

451 Research Pathfinder Paper

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Building a winning payments strategy for Gen Z and millennials

S&P Global
Market Intelligence

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Executive summary

As commerce becomes more digitally driven, consumer payment needs are growing more complex. Today, consumers expect convenient, secure and technology-infused payment experiences. This is raising the bar for the shopping journey that merchants must deliver. According to 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2024, 64% of commerce technology decision-makers strongly agree that their customers' payment needs are becoming more complex.

Adding to the challenge, payment needs continue to evolve rapidly and vary widely by generation. Attracting new customers, increasing conversions and securing customer loyalty require an understanding of generational differences and an ability to keep pace with their digital demands. This is most apparent with Gen Z and millennials, the most digitally advanced consumer cohorts.

Our research shows Gen Z and millennials have an outsized impact on merchants. These consumers are the first to try new products, the most willing to pay for innovative products and the strongest advocates for the products they have tried. Providing a streamlined checkout experience and delivering on payment choice, control and convenience are crucial factors for winning over this younger demographic and converting them into lifelong customers.

Key findings

- Gen Z and millennials are the most digitally advanced generations of consumers. They are also often the first to try new products, the most willing to pay more for innovative products and the strongest advocates for the products they have tried.
- Three in five respondents among both Gen Z (60%) and millennials (61%) say they use digital wallets online weekly, compared with 38% of all consumers surveyed. PayPal remains the most popular digital wallet, used by 63% of digital wallet users online.

- To secure the loyalty of younger consumers, businesses must deliver on payment choice, convenience and control.
- Over half of Gen Z (56%) and millennial respondents (57%) have abandoned a purchase in the past six months because their preferred payment method was not offered at checkout, versus 37% of consumers survey-wide.
- A streamlined checkout experience is no longer “nice to have” — it is imperative for appealing to Gen Z and millennials, boosting conversions and driving loyalty, and younger consumers are the most sensitive to checkout friction. Nearly half (47%) of surveyed consumers have abandoned an online purchase in the past six months due to difficulties in completing the purchase, rising to 57% of Gen Z and 58% of millennial respondents. Of those that abandoned an online purchase, 61% decided not to purchase the item at all or bought the item from another business.

Definitions

- Financial services apps: mobile banking apps, investment apps, peer-to-peer money transfer apps and digital wallets
- Digital technologies: mobile applications and services in areas such as financial services, shopping and social
- Digital wallet: a financial app or service that stores payment options such as credit and debit cards to make purchases using a connected device.
- One-click checkout: the ability to complete a purchase in one click using pre-populated payment and shipping information
- Streamlined checkout experience: an efficient and user-friendly way for consumers to complete an online purchase with minimal steps

Gen Z and millennials are the most digitally driven and enthusiastic generations of shoppers

