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FINDING RETAIL'S INVISIBLES

Finding Retail's Invisibles: Leveraging Flexible Digital Payments To Reach Underserved Durable Goods Customers,

a PYMNTS and Katapult collaboration, presents findings from a survey of 2,122 respondents statistically representative of the adult U.S. population.

The report reveals how merchant affinity increases when customers are offered an array of payment options, including lease-to-own payment programs.

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UNDERSERVED DURABLE GOODS CUSTOMERS

PYMNTS.com



Finding Retail's Invisibles was produced in collaboration with Katapult, and PYMNTS is grateful for the company's support and insight. **PYMNTS.com** retains full editorial control over the following findings, methodology and data analysis.

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INTRODUCTION

For millions of Americans, the simple act of applying for and receiving a new credit card in the mail is aspirational. Due to a limited or blemished credit history, they often are shut out of acquiring a traditional credit line. In times of need — for instance, when an emergency requires consumers without access to credit to use cash to cover an unexpected bill or replace an appliance out of warranty — these consumers struggle to cover their regular necessary purchases in stores or online. Historically, emergency purchases have been a major disruptor for consumers with tight budgets and limited savings, creating a stumbling block to consistently improving their financial health. Unexpected expenses cause many consumers

of lower income brackets (or consumers in the middle income bracket who are experiencing a period of financial distress) to divert cash flow from bills, which may further damage their credit ratings.¹ If they are unable to shift their funds to cover the purchase, they often will go without. These Americans, who are highly motivated consumers, likely number as high as 79 million.^{2,3} They are retail's invisibles: unable to make purchases that they likely could afford with access to credit or flexible payment options.

Now, a fresh look on an existing solution that blends the convenience of credit with the accessibility of installment payments is gaining ground. Buy now, pay later (BNPL) allows consumers who

might have limited ability to gain access to a traditional credit card to make flexible installment payments and walk out of a store with the items they need. At the beginning of the COVID-19 pandemic in 2020, consumers shifted their budgets toward durable goods and away from services, and global BNPL adoption picked up speed as they used the checkout option to stretch their budgets without incurring debt.⁴ The BNPL model of affordable payments brought to light another iteration with a pay-over-time option: lease-to-own.⁵ Lease-to-own programs allow consumers to choose to lease items they need and then return them, purchase the items at any point in the lease period or own the items at the end of their maximum lease term. New and disruptive

technology platforms are opening up this option online and in store, allowing consumers to lease-purchase new goods with payments they can afford from a greater number of high-quality retailers without being saddled with an older appliance, for example, on which they must keep up payments.

Finding Retail's Invisibles: Leveraging Flexible Digital Payments To Reach New Durable Goods Customers, a PYMNTS and Katapult collaboration, presents findings from a survey of 2,122 respondents statistically representative of the United States' adult population. The report reveals that brand affinity is increased when brands offer an array of payment options, including lease-to-own payment programs.

¹ Kim, K.; Wilmarth, M.; Henager, R. Poverty Levels and Debt Indicators Among Low-income Households Before and After the Great Recession. The Journal of Financial Counseling and Planning. 2017. <https://files.eric.ed.gov/fulltext/EJ1162059.pdf>. Accessed August 2021.

² Author unknown. Annual Survey Reveals That Lower-Income Consumers Are Most Likely To Seek Credit yet Know the Least about Credit Scores. Consumer Federation of America. 2020. https://consumerfed.org/press_release/annual-survey-reveals-that-low-income-consumers-are-most-likely-to-seek-credit-yet-know-the-least-about-credit-scores. Accessed August 2021.

³ Author unknown How Fintech Serves the 'Invisible Prime' Borrower. Knowledge at Wharton. 2018. <https://knowledge.wharton.upenn.edu/article/fintech-serving-invisible-prime-borrower/>. Accessed August 2021.

⁴ Tauber, K.; Van Zandweghe, W. Why Has Durable Goods Spending Been So Strong during the COVID-19 Pandemic? The Cleveland Federal Reserve. 2021. <https://www.clevelandfed.org/en/newsroom-and-events/publications/economic-commentary/2021-economic-commentaries/ec-202116-durable-goods-spending-during-covid19-pandemic.aspx>. Accessed August 2021.

