

A Forrester Consulting  
Thought Leadership Paper  
Commissioned By PayPal  
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# How Younger Audiences Value Credit Offerings Today

Help increase sales with younger consumers  
through Buy Now, Pay Later Solutions

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# Executive Summary

The assumption that younger generations (people between the ages of 18 and 39) are credit-shy is stale, and it will ultimately leave your business with regrets. According to a study commissioned by Forrester, credit is the most popular purchasing option in the US. And like with everything else, members of Gen Z (people between the ages 18 and 22) and Millennials (people between the ages 23 and 39) want to join the party. Sixty-seven percent of Gen Z and 80% of Millennials surveyed have used credit in the last week. Yes, members of Gen Z are a little less comfortable using credit than their older Millennial counterparts are, but 40% of Gen Z respondents said they expect their credit usage to increase in the next year, even with the ramifications of the COVID-19 pandemic.

Members of younger generations are strategic with their credit usage. They want their credit purchases to benefit them, which is why they are looking for credit options that provide no interest for a set amount of time. For big-ticket items specifically, younger generations are looking to “buy now, pay later” (BNPL) solutions for no-interest options. Respondents from surveyed companies that have implemented a BNPL solution said it produces almost a quarter of their organization’s sales, and they believe it increases their customer base. For the purpose of this study, Forrester uses the terms “Buy Now, Pay Later” and “Buy Now, Pay Over Time” interchangeably. Both terms mean a loan or line of credit linked to the purchase of a specific retail good or service that is typically integrated into the checkout process at the point of purchase online.

PayPal commissioned Forrester Consulting to evaluate the credit attitudes of younger consumers (between the ages 18 and 39) and their usage of BNPL solutions compared to merchants’ perceptions. Forrester conducted two online surveys to explore this topic: One with 504 US consumers between the ages of 18 and 39 and another with 473 business-to-consumer (B2C) merchant respondents with influence over their organization’s e-commerce and/or credit decisions. We found that:

## KEY FINDINGS

- › **Younger consumers (ages 18 to 39) use credit, and they grow more comfortable with credit as they age.** Credit is the most popular payment method for Millennial consumers who are both younger (23 to 29) and older (30 to 39). Members of Gen Z (18 to 22) are more comfortable with debit, but they are warming up to credit: 67% of respondents said they used credit in the last week.
- › **Credit usage is linked to life stages, not generational characteristics.** As consumers become more financially independent, they embrace credit as a daily tool.
- › **Members of Gen Z and Millennials seek no-interest solutions and rewards.** Rewards and no interest are the top two factors incentivizing younger consumers to use credit at checkout. Specifically, 72% of younger consumers said they are more likely to open a credit account if it offers little to no interest on certain purchases.



67% of Gen Z and 80% of Millennials surveyed have used credit in the last week.

Respondents from merchants with a BNPL solution said it accounts for 21% of their organization's online sales.

- › **Younger consumers see BNPL solutions as a smart way to finance purchases.** Roughly 7 out of 10 younger consumers said they are likely to use a BNPL solution for furniture or for an item that costs more than \$1,000. Their main motivation is paying no interest for a period of time.
- › **Merchants underestimate the importance of no interest as an incentive to use BNPL solutions.** Forrester asked B2C merchant respondents why they think younger consumers use BNPL solutions, and they ranked the ability to have no interest for a period of time as fifth out of seven options. Younger consumers said this was the most important factor of BNPL solutions, which shows a clear misalignment.
- › **Merchants with a BNPL solution are reaping sales benefits.** B2C merchant respondents said 21% of their organization's online sales come from a BNPL solution. Respondents whose organizations don't offer BNPL say their companies want in; 56% indicate their organization is planning to invest in a BNPL solution in the next year. This is particularly significant when you consider budget restrictions due to the COVID-19 pandemic.<sup>1</sup>