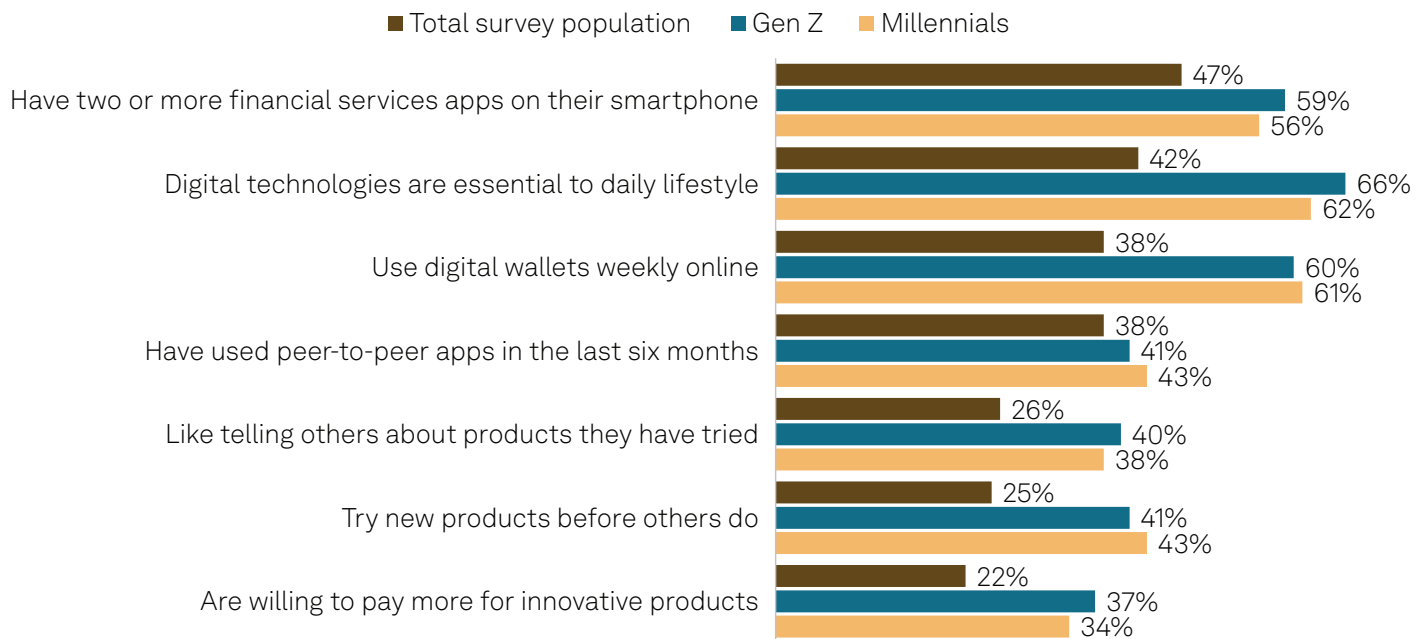
Gen Z and millennials are at the forefront of digital technology adoption. Two-thirds of Gen Z respondents (66%) and more than three in five millennials (62%) say digital technologies are essential to their daily lifestyle (they use at least 10 mobile apps frequently), compared with 42% of consumers overall. Financial services apps have become an important vehicle for these consumers to conduct transactions. Nearly three in five Gen Z (59%) and millennial consumers (56%) say they have two or more financial services apps on their smartphones, versus 47% of consumers overall, according to 451 Research's Voice of the Connected User Landscape (VoCUL): Connected Customer, Fintech and Holiday Experience 2024 survey. As Gen Z and millennials interact and transact more through digital channels, providing a low-friction digital experience across every customer touchpoint has become crucial for winning over this younger demographic.

Digital wallets and peer-to-peer (P2P) apps are now staples in consumers' shopping behaviors, and Gen Z and millennials are the strongest users. Three in five Gen Z (60%) and millennial consumers (61%) say they use digital wallets online weekly, compared with 38% of consumers overall. PayPal remains the most popular digital wallet, used by 63% of digital wallet users online. In-store digital wallet use is also strong among these cohorts, with 56% of Gen Z and 54% of millennials using digital wallets weekly in-store, versus 33% of consumers overall.

Merchants should ensure they are providing in-demand digital wallet options at checkout to meet customer expectations and remain competitive. While adoption is increasing, digital wallet acceptance is not yet ubiquitous. Just over half of merchants surveyed (53%) in 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2024 offer the ability to pay with a digital wallet at checkout, while another 39% are in the discovery phase or planning to adopt in the next 12 months.

In addition to traditional digital wallets, P2P payment apps are factoring into the checkout experience. More than two in five Gen Z (41%) and millennial respondents (43%) have used P2P payment apps in the past six months, versus 38% of consumers overall. Some P2P apps such as Venmo also function as digital wallets, offering consumers added payment flexibility and the ability to fund purchases directly from their P2P accounts. This transforms P2P apps into a convenient payment mechanism that enhances customer experience and can result in increased conversions for merchants. As P2P apps evolve into multi-function payment apps, merchants should consider the implications for their checkout experience, such as the opportunity to reach younger demographics and potential benefits related to cost of acceptance.

Figure 1: Digital technology and product adoption behaviors and attitudes



Q. Which statement best describes your attitude and behavior toward digital experiences? Base: All respondents (n=5,019).

