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BNPL gives flexible buying power to younger consumers

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EDITOR'S LETTER

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The move to online interactions for everything from banking to grocery shopping during the pandemic accelerated the digital transformation — including the growth of buy now, pay later (BNPL) plans. Positioned prominently in online retailer checkouts, BNPL became a familiar option that more and more consumers **tried** in the past two years. While BNPL use **grew** — and continues to grow — across all age groups, millennial and Generation Z consumers have been the most enamored with this payment option and how it enables consumers to make interest-free installment payments, often within a time frame that best suits their budgets.

Millennial and Gen Z consumers **are** less likely than their older counterparts to have disposable income, and many struggle to pay their monthly bills while living paycheck to paycheck. At the same time, their lack of savings does not necessarily indicate a lack of interest in budgeting and seeking out payment options that responsibly extend their buying power. United States consumers are **looking** for ways to take care of both regular and extraordinary expenses without the burden of credit card debt, and millennial and Gen Z consumers are no exception.

These consumers are also more interested in choosing when they pay for their purchases and how they pay, **including** via bank-issued BNPL options and virtual cards that enable them to use BNPL at their preferred retailers. BNPL providers have recognized the method's potential for use in various settings and are **seeking** to make it a regular part of consumers' in-store shopping experiences. Providers are also **finding** ways to add value to their products and services that appeal to the sensibilities of budget-conscious consumers, such as high-yield savings accounts. As new uses for BNPL **emerge**, this payment option could even replace credit cards for many consumers.

As younger consumers continue to engage with BNPL, the opportunities are plentiful for financial institutions (FIs), BNPL providers and merchants to **ensure** their relevance in how millennial and Gen Z consumers spend their money. There is also an opportunity to **establish** relationships with consumers who have limited access to credit or an aversion to credit card debt.

Thought Leadership Team

PYMNTS.com

■ Feature Story

Jane.com On Bringing BNPL Options To The Table For Younger Consumers

BNPL PLANS ARE BECOMING MORE POPULAR AMONG CONSUMERS FROM ALL GENERATIONS, BUT SOME OF THE METHOD'S MOST ENTHUSIASTIC USERS TEND TO BE MILLENNIALS AND MEMBERS OF GENERATION Z.

As a result, retailers that routinely cater to consumers in these age groups have become increasingly interested in offering installment payment services to build loyalty and foster engagement.

Clothing and decor website [Jane.com](#) has a significant number of millennial and younger customers, according to Mark Spencer, the company's senior vice president of commercial operations, making BNPL payments a particularly good fit for its business model. Spencer added that BNPL use among the company's customers skews toward younger demographics as well.

"I think the buy now, pay later product is really on point for that demographic," he said. "I think that it allows them to look at purchases that they perhaps wouldn't think about today or are thinking about in the future, but they can't get today."

Spencer said there are several aspects of BNPL that he believes appeal to younger users. He explained that BNPL plans are not conventional credit products, giving consumers who have the necessary funds but lack established credit histories the opportunity to make larger purchases. He also remarked on consumers'

general usage of BNPL plans to purchase bigger-ticket items, noting that BNPL purchases at Jane.com tend to be roughly double the size of those made using other payment methods.

BNPL AS A PREFERRED PAYMENT CHOICE

BNPL appears to be replacing other payment options for some shoppers, Spencer noted. Jane.com launched its BNPL option in March 2021, and the current share of purchases conducted using the method is nearly 100% higher than its usage during the first three months it was available. The structured payments and lack of interest makes BNPL appealing as a credit card alternative for younger consumers who may be more budget-conscious, he explained.

BNPL has also come into play during times of the year when customers are buying more and not just during the holidays. Spencer said that Jane.com saw a spike in BNPL use last year during the back-to-



school shopping season. BNPL carts are typically double the size of the company's average shopping cart, but they jumped to four or five times the average cart size as shoppers stocked up on items before the school year began. He also noted that installment payment plans make it easier for customers on the fence about particular colors or styles to make multiple purchases rather than choosing just one variation.