# Insight 1: Among Age Groups, Credit Usage Is More Linked To Life Stages Than Generational Characteristics

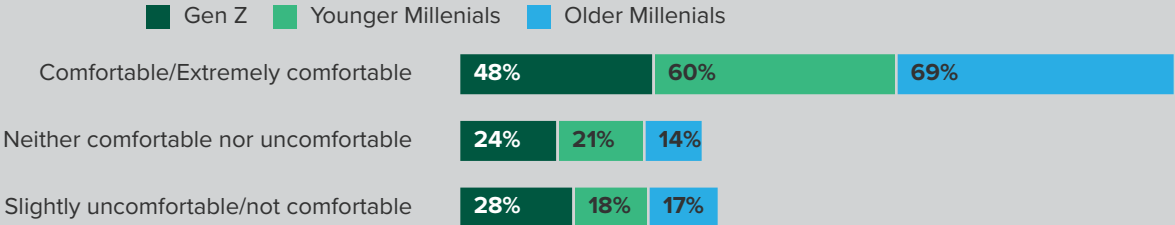
Credit usage is universal in the US, but it takes consumers time and experience to get comfortable with the concept. Although all consumers surveyed between the ages 18 and 39 said they use credit, members of younger generations said they are less comfortable with it than members of older generations, and merchants know this. In surveying 504 US consumers between the ages 18 and 39 and 473 B2C merchant respondents, Forrester found that:

- Merchants believe consumers are more comfortable with credit as they age.** More than half (54%) of B2C merchant respondents said they believe consumers between the ages 18 and 39 are credit-shy. This is mainly rooted in the perception that younger consumers are less likely to use credit. When we got more specific, 69% of merchant respondents indicated that older Millennials (ages 30 to 39) are more likely to use credit when making a purchase than younger Millennials (ages 23 to 29) and Gen Z (ages 18 to 22).

The VP of e-commerce from an international retailer explained this further linking age to income level: “As consumers increase their income, they shift from debit payments to credit which allows them to focus exclusively on points and rewards.”

- Consumers prove merchants right; they are more comfortable with credit as they age.** Forrester asked consumers between the ages 18 and 39 about their level of comfort with using credit as a form of payment. Forty-eight percent of Gen Z, 60% of younger Millennials, and 69% of older Millennials said they are comfortable/extremely comfortable using credit (see Figure 1).

**Figure 1**  
**“Overall, how comfortable are you using credit as a form of payment?”**



Base: 504 US consumers ages 18-39, Older Millennials, ages 30-39: n=258 Younger Millennials, ages 23-29: n=141, Gen Z ages 18-22: n=105  
 Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, May 2020

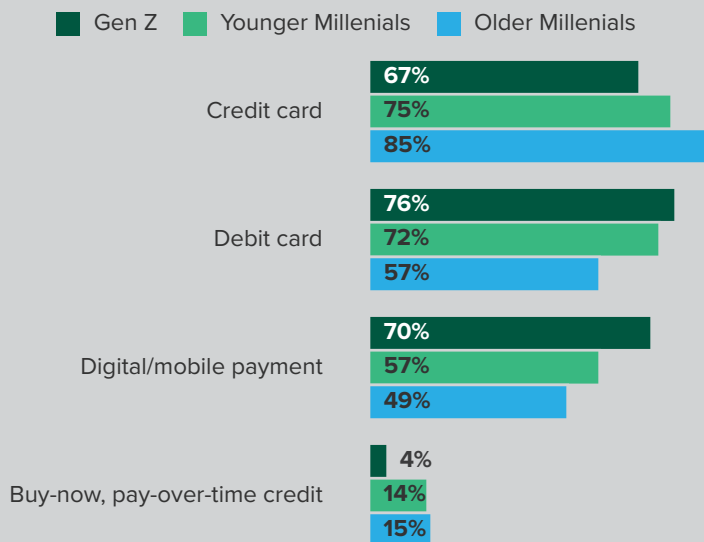
› **Regardless of age or comfort level, younger consumers use credit.** Eighty-five percent of older Millennials, 75% of younger Millennials, and 67% of Gen Z respondents said they've used credit in the last week (see Figure 2). For Millennials, credit was the most popular form of payment used in the last week. Members of Gen Z are still more likely to use debit cards, but that doesn't mean they don't use credit. Sixty-seven percent of Gen Z respondents used credit in the last week, and 40% expect their credit usage to increase in the next year.

