

# Subjective research case study - BNPL

## Buy Now Pay Later business model



## And keeping them smart about money



### Transparency

at every stage.



### No hidden fees

except a flat \$10 reactivation fee in case of late payment.



### Transaction notifications

and payment reminders so they are on top of everything.



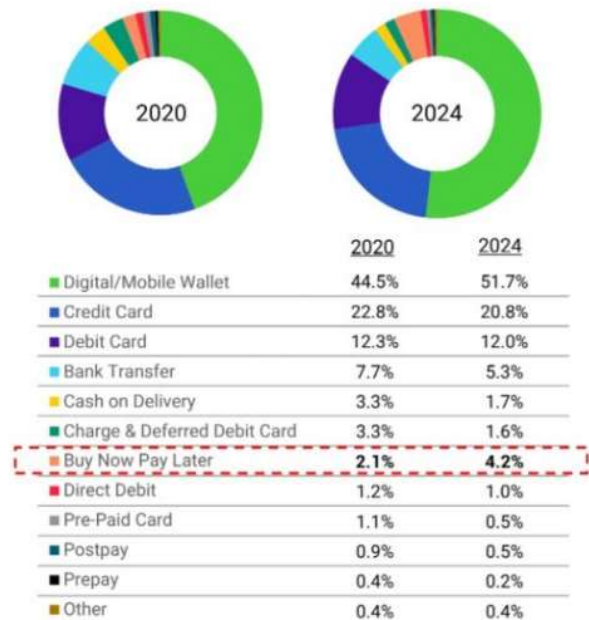
## BNPL Growth

Strong growth in eCommerce has been one of the most significant catalysts shifting the landscape, specifically giving rise to BNPL and other alternative payment methods (APMs)

Size of the Retail eCommerce Market <sup>(1)</sup>  
(\$ in trillions)



Global eCommerce Payment Methods <sup>(2)</sup>



- Rapid Adoption:** The BNPL market has grown from \$87.2 billion in 2020 to an estimated \$179.5 billion in 2022<sup>1</sup>. By 2030, it is expected to reach \$3.27 trillion<sup>1</sup>.
- User Base Expansion:** There are currently around 360 million BNPL users worldwide, with this number expected to more than double to 900 million by 2027<sup>1</sup>.
- Increased Merchant Adoption:** More merchants are offering BNPL options, with BNPL volumes expected to grow 29% annually, accounting for 10% of all e-commerce spending by 2024<sup>2</sup>.

## BNPL influence on how people shop

- In times of economic downturn, this can be a welcome proposition to cash-strapped individuals and businesses desperate to make some sales and shore up their cash flow.
- Higher Conversion Rates:** Merchants offering BNPL services see higher online conversion rates, as it allows consumers to manage their cash flow more efficiently<sup>3</sup>.
- Increased Spending:** BNPL encourages higher average basket sizes and more frequent purchases, as consumers can spread out payments over time<sup>4</sup>.
- Attracting Younger Consumers:** BNPL is particularly popular among Millennials and Gen Z, who appreciate the flexibility and control it offers.

- Democratization of Online Retail: BNPL supports greater access to online shopping for a broader range of consumers, including those who might not have access to traditional credit.



## Reasons behind BNPL growth

- Consumer Demand for Flexibility

Financial Management - manage the finances more effectively without incurring traditional credit card debt.

No Interest or Fees

- Pandemic-Driven Online Shopping Surge

Increased E-commerce: The COVID-19 pandemic accelerated the shift to online shopping, and BNPL services provided a convenient payment option during this period.

Store Closures: With physical stores closed, consumers turned to online shopping, boosting the use of BNPL.

- Merchant Adoption

Higher Conversion Rates: Merchants have adopted BNPL to increase conversion rates and average order values, as it makes high-ticket items more accessible to consumers.

Competitive Edge: Offering BNPL can give merchants a competitive edge, attracting customers who prefer flexible payment options.

- Technological Advancements

Digitization made it easier for consumers to access and use BNPL services.

Integration with E-commerce Platforms has made BNPL a convenient option for consumers.

- Marketing and Awareness

Aggressive Marketing: BNPL providers have invested heavily in marketing to raise awareness and attract users.

Consumer Education: Increased efforts to educate consumers about the benefits and usage of BNPL have contributed to its growth.

## User Segments Attracted by BNPL

- Younger Generations: BNPL is particularly popular among Millennials and Gen Z. These groups appreciate the flexibility and control over their finances that BNPL offers.
- Financially Vulnerable Consumers: BNPL usage is significantly higher among financially vulnerable consumers, including those who may not have access to traditional credit.
- Women, Black, and Latino Consumers: Evidence indicates that BNPL usage is disproportionately high among women, Black, and Latino consumers.