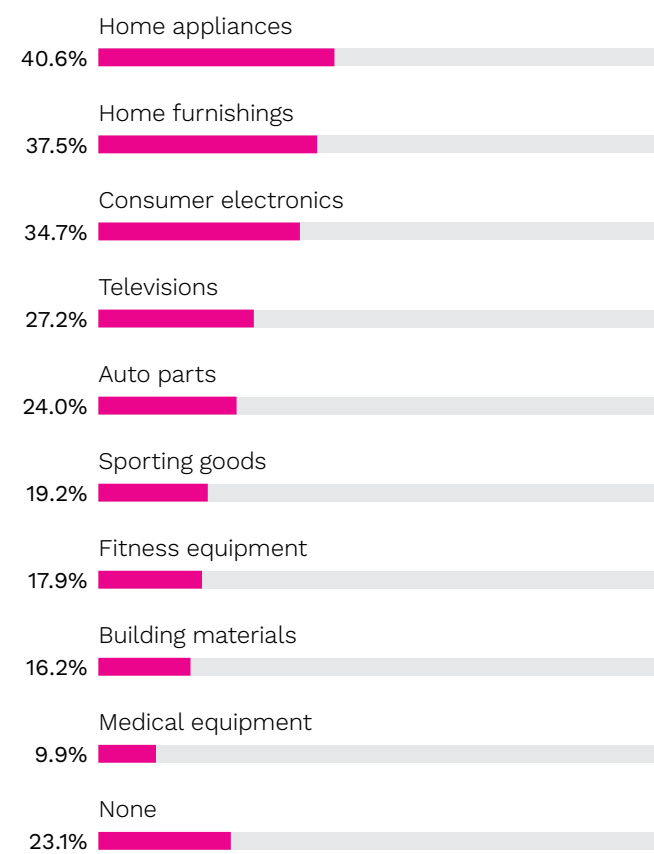
⁵ Katapult CEO: Lease-to-Own Plans Offer Non-Prime Alternative To BNPL. PYMNTS.com. 2021. <https://www.pymnts.com/buy-now-pay-later/2021/katapult-ceo-lease-to-own-plans-offer-non-prime-alternative-to-bnpl/>. Accessed August 2021.

FINANCING FOR (ALMOST) ALL



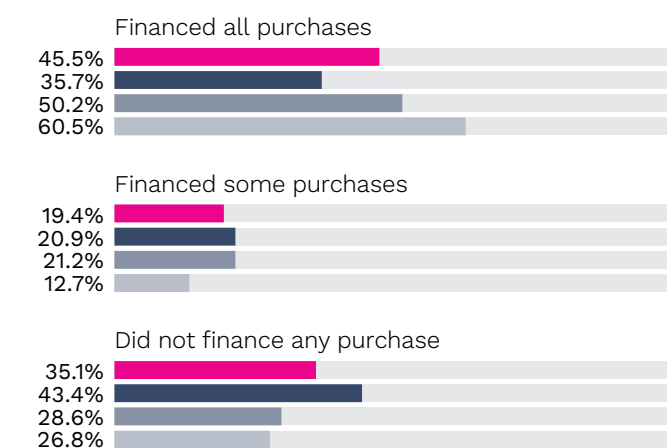
Consumers with financial challenges often prefer to use 100 percent financing rather than cash as a way to pay for durable goods. More than 75 percent of American consumers purchased durable goods over the past year, and most consumers experiencing financial hardship or uncertainty chose a financing option that made it possible for them to make these purchases. Only 36 percent of consumers who said they did not live paycheck to paycheck used financing for all their purchases of durable goods.

FIGURE 1:
Durable goods bought over the last year
Share of consumers, by durable good purchases over the last 12 months



Source: PYMNTS | Katapult Finding Retail's Invisibles

FIGURE 2:
How consumers finance their durable goods purchases
Share of consumers, by financing mix, for durable goods purchases and financial lifestyle



Source: PYMNTS | Katapult Finding Retail's Invisibles

■ Average
■ Do not live paycheck to paycheck
■ Live paycheck to paycheck but comfortable
■ Live paycheck to paycheck with difficulty

