Targeting the Millennial Generation is Key to Growth in Consumer Payments

By George Simotas

In the summer of 2010, Hitachi Consulting and BAI conducted a Consumer Payments Preferences Study (CPPS) which identified some interesting trends about the payment preferences of consumers.

- Targeting the Millennial Generation is a key to growth in consumer payments for financial institutions
- Debit continue its dominance as the most preferred payment method for in-store purchases, continuing to grow at the expense of credit cards and checks
- Use of checks and cash is expected to decline further as mobile, contactless, gift card and alternative payments such as PayPal continue to gain acceptance as mainstream payment models
- Although significant barriers exist to broader consumer adoption of mobile payments, the Millennial Generation has been an early adopter of mobile payments and other emerging payment methods.

These are some of the key findings from our fifth Consumer Payments Preferences Study since 1999. The study is designed to track consumer payment behaviors involving cash, checks, credit cards, debit cards and gift/prepaid cards. In addition, given the decade covered since the initial study, several factors have been tracked to identify emerging trends. Conducted jointly by Hitachi Consulting and BAI Research – and sponsored by First Data Corp., Fidelity Information Services, MasterCard, PULSE, and U.S. Bancorp – this primary research study identified the underlying attitudes and factors that impact consumer behaviors when it comes to paying for goods and services and the implications for financial services institutions that provide those payment options. The study included a sample of nearly 3,200 consumers who are representative of overall U.S. demographics.

This article focuses on findings related to the Millennial Generation (defined for the purposes of this study as the survey age group between 18 and 34[1]).

Compared to the other two age segments surveyed (i.e., 35-54 and 55+), Millennials appear to be a key customer segment for financial institutions to target because they:

- Have a stronger preference for using debit (immediate payment vs. deferred payment)
- Are more likely to increase usage across all payments products
- Are more likely to adopt emerging payments

Stronger Preference for Using Debit

The Millennial Generation has a strong preference for using debit over other payments products (see Fig. 1). Although debit by itself may have relatively lower profitability for financial institutions than other payments products, the lower check usage by this segment results in lower delivery costs to support their demand deposit accounts, which in turn results in a lower-cost funding source than demand deposit accounts with higher check usage. Coupled with interchange income from debit transactions, the Millennials' behavior profile *may* drive higher product profitability than for heavier check users, as well.

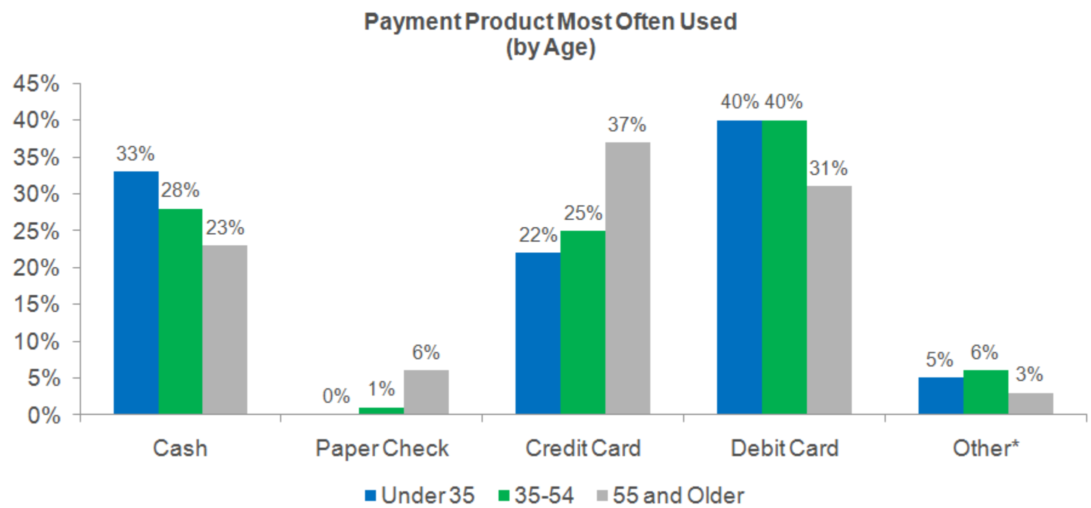

Fig. 1

More Likely to Increase Overall Usage

Based on survey results, the Millennial Generation also projects to have the largest increase in usage across all payment methods over the next two years compared to the other age groups (see Figure 2). When asked about projected increase in usage, the Millennial Generation indicated that their use of credit cards would increase more than other payment products, just edging out projected debit card usage. This higher anticipated credit card usage likely results from increased access to credit and/or a desire or need to make and finance larger purchases. That said, given the Millennials' strong preference for debit cards, a question remains as to if and when they might prefer to use credit cards to the same extent as the older segments. Since debit cards are generally less profitable than credit cards, the profit potential from the Millennials may increase significantly as issuers develop programs to migrate them to credit and encourage utilization as soon as possible.

