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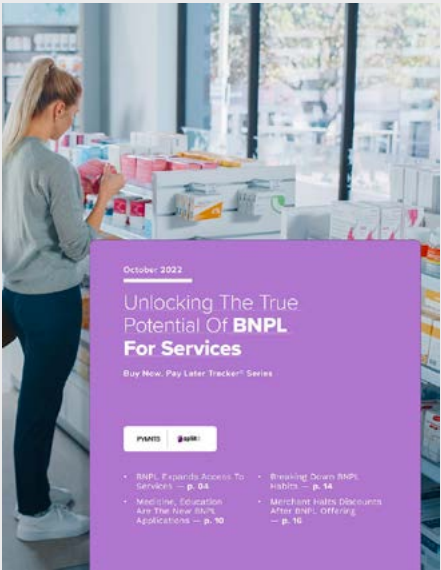


November 2022

The Merchant's Guide To BNPL's Revenue Boost

Buy Now, Pay Later Tracker® Series

■ Read the previous edition



OCTOBER 2022
**Buy Now, Pay Later
Tracker® Series**

- BNPL Drives Increased Conversion Rates And Ticket Sizes
P. 04
- Seven Million Australians Currently Use BNPL
P. 10
- Retailers Can Attract Customers Away From Competitors With BNPL
P. 20
- Visa Expands Its Global Portfolio
P. 26

What's Inside

04 Merchants That Offer BNPL Attract Customers

Forty-six percent of shoppers say they would switch to another retailer if it meant being able to leverage BNPL payment options.

10 BNPL Use In Australia Surges In Recent Years

Seven million Australians currently leverage BNPL, up from five million prior to the pandemic.

14 The Advantages And Challenges Of BNPL

While merchants benefit from higher conversion rates, some obstacles may also occur, such as the risk of customer disintermediation with certain legacy BNPL schemes or complicated return policies, which may disincentive some shoppers.

20 BNPL Can Help Merchants to Persuade Competitors' Clients

Retailers can potentially attract customers from competitors thanks to BNPL implementation.

22 Learn How Boundless Drives Financial Inclusion With BNPL

Offering BNPL benefits not only the customers, but the business that implements it as well.

26 Visa Expands Its Worldwide Reach

The credit card giant is entering collaborations around the world to promote BNPL shopping.

28 BNPL Is The Holiday Season Gift For Merchants

Four in 10 consumers plan to use BNPL to pay for holiday gifts, a massive opportunity for retailers.

30 About

Information on PYMNTS and Splitit

PYMNTS



Acknowledgment

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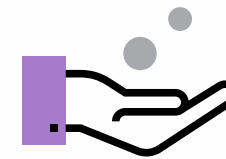
Need To Know

BNPL Popularity Grows Among Consumers

PYMNTS [research](#) found that in the past year, 50 million consumers across the United States have leveraged buy now, pay later (BNPL) — which splits purchases at the point of payment into several smaller installments. Additional PYMNTS [research](#) indicated that nearly 60% of consumers are aware of this payment option, even if they have not personally leveraged it, indicating strong potential for BNPL growth.

Several factors drive customers to leverage BNPL, including avoiding overspending, managing credit scores and encouraging more frequent and larger-scale shopping trips. This last advantage is particularly enticing to the merchants they patronize, which are partnering with BNPL providers to offer this payment option in record numbers.

Consumers are drawn to BNPL for several different reasons.



65.4%

The ability to purchase without overspending



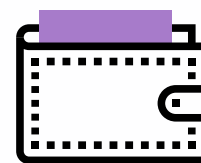
65.2%

More likely to shop at stores that offer BNPL



63.5%

The ability to purchase more frequently



62.8%

Helps to manage personal spending

<https://www.pymnts.com/study/the-new-credit-model-buy-now-pay-later-consumer-alternative-payments/>

Need To Know

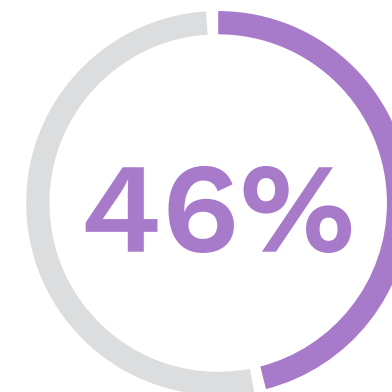
Failing to offer BNPL may cost merchants valuable customers.