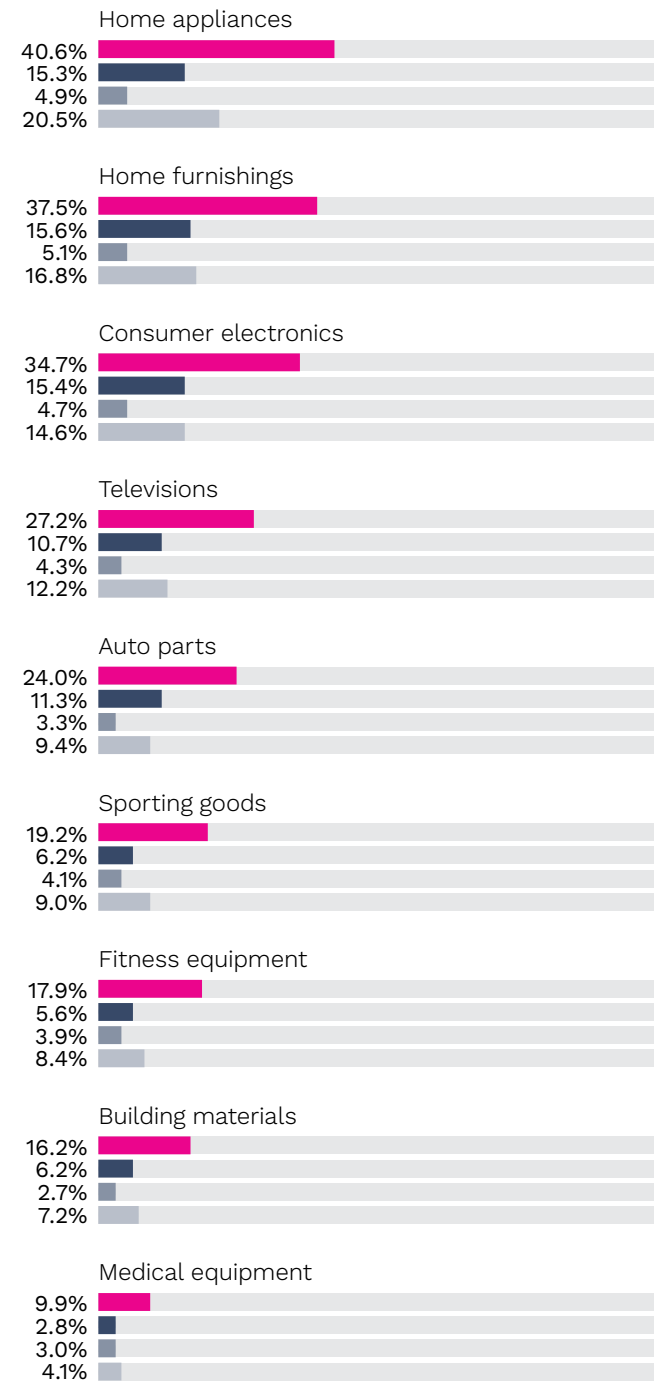
PAYMENTS REMIXED



FIGURE 3:

Lease-to-own as an alternative financing option for obtaining durable goods

Share of consumers, by financing option used for obtaining durable goods over the last 12 months



