

# The Influence of Financial Literacy on Brand Loyalty and Spending Habits Among Gen Z Consumers

Aiman Khwaja<sup>1</sup>, Pankaj<sup>2</sup>, Syed Mohd Nabeel<sup>3</sup>

<sup>1,2</sup> Assistant Professor, School of Management, BBD University Lucknow

<sup>3</sup> Research Scholar, Department of Commerce, Integral University, Lucknow

**Abstract**—As Generation Z steps into financial independence, they're not just spending they're making smarter, more informed choices shaped by their financial knowledge. This paper explores how financial literacy influences Gen Z's loyalty to brands and the way they manage their spending habits. In a world saturated with advertising and digital choices, understanding money has become just as important as understanding marketing. Using the Stimulus. Organism. Response (S-O-R) model as a foundation, this paper proposes a conceptual framework where financial literacy acts as the starting point. The "stimulus" that shapes internal attitudes like confidence, trust in brands, and perceived control. These inner factors then influence how Gen Z chooses to spend and which brands they stick with. The model highlights the growing importance of financial education in shaping not only smarter consumers but also more loyal ones. The paper offers valuable insights for marketers, educators, and policymakers on designing strategies that appeal to financially aware youth. Finally, it suggests directions for future studies to test and expand this framework through real-world data.

**Index Terms**—Financial Literacy, Gen Z, Brand Loyalty, Spending Behaviour, Stimulus–Organism–Response (S-O-R) Model.

## I. INTRODUCTION

Generation Z those born between 1997 and 2012 has emerged as a formidable consumer group defined by digital fluency, economic discretion, and value-based brand engagement (Kaplan & Haenlein, 2010; Sujanska & Nadanyiova, 2022). Despite being raised in an age of seamless digital finance, many Gen Z consumers still display low scores in fundamental financial literacy assessments often below 40% proficiency (Nag & Shah, 2022; Financial Times, 2024). This disparity between exposure to technology and concrete financial understanding raises a critical research question: How does financial

literacy influence Gen Z's brand loyalty and spending behaviour?

Recent empirical work suggests a pivotal role for financial literacy. For instance, Nag & Shah (2022) reported that among Indian Gen Z investors, financial literacy had a significant positive impact on investment intention ( $\beta = 0.435$ ), mediated by behavioural constructs like attitude and perceived behavioural control. Similarly, Elliyana et al. (2024) found that young consumers using Buy. Now. Pay. Later services exhibited more controlled spending when equipped with higher financial knowledge. These findings align with broader behavioural finance literature showing that literate individuals exhibit stronger self-regulation, deliberate purchasing, and longer-term brand loyalty (Rodriguez et al., 2024; Vlašić et al., 2022).

To structure these relationships, this study applies the Stimulus–Organism–Response (S–O–R) model (Mehrabian & Russell, 1974; Woodworth, 1929; Kumar et al., 2021), reframing financial literacy as the stimulus that shapes internal states such as confidence, perceived value, and emotional regulation (organism) which in turn produce behavioural responses: brand loyalty and planned spending (response). This conceptual framing extends the application of S–O–R into behavioural finance and consumer branding literature by asserting that financial knowledge acts as a foundation for trust-based loyalty and value-aligned consumption intentions.

Despite Gen Z's mounting purchasing power estimated at over USD 360 billion in the U.S. alone by 2025 (Vogue Business, 2025) and their discerning consumption patterns grounded in peer reviews, influencer impact, and brand authenticity, there remains a theoretical gap in linking financial literacy to consumer brand decisions via an integrated behavioural model (Sujanska & Nadanyiova, 2022;

Ghosh & Bhattacharya, 2022). This paper addresses that gap by proposing a comprehensive conceptual model that integrates financial literacy with internal psychological mechanisms and market responses offering a foundation for future empirical validation and strategic interventions in marketing and financial education.