BENEFITS OF BNPL TO COMPANIES' BOTTOM LINES

The increases in usage and cart size that BNPL confers also offer clear benefits to merchants. Spencer said that BNPL users' carts are often 80% greater in value than those of customers who do not use BNPL, and these users also tend to return to the website more often to make purchases.

"We actually see a significant increase in items going into the cart, and we're seeing people come back more frequently," Spencer said.

Jane.com already has a relatively younger following in terms of its target demographics, but Spencer explained that offering installment payments has allowed the company to better reach Gen Z consumers and establish them as loyal customers. Some of the strongest competitors entering Jane.com's market space are targeting the same customer base, he noted, so having BNPL options has given it a leg

up on competitors when it comes to customer engagement and retention.

"It's made us be a little bit more scrappy and able to seize that chance to target a younger demographic," Spencer said. "That's something that we're working really heavily on, particularly with our creative assets that we're coming up [with] this year. We're going to be skewing a little bit younger than previously."

GETTING IN ON BNPL'S BENEFITS

Another key benefit for businesses that offer BNPL starts before customers even reach their websites: marketing. Spencer explained that Jane.com's BNPL provider promotes businesses offering its product, and there can be added appeal for consumers who see a business promoted on a provider's website when they are already making purchases within that provider's ecosystem. Spencer said that Jane.com has also coordinated marketing efforts with its provider, allowing the businesses to cultivate a strong relationship and work closely together on promotions.

Retailers of all stripes, especially those that cater to younger consumers, are realizing the benefits of offering BNPL plans to earn new businesses and keep customers coming back. Keeping the payment method front and center when customers make purchases can help them encourage bigger purchases and drive satisfying experiences in the years ahead.

BNPL Provides **Flexibility** And **Buying Power** To Younger Consumers

BNPL continues to gain popularity across all age groups, and U.S. consumer use in 2021 was **up** 81% from 2020. Most of that growth came from younger age groups, however. Millennials made up 40% of BNPL users in 2020, the largest share of users by age group. Generation Z consumers are expected to catch up to millennials in time and are already adopting BNPL at a higher rate than millennials. While millennials will continue to make up the most significant portion of total BNPL users, 44% of all Gen Z consumers are expected to use BNPL services at least once by the end of 2022, compared to 37% of millennials.

Millennial and Gen Z consumers **report** strong awareness of major BNPL providers, and BNPL is likely to gain a significant position in their wallets as it becomes a common payment method. Across all generations, 56% of consumers already **prefer** BNPL to credit cards due to the ease of set payments, the simple approval process and lack of interest charges. This month, PYMNTS examines why BNPL appeals to Gen Z and millennial consumers, as well as how merchants and providers can ensure they attract the fastest-growing BNPL user demographics.