Q. How many financial services apps (e.g., mobile banking, investment, peer-to-peer money transfer, digital wallets) do you have on your smartphone? Base: All respondents (n=1,690).

Q. Over the past 90 days, how often – if at all – did you use a digital wallet to make purchases online?

Base: All respondents (n=1,668).

Q. Which of the following types of financial services apps have you used in the past 6 months? Please select all that apply.

Base: Respondents who use financial services apps (n=1,314).

Q. Which of the following statements describe your approach to NEW technology adoption? (Check all that apply.)

Base: All respondents (n=5,019).

Sources: 451 Research's VoCUL: Connected Customer, Disruptive Experiences 2024; 451 Research's VoCUL: Connected Customer, Fintech and Holiday Experience 2024.

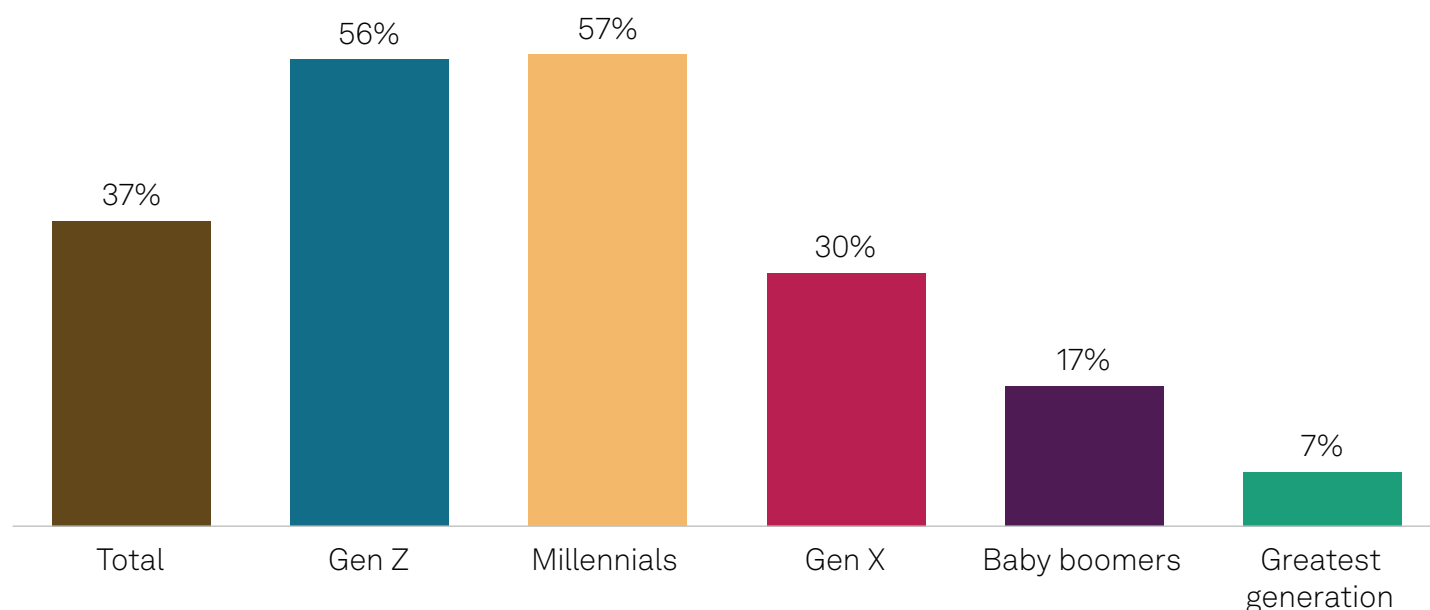
Our research shows that Gen Z and millennials are often the first to try new products, the most willing to pay more for innovative products, and the strongest advocates for products they have tried. Consider that 41% of Gen Z and 43% of millennials say they usually try new products before others do, versus 25% of all respondents, according to 451 Research's VoCUL: Connected Customer, Disruptive Experiences 2024 survey. In the same study, 37% of Gen Z and 34% of millennials say they are willing to pay more for innovative products, versus 22% of consumers overall. Further, 40% of Gen Z and 38% of millennials say they like to tell others about new products they have tried, versus 26% of consumers across all generations.