Younger generations are the most likely customer demographic to use installment payment plans and are drawn to businesses that have this payment option available. PYMNTS [research](#) found that 66% of bridge millennial and millennial consumers have a positive view of luxury and specialty retailers that offer BNPL as a payment option.

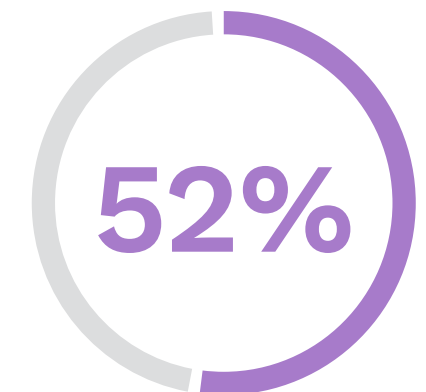
Customers are even willing to abandon their favorite stores if a competitor can offer BNPL at checkout, with 46% of department store shoppers saying they would switch to another retailer if it meant being able to purchase items using BNPL. This could prove to be a game-changing advantage in the cutthroat consumer retail market, where any small change in margin could spell the difference between a successful business and insolvency.



Shoppers are drawn to merchants that offer BNPL.



Share of consumers who shop at department stores online who say they are highly interested in using BNPL



Portion of BNPL non-users who are highly interested in using it for online luxury or specialty purchases

<https://www.pymnts.com/study/bnpl-and-the-in-store-opportunity-consumer-finance-installment-payments/>

Need To Know

Customers complete more sales and have higher ticket sizes when using BNPL.

Experts estimate that BNPL options increase the likelihood of a sale by 20% to 30% and boost the average ticket size up to 50%. Both estimates mean massive revenue increases for the merchants offering these options.

BNPL also entices customers who do not prefer to use traditional credit options. This can prove especially beneficial for brands that cater to younger consumers, such as apparel. One retailer, Rue21, saw its average order volume expand by 73% after it added a BNPL option at checkout.

BNPL drives increased conversion rates and order sizes for merchants that deploy this option.

<https://www.cnbc.com/2021/09/25/why-retailers-are-embracing-buy-now-pay-later-financing-services.html>



20% - 30%

Increase in conversion rates for BNPL-enabled merchants



30% - 50%

Increase in average ticket size when merchants add BNPL options

News And Trends

Merchants Offer Installment Payments To Reach Broader Audiences

BNPL services offer a variety of benefits for the merchants that deploy them, particularly when it comes to boosting revenue. A recent [survey](#) found that nearly 70% of customers spend more when using a BNPL service, a massive incentive for retailers. Increased merchant acceptance is, in turn, fueling greater adoption among consumers, especially younger generations.

Just 7.4% of U.S. adults used BNPL in-store in July or August, and millennials and Generation Z consumers will make up roughly 68% of all BNPL users by the end of the year. This year, BNPL usage is much more popular in online payments, with 30.7% of eCommerce shoppers using the method. Use is also growing among more senior generations, with baby boomers' BNPL market share tripling from 3.1% in 2018 to 9.5% in 2022.



News And Trends

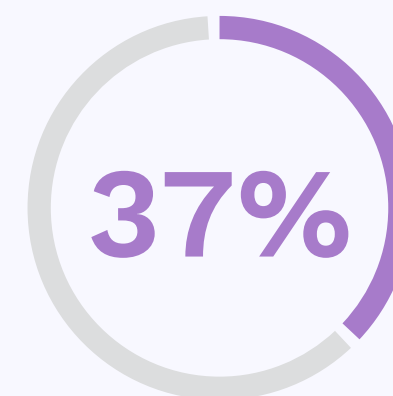
BNPL shows promising trends for future growth

BNPL use in Australia surges in recent years

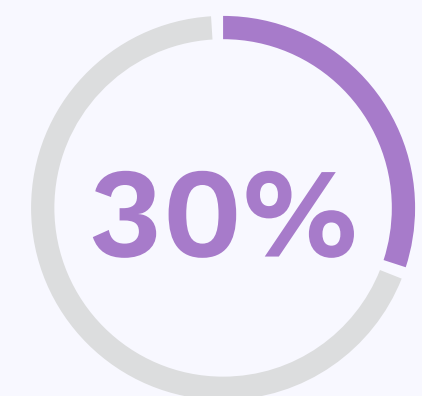
Online transactions surged in Australia due to the pandemic, opening the doors for a massive wave of BNPL adoption. A recent [study](#) found that BNPL usage increased 37% by June 2022, accounting for \$16 billion in purchases. Approximately seven million Australians, representing roughly 33% of the population aged 18 and up, leverage BNPL, up from the five million who did so before the pandemic.