The myth that Millennials are credit-shy and that members of Gen Z are following suit has been debunked. Credit usage is linked to life stages, not generational characteristics. Many consumers between the ages 18 and 22 generate little to no income and are still financially dependent on their parents or guardians. As they enter the workforce and become more financially independent, most consumers between the ages 23 and 29 start experimenting with credit. By the age of 30 to 39, most consumers have more experience with credit, and they feel more confident using it.

Millennials aren't credit-shy. They are finally at the life stage where using credit is familiar and logical, and they are using it. Members of Gen Z are still finding their financial independence and confidence, but they are using and plan to continue using both familiar and new types of credit.

**Figure 2**

**“Which of the following payment methods have you used in the last week?”**



Base: 504 US consumers between the ages of 18 and 39, older Millennials (ages 30 to 39) n=258, younger Millennials (ages 23 to 29) n=141, Gen Z (ages 18 to 22) n=105  
 Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, May 2020

67% of Gen Z respondents said they used credit to make a purchase in the last week, and 40% expect their credit usage to increase in the next year.

# Insight 2: Younger Consumers Seek Compelling Benefits When They Use Credit

Younger consumers (ages 18 to 39) are strategic about when they use credit. They look for solutions that can provide personal benefits through rewards or no interest.

- > **Rewards and interest rates drive younger consumers' credit decisions.** Rewards and no interest are the top two factors that incentivize younger consumers to use credit at checkout. Furthermore, 72% of younger consumers said they are more likely to open a credit account if it offers little to no interest on certain purchases.
- > **Younger consumers use BNPL for big-ticket items.** Younger consumers are being tactical with their payment options. Roughly 7 out of 10 indicated they are likely to use a BNPL solution to buy furniture or an item that costs more than \$1,000. Another 38% indicated they would use a BNPL solution for clothing items (see Figure 3). The ability to pay no interest for a period of time is the number one reason consumers between the ages 18 and 39 would use BNPL.
- > **Millennials are more likely to consider BNPL options compared to members of Gen Z.** Millennials (ages 23 to 39) are more likely to consider BNPL options when financing a big purchase compared to members of Gen Z (ages 18 to 22). Millennials are also more attracted to paying in installments compared to their Gen Z counterparts. On average, consumers between the ages 23 and 39 are making bigger purchases, and are apt to feel more confident with credit options. This may explain their increased attraction to these financing options.

The ability to pay no interest for a period of time is the number one reason consumers between the ages 18 and 39 would use BNPL.

Figure 3

“How likely are you to use a ‘buy now, pay over time’ solution for the following online transactions?”



Base: 425 US consumers between the ages of 18 and 39 who would use a buy-now, pay-over-time solution  
Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, May 2020

# Challenges: Merchants Underestimate The Influence Of No Interest

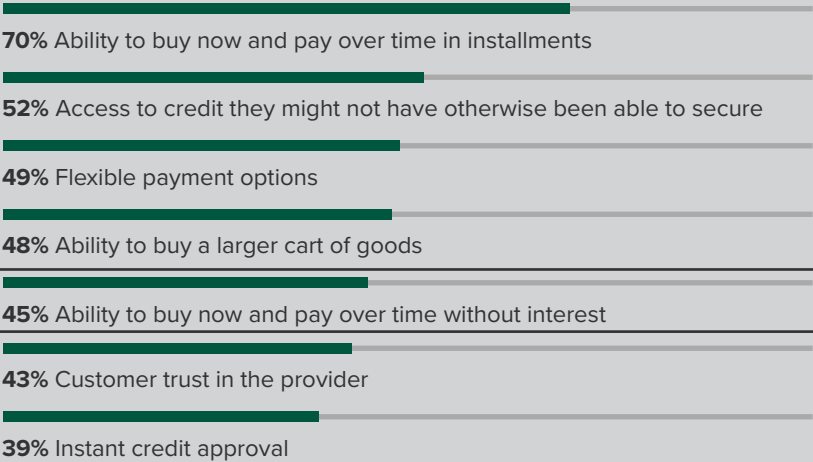
Younger consumers have made it clear: Paying no interest is a top incentive for using credit. It’s not only a top reason consumers between the ages 18 and 39 apply for credit, but it’s also the top reason they consider using advanced credit solutions like BNPL. Merchants underestimate the importance of no-interest options, which puts them at risk of losing buyers.