MONEY MANAGEMENT ACROSS GENERATIONS

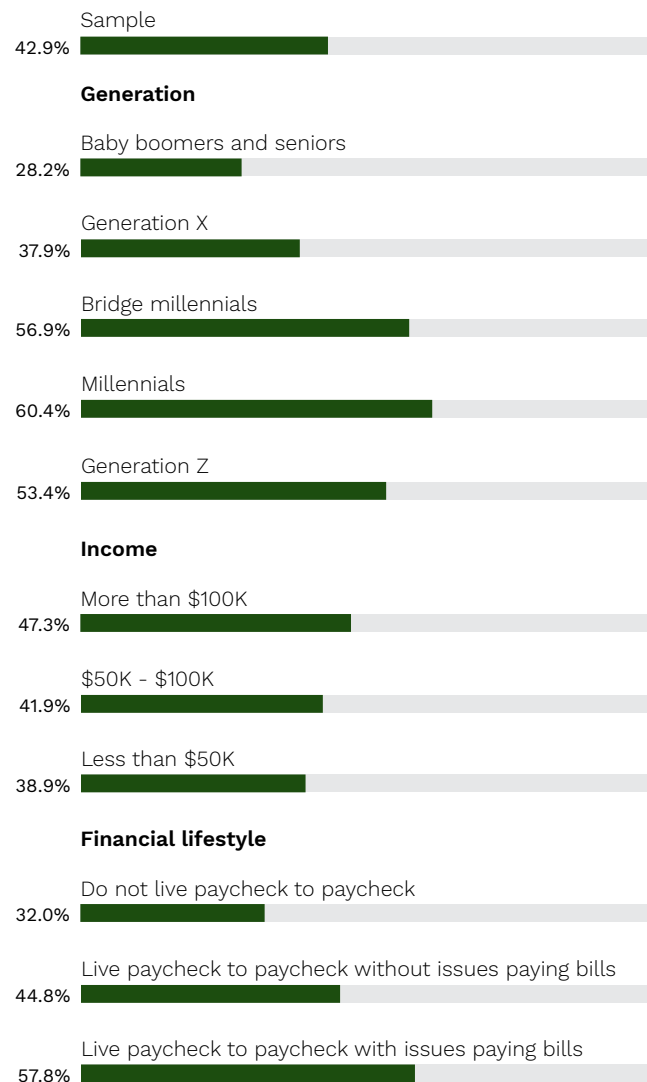
The portion of consumers living paycheck to paycheck in a recent PYMNTS **study** peaked in December 2020 at 65%, fell to 54% by May 2021 and, in a sharp uptick, rose again to 61% by December 2021. While 77% of those annually earning less than \$50,000 reported living paycheck to paycheck at the end of 2021, greater income levels were no guarantee of being able to set money aside. Among those making between \$50,000 and \$100,000, 66% reported that they were living paycheck to paycheck, along with 42% of those earning more than \$100,000. Additionally, 22% of those who said they live paycheck to paycheck said they struggle to pay their bills each month.

Generational demographics appear to play a role. Of all age groups, bridge millennials and millennials reported struggling the most to live within their incomes, with 70% of those age groups reporting that they were living paycheck to paycheck in May and December 2021. Generation Z consumers reported a sharp increase in living paycheck to paycheck, from 55% in May to 65% in December. Complicating matters, Gen Z consumers also reported the lowest average savings at \$1,158.

FIGURE 1:

Consumers' interest in bank-issued BNPL plans

Interest in using BNPL, by generation, income and financial lifestyle



Source: PYMNTS.com

Among consumers who live paycheck to paycheck, another PYMNTS survey found that 58% of those who struggle to pay their bills have a strong interest in BNPL products provided by their banks, as do 45% of those who do not have problems paying their bills. That compares to 32% of those who do not live paycheck to paycheck. Fifty-four percent of Gen Z consumers, 57% of bridge millennials and 60% of millennials said they would be interested in BNPL from their banks.