Merchants increased their acceptance of BNPL in kind, thanks in part to integrations that enabled customers to use their existing credit cards. This allowed merchants to seamlessly offer the option and programs that enabled BNPL usage on customers' mobile devices rather than integrating special technology solutions.

While the percentage of shoppers leveraging BNPL in the U.S. has largely stayed the same since 2021, the portion reporting interest in future BNPL use has grown from 11% to 15% in the same period, according to a recent [survey](#). The study also corroborated reports that BNPL drove increased revenue for merchants, as more than one-quarter of users said they would have bought less or not made a purchase at all were it not for the availability of a BNPL option.



Portion of BNPL shoppers who carry a credit balance who plan to increase their use of BNPL



Share of BNPL shoppers who typically pay off their credit card bills who plan to increase their use of BNPL

PYMNTS Intelligence

The Advantages And Challenges Of BNPL For Merchants

BNPL has taken the retail world by storm, thanks in large part to its impressive array of benefits for merchants and enhanced customer experiences. PYMNTS [research](#) found that in 2021, 13.5% of consumers used BNPL services within the prior year, and another 44.7% know that it is an option even if they have not personally partaken. Nearly two-thirds of consumers say they are more likely to shop at stores that offer BNPL, and roughly two-thirds said that BNPL allows them to make purchases more frequently.

Both of those reasons for using BNPL are excellent news for merchants that offer it, as they directly lead to increased ticket sizes, conversion rates and overall revenue. Some merchants can face challenges in implementing these programs, however. The following PYMNTS Intelligence digs deep into the benefits of BNPL for merchants and how they can overcome implementation obstacles.



PYMNTS Intelligence

Businesses that leverage BNPL can raise revenue, brand awareness and customer loyalty.

Increased conversion rates are one of the most immediately evident benefits, since customers who leverage BNPL are much more likely to complete a purchase than those who do not. Fifty-seven percent of merchants offering BNPL [said](#) they improved conversion, countering one of the most common struggles eTailers face in that most shoppers abandon their carts before checkout.

Retailers also report quantifiable benefits in the form of increased brand awareness, with 53% of merchants saying that BNPL providers exposed their brand to new customers. Forty-seven percent of merchants have also reported an increase in average order value, which, combined with the improved conversion rates, leads to a hefty overall increase in revenue.

Merchants [enjoy](#) increased revenue from offering BNPL in different ways.



57%

Portion of BNPL-offering merchants that reported increased conversion rates



47%

Share of merchants that reported increased ticket sizes after offering BNPL

BNPL is also valuable for attracting repeat customers. PYMNTS research found that there is a strong likelihood that customers who leverage BNPL will use it again and look more fondly upon merchants offering it as an option. Sixty-six percent of millennial consumers said they have a positive view of luxury and specialty retailers that offer BNPL, and 58% say they are more likely to patronize the store again to leverage BNPL payment options.

PYMNTS Intelligence



Legacy BNPL schemes increase the risk of merchant-shopper disintermediation.

Some merchants [fear](#) that using BNPL could potentially drive shoppers away from their website directly to the BNPL provider's platform if they find it a more convenient experience when using these payment plans. This disintermediation process could potentially result in lost revenue as customers are not exposed to the rest of the merchant's products and reduce their cart sizes.

Other merchants [report](#) that BNPL had complicated their return policies and disincentivized customers from leveraging the platform due to this added effort. Most cases involved the consumer contacting the merchant as well as the loan provider and continuing to make payments on the item until the return is fully processed. This, in turn, makes customers less likely to purchase items such as clothing that have a high probability of needing to be returned.

Solving these problems will require BNPL providers to simplify return protocols and reduce fees to further encourage the platforms' use among merchants.

Chart Of The Month

BNPL Can Help Merchants Persuade Competitors' Clients

Merchants gain increased sales and ticket sizes from offering BNPL, and they can also potentially poach customers from competitors thanks to this implementation. Consumers shopping from a wide range of different retail fields are willing to switch merchants if it means using BNPL, with the highest willingness coming from luxury and specialty stores and the lowest coming from big-box stores.



