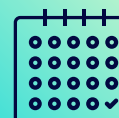


Quick start guide to BNPL

Buy now, pay later is becoming a popular new payment method — here's what you need to know about it.



Buy now, pay later: a payment method on the rise

The adoption of buy now, pay later (BNPL) has undergone meteoric growth in the last two years. From a tool to help Millennials and Gen Z try before they buy, it's now one of the most discussed – and used – alternative payment methods in the world.

Our research finds that consumers are always looking for the most convenient way to pay and, for some, BNPL is it – 53% of consumers intend to use BNPL in the next 12 months. If these are your customers, BNPL has the potential to increase order values and customer conversions. However, as with any new payment method, you will need to consider your individual business needs, the market you are operating in and what your customers want.

We look to answer some questions you might have:

- What does the rise of BNPL mean for your business?
- Should you consider offering BNPL at the checkout?
- How can you use BNPL strategically to win market share and encourage sales uplift?
- And what does it take to optimize BNPL performance and deliver a fast return on investment?

This guide offers context, insight and practical advice to help you decide whether this payment method is right for your checkout.

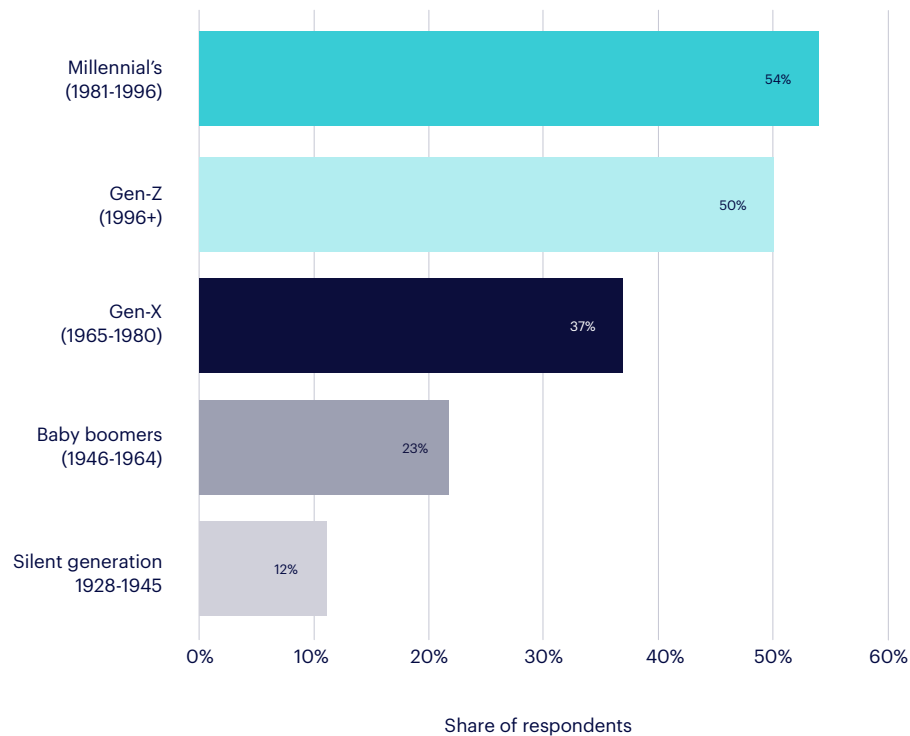
Quick start guide to BNPL: Buy now, pay later is the hot new payment method — here's what you need to know about it.

A rounded rectangular box with a horizontal gradient from light yellow on the left to light blue on the right. The text "BNPL" is centered in a bold, dark blue, sans-serif font.