## Growing Categories in BNPL

- Clothing: This remains the most popular category, with 63.5% of BNPL users making purchases in this segment.
- Entertainment: Around 30.3% of BNPL users spend on entertainment-related purchases.
- Reading Material: Books and other reading materials account for 29.4% of BNPL transactions.
- Household Furnishings: This category sees 28.7% of BNPL usage.
- Groceries: BNPL is increasingly being used for everyday essentials like groceries, with 25% of users opting for this payment method.
- Food Delivery Services: About 21.8% of BNPL users utilize it for food delivery services.

## Impacts on businesses

### Positive Impacts

- Increased Sales and Conversion Rates:
  - Data shows that businesses accepting BNPL services experienced a 27% increase in sales volume.
- Higher Average Order Value:
  - BNPL can lead to higher average order values, with some studies reporting an increase of up to 87%.
- Attracting New Customers:
  - BNPL appeals to younger consumers and those without access to traditional credit.
- Reduced Cart Abandonment:
  - Offering BNPL can lower cart abandonment rates by providing a flexible payment option that encourages shoppers to complete their purchases.

### Negative Impacts

- Merchant Fees:
  - BNPL providers charge fees to merchants, which can range from 1.5% to 7% of the purchase amount. These fees can cut into profit margins, especially for businesses with tight margins.
- Increased Returns:
  - BNPL can encourage impulse purchases, which may lead to higher return rates. Processing returns can be costly for businesses.
- Customer Experience Risks:
  - If a customer has a poor experience with a BNPL provider, it can negatively impact their perception of the business offering the service.

## Indian BNPL Companies

- ZestMoney:
  - One of the largest BNPL platforms in India
  - Offers flexible payment options for online and offline purchases
  - Partnered with major e-commerce platforms
  - Provides interest-free credit for a specified period.
- LazyPay:
  - BNPL service offered by PayU
  - Allows users to make purchases with minimal interest.
  - Widely accepted across various online merchants and offers a seamless checkout experience.
- Simpl:
  - Provides a quick and easy checkout process with a single click.
  - Offers interest-free credit for a short duration.
- Amazon Pay Later:

- Backed by Amazon
  - Offers a convenient and flexible payment option for frequent Amazon shoppers.
- Paytm Postpaid:
  - Backed by Paytm
  - Partner with merchants, with the option to pay later.
  - Offers interest-free credit for a short period
  - Integrated with Paytm's extensive ecosystem.

## Global BNPL Companies

- Klarna:
  - A leading BNPL provider based in Sweden
  - Offers flexible payment options for online and in-store purchases.
  - It is widely used across Europe and North America
  - Provides interest-free instalments and a smooth checkout experience.
- Afterpay:
  - Originated from Australia
  - Allows users to split their purchases into four equal instalments, paid every two weeks.
  - It is popular in Australia, the US, and the UK
  - Known for its user-friendly interface.
- Affirm:
  - Based in the US
  - Offers transparent and flexible payment plans for online and in-store purchases.
  - Partnered with major retailers
  - Provides interest-free and low-interest financing options.
- Zip:
  - Originated from Australia
  - Offers flexible payment options for online and offline purchases.
  - Operates in multiple countries, including the US, Canada, and New Zealand
  - Offers easy-to-use platform.
- Sezzle:
  - Based in the US
  - Allows users to split their purchases into four interest-free installments.
  - Widely accepted by online merchants and offers a straightforward and transparent payment process.

## Comparison of Global and Indian BNPL companies

Aspect	Global BNPL Companies	Indian BNPL Companies
Market Reach	Operate in multiple countries; partner with major international retailers (e.g., Klarna, Afterpay, Affirm)	Primarily focus on the domestic market; partner with local e-commerce platforms and merchants
Payment Flexibility	Offer varied installment plans and longer repayment periods; interest-free and low-interest options (e.g., Affirm)	Focus on short-term, interest-free credit (e.g., Simpl, LazyPay)
User Experience	More advanced and user-friendly interfaces due to larger scale and resources	Rapidly improving platforms to provide a seamless checkout experience
Integration	Integrated with a wide range of international retailers and payment systems	Integrated with popular local payment platforms like Paytm and Amazon Pay

## For Consumers:

Advantages	Disadvantages
Payment Flexibility: Allows consumers to split payments into manageable installments, making larger purchases more affordable.	Potential for Overextension: Consumers may overspend and accumulate debt if they are not careful with their budgeting.
No Interest: Many BNPL options offer interest-free installments, which can be more cost-effective than credit cards.	Fees and Penalties: Late payments can incur fees, and some BNPL services may charge penalties.
No Credit Check: Easier approval process without affecting credit scores.	Limited Rewards: Unlike credit cards, BNPL services typically do not offer rewards or cashback.
Convenience: Quick and easy to use at checkout, both online and in-store.	Impact on Credit Score: Missed payments can negatively affect credit scores.