Consumer willingness to switch merchants for access to BNPL

Share of consumers likely to switch to merchants that accept BNPL



Source: PYMNTS
BNPL And The In-Store Opportunity, February 2022
N = 2,025: U.S. consumers, fielded Nov. 23, 2022 – Nov. 24, 2022

Very or extremely likely
Somewhat likely
Total

Insider POV

Learn How Boundless Drives Financial Inclusion With BNPL



XIAO WANG
Co-founder and CEO

BOUNDLESS

“There are so many immigrant families that are basically just waiting and saving up money to start the [immigration] process. Buy now, pay later helps lower that financial barrier.”

An interview with Xiao Wang, co-founder and CEO of immigration services startup and Splitit partner [Boundless](#), about how BNPL helps the companies that implement it.

There are few groups that face more challenges in the U.S. than recent immigrants and those who wish to immigrate, especially when it comes to affording necessary services to support their efforts. Not only are these people more likely to be poorer than the average natural-born citizen, but they must also contend with the added expenses of navigating the complex immigration system for themselves or their family members.

“There are a lot of barriers that keep someone from starting to live their life in the U.S., and a big part of that is being able to save up enough money to even get started on this process. Buy now, pay later allows us to lower that barrier for families.”

Offering BNPL can benefit the business that implements it just as much as it benefits their customers. Customers are much more likely to complete purchases and in much higher quantities when they can divide the cost over multiple smaller payments, which drives up the company’s revenue.

Insider POV

“[BNPL] both increases conversion rates [from] people who are going to purchase now instead of waiting, and it also increases customer satisfaction because we’re able to offer a benefit that customers can’t achieve anywhere else.”

BNPL could potentially drive further revenue in the future as it enables more customers to make purchases they otherwise could not make. Removing institutional barriers to lending for underserved populations like immigrants makes good business sense — and not just for those that serve immigrants directly. Improving financial inclusion can drive revenue across the board.

“The U.S. financial system is inherently flawed against a number of different types of populations of which immigrants are one of them. But buy now, pay later providers have enabled customers that are limited by traditional agency credit scores. What I’m really hopeful for is the proliferation of new ways to better understand the credit worthiness of a broader swath of the population, especially ones that have been disadvantaged previously.”



Companies To Watch

Visa Expands Its Worldwide Reach



BNPL is expanding in popularity around the globe, and Visa is aiming to be at the forefront. The company recently [announced](#) several collaborations with some of the largest retailers in Canada to enable BNPL, including Canada Computers, Simons, Soft Moc and Trévi. These partnerships add to Visa's expansive global portfolio, [including](#) implementations in Australia, Malaysia, Russia and the U.S. The credit card giant is expected to be at the forefront when the BNPL market [hits](#) its projected \$1 trillion in market size by 2030.



What's Next

BNPL Is The Holiday Season Gift For Merchants

The holiday season is the busiest time of the year for retailers as customers flood into stores and visit eTailers to score seasonal deals. BNPL is expected to be in high demand during the 2022 holiday shopping season, according to a recent [study](#). Four in 10 consumers plan to use BNPL to pay for holiday gifts, a massive opportunity for both BNPL providers and retailers to see increased sales and ticket sizes. This figure jumps to nearly five in 10 among millennial and Gen Z shoppers, which traditionally are much more open to innovative payment plans such as BNPL than their older counterparts.

“The demand may be high, but the economic reality is that legacy BNPLs are tightening underwriting, making it harder for less established consumers to make purchases. At Splitit, we’re hearing from merchants who are seeing declining approval rates and are looking for a service like ours that provides a cash management tool for consumers traditionally neglected by BNPL. These shoppers don’t want to open a new account or apply for store credit but would rather use their existing credit smarter.”

COLT McCUTCHEON
Chief Revenue Officer



About

PYMNTS [PYMNTS](#) is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.



[Splitit](#) powers the next generation of BNPL through its merchant-branded Installments as a Service platform. Splitit is solving the challenges business face with legacy BNPL while unlocking BNPL at the point of sale for card networks, issuers and acquirers, all through a single network API.

Splitit’s Installments as a Service platform mitigates issues with legacy BNPL, such as the declining conversion funnel, clutter at the checkout and a lack of control of the merchant’s customer experience, while also putting the power back in the hands of merchants to nurture and retain customers, drive conversion and increase average order value. Splitit’s white-label BNPL solution is the easiest installment option for merchants to adopt, integrate and operate while delivering an uncluttered, simplified experience embedded into their existing purchase flows. With no applications, redirects or new loans, Splitit is one of the most responsible installment payment options for customers.

We are interested in your feedback on this report. If you have questions or comments, or if you would like to subscribe to this report, please email us at feedback@pymnts.com.

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