BNPL

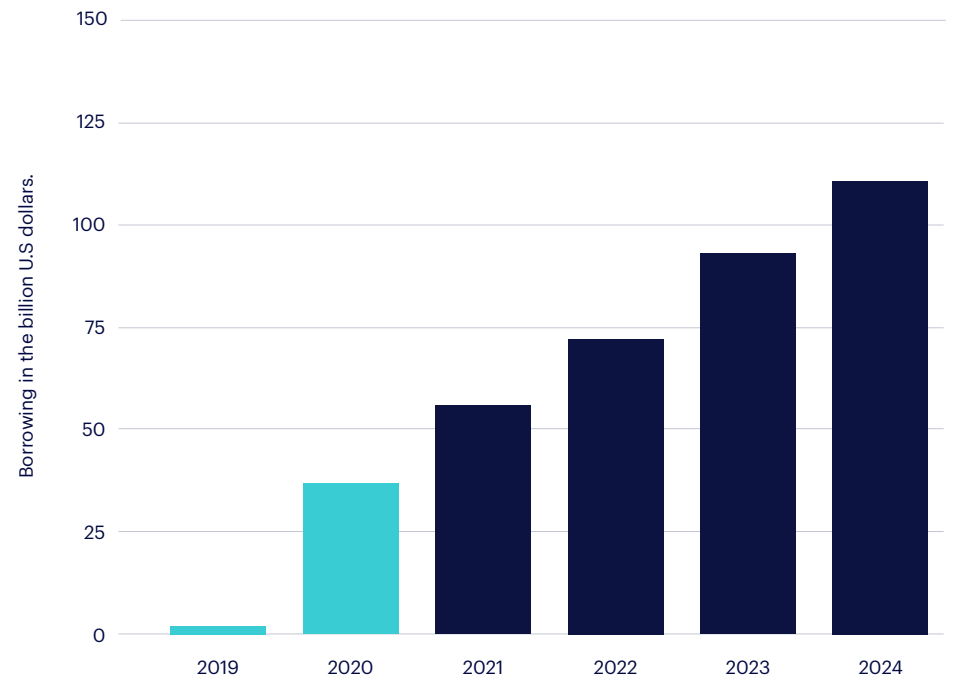
Tracking the growth of BNPL

Share of respondents who said they use BNPL methods in the United Kingdom (UK) from January 2020 to July 2020 by age group



A Source: finder.com © Statista 2021. Additional information: United Kingdom; OnePoll; January 2020 to July 2020; 2,000 respondents; 18 years and older

Estimate of BNPL lending in the United States in 2019 and in 2020, with forecasts from 2021 to 2024 (in billion U.S dollars)



Source: MAG © Statista 2021. Additional information: United States; May 2021



Section 1

**Introducing the
(not so) alternative
payment method**

The growth of BNPL

The growth of online commerce has seen more consumers experiment with new payment methods — and BNPL has emerged as one of the most popular.

In many markets, BNPL is now growing at a faster pace than mobile wallets and is beginning to rival credit cards as the preferred way to pay online. To put this growth into perspective, in 2020 the BNPL market was valued at \$90.69 billion, by the end of the decade, it's expected to be worth almost \$4 trillion¹.

The growth is driven by the unique properties of BNPL that are proving attractive to consumers. These include 0% interest rates and transparent payment plans.

20%

of consumers in MENAP are using BNPL

23%

of consumers in APAC are using BNPL

24%

of consumers in Europe are using BNPL

Section 1: Introducing the (not so) alternative payment method

Younger consumers are driving adoption

In the US, 45 million people already use BNPL and 3 in 4 users are Millennial's or younger². Similarly in the UK, 17 million people have paid with BNPL with two in five of all young adults now using it regularly to buy fashion, tech and even food and drink³.

BNPL is particularly appealing to a younger audience because of generally lower wages in this age group. They, therefore, benefit from the spread-out payment options. The convenience and 0% interest rate on repayments are also appealing.



45 million

In the US, 45 million
people already use BNPL

Quick start guide to BNPL: Buy now, pay later is the hot new payment method — here's what you need to know about it.

Pay later comes in three main options

All are designed to be low friction, offer a great UX and deliver seamless financing, especially for online and mobile checkouts.

1. Pay by installments

The purchase amount is split into three or four smaller amounts or 'slices'.

Often the first payment is made up front with the rest at set intervals – weekly, every two weeks or monthly.

2. Pay later

Payment for the total purchase price is delayed for a set time – typically 14 or 30 days.

No payment details are taken but a soft credit check is required. Consumers receive a reminder when payment is due.

3. Pay on finance

Regulated like traditional financing but with less form-filling. There's a formal payment plan, users may be charged interest and a credit check may apply.

Normally used for high value items and extended periods over many months of even two to three years.

Section 1: Introducing the (not so) alternative payment method

With increased demand comes increased adoption

Globally, BNPL is seen as a key differentiator at the checkout. Many new players are adopting the payment method to fuel and meet customer demand.