## II. LITERATURE REVIEW

### 2.1 Financial Literacy as a Fundamental Stimulus

Financial literacy plays a foundational role in shaping how Generation Z approaches spending and brand relationships. It goes beyond simply understanding numbers—it's about how young consumers interpret value, make informed decisions, and evaluate trade-offs. Restiyanti and Yadiati (2023) found that Gen Z individuals with higher financial knowledge were more disciplined in managing their expenses, especially when exposed to digital finance tools. Supporting this, Ningtyas and Putra (2024) concluded that literacy outperforms even cognitive intelligence in predicting responsible money behaviours like budgeting and long-term planning. Rodriguez et al. (2024) further emphasized that financial behaviour acts as a bridge between financial knowledge and actual consumer choices, showing that literacy doesn't just sit in the background it acts as a trigger for behaviour change. Together, these studies position financial literacy as the “stimulus” in the S–O–R model, initiating a ripple effect that continues into deeper psychological and behavioural layers.

### 2.2 Internal Psychological Mediators (Organism Level)

The knowledge gained from financial education must be processed psychologically before it can influence real-world behaviour. These internal filters such as confidence, self-discipline, trust, and emotional balance are what the S–O–R framework defines as the “organism.” Jannah et al. (2023) revealed that digital financial literacy significantly improved Gen Z consumers' ability to resist social pressure and impulsive spending, strengthening emotional control and decision-making. Vlašić et al. (2022) added that financial literacy contributes to a consumer's confidence and ability to evaluate brands more critically, making them less likely to fall for marketing gimmicks and more likely to stay loyal to brands they

trust. These internal states are essential mediators that help translate knowledge into behaviour, and without them, financial literacy alone may not fully achieve its impact.

### 2.3 Consumer Response: Brand Loyalty and Spending Behaviour

The visible part of the consumer journey the “response” comes to life in how Gen Z chooses brands and manages their spending. Financially literate individuals are more conscious shoppers who not only avoid impulsive purchases but also actively seek value-aligned brands. For example, Salsabilla and Firmialy (2024) found that Gen Z consumers of skincare products were more likely to develop brand loyalty when they understood the financial implications of their purchases. Arestha et al. (2023) observed a clear connection between high financial literacy and reduced compulsive buying, particularly in digital shopping environments. Similarly, Oktaviana and Irawan (2024) noted that Gen Z consumers who understood pricing and marketing tactics were less influenced by flashy promotions and more likely to stick with brands that reflected their values and offered real utility. These behaviours reflect a thoughtful, measured approach to consumption, clearly influenced by earlier cognitive and emotional processing.

### 2.4 Contextual and Cultural Influences on Gen Z Behaviour

While personal traits like literacy and confidence matter, the broader context cannot be ignored. Gen Z lives in a hyper-connected, highly opinionated world where trends spread quickly, and financial decisions are often influenced by social norms and peer visibility. GWI (2022) reported that most Gen Z consumers seek financial advice on platforms like YouTube and TikTok yet many still lack access to basic credit or formal financial systems. Social media trends like “loud budgeting,” where users openly share their savings goals, have helped normalize frugality and responsible consumption (Business Insider, 2024). Meanwhile, Bank of America (2025) reported that a growing number of Gen Z individuals are cutting down on dating and entertainment expenses, choosing instead to prioritize savings. These behaviours reflect how economic awareness and peer-influenced accountability are pushing Gen Z toward a more

financially conscious lifestyle, which in turn influences how they connect with and remain loyal to brands.

2.5 Integrating the Stimulus–Organism–Response (S–O–R) Framework

The S–O–R model offers a structured way to understand how external factors like financial knowledge shape internal thinking, which then leads to outward consumer behaviour. Originally developed by Mehrabian and Russell (1974), the model has been widely used in studies of consumer behaviour but less so in financial literacy contexts. This study aims to bridge that gap. By positioning financial literacy as the stimulus, internal psychological factors as the organism, and brand loyalty and spending as the response, this paper creates a pathway for understanding how Gen Z navigates consumption in an increasingly complex digital and economic environment. Prior work by Zhu et al. (2016) showed that knowledge-based stimuli, such as recommendation agents, activated consumers’ cognitive responses in digital spaces. Similarly, this paper argues that financial knowledge can activate deeper internal processes that ultimately influence which brands Gen Z chooses—and why.

To examine how financial literacy shapes Gen Z consumers’ brand loyalty and spending behaviour, this study utilizes the Stimulus–Organism–Response (S–O–R) framework as its guiding theory. Originally proposed by Mehrabian and Russell (1974), and adapted for consumer behaviour by numerous scholars (Jacoby, 2002; Eroglu et al., 2001), the model outlines a three-step process by which an external stimulus affects internal psychological states, which then result in observable behavioural outcomes.