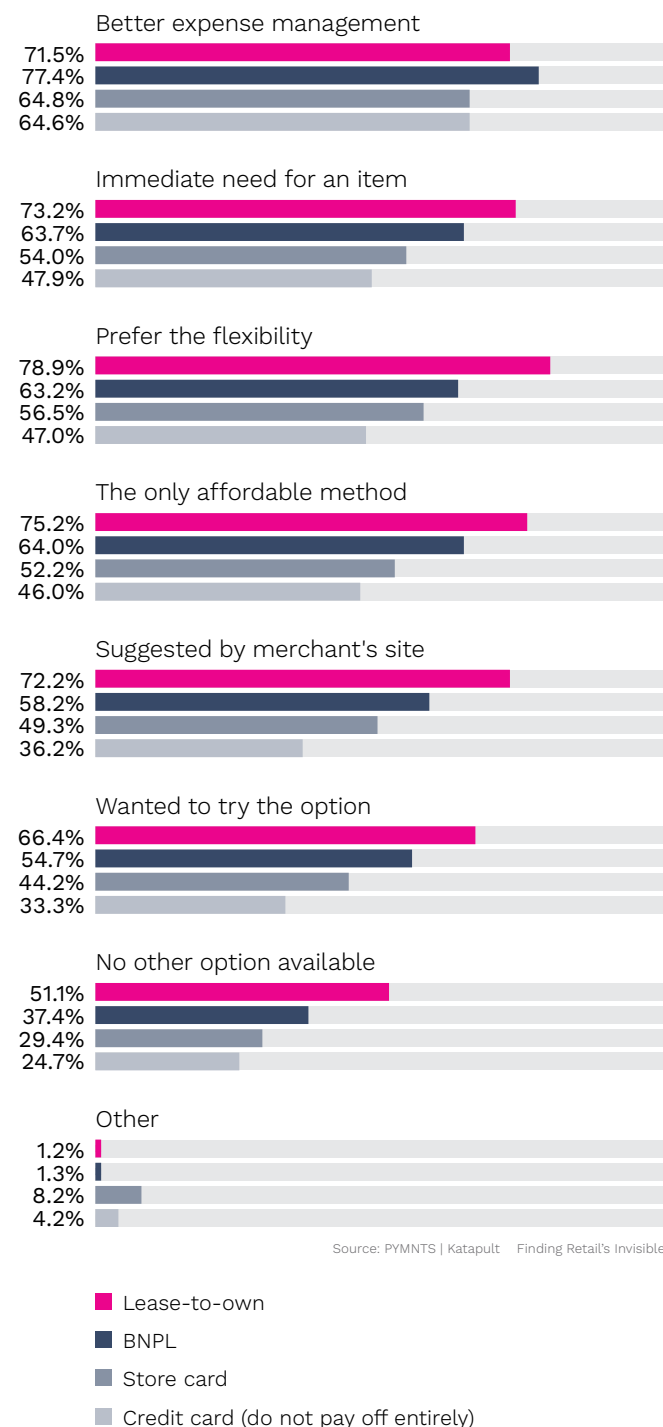
Source: PYMNTS | Katapult Finding Retail's Invisibles

Bridge millennials and younger consumers embrace lease-to-own to obtain durable goods because of its flexible structure. Younger consumers (bridge millennials and younger) have been adopting the option in higher numbers than older shoppers. Consumers who choose lease-to-own cited flexibility (79 percent) as a top reason why. Leasing to own allows consumers to make payments on a product over time while using it — along with early purchase options or the choice to return it without further obligation if it no longer is needed or wanted. Many consumers also said lease-to-own options were the only way they could afford to complete the transaction (75 percent) and that it allowed them to obtain items they needed right away (73 percent).

■ Total respondents
 ■ No financing
 ■ Lease-to-own
 ■ Other financing

43%
 OF FORMER
 LEASE-TO-OWN
 PROGRAM USERS
 SEE THE OPTION AS
INCENTIVIZING
THEM TO
SHOP WITH
A PARTICULAR
MERCHANT.

FIGURE 4:
Reasons for using various payment or financing options
 Share of various payment or financing options used, by reasons cited



LEASE-TO-OWN TAKES CENTER STAGE

Survey respondents show significant interest in lease-to-own options. A sample representative of nearly one-quarter of adult American consumers who purchased durable goods in the past 12 months reported that they were very interested in participating in lease-to-own programs. That means as many as 46 million new consumers may be motivated to try lease-to-own options when participating retailers offer them. The size of this untapped market is more than doubled by the percentage of consumers who already have used lease-to-own programs and plan to continue using them. PYMNTS research found that 66 percent of consumers who previously used lease-to-own options at checkout plan to use the option to shop again at some point. This is compounded by another statistic: 43 percent of former lease-to-own program users see the option as incentivizing them to shop with a particular merchant. Almost 22 percent of all respondents said their willingness to shop is higher with merchants who offer lease-to-own programs. Millennials and bridge millennials show an even higher level of motivation to shop when a particular merchant offers a lease-to-own option (32 percent), as do consumers with low credit scores (35 percent). The appeal of lease-to-own for consumers, especially for those with challenges gaining access to traditional credit, is clear. When consumers need to obtain a high-ticket durable good and either lack the credit or find that purchasing it in cash would present a financial challenge, lease-to-own options allow them to lease the item instantly and make payments over time. Typically, lease-to-own programs provide the consumer an option to purchase the item for as low as 5 percent above the cash price when the consumer exercises the early purchase option within three months of lease consummation.⁶

⁶ Katapult CEO: Lease-to-Own Plans Offer Non-Prime Alternative To BNPL. PYMNTS.com. 2021. <https://www.pymnts.com/buy-now-pay-later/2021/katapult-ceo-lease-to-own-plans-offer-non-prime-alternative-to-bnpl/>. Accessed August 2021.