The growth of BNPL in recent years isn't without bumps in the road. As more consumers use the payment method to fund purchases, there are fears they could be doing so without fully understanding the risks involved should they fail to make repayments.

With fears of a BNPL debt bubble building, regulators are rightly taking a close look at the space to ensure that the right consumer protections are in place. How these developments will impact the BNPL sector is unclear but what clear is that regulation is coming and it'll have implications on how providers and businesses offer BNPL solutions.

Quick start guide to BNPL: Buy now, pay later is the hot new payment method — here's what you need to know about it.





Section 2

**Hype or here
to stay?**

A decade on, BNPL is taking the mainstream

Digital-first consumers are attracted to BNPL for its convenience. For younger consumers and gig workers, the attraction is the ability to get credit without having to get a credit card.

As economies struggle to cope with COVID and recession, more and more people are turning to BNPL to help them budget better.

What's driving BNPL?

27%

1. Rise in ecommerce growth

Globally ecommerce grew by more than 27%⁴ in 2020

23%

2. Digital-first consumers

Millennials represent the largest consumer cohort worldwide (23%)⁵

46%

3. Move away from revolving credit

46% BNPL users do so to avoid revolving debt/credit card interest⁶

22%

4. Under served populations

22% of adults in the United States are either unbanked or underbanked⁷

4.3%

5. Economic recession

The global economy contracted by 4.3%⁸ in 2020

20–30%

6. Gig economy

20-30% of the US and EU workers are now gigger⁹

Europe has seen significant BNPL adoption

Eight out of ten of the top global BNPL markets worldwide are in north-western Europe¹⁰. But the US has the largest number of BNPL players.

There's also lots of competition emerging across Australia, New Zealand, Africa, Southeast Asia, the Middle East and Latin America (see figure 2 overleaf).

Increased demand for BNPL services during COVID allowed major service providers such as Klarna, Afterpay, and Affirm to gain more customers.

These players significantly expanded their customer base, focusing on entering new markets and vertical retail segments. Consequently, global BNPL revenues and investment have soared.

It's clear that BNPL has disrupted the payments market

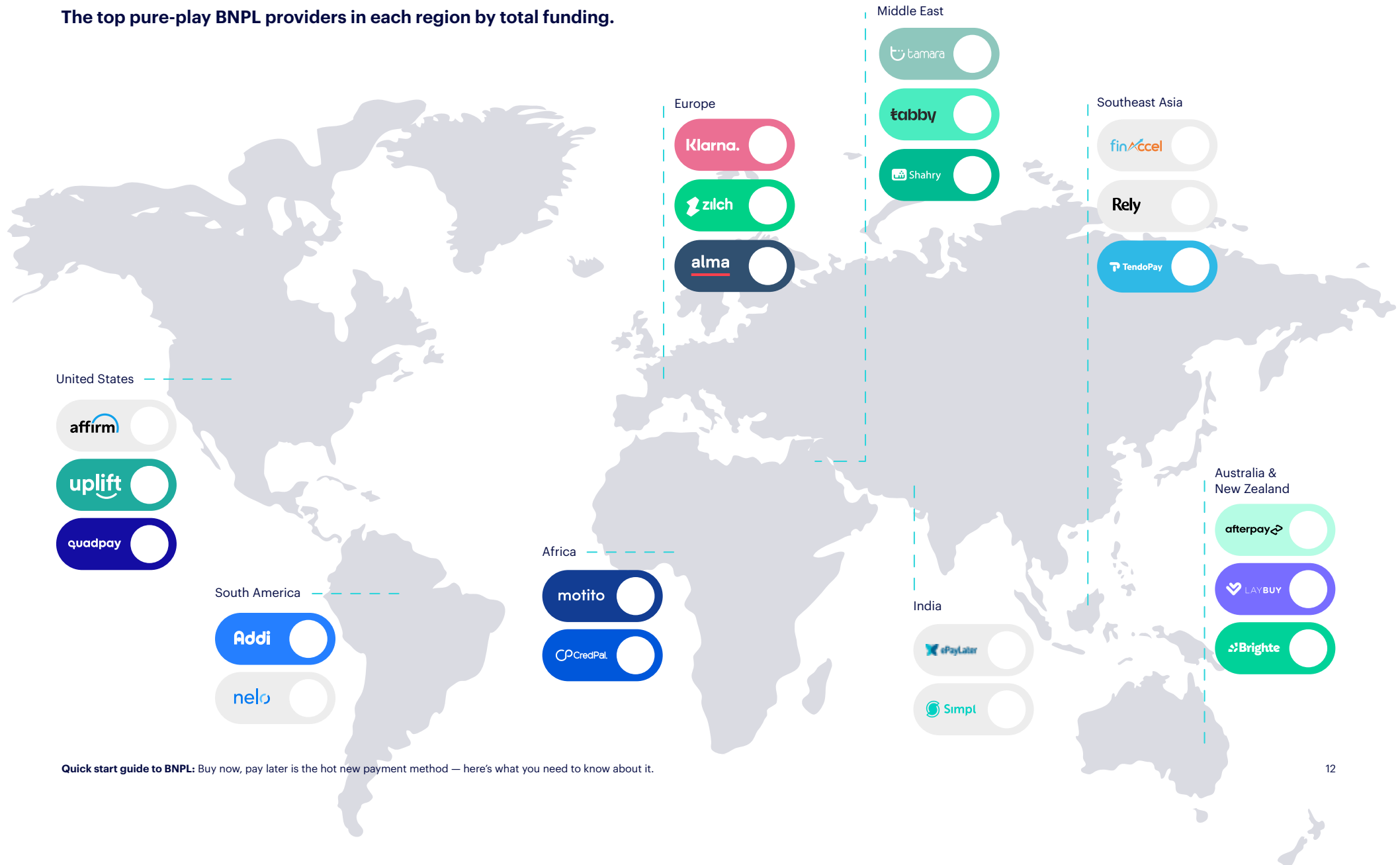
- Within developing markets – venture-funded fintechs and banks are starting to use BNPL to meet the needs of underserved segments and stimulate ecommerce growth.
- In mature markets – big players like Amazon are entering the BNPL space looking to boost sales and for new data sources to mine. Meanwhile, American Express, Visa, MasterCard and PayPal have all recently launched BNPL products to prevent losing customers to native BNPL players.