- › **B2C merchants underestimate no-interest BNPL options.** The ability to pay no interest for a period of time is the top reason younger consumers use BNPL solutions. This will be news to many B2C merchants; respondents from such organizations told us they believe the main reason younger consumers use BNPL is to pay in installments (see Figure 4). Merchants do not consider the ability to pay no interest to be a top incentive for BNPL solutions, and this shows a misalignment between their perceptions and consumers’ needs.

Some of this is rooted in assumptions about consumer income levels. A VP of e-commerce at an international retailer said, “Younger consumers are more likely to use installments because they have lower income, and they can use this option to extend their income for a short period of time.”

- › **Merchants misunderstand younger consumers’ fear of credit.** B2C merchant respondents indicated the main challenge with their BNPL solution is educating consumers about how it works. Merchants fear that consumers won’t understand interest rates and that they are too worried about debt to engage in BNPL. However, merchants underestimate consumers: Younger consumers understand that BNPL solutions are financing solutions and they know how financing works. Merchants should shift their concerns from educating the market about credit to providing simple financing solutions.

**Figure 4**  
**“Why do you think customers use ‘buy now, pay over time’ solutions?”**  
 (Select all that apply.)



Base: 473 US business to consumer (B2C) merchants with a responsibility for and/or influence over eCommerce and credit decisions  
 Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, May 2020

Surveyed consumers’ top reason for using BNPL is having the ability to pay no interest for a period of time.



# Solutions: Merchants Have An Opportunity To Increase Sales Through BNPL Solutions

Younger consumers understand that credit is an essential part of life. Instead of rejecting credit, consumers between the ages 18 and 39 are asking how credit can best serve them. The answer is digital solutions that allow for payment flexibility. Merchants fill this need through BNPL solutions. Forrester’s research found that:

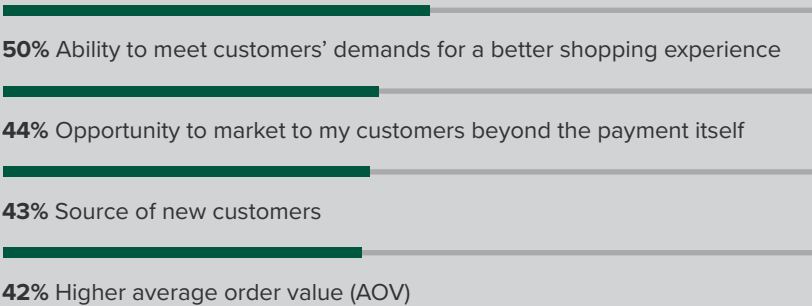
- **BNPL solutions produce higher sales volumes.** Companies with a Buy Now, Pay Later solution report it produces on average 21% of sales. A VP of e-commerce from an international retailer took it even further and said, “Our BNPL solution gives us a 35% increase in average order value [AOV].”
- **Companies without a BNPL solution plan to invest in one.** Fifty-six percent of respondents from companies that don’t currently have a BNPL solution said their organization plans to invest in one in the next year. This number is especially impressive in the wake of the COVID-19 pandemic. Merchants understand the platform is a means for greater success.
- **Merchants expect investments in BNPL solutions to lead to increased revenue.** Gaining the abilities to meet customer demands, source new customers, and achieve higher AOVs are among the top benefits companies expect from an investment in BNPL solutions (see Figure 5).