THE IMPORTANCE OF HAVING OPTIONS

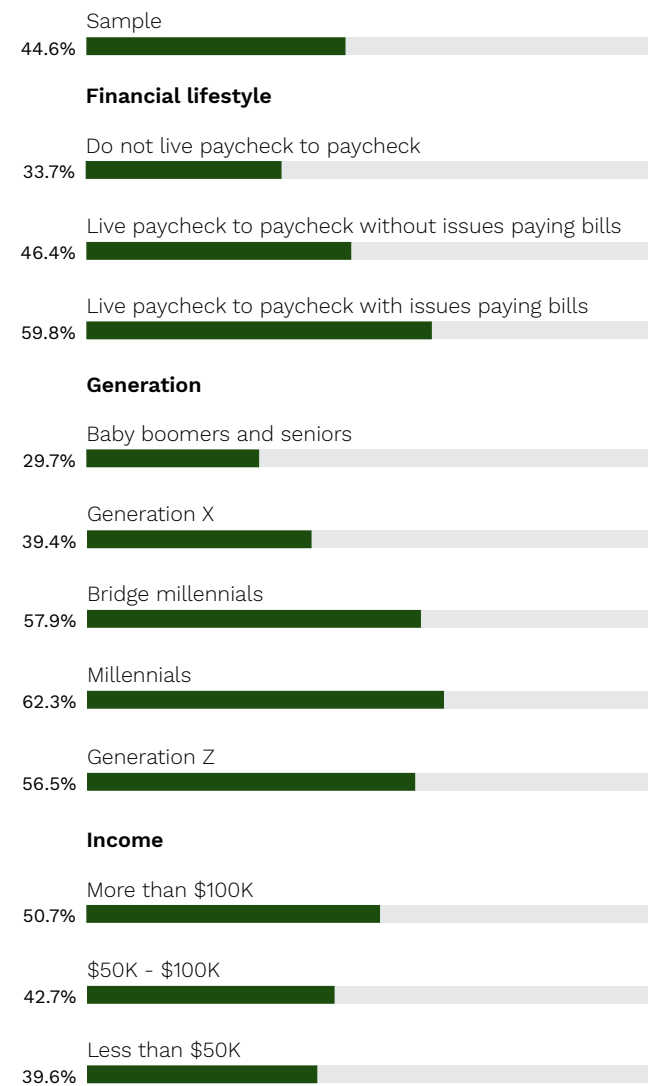
Payment preferences also play a role in how millennial and Gen Z consumers engage with BNPL. Fifty-one percent of millennial consumers in a recent survey said the availability of payment options such as BNPL influences where they shop, a portion 14 percentage points higher than the multigenerational average. In addition, 54% of all mobile wallet users said they prefer to shop with merchants who offer BNPL, compared to 26% of nonusers. While 42% of all consumers have used mobile wallets, that portion rises to 53% among millennials and 62% among Gen Z consumers.

Sixty-two percent of millennials also said they would prefer a bank-issued card that enabled them to switch seamlessly among preferred payment methods. Bridge millennial and Gen Z consumers share that preference, with more than half of consumers from those age groups expressing interest in cards that would give them added flexibility in choice of payment method.

FIGURE 2:

Share of consumers who would be interested in bank-issued cards that permit switching among credit products

Interest by financial lifestyle, generation and income



Source: PYMNTS.com

REACHING A GROWING USER BASE

Budgeting and value have become increasingly important for U.S. consumers in the past year. Shoppers know they have options and expect businesses to meet them with tailored payments and products such as BNPL. Forty-five percent of BNPL consumers use BNPL to make purchases that would not otherwise fit into their monthly budgets, while 37% want to avoid paying credit card interest. BNPL installment plans help users bridge gaps between paychecks without running up credit card debt.

Some BNPL providers are also exploring such added incentives as high-yield savings accounts and rewards programs to further cement their relationships with BNPL users. By ensuring that millennial and Gen Z consumers have access to BNPL options that fit their shopping and payment preferences, merchants and providers can secure a place of prominence with these consumers.



NEWS & TRENDS

BNPL MOVES FROM ONLINE TO THE FRONT OF THE LINE

BNPL AS A CREDIT CARD ALTERNATIVE IN THE FOOD AND BEVERAGE SPACE

Australia-based BNPL providers Zip and Afterpay **lead** the way into BNPL as an option for food and beverage consumers. Afterpay's Australia site features a "Dining and Restaurants" section, and its U.S. web portal promotes packaged foods and beverages. Zip takes it a step further in both Australia and the U.S., with a complete food and beverage category on both websites. Other providers that issue cards for shopping on-site with BNPL make it possible for customers to indirectly make food and beverage purchases. On the other side of transactions, just 8%

of food, entertainment and accommodation businesses offer BNPL, but another 25% plan to make BNPL options available within the coming year.

Some consumers see BNPL as an alternative to credit card payments, cyclical bills and growing interest charges, regardless of the type of purchase involved. Already 21% of consumers say they would use BNPL to purchase groceries, and 65% of consumers who already use BNPL or would consider using it say they would be more likely to shop with a merchant that offers it.