Section 2: Hype or here to stay?

Figure 2

The top pure-play BNPL providers in each region by total funding.



Quick start guide to BNPL: Buy now, pay later is the hot new payment method — here's what you need to know about it.

The new BNPL consumers – who's using it and why?

While the rise of BNPL is occurring across all age groups, younger generations are particularly drawn to the payment method.

BNPL provider Klarna says that 70% of its customers are Gen Z or Millennial's and Afterpay reports the average age of its customers as 33.

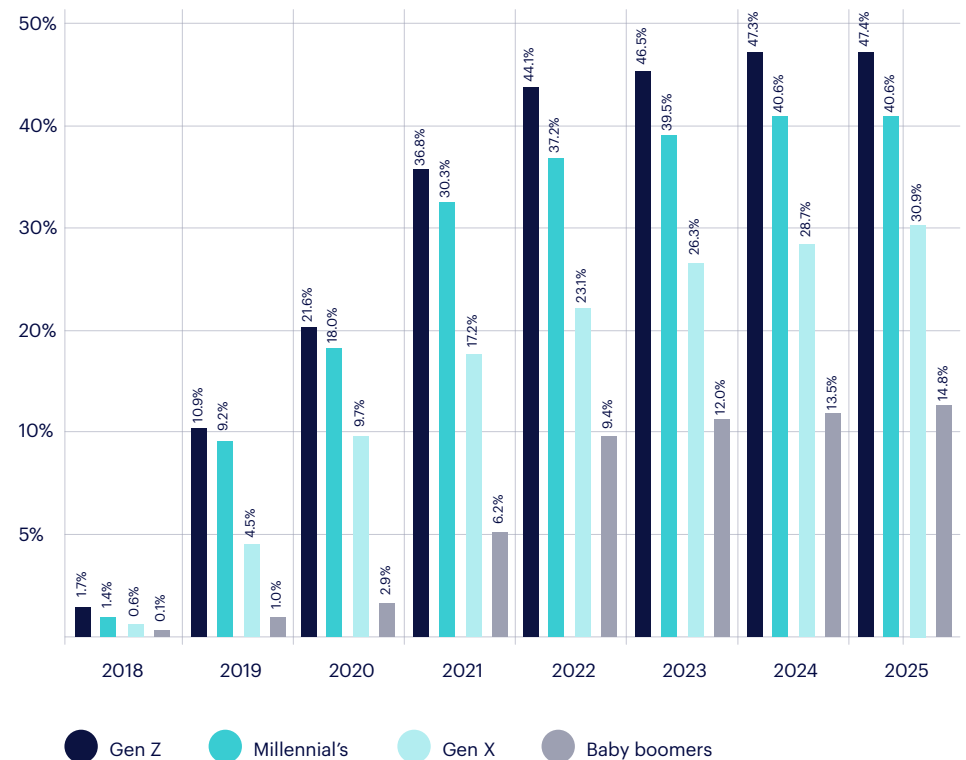
These younger cohorts have the highest penetration of BNPL users. That said, the older generations (Gen X and Baby boomers) are also starting to see a steady rise in BNPL users.