A director of application development at an e-commerce company explained that the company’s motivation for investing in a BNPL solution: “Our goal is for our BNPL solution to increase our conversion rate by offering financing options to customers.”

Instead of rejecting credit, consumers between the ages 18 and 39 are asking how credit can best serve them.

Figure 5

“You indicated that you are planning to invest in a ‘buy now, pay over time’ solution in the next 12 months. What do you predict will be the biggest benefits of this system?”



Base: 119 US business to consumer (B2C) merchants that plan to use a buy-now, pay-over-time solution  
Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, May 2020

56% of respondents from companies that don’t currently have a BNPL solution said their organization plans to invest in one in the next 12 months.

# Key Recommendations

BNPL solutions are becoming table stakes for consumers and merchants, and the COVID-19 pandemic has accelerated this trend. Consumer interest and familiarity with BNPL solutions are increasing, and many merchants are investing in BNPL solutions to meet consumer demand and to reap the benefits of higher sales volumes.

Forrester's in-depth surveys of 504 US consumers between ages 18 and 39 and 473 B2C merchant respondents with influence in e-commerce and/or credit decisions yielded several important recommendations:



## **To attract younger consumers, merchants need a BNPL solution.**

Consumers — especially younger ones — increasingly want help to pay for large purchases in a responsible way over time. Millennials (ages 23 to 39) are more likely to consider BNPL options compared to members of Gen Z (ages 18 to 22). This reflects their life stages, purchasing needs, earning capacity, and confidence with using credit. BNPL solutions can help merchants that offer big-ticket items like furniture, home goods, travel, and electronics attract younger consumers. It should also be noted that younger consumers are starting to use BNPL options when purchasing clothing, which is a huge opportunity for merchants.



**Merchants' BNPL solutions need a no interest option.** Paying no interest is one of the top reasons that consumers between the ages 18 and 39 apply for credit, and it's the top reason they consider using credit solutions like BNPL. Merchants looking to attract younger consumers and to invest in a BNPL solution should look for one that has a no interest option.



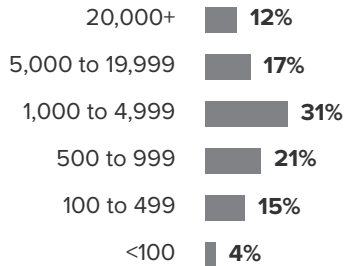
**Merchants need to promote the benefits of BNPL solutions to younger consumers.** BNPL is still a newer form of credit compared to credit cards, but awareness is growing. It's clear that consumers are attracted to the benefits — especially no-interest options. But to increase usage of BNPL, merchants need to do more to promote these benefits to younger consumers both before and during the point of sale.

# Appendix A: Methodology

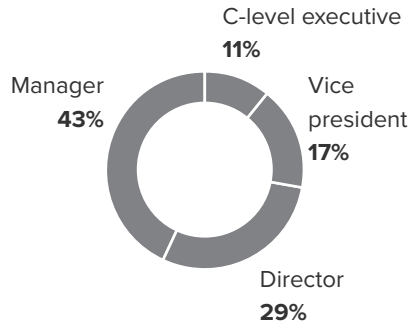
In this study, Forrester surveyed 504 US consumers between ages 18 and 39 and 473 respondents from B2C merchants with a focus in e-commerce in the US to evaluate the credit attitudes of younger consumers and their usage of BNPL solutions. Survey participants included decision-makers in e-commerce. Merchant and consumer respondents were offered a small monetary benefit as a thank you for time spent on the survey. The study began in May 2020 and was completed in May 2020.