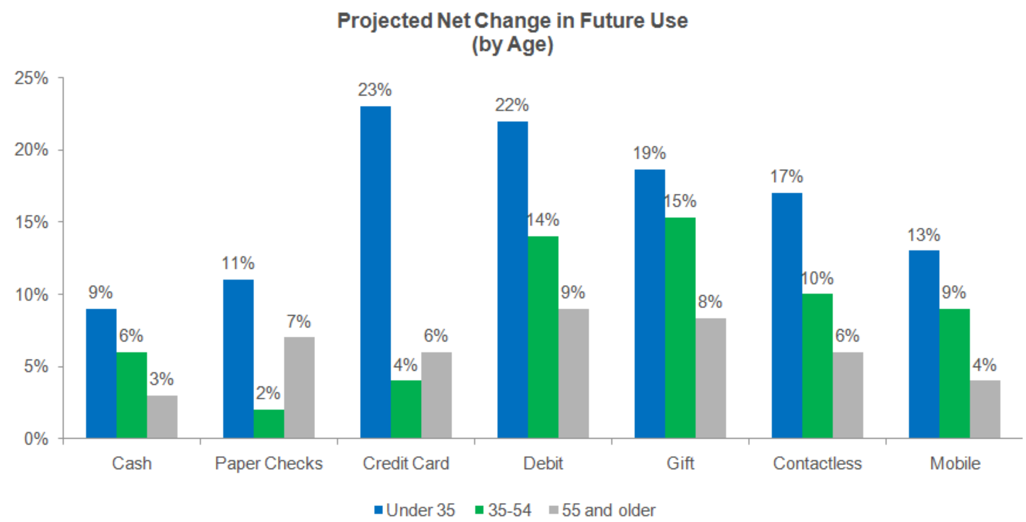

Fig. 2

More Likely to Adopt Emerging Payments

For the purposes of the 2010 Consumer Payments Preferences Study, emerging payments included the following items: Mobile Phones, Gift Cards, and Alternative Payments. Although use of mobile phones as payments devices has received a significant amount of publicity, only five percent of the consumers surveyed indicated they owned a mobile phone capable of making an in-store, contactless purchase (i.e., using their phone as an e-wallet). However, the Millennial Generation, comprising 46 percent of these consumers (see Fig. 4), currently are twice as likely to use their mobile devices for making payments as the other two age groups (see Fig. 5). Moreover, in the future -- as indicated in Fig. 2 above -- the Millennial Generation is more likely than the other two age groups to increase its usage of contactless and mobile (as well as gift cards) for payments over the next two years.

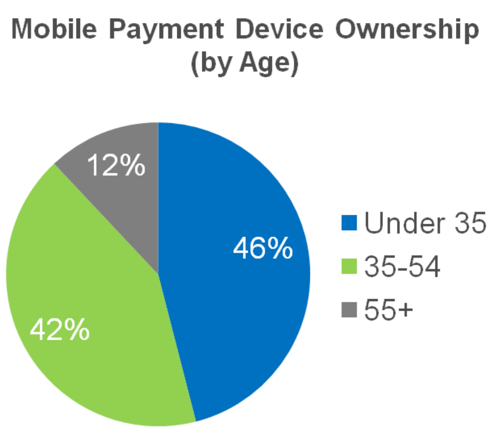

Fig. 3

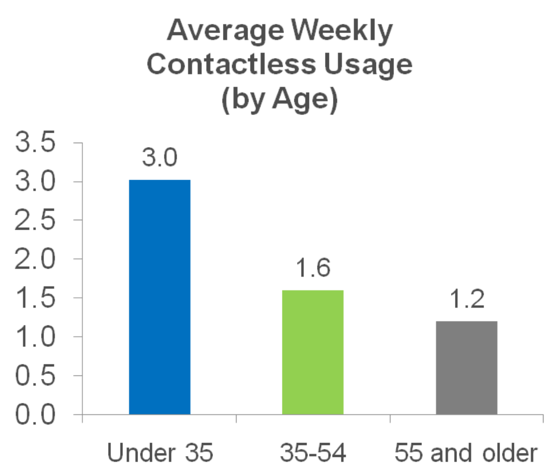

Fig. 4

If financial institutions want to begin offering mobile payments, focusing initial efforts on the Millennial Generation appears to be a better opportunity than offering it to the entire customer base, and will help minimize investments and manage overall costs.

Conclusion

Financial institutions that are looking for new near–term sources of revenue while focusing on a segment of the population that is early in its lifecycle of financial services needs may want look more closely at the Millennial generation. This segment is more likely than other segments to:

- Own a device capable of making mobile payment
- Increase their usage of gift, contactless, mobile and alternative payments
- Prefer debit over use of checks
- Expect to increase their use of the more profitable credit cards

While offering mobile payments to other age groups may be premature at this time, working with Millennials related to this channel could provide valuable insights and provide significant returns in the not too distant future.

For more information about the 2010 Consumer Payments Preference Study or to set up a meeting to discuss possible implications of the findings to your payments strategy, contact George Simotas at gsimotas@hitachiconsulting.com or John Hansen at jlhansen@hitachiconsulting.com.

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Footnotes:

[1]In the U.S., "millennials" (also known as "echo boomers" or "Gen Y") are usually defined as the roughly 80 million people born in the U.S. during the significant baby boom that occurred between 1982-95 (i.e., who would be roughly 15-28 years old today).

All charts are taken from the 2010 Hitachi Consulting and BAI Consumer Payments Preferences Study (CPPS).