What is their motivation to buy using BNPL?

Consumers are drawn to BNPL because of the increased spending power that they get while still avoiding fees and credit checks. For some BNPL users, it allows for better budgeting and is a more convenient way to pay.

Of those that use BNPL, 45% do so frequently (at least once a month or more); and when shopping online almost half (47%), say they use it "most of the time" or every time they shop for an item".

US Buy Now, Pay Later (BNPL) User Penetration, by Generation, 2018-2025
% of digital buyers in each group



Note: Internet users who have accessed a BNPL account digitally and have made a payment toward a purchase at least once in the past year; includes purchases of goods and services; Gen Z and individuals born between 1997 and 2012; millennials are individuals born between 1981 and 1996; Gen X are individuals born between 1965 and 1980; baby boomers are individuals born between 1946 and 1964

Source: © Marketer | InsiderIntelligence.com

Five types of consumers that love BNPL

1

Convenience shoppers

- Drawn in by frictionless purchasing power
- Use BNPL across brands for ease of use — fast, frictionless, one click, etc.
- The top reasons users prefer BNPL over credit cards are that it's easier to make payments (45%), and they offer more flexibility (44%)¹².

2

Installment spenders

- Want to offload credit charges.
- Use BNPL to budget monthly spending between paychecks.
- Around 40% of BNPL users are seeking to avoid paying credit card interest¹³.
- Klarna reported that it saved UK consumers £76 million in credit card fees last year¹⁴.

3

Trend followers

- Use BNPL to snap up bargains, and new products before they sell out.
- Almost seven in ten (69%) of millennial's are scared of missing out on things¹⁵. and 60% of millennial consumers say it leads them to make reactive purchases¹⁶.

4

Seasonal shoppers

- Want more wiggle room to get the best deals.
- Use BNPL tactically during peak sales periods to get the best products at the best price.
- The number of people using BNPL globally during Cyber Week jumped 29% in 2021¹⁷.

5

E-commerce skeptics

- Mistrust online sites and need to see before they buy.
- Often use BNPL for cross-border shopping or if using a web store for the first time.
- 54% of online shoppers say BNPL makes them more willing to make purchases from a company in another country¹⁸.



Section 3

What's in it for merchants?

Section 3: What's in it for merchants?

Ecommerce business growth has surged

The ecommerce boom in recent years has accelerated the uptake of BNPL as retailers sought new ways to drive consumers to their checkouts.

It has also changed the way merchants perceive BNPL. No longer just another payment choice, it's proven it can also be a sales and acquisition driver and, most of all, a growth accelerator.

BNPL is clearly popular in markets across the world. If these are your markets, how can you ensure that you are getting the most out of it?

Merchants will need to navigate challenges and understand their audience to take full advantage of what BNPL has to offer.

**Ecommerce boom
in recent years has
accelerated the
uptake of BNPL**

Quick start guide to BNPL: Buy now, pay later is the hot new payment method — here's what you need to know about it.



Here are four key ways BNPL drives growth:

1 Higher sales

Tamara, Affirm and Klarna report that offering online BNPL solutions generates a lift in average order value, repeat purchases and an increased customer conversion¹⁹. It helps loyalty too. According to PayPal, 28% of consumers ages 18-39 are now more likely to shop at a retailer again if they offer a BNPL option²⁰.

2 Customer acquisition

As big BNPL brands gain traction, many are developing their own loyal fan base sometimes representing millions of users. Through merchant directories, co-marketing initiatives, engaging social feeds and apps, they've become powerful acquisition magnets for merchants – especially those looking to attract Millennial's and Gen Z shoppers.