Catering to the needs of younger demographics not only enhances their customer experience — it can be an important catalyst for new product development, innovation and brand advocacy. Gaining younger consumers' loyalty can result in marketing efficiencies and customer acquisition savings for merchants. For instance, merchants can leverage a partner with strong brand awareness and consumer trust to reach younger demographics, turning these customers into brand advocates for their organization.

Payment choice, convenience and control drive purchasing decisions

Gen Z and millennials expect choice, convenience and control over their purchasing decisions. They want to pay with their preferred payment method and are quick to abandon a purchase otherwise. Consider that more than half of Gen Z (56%) and millennial respondents (57%) have abandoned a purchase in the past six months because their preferred payment method was not offered at checkout, versus 37% of all respondents, according to 451 Research's VoCUL: Connected Customer, Quantifying the Customer Experience 2024 survey. Merchants must provide a variety of payment methods at checkout or risk turning customers away to a competitor. However, it is important to ensure payment options are personalized and curated, as providing too many payment options could clutter the checkout page and lead to cart abandonment. Generally, displaying three to five payment methods is considered advisable for providing the ideal user experience. To further refine the checkout flow, merchants may use dynamic payment method presentation to display a curated and personalized set of payment options based on customer attributes.

Figure 2. Abandoned a purchase in the last six months due to absence of preferred payment method



Q. In the past six months, approximately how many times – if any – have you abandoned an online purchase as a result of your preferred payment method not being offered?

Base: All respondents (n=1,701).

Source: 451 Research's VoCUL: Connected Customer, Quantifying the Customer Experience 2024.

Consumers not only want to pay *how* they want, but also *when* they want. Shoppers want to choose whether to pay up front or in installments; this is particularly true for Gen Z and millennials, who are by far the strongest buy now, pay later (BNPL) users. Over half of Gen Z (54%) and millennial respondents (52%) have made a purchase using BNPL in the past six months, versus 35% of all surveyed consumers. Offering BNPL at checkout can help merchants realize multiple benefits. This includes boosting conversions due to increased buying power for consumers, increasing average order value as large-ticket items become more manageable for consumers, and driving loyalty by enhancing the customer experience and encouraging consumers to transact more frequently. Two in five merchants surveyed have already implemented BNPL, and another 44% are in the discovery phase or planning to adopt in the next 12 months, according to 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2024.