PROVIDERS ARE BRINGING BNPL TO IN-STORE TRANSACTIONS

Online shopping **served** as a natural path for BNPL to grow in popularity as the pandemic pushed consumers to engage with merchants through mobile and web storefronts. With those shoppers returning to physical stores, BNPL providers are counting on consumers' increased familiarity with the payment plans to fuel growth there as well. In fact, in-store purchases are already showing significant growth. In Q4 2021, BNPL provider Sezzle's underlying merchant sales (UMS) had ninefold growth year over year, and 10% of Sezzle's total UMS came from in-store sales.

Getting a foothold in the brick-and-mortar retail space is essential for BNPL providers, as that is where most commerce still takes place. To get there, providers are looking to options such as virtual cards, which enable consumers to make in-store BNPL purchases. Sezzle found that 62% of users decided to pay with the provider's virtual card while standing at the check-out, underlining the impact of making BNPL accessible and frictionless.





RECOGNIZING BNPL OPPORTUNITIES

BANKS ARE LOSING BNPL GROUND TO COMPETITORS

Continuing the trend that began with the pandemic's onset, global BNPL spending is on track to more than **triple** by 2026, rising to \$995 billion from \$266 billion in 2021. The ability to afford larger purchases while avoiding interest payments and revolving debt appeals to a wide range of consumers, particularly those who lack established credit or are wary of credit card spending.

Despite the method's broad appeal, legacy FIs have been slow to adopt solid BNPL strategies. This places them at risk of losing ground to FinTechs, Big Tech and payment firms that they may not be able to take back. On the other hand, FIs already have experience in compliance and significant amounts of customer data that could position them well for BNPL provision. By seeking appropriate technology partners, FIs can leverage their own strengths alongside those of technology leaders to make the most of BNPL's potential.

CONNECTING RETAILERS WITH UNBANKED COMMUNITIES

BNPL may be **poised** to overtake credit cards in the U.S. BNPL use for online transactions surged during 2021, with a 21% year-over-year increase during Cyber Monday alone. A Credit Karma survey also showed that 44% of U.S. consumers used BNPL during 2021, up from 42% the previous year.

BNPL represents a credit opportunity for new customers with limited access to credit, such as historically marginalized communities and the unbanked. For business owners, BNPL offers a chance to engage these new customers as well as those who simply view BNPL as a more budget-friendly alternative to credit card debt for larger purchases. Though BNPL is not counted toward credit scores, the structured and predictable payment plans may help consumers new to credit-based purchases by ensuring they do not get caught in a constant cycle of paying minimum credit card balances.

BNPL OPTIONS ARE BECOMING UBIQUITOUS

BNPL use **gained** momentum in 2021, and 2022 promises to continue that trend as shoppers find new ways to use the installment payment plans to make purchases. During the 2021 holiday season, 18% of consumers used BNPL to make holiday purchases. Consumers who cannot make larger purchases upfront, such as younger shoppers, are particularly drawn to the BNPL option, which promises predictable monthly payments and no interest. At the same time, millennials, not Gen Z consumers, turned to BNPL during the holidays the most, with 36% of millennials using BNPL, compared to 22% of Gen Z.

The larger retailers such as Amazon and Target were early BNPL adopters, but now even the smallest merchants can get in on it. Klarna provides BNPL services to merchants with websites hosted through Wix. The provider has also created a browser extension to enable consumers to use BNPL with nearly any online retailer.

BNPL as an answer to changes in consumer spending habits

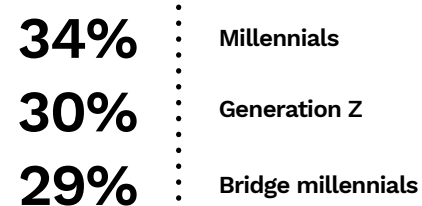
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Since the start of the pandemic, consumers have grown more concerned about budgeting and controlling personal spending, especially where debt is concerned. BNPL's payment installment approach is one way consumers — especially younger ones — are augmenting credit-based spending in a way that fits their financial lifestyles.