# Appendix B: Demographics (B2C merchants)

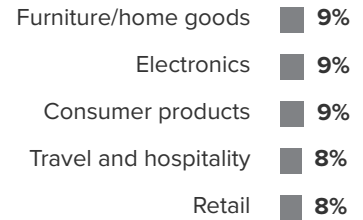
## Company size (number of employees)



## Respondent level



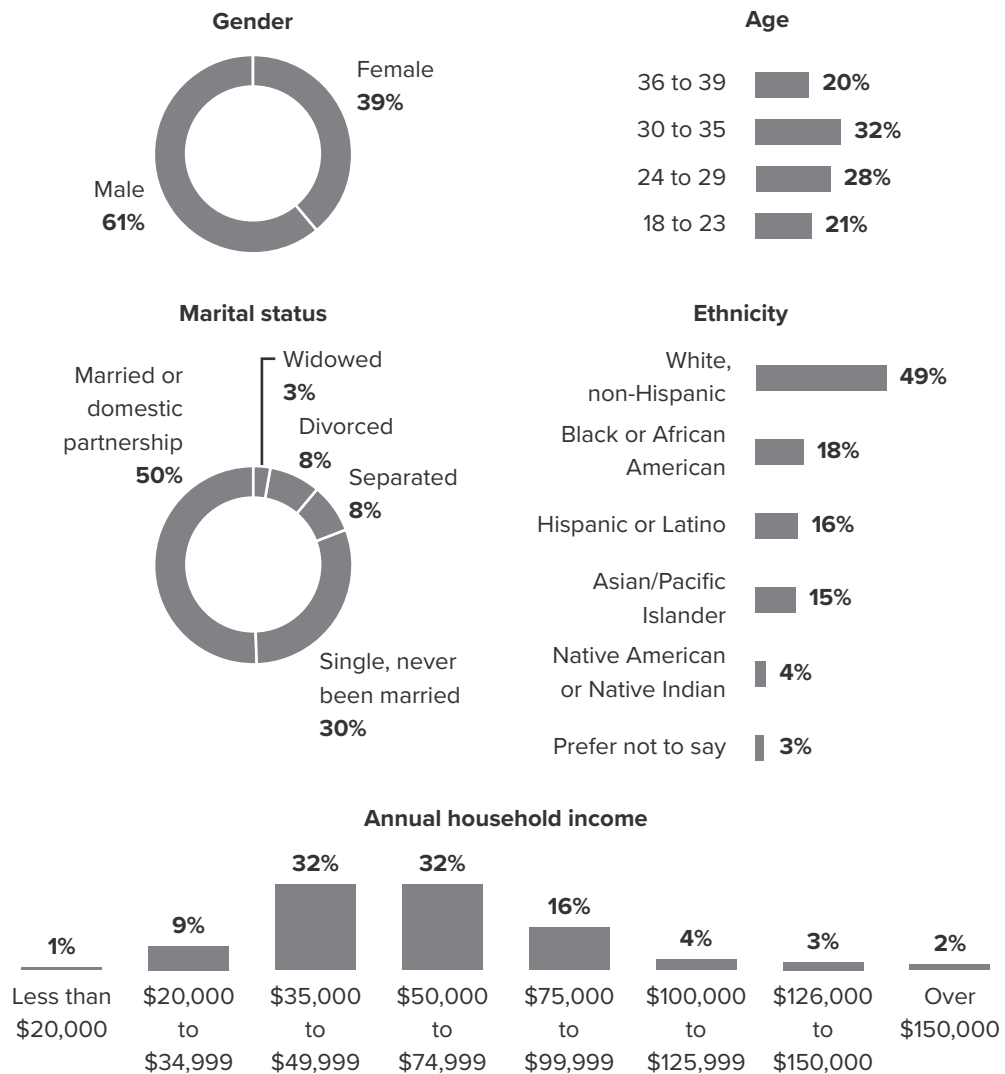
## Industry (top 5)



100% US

Base: 473 US business to consumer (B2C) merchants with a responsibility for and/or influence over eCommerce and credit decisions  
Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, May 2020

## Appendix C: Demographics (consumers)



Base: 504 US consumers between the ages of 18 and 39

Source: A commissioned study conducted by Forrester Consulting on behalf of PayPal, May 2020

## Appendix D: Endnotes

<sup>1</sup> Source: "US Tech Budget Outlooks In A COVID-19 Recession," Forrester Research, Inc., April 9, 2020.