If your ecommerce brand is smaller or just starting out, consumers may be hesitant about spending with you or inputting their payment details. Having BNPL gives them the confidence to buy. Using a well-recognized BNPL brand can raise your profile through association.

3 A better UX

BNPL provides customers with smoother experiences. There's no need to re-register with new retailers, and repeat customers can pay with BNPL using one click.

4 Smoother sales cycles and cash flow

Offering BNPL helps your customers spread their spending between paydays, giving you a much smoother and more consistent sales curve. Whereas payday would normally increase conversion, consumers using BNPL will convert no matter what day of the month it is.

This frees you from resorting to mid-month and out-of-season sales to try to shift stock. Because you're paid upfront by the BNPL provider, there's no delay in settlement or impact on your cash flow.



Section 4

**To BNPL or not
to BNPL –
navigating the
challenges**

Is BNPL right for you?

It's easy to be converted by the top-line benefits of BNPL. But like many alternative payments, you need to decide whether this is the right payment method for your particular business.

Here are some considerations to be aware of:



Fees

Merchant fees for BNPL are typically 5% much higher than for credit cards which are between 2-3%.



Acceptance

Acceptance rates can be lower for BNPL compared to credit cards.



Overspending

Interest-free BNPL is not classes as credit, so providers are not required to perform full affordability checks on consumers. This means that users can accumulate debts across various lenders.



Returns

In some sectors, like fashion BNPL can lead to multi-size buying and higher returns – even though the cost of these may offset against sales uplift, it can impact logistics.



Hidden costs

Despite being interest-free, there are fees for late payments, missed payments or payments rejected for insufficient funds.



Future regulation

Although currently unregulated, legislators around the globe are looking closely at changing this in order to provide better safeguards to consumers. Any change in requirements could impact your business.

Consider every angle

To make sure it's the right choice for you, it's essential to look at the BNPL offering from every angle – the cons as well as the pros.

That means having honest conversations with BNPL providers and your team around issues like fees, integration, UX, accreditation and customer ownership, accountability and bad debt management.



Here's a quick checklist for BNPL selection



Understand merchant fees and how these will be offset

It's vital to understand the impact of BNPL on sales so you can forecast what any resulting transaction fees will cost your business.

- ☐ Make sure you know the tipping point at which BNPL starts to pay for itself and give yourself a deadline to reach it.
- ☐ If you're not confident that sales will offset the cost, perhaps your business is not yet at the scale that warrants it.



Match the BNPL plan to your product price points

There are several different types of BNPL. Generally, if it's interest-free over three or four installments it's unlikely to fall under credit regulation.

- ☐ But if you sell expensive items you may need to offer financing over a longer-term (pay by finance BNPL plan) which requires a credit license.
- ☐ Make sure you allow for any regulatory provisions in your planning – and watch out for updates as regs evolve.



Look closely at how BNPL will impact returns

Some sectors such as fashion, may see a rise in returns from customers choosing to try at home before they buy.

- ☐ BNPL makes it easy for customers to return unwanted items without paying, without it eating up their credit balance, and without having to wait for a refund.
- ☐ You're more likely to see a rise if you offer a free return service.



Make sure BNPL fits your target customer demographic

BNPL works better in some industries and with particular demographics.

- ☐ You must be 18 to use BNPL so if your buyers are younger you're not going to get high levels of BNPL uptake.
- ☐ Are your products aimed at the other end of the age scale? Users in the oldest segments may be reluctant to try a new payment method. Or they may not have the financial pain points that BNPL solves.
- ☐ Does BNPL appeal to customers shopping for your product or service?



Section 5

**Six ways to smartly
leverage BNPL**

Tailor the payment method to your needs

If you have decided that BNPL is the right option to add to the range of payment methods you offer, make sure you know how best to implement it. You should tailor the way you use it to your particular business needs to get the most out of this payment method.

Here are six things to consider:

1 Choose right

Don't just look at your providers' conversion, order value and volume stats – ask about approval rates and how they compare with other payment methods. Measure, test and prepare to iterate your BNPL offering until you hit your customers' right sweet spot.

2 Be super clear

Only 22% of people say they understand the terms and conditions of BNPL²¹. Make sure you are clear and transparent with your customers when they are using BNPL with your business. Your BNPL provider will have all the right words pre-prepared and responsibly crafted, in the proper formats.