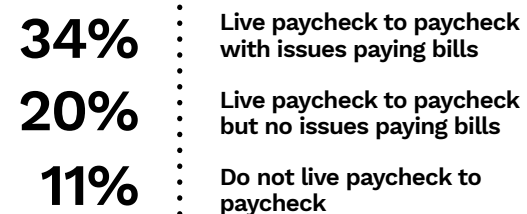
How consumer demographics correlate with BNPL use¹

Nearly 20% of consumers use BNPL. Use is strong among younger consumers and those who have less money left after meeting regular expenses, yet BNPL is also favored more by consumers in higher-income brackets.

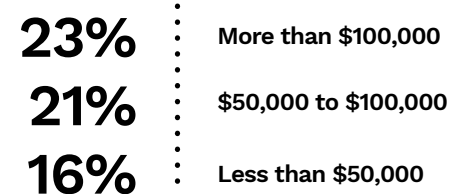
Share of consumers using BNPL by top three age groups



Share of consumers using BNPL by financial lifestyle



Share of consumers using BNPL by income



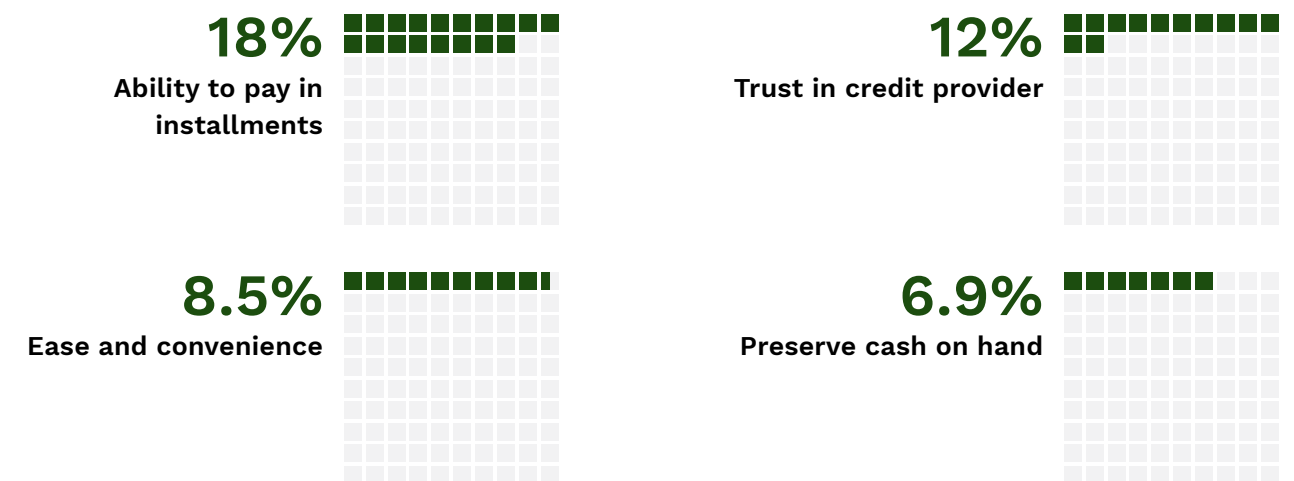
Why BNPL users choose installment payment plans²

The ability to control personal spending through predictable recurring payments is a strong draw for consumers who are choosing BNPL as a way to access credit for all forms of purchases.



Leading factors influencing consumers' affinity for BNPL³

Many of the leading factors influencing consumers' affinity for BNPL come back to budgeting options, but trust and customer experience are also key to keeping customers satisfied.



² The New Credit Model. PYMNTS.com. 2021. <https://www.pymnts.com/wp-content/uploads/2021/12/PYMNTS-The-New-Credit-Model-December-2021.pdf>. Accessed February 2022.

³ Banking On Buy Now, Pay Later. PYMNTS.com. 2022. <https://www.pymnts.com/wp-content/uploads/2022/01/PYMNTS-Banking-On-Buy-Now-Pay-Later-January-2022.pdf>. Accessed February 2022.

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