In this context, financial literacy is conceptualized as the stimulus (S), an essential external factor that influences how young consumers process and respond to marketing environments. Financial literacy includes awareness and understanding of financial concepts such as budgeting, credit, investment, and risk (Lusardi & Mitchell, 2014; Xiao & O’Neill, 2016). Among Gen Z, it also includes the ability to critically evaluate digital financial content, such as mobile payment tools or Buy-Now-Pay-Later schemes (Elliyana et al., 2024; Nag & Shah, 2022).

Once this stimulus is introduced, it interacts with a set of internal psychological mechanisms, referred to as the organism (O) in the S–O–R model. These mechanisms include financial self-efficacy, defined as one’s confidence in managing personal finances (Shim et al., 2009); perceived financial control, or the belief that one can effectively manage and influence financial outcomes (Jannah et al., 2023); and brand trust, which refers to a consumer’s belief in a brand’s reliability and integrity (Vlašić et al., 2022). These internal processes act as filters, shaping how individuals interpret their financial knowledge and subsequently apply it to market decisions.

The final component of the framework is the response (R), which comprises the observable behaviours resulting from this internal processing. In this case, it includes two primary outcomes: brand loyalty and planned spending behaviour. Prior research shows that Gen Z consumers with strong financial literacy are less likely to engage in impulsive spending and more likely to build long-term relationships with brands that align with their values (Salsabilla & Firmialy, 2024; Oktaviana & Irawan, 2024). Additionally, studies have found that trust and perceived control act as key mediators between financial knowledge and brand commitment (Rodriguez et al., 2024).

The conceptual model proposed in this paper thus suggests a linear flow: Financial Literacy → Internal

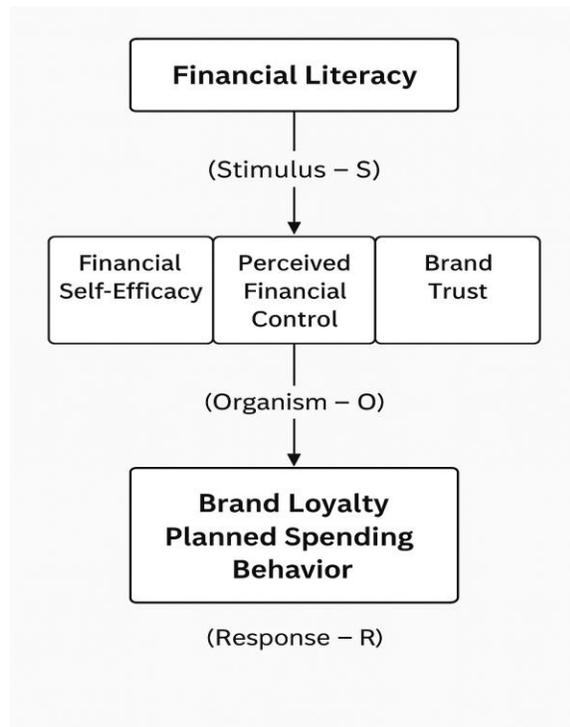


Fig 1: Conceptual Framework

Processing (Organism) → Consumer Response. By positioning financial literacy as the starting point of this behavioural chain, the model offers a new lens for understanding how informed financial decision-making can foster not just smarter spending, but stronger brand relationships. It also provides a theoretical foundation for marketers, educators, and policymakers seeking to better engage and empower Gen Z consumers.

### III. HYPOTHESES DEVELOPMENT

To better understand how financial literacy shapes Gen Z consumers' purchasing patterns and brand preferences, this paper draws on the Stimulus–Organism–Response (S–O–R) model. In this framework, financial literacy is conceptualized as the initiating stimulus, setting off a chain of psychological and emotional responses that influence consumer behaviour. This section builds on relevant literature to formulate hypotheses that clarify the relationships among key constructs, including financial self-efficacy, perceived financial control, brand trust, brand loyalty, and spending habits.