Section 5: Six ways to smartly leverage BNPL

3 Make pay later visible

Make BNPL prominent as high up the funnel as you can to reach customers when they're making their decision. Leading BNPL brand Klarna says promotional messaging – including showing split payments on the product page – can raise AoV by 25%²².

4 Promote with passion

Impressions make a difference — consumers have to see things five times for it to make an impact. Add banners promoting BNPL on marketing, email and ad campaigns to make sure customers know they can choose to pay later with you.

5 Grab co-marketing

54% of merchants in the UK reported having their brand exposed to new customers through co-marketing activities, and 23% could track the direct referral of customers from their BNPL providers²³. Use your BNPL partner and understand what support is available and how to access it. From entries in merchant directories, to spotlight features, seasonal promotions and pop-ups.

6 Work with your PSP

Working with a payment service provider will give you access to data that will help you make smart decisions about the right payment methods to offer in the right markets — this includes BNPL. You can easily offer BNPL without any additional complexity.



Section 6

What's next for BNPL?

Looking ahead



Offering customers more choice in how they pay is the real goal

Consumers are actively seeking retailers that offer specific BNPL brands. And merchants are choosing BNPL partners based on their ability to open new markets or create wider audience engagement through co-marketing, push promotions and direct channels.



BNPL brands are repositioning offerings

As lawmakers investigate BNPL risk and regulation, BNPL brands are already starting to position themselves as less dangerous for users' financial health than traditional credit card companies.

There is a real drive to innovate to drive new types of value for the user. BNPL providers are upping the ante by adding discounts, shopping recommendations, spending analytics, virtual cards, insurance, and even daily banking products to their offerings. Afterpay has already launched in-app ads, and Klarna offers price alerts for merchandise its users hope to grab at a better price.



BNPL brands will look to bolster brand appeal

With more consumers than ever focused on social, environmental and corporate responsibility, your BNPL provider's track record in this area will become more important.

Afterpay now offers a "top-up" program, allowing customers to add one-dollar donations at check-out and circular economy shopping. Meanwhile, Klarna has set a target to reduce emissions by 50% by 2030 and pledged to donate 1% of all funding rounds to initiatives that improve the planet's health.

Let your customer pay how they want to

With a market fueled by consumers looking for more flexibility in how they pay and retailers jumping at the chance to provide that for them, there's no question that BNPL is here to stay.

Already a key driver for ecommerce, it's now winning checkout share in most markets, regions and segments.

With so many benefits for both merchants (sales, conversion and acquisition uplift) and their target consumers (convenience, affordability and no-fees), it's hard to resist the temptation to dive in and plug a BNPL product into your payments mix.

But it's important to go into any BNPL agreement with your eyes wide open.

For merchants that means looking at the weaknesses and threats as well as the strengths and opportunities of the proposition.

Strengths	Weaknesses
<ul style="list-style-type: none">• Conversion boost• Acquisition magnet• AoV uplift• Volume uplift• Smooths cash flow• Aids consumer confidence	<ul style="list-style-type: none">• Higher fees for merchants• Increased product returns• Lower acceptance• Integration issues• Scalability across regions
Opportunities	Threats
<ul style="list-style-type: none">• Ecommerce growth• Mobile & app proliferation• Co-marketing investment• BNPL partner brand kudos• Credit-averse consumers	<ul style="list-style-type: none">• Future regulation• Credit Card sales cannibalisation• BNPL brands 'own' customer data

Find the right partner

We can expect even more competition in the BNPL space in the next few years.

From large global fintech brands and banks to smaller localized pay later offerings – there's no shortage of players eager for a slice of the market – all offering their own USPs.

Carefully consider your sales and operational profile, and find a BNPL offering that fits it. But remember that there's no guarantee that your customers will use it in the volumes you need to make it a viable proposition. Not without the right promotion and optimization strategies. Of course, despite all that you hear about BNPL, this may not be the right payment method for your business. Your payments partner can help you in discerning this.

No matter what payment method you want to add to your offering, having the right payment platform partner is central to its success. Find a partner with the understanding to navigate through any complexity and support you through integration, optimization and scale-up.



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- ² <https://www.emarketer.com/content/almost-75-of-bnpl-users-us-gen-z-millennials>
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- ¹⁰ <https://www.statista.com/statistics/1233850/online-bnpl-penetration-country/>

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