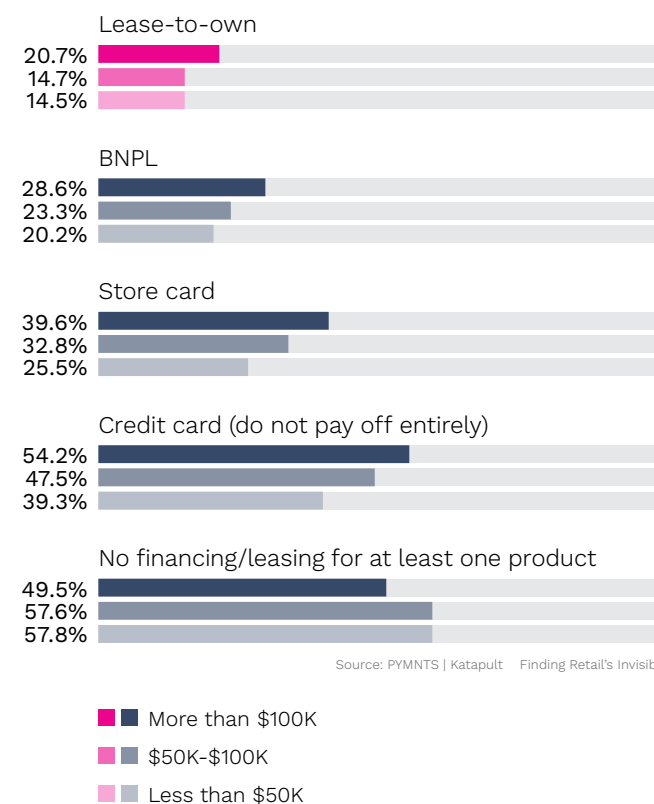
LEASE-TO-OWN'S UNEXPECTED AUDIENCE



Many consumers may find themselves in need of help to purchase essential items when cash flows fluctuate. Lease-to-own offers consumers the opportunity to acquire needed items without the commitment of long-term debt. While lease-to-own users tend to have tighter finances than others, they are more likely to have higher incomes and be college educated. Twenty-one percent of those who make more than \$100,000 have used the option, exceeding the shares in lower income brackets, and 19 percent of college educated consumers have used it, compared to 16 percent of non-college educated consumers.

FIGURE 5:
How consumers in different income brackets obtain durable goods

Share of consumers using lease-to-own or other financing options, by income bracket



A key component of lease-to-own's appeal seems to be its ability to help those with significant financial pressure or credit score challenges obtain items they need immediately. One-third of consumers living paycheck to paycheck who have difficulties paying their bills have used lease-to-own, as opposed to just 8 percent of consumers not living paycheck to paycheck. One-quarter of consumers with credit scores below 680 — considered a subprime score — have used lease-to-own programs, and these customers tend to show a higher level of interest in lease-to-own options than consumers with exceptional credit scores (800 FICO and above).

FIGURE 6:

Use of lease-to-own or other financing options, by education level

Share of consumers using lease-to-own or other financing options, by education

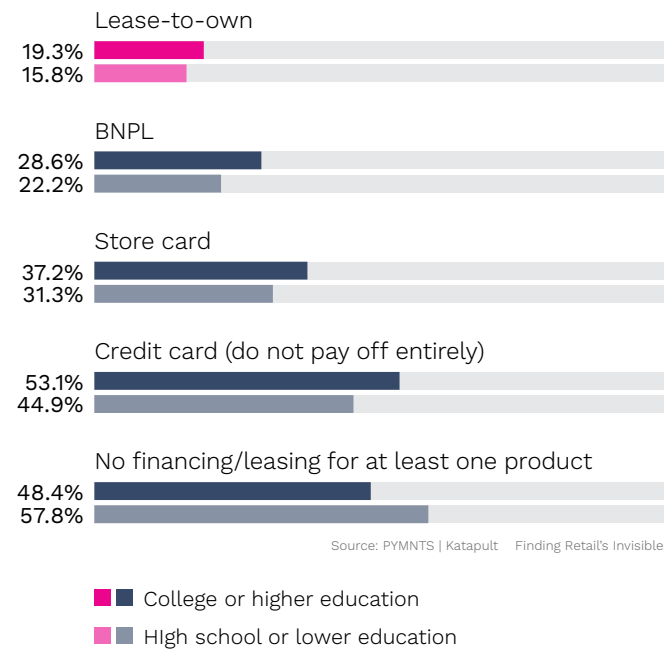


FIGURE 7:

How access to credit influences interest in lease-to-own options

Share of consumers who are "very" or "extremely" interested in lease-to-own programs, by credit score

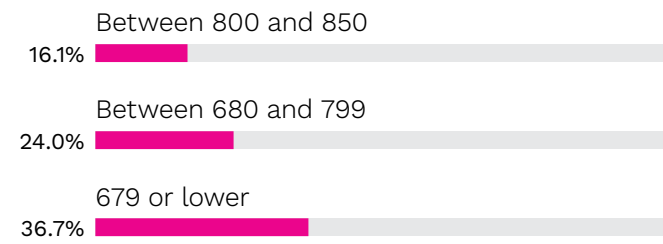
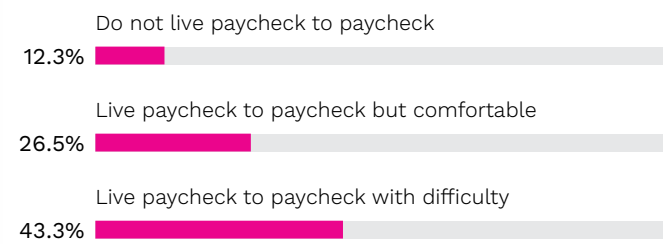


FIGURE 8:

How consumers' financial situations affect their interest in lease-to-own options

Share of consumers who are "very" or "extremely" interested in lease-to-own programs, by financial lifestyle



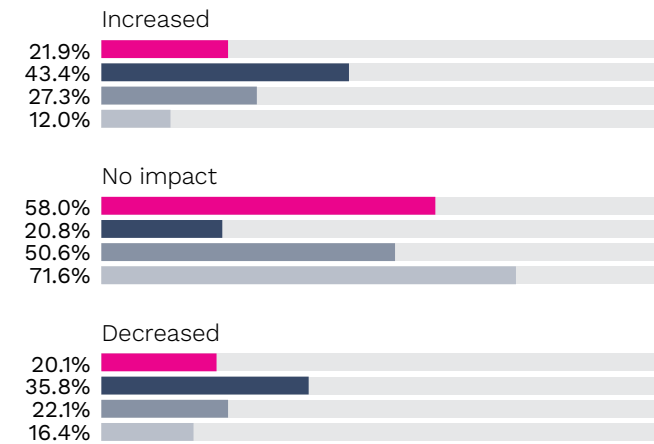
MERCHANTS' GROWING LEASE-TO-OWN AUDIENCE



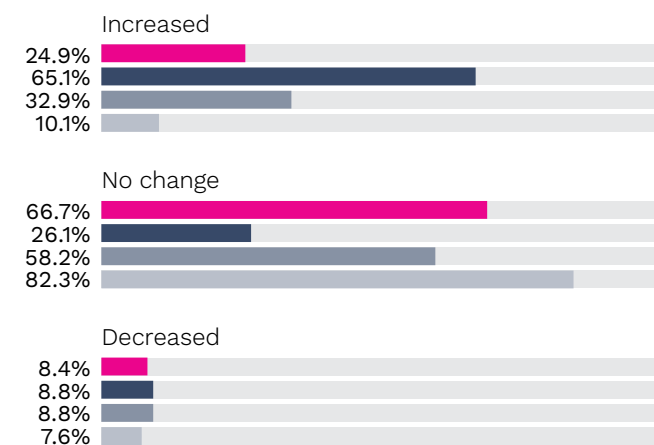
FIGURE 9:

How lease-to-own options affect consumers' perceptions of merchants

Share of consumers who see lease-to-own options at checkout impacting their willingness to shop with that merchant



Change in the willingness to shop with merchants that offer lease-to-own programs over the last 12 months



Source: PYMNTS | Katapult Finding Retail's Invisibles

- Average
- Lease-to-own users
- Use financing/leasing for at least one product
- Did not use financing/leasing at all

AN INCREASING NUMBER OF SURVEY RESPONDENTS WOULD BE HIGHLY INTERESTED IN USING LEASE-TO-OWN PROGRAMS.