**Financial Literacy and Internal Psychological Factors**  
Research consistently demonstrates that financial literacy does more than improve a person's understanding of money it also empowers them psychologically. For Gen Z, financial knowledge often fosters a sense of self-efficacy confidence in managing income, budgeting, and avoiding financial risks. Studies such as those by Lusardi and Mitchell (2014) and Rodriguez et al. (2024) show that individuals with higher financial literacy are not only more aware of financial tools and responsibilities but are also better at regulating their financial behaviour. In addition, understanding finances enhances one's sense of control over money-related decisions, a factor that plays a critical role in shaping consumer confidence (Jannah et al., 2023). Moreover, those who are more financially literate are more selective about the brands they trust, tending to favor those that align with their values and offer transparency (Vlašić et al., 2022).

H1: Financial literacy positively influences financial self-efficacy.

H2: Financial literacy positively influences perceived financial control.

H3: Financial literacy positively influences brand trust.

#### Internal Factors and Behavioural Outcomes

The internal cognitive and emotional processes triggered by financial literacy are central to how Gen Z consumers behave in the marketplace. Consumers who believe in their ability to manage money are more likely to make informed, disciplined purchases rather than acting on impulse (Shim et al., 2009). Similarly, when individuals feel in control of their financial situation, they tend to plan their purchases and evaluate products with a long-term mindset (Rodriguez et al., 2024). Brand trust, which emerges from internal evaluations of brand reliability and authenticity, serves as the emotional bridge between the consumer and the brand. Trusted brands become not only repeat choices but emotional anchors in the consumer's lifestyle (Salsabilla & Firmialy, 2024; Chinomona, 2016).

H4: Financial self-efficacy positively influences brand loyalty.

H5: Perceived financial control positively influences planned spending behaviour.

H6: Brand trust positively influences brand loyalty.

#### Mediating Role of Internal States

Internal psychological factors not only shape behaviour directly they also mediate the relationship between financial literacy and consumer responses. In other words, financial literacy's impact on brand loyalty and spending habits may be indirect, operating through self-efficacy, control, and trust. This mediating effect has been validated by several studies, which found that financial behaviour, confidence, and trust explain how financial knowledge translates into concrete decision-making (Shim et al., 2009; Rodriguez et al., 2024). For Gen Z, these internal pathways are especially significant, given their exposure to constant social influence and digital advertising.

H7: Financial self-efficacy mediates the relationship between financial literacy and brand loyalty.

H8: Perceived financial control mediates the relationship between financial literacy and planned spending behaviour.

H9: Brand trust mediates the relationship between financial literacy and brand loyalty.

#### IV. MANAGERIAL AND PRACTICAL IMPLICATIONS

The insights from this study hold meaningful value for marketers, educators, and policymakers trying to connect with Gen Z a generation that is not only digitally native but also increasingly conscious about money. One of the most striking findings is that financial literacy plays a pivotal role in shaping how these consumers interact with brands. It's no longer just about flashy ads or celebrity endorsements young consumers want to understand the real value behind what they buy.

For marketers, this means moving beyond surface-level appeal. Brands that want to earn Gen Z's loyalty should focus on transparency, value-driven communication, and ethical branding. Marketing strategies that highlight long-term savings, honest pricing, and sustainable practices are more likely to resonate with financially literate youth. These consumers are less susceptible to impulsive buying and more inclined toward brands that align with their values and financial goals (Salsabilla & Firmialy, 2024; Vlašić et al., 2022). For example, including educational content in brand communication—like budgeting tips or how to evaluate product longevity could build lasting brand relationships.

Educators and financial institutions also have a crucial role. The findings point to the need for more accessible, engaging financial literacy programs tailored for younger audiences. Whether it's through digital games, interactive mobile apps, or peer mentoring programs, creating touchpoints for financial learning can empower Gen Z not just as individuals, but as responsible consumers.

At a broader level, policymakers can take cues from this model by integrating financial education into school curricula. When young people understand how to manage their money early on, they're better prepared to make wise financial decisions, avoid debt traps, and support brands that align with long-term thinking. This benefits not only individual well-being but also promotes healthier economic ecosystems.

#### V. METHODOLOGY

This study takes a conceptual approach rather than collecting original data, focusing instead on designing a theoretical model that explains how financial literacy

might influence Gen Z's brand behaviour. The model is grounded in the Stimulus–Organism–Response (S–O–R) framework, a widely respected theory in psychology and marketing used to understand how external triggers lead to internal responses and, ultimately, consumer behaviour.