## For Companies:

Advantages	Disadvantages
Increased Sales: BNPL can attract more customers and increase average order values.	Merchant Fees: Companies may need to pay fees to BNPL providers for offering the service.
Customer Loyalty: Offering flexible payment options can enhance customer satisfaction and loyalty.	Risk of Non-Payment: There is a risk that consumers may default on their payments.
Competitive Edge: Providing BNPL can differentiate a company from competitors.	Integration Costs: Implementing BNPL services may require additional resources and integration efforts.

## Amazon Pay's Push Into 'Buy Now, Pay Later'

### Strategy Behind

Even Amazon can't ignore the popularity of buy now, pay later. The retail giant — which is also a powerhouse in payments — is setting up two different buy now, pay later programs for retailers using Amazon Pay on their websites. The moves set Amazon up ahead of the traditional holiday shopping season with multiple bets in what is a growing sector of payments. One chip is on a fintech BNPL specialist, Affirm, and the other is on the nation's biggest bank, JPMorgan Chase.

Amazon Pay is doubling down on offering buy now, pay later to other retailers who use its payments service on their own sites.

It has rolled out two different BNPL programs to serve different customer segments, ahead of the holiday season.

The **first** allows retailers using Amazon Pay to offer their shoppers the buy now, pay later services of Affirm. Shoppers will see this as an option at checkout when they make a qualifying



purchase. They can choose from “pay in four” BNPL plans that have a 0% interest rate or longer monthly payment instalment plans that generally carry a flat interest rate.

The [second](#) program is for those who have Prime Visa and Amazon Visa credit cards.

## Strategy Will Have a Ripple Effect

**The fact that Amazon picked two partners to implement this BNPL strategy is consistent with its past practices.** The megaretailer has had multiple branded card providers for years. While JPMorgan Chase partners with Amazon on the Prime Visa and the Amazon Visa, the retailer also works with Synchrony to offer other cards, including the Amazon Store Card and a selection of Amazon-branded secured cards. (The Synchrony Amazon Store Card offers monthly 0% payment plans over six and 12 months on eligible purchases and 24 months on select qualifying purchases.)

One unusual aspect to the latest Amazon moves is that its partners in this case are so different from each other: Affirm is a fintech provider, while JPMorgan Chase is the country’s largest bank and one of the leading payment companies. Under both programs, the cardholder must meet minimum purchase requirements to use an installment payment plan.

Amazon announced the deal with Affirm in June, followed by the one with JPMorgan Chase in August.

And both follow a [deal](#) struck with Citibank in April. So, in a sense, you could say that Amazon Pay is *tripling* down on adding BNPL options.

Amazon agreed to make Citi Flex Pay — which is Citi’s version of buy now, pay later — available to consumers who click on the Amazon Pay button to check out at participating retailers.

Citi Flex Pay is a feature available only to eligible Citi credit card customers. Any installment purchase is deducted from the cardholder’s approved credit line (the same approach JPMorgan Chase uses with its cards).

Citi has been offering BNPL choices on Amazon.com since 2020.

## Covering the Cost of Installment Plans with 0% Interest

JPMorgan Chase’s involvement continues its recent trend toward utilizing the credit line on its cards in additional ways. In the case of the Amazon partnership, any amount a cardholder opts to pay via an installment program is deducted from the total credit line that had been available on the card. As monthly payments are made on a timely basis, the credit line is replenished by a corresponding amount.

**Another wrinkle for cardholders is that there’s a tradeoff.** The installment plans that are being offered carry a 0% interest rate, a common feature for “traditional” merchant-based BNPL programs. Amazon says this is an ongoing promotional rate. While merchant-based



programs' interest costs are generally absorbed by the sellers, neither Amazon nor Chase will collect any fees from merchants to fund the 0% offer.

Amazon makes clear that any purchase put into the Equal Pay plan is ineligible for cash back rewards. Generally, for the Amazon Prime card this is 1% on any purchase, except for certain categories, like gas purchases and transit charges, which earn 2%.

This aligns with what Amazon has done previously.

Prior to launching this new Amazon Pay program — which makes installment plans available for purchases on *other* retailers' sites — such plans had been available exclusively on Amazon purchases. Amazon Prime cardholders taking advantage of 0% installment plans to pay for Amazon purchases also have to give up any cash back rewards they would have received from using the card. The Amazon Prime card pays unlimited cash back of 5% on Amazon.com, Whole Foods, and Amazon Fresh purchases.

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