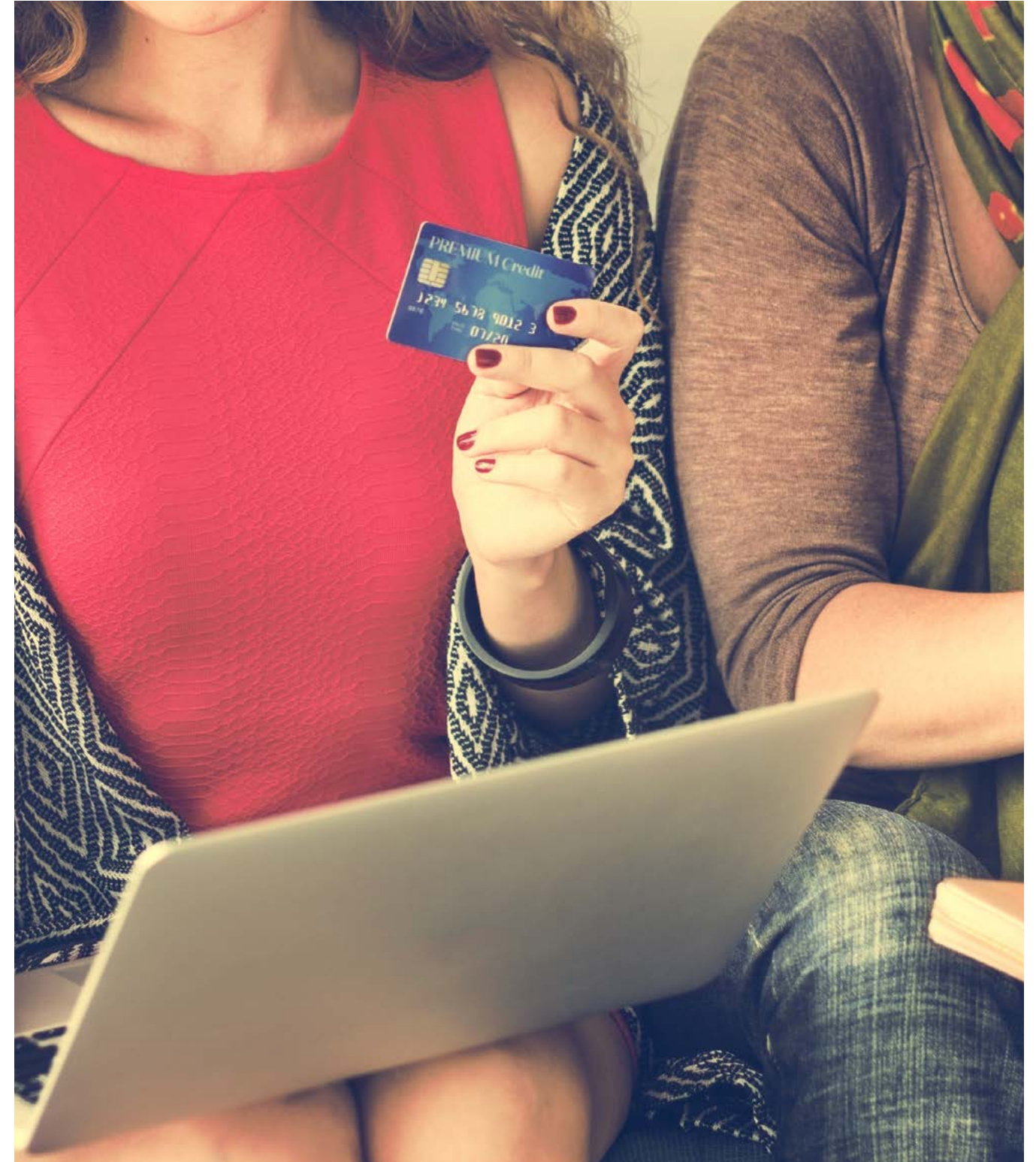
Merchants should bear certain considerations in mind when offering BNPL solutions, however. Given that would-be BNPL users may be wary about signing up with an unknown provider or having to read through a lot of complicated fine print — circumstances that may doom a potential sale — merchants need to ensure that the financing services they have available are transparent, convenient and offered by a trusted provider.

# Methodology

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PYMNTS' Buy Now, Pay Later: Millennials And The Shifting Dynamics Of Online Credit report, a PayPal collaboration, is based on two surveys of U.S. consumers. One in September consisted of 4,838 online shoppers in the U.S., and one in March consisted of 10,036 shoppers. Both samples were balanced to be statistically representative of the U.S. population at large. Both surveys gauged the state of consumer ownership and the use of a number of payment methods,

including credit cards, debit cards, store-branded cards, charge cards, digital wallets and BNPL solutions. We also collected information on the main drivers for and barriers to the ownership of credit cards and installment credit to understand the areas credit solution providers should prioritize to accelerate their growth, particularly among millennials and bridge millennials.



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