To develop the framework, an extensive literature review was conducted using trusted academic databases such as Scopus and Web of Science. Keywords like financial literacy, Gen Z consumers, brand trust, planned spending, and S–O–R model were used to retrieve relevant studies. The final set of references was filtered to include only those that were recent (mostly from 2015–2025), peer-reviewed, and directly relevant to consumer behaviour, psychology, and financial decision-making.

From this review, six core concepts were identified and linked through logical, literature-backed relationships. These include:

- Financial literacy as the starting point (stimulus),
- Self-efficacy, perceived control, and brand trust as internal states (organism),
- And brand loyalty and planned spending as behavioural outcomes (response).

While no field survey or empirical data was used in this particular paper, the model is intended to serve as a robust foundation for future research. Scholars could empirically test the proposed hypotheses using Structural Equation Modeling (SEM), consumer surveys, or digital behaviour tracking. This type of conceptual research is essential because it provides theoretical clarity and a well-grounded direction for future empirical investigations.

#### VI. CONCLUSION

In an era where financial decision-making is increasingly digital and dynamic, understanding how financial literacy influences Gen Z's consumer behaviour is both timely and essential. This conceptual study, grounded in the Stimulus–Organism–Response (S–O–R) framework, proposes that financial literacy acts as a critical external stimulus shaping the internal cognitive and emotional responses namely, self-efficacy, perceived financial control, and brand trust that ultimately influence brand loyalty and planned spending behaviour.

The model offers a fresh lens through which to view the intersection of marketing and personal finance. Unlike previous generations, Gen Z navigates a marketplace saturated with financial tools, promotional content, and digital influences. In this environment, simply pushing promotional messages is no longer enough. Brands need to build trust, align with consumer values, and support responsible financial habits to build lasting relationships with this cohort.

This study contributes to theory by positioning financial literacy not just as an economic skill, but as a behavioural trigger with emotional and brand-related consequences. For practitioners, the message is clear: investing in financial education, promoting transparency, and aligning with ethical standards can enhance customer loyalty and reduce impulsive, unsustainable consumption.

Though this paper is conceptual and does not rely on empirical testing, it lays the groundwork for future research that can validate, refine, or extend the proposed framework. By embracing the financial consciousness of Gen Z, marketers, educators, and policymakers can foster not only better brand engagement but also more empowered and financially resilient consumers.

#### VII. FUTURE RESEARCH DIRECTIONS

While this paper offers a strong theoretical foundation, it also opens several avenues for future empirical exploration. Researchers can validate the proposed model using quantitative methods such as surveys and structural equation modeling (SEM) among Gen Z consumers across diverse cultural, economic, or product contexts. For instance, testing the framework across industries like fashion, fintech, or sustainable products could yield industry-specific insights.

Another promising direction involves longitudinal research studying how financial literacy acquired during adolescence influences brand trust and loyalty into adulthood. Additionally, future studies could explore moderating variables such as digital literacy, income level, or exposure to social media influencers. These factors may amplify or weaken the link between financial literacy and consumer behaviour.

Qualitative approaches, such as interviews or focus groups, could also provide deeper understanding of how Gen Z interprets financial education and how it

affects emotional connections with brands. This would enrich the behavioural side of the S–O–R model and offer rich narrative data for theory refinement.

#### VIII. LIMITATIONS

Like any conceptual work, this study has certain limitations. First, it does not include empirical validation, which limits our ability to confirm causality or the strength of proposed relationships. While the framework is built on sound theoretical foundations and supported by Scopus/Web of Science-indexed literature, real-world testing is essential to generalize the findings.

Second, the model assumes homogeneity in Gen Z behaviour, yet in reality, financial habits and brand perceptions vary across demographics such as education level, geographic region, and cultural norms. Future studies should consider these contextual variables when testing the model.

Lastly, financial literacy is itself a multifaceted construct. This paper treats it as a unified concept, but in practice, it can range from basic budgeting skills to advanced investment knowledge. Differentiating these layers in future research could uncover more nuanced behavioural patterns among Gen Z consumers.

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