PYMNTS' research found that almost 22 percent of respondents said their willingness to shop is higher at merchants that offer lease-to-own programs. Millennials and bridge millennials (both at 32 percent) and consumers with low credit scores (35 percent) are the most likely to say such offerings will increase their willingness to shop. Our researchers learned that 25 percent of all consumers also have increased their willingness to shop with merchants that offer lease-to-own programs over the last 12 months. Respondents who already tried such programs have a much better perception than the rest: 43 percent of those who used lease-to-own options saw their

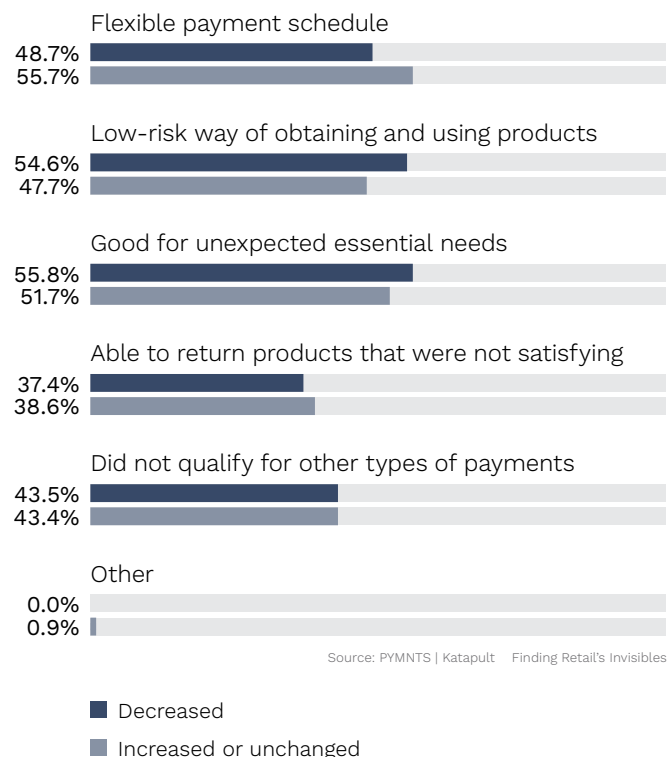


willingness to use it increase, and 65 percent have increased their willingness in the past 12 months. Consumers who said seeing an option for lease-to-own at checkout increased or maintained their willingness to transact cited the flexibility of payments and the “low risk” of leasing to own a product as reasons these retailers were more attractive.

FIGURE 10:

Reason for being interested in lease-to-own programs

Share of lease-to-own users whose willingness to transact decreased, increased or did not change