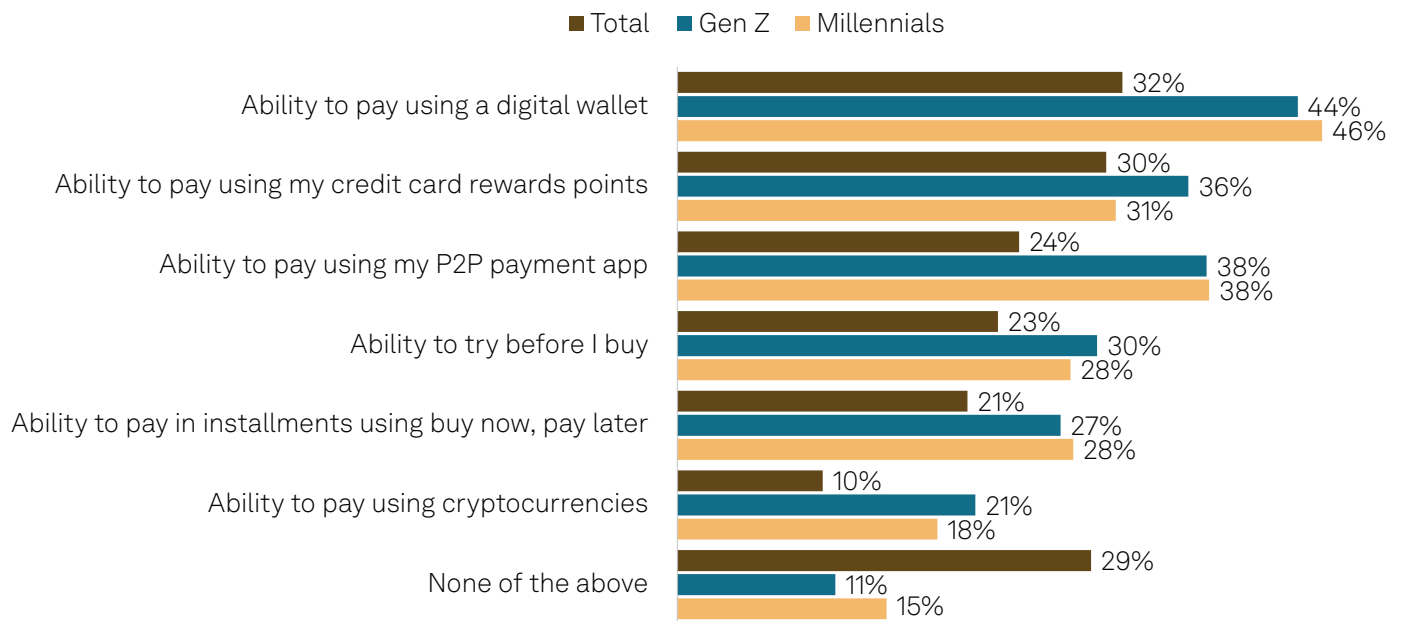
In addition to payment choice, consumers desire convenience. Providing a streamlined checkout experience is imperative, and younger consumers are the most sensitive to checkout friction. Consider that over half of Gen Z (57%) and millennial respondents (58%) say they have abandoned an online purchase in the past six months due to difficulties completing the purchase, versus 47% of consumers overall. Of those that abandoned an online purchase, 61% decided not to purchase the item at all or bought the item from another business.

When it comes to providing a streamlined checkout experience, digital wallets and one-click checkout are particularly influential for Gen Z and millennials. Ability to pay using a digital wallet is the No. 1 area that consumers say would improve their online checkout experience, indicated by 44% of Gen Z and 46% of millennials, versus 32% of respondents overall, according to 451 Research's VoCUL: Connected Customer, Disruptive Experiences 2024 survey. Just over half of surveyed merchants (53%) offer the ability to pay with a digital wallet at checkout, indicating room for further adoption. Merchants that fail to provide digital wallets are missing an opportunity to reach younger consumers.

Similarly, more than a third of Gen Z (36%) and millennials (39%) say one-click checkout would make them highly likely (8-10 on a scale of 0-10) to complete a purchase with a business, versus 30% of consumers overall, according to 451 Research's VoCUL: Connected Customer, Quantifying the Customer Experience 2024 survey. Merchants should consider providing one-click checkout to reduce checkout friction, appeal to younger demographics and remain competitive. Just under half of merchants surveyed say they offer one-click checkout using previously stored payment credentials, and another 42% are in the discovery phase or planning to adopt in the next 12 months.

The ability to pay using a peer-to-peer payment app (Gen Z, 38%; millennials, 38%), the ability to pay in installments (Gen Z, 27%; millennials, 28%) and the ability to pay using cryptocurrency (Gen Z, 21%; millennials, 18%) also resonate with younger consumers and enhance their checkout experience. This demonstrates the need for merchants to provide a variety of convenient, digital experiences to win over younger consumers.

Figure 3. Factors that would improve online checkout experience



Q. Which of the following payment options would improve your online checkout experience with a business? Please select all that apply.

Base: All respondents (n=1,668).

Source: 451 Research's VoCUL: Connected Customer, Disruptive Experiences 2024.

Along with choice and convenience, control is the third pillar driving purchasing decisions for consumers and contributing to an enhanced checkout experience. When consumers are presented with strong security controls, they are more likely to save their payment information with a merchant. This can contribute to a more streamlined checkout experience. Trust in a merchant's reputation (39%) and strong authentication/identity verification controls (38%) are the top factors for consumers when deciding to save their payment information with a merchant, according to our VoCUL: Connected Customer, Trust and Privacy 2024 survey. Unsurprisingly, security and privacy concerns are also the top two factors that would prevent consumers from storing their payment information with an online merchant. Strong authentication and security controls play a critical role in securing trust and fostering a more streamlined checkout experience.