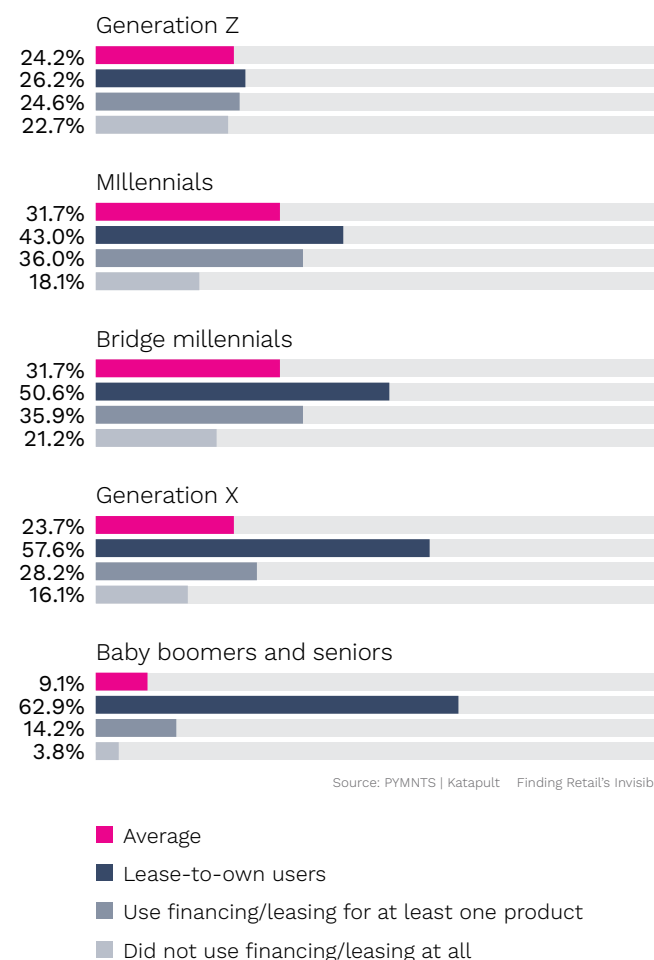
25%

OF ALL CONSUMERS HAVE INCREASED THEIR WILLINGNESS TO SHOP WITH MERCHANTS THAT OFFER LEASE-TO-OWN PROGRAMS OVER THE LAST 12 MONTHS.

FIGURE 11:

How lease-to-own options affect consumers' perceptions of merchants

Share of consumers, by how lease-to-own options at checkout impact their willingness to shop with that merchant, and by generation and means used to pay for durable goods transactions



PYMNTS found that 27 percent of consumers who have already used a financing option for a durable goods purchase say they would be more willing to shop with merchants that offer lease-to-own options. The attraction of such programs is elevated among millennials: 32 percent would be more willing to shop at merchants that offer these options. The availability of lease-to-own options also would be an incentive to shop with merchants for 43 percent of past users. The events of the past 18 months have made these groups more inclined to shop with merchants that offer lease-to-own options.

WHO IS USING LEASE-TO-OWN OPTIONS TO OBTAIN DURABLE GOODS?

34 million consumers

Nearly 20 percent of consumers in the U.S. who acquired durable goods did so using lease-to-own programs over the past 12 months. Lease-to-own users are more likely to have personal or home equity loans and second mortgages than the average consumer. They also tend to have fewer credit cards than the average consumer: 59 percent of lease-to-own users have credit cards, compared to 74 percent of the sample. Most of these consumers choose to use a lease-to-own option because it helps them better manage their expenses (64 percent). Among consumers with lower credit scores, 40 percent cited a lack of other financing tools as their reason for choosing a financing alternative such as lease-to-own.

WHAT ARE THEY BUYING?

Categories in which consumers were most likely to use lease-to-own options in the last 12 months were medical equipment (32 percent), fitness equipment (22 percent) and sporting goods (21 percent).

HOW ARE THEY FINDING LEASE-TO-OWN OPTIONS?

Seventy-two percent reported using lease-to-own because an eCommerce site recommended it as an option.

HOW DO LEASE-TO-OWN USERS PERCEIVE ITS VALUE?

The vast majority of respondents who already have tried lease-to-own programs have positive perceptions about them (74 percent). Among users who have tried a lease-to-own program, 65 percent have seen their willingness to shop at merchants that offer these programs increase over the past 12 months.



CONCLUSION

As the nation recovers from a turbulent 2020, consumers are seeking new ways to stretch their budget dollars. Leasing to own has grown in popularity among financially stable consumers who have faced economic challenges and who want to stay within their budgets yet have access to the goods they need. In addition, consumers who have been locked out of traditional credit access due to significant credit blemishes also have used lease-to-own options to obtain necessities. Merchants seeking to reach millions of new customers who are looking for alternative checkout solutions may find that offering lease-to-own options could make them attractive choices for a new generation of consumers.

METHODOLOGY

Finding Retail's Invisibles: Leveraging Flexible Digital Payments To Reach Underserved Durable Goods Customers was based on 2,122 complete responses from a survey of 3,327 consumers representative of the adult U.S. consumer population. The report presents findings on the impact of flexible digital payments options on consumer purchase intent and brand affinity. This survey was conducted between June 30 and July 2.

ABOUT

DISCLAIMER ■

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Katapult **Katapult** is the leading omnichannel point-of-sale payment platform, providing alternative payment solutions for retailers and consumers. Our cutting-edge technology integrates seamlessly with online platforms, enabling our retail partners to expand their customer base, increase sales, and grow revenue.

Katapult’s consumer-centric focus ensures a quick application and approval process, transparent terms, and tailored payment plans. Katapult associates with hundreds of retailers across the United States, with merchant support teams, marketing insights and suggestions for continued success.

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