The business imperative for a streamlined checkout experience

Providing a streamlined checkout experience not only enhances the customer experience, but it can also drive meaningful topline growth for merchants. We see three primary business outcomes from providing a streamlined checkout experience underpinned by payment choice, convenience and control:

- **Attract new customers and expand reach** — Gen Z and millennial consumers look for providers that can offer their desired payment methods and convenient checkout experiences, and they are quick to do business elsewhere if they experience checkout friction. Recall that more than half of Gen Z (56%) and millennial respondents (57%) have abandoned a purchase in the past six months because their preferred payment method was not offered at checkout, versus 37% of consumers overall. Providing a streamlined checkout experience with consumers' preferred payment methods can help attract younger consumers and expand a merchant's reach into lucrative demographics. Two in five merchants (40%) acknowledge that increasing their acceptance of alternative payment methods (e.g., Apple Pay, Google Pay, Klarna) is among the most important payment initiatives for their organization, according to 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2024.
- **Increase conversions** — Providing a variety of convenient and flexible payment options such as digital wallets and BNPL can prevent cart abandonment and increase buying power for consumers. This can help increase conversions at checkout, the most critical moment of the shopping journey. More than four in five Gen Z (84%) and millennial BNPL users (83%) say they made a purchase in the past six months that they were not intending to make due to a retailer offering BNPL at checkout, versus 76% of BNPL users overall.
- **Drive loyalty** — Providing a streamlined checkout experience can help win consumer trust and loyalty. About two in five Gen Z (44%) and millennial shoppers (40%) say fast and convenient checkout and payment options (e.g., one-click, digital wallets) would improve their loyalty to a merchant or retailer, versus 36% of consumers overall. This extends the role of payments into an essential factor for expanding customer lifetime value.

Conclusions

Consumers increasingly demand streamlined checkout and payment experiences, with Gen Z and millennials representing the most digitally advanced and demanding demographics. Businesses must keep pace with younger consumers' evolving needs and expectations or forfeit business to a competitor. Catering to this younger demographic not only enhances the customer experience, but it can also increase a merchant's top line by attracting new customers, increasing conversions and driving longer-term customer loyalty. Keeping up with younger consumers' needs can also catalyze new product development, innovation and brand advocacy since Gen Z and millennials are typically the first to try new products, the most willing to pay more for innovative products and the strongest advocates for products they have tried.

To effectively engage these generations, merchants should prioritize payment choice, convenience and control. Implementing preferred payment methods such as digital wallets and BNPL, offering one-click checkout options and ensuring robust security measures are essential strategies for creating a streamlined checkout experience that resonates with younger consumers.



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About the author



McKayla Wooldridge

Research Analyst

McKayla Wooldridge is a research analyst on the 451 Research Fintech team within S&P Global Market Intelligence. Her coverage focuses on trends and technologies impacting the fintech ecosystem and implications for stakeholders and the customer experience. Her research spans the “buy now, pay later” market, B2B payments, banking as a service, and bank and fintech partnership dynamics.

Before joining the 451 Research technology research group as an analyst, McKayla worked as a business intelligence advisor at S&P Global Market Intelligence, where she helped community banks and credit unions leverage the SNL Banker data warehouse for a variety of business applications.

McKayla holds a Bachelor of Science degree in economics and applied geographic information systems from James Madison University and is currently pursuing her MBA with a concentration in business analytics at George Mason University.

About this paper

A Pathfinder paper navigates decision-makers through the issues surrounding a specific technology or business case, explores the business value of adoption, and recommends the range of considerations and concrete next steps in the decision-making process.

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CONTACTS

Americas: +1 800 447 2273

Japan: +81 3 6262 1887

Asia-Pacific: +60 4 291 3600

Europe, Middle East, Africa: +44 (0) 134 432 8300

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