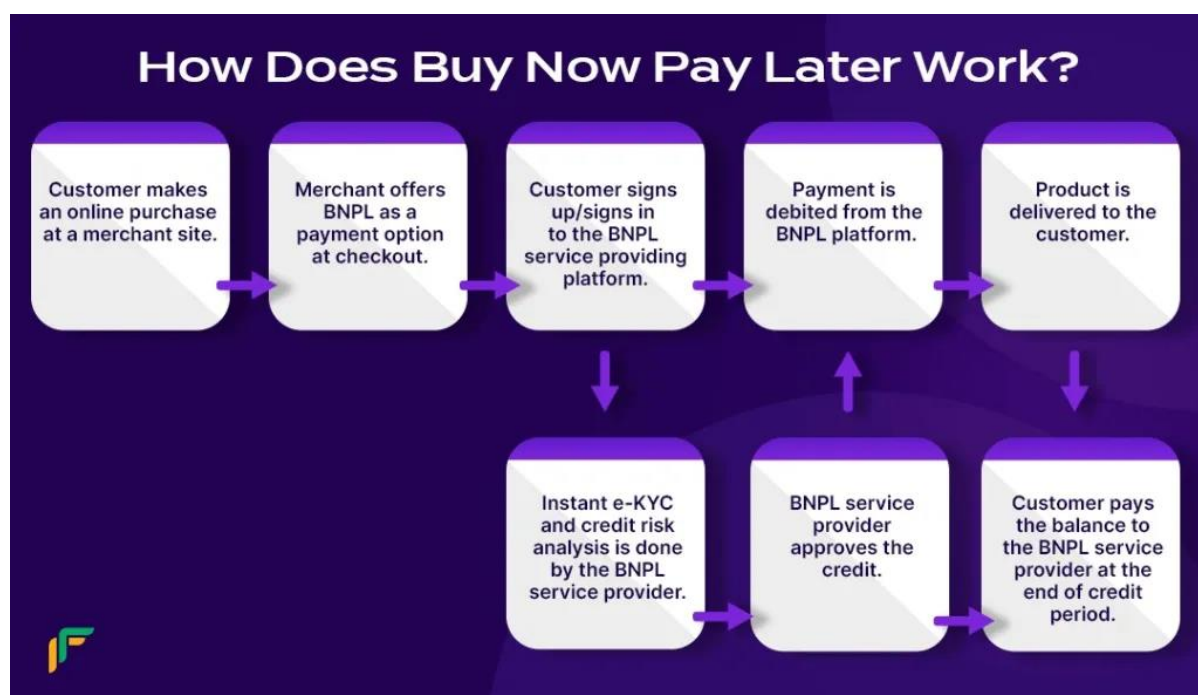


What Is Buy Now, Pay Later (BNPL)?

Buy now, pay later (BNPL) is a type of short-term financing that allows consumers to make purchases and pay for them over time. BNPL is also commonly known as a point-of-sale (POS) instalment loan that doesn't charge interest.

How Buy Now, Pay Later (BNPL) Works?

Buy now, pay later programs have different terms and conditions. They generally offer short-term loans with fixed payments, no interest, and no additional charges. This means you know your payment amounts up front, and each payment will be the same. You can use a BNPL app to make the purchase, or you may have BNPL options through your credit card.



How does BNPL make money?

BNPL companies earn from both sellers and consumers.

When a consumer opts for the BNPL facility, sellers pay a fee to the BNPL provider. This fee typically falls within the range of 2% to 8% of the total purchase amount. Additionally, BNPL companies bolster their revenue by establishing a strong market presence. They do this by investing in marketing and promotional efforts, helping sellers boost their conversion rates and online traffic.

On the consumer side, BNPL providers make money by charging interest, which can vary from 10% to 30%. The interest rate hinges on factors such as the customer's credit score and repayment period. It's important to note that if the customer repays the entire amount on time, no interest is levied.

However, there are cases where customers may struggle to meet the repayment deadline. In such instances, a late fee is imposed, which contributes to the BNPL company's revenue. This intricate interplay of fees and interest allows BNPL providers to sustain their operations and provide flexibility to consumers while maintaining financial viability.

Impact on Consumer Spending

Buy Now, Pay Later (BNPL) schemes have significantly reshaped consumer spending habits, impacting both the economy and individual financial health. Here's a detailed look at their influence:

- **Higher Average Order Value (AOV):** By offering a convenient, often interest-free way to stagger payments, BNPL encourages consumers to make larger purchases than they might otherwise.
- **Increased Impulse Purchases:** The ease of accessing BNPL options at checkout leads to more impulsive buying decisions.
- **Shifting Purchase Categories:** Traditionally, high-value items like electronics, furniture, and appliances were purchased with savings or credit cards. BNPL, however, has democratized access to these larger-ticket items.
- **Debt Concerns:** Despite the attractiveness of BNPL schemes, there are growing concerns about their potential to lead consumers into debt. The instalment structure, while interest-free, can encourage overspending.

In conclusion, while BNPL services offer immediate benefits to both consumers and retailers, they also pose significant risks. The increased AOV and shift in purchasing patterns benefit the retail sector, but the potential for debt accumulation and financial instability among consumers calls for a balanced approach to using these services.

Benefits to Retailers Using BNPL

Implementing a BNPL strategy can significantly benefit your ecommerce business. Here's why:

1. **Increased Sales:** By offering flexible payment options, you can encourage customers to make purchases they might have hesitated on due to immediate financial constraints. This can lead to increased sales and average order values.
2. **Customer Attraction and Retention:** BNPL can make your business more attractive to potential customers, particularly younger demographics like Millennials and Gen Z who are looking for flexible, non-traditional credit options. It can also increase customer loyalty as customers appreciate the flexibility and convenience.
3. **Improved Cash Flow:** With BNPL, you receive payment at the point of sale, improving your business's cash flow. The BNPL service provider handles the risk of customer default or non-payment.
4. **Decreased Cart Abandonment:** Offering BNPL options at checkout can reduce cart abandonment rates. Many customers abandon their carts due to a lack of satisfactory payment options, and BNPL can address this issue.
5. **Enhanced Customer Experience:** Offering BNPL can improve the overall customer experience. It allows customers to manage their finances more effectively and purchase items they desire without having to pay the full cost upfront.

Factors responsible for the growth of Buy Now, Pay Later (BNPL)

The global buy now, pay later market size was valued at USD 30.38 billion in 2023. The market is projected to grow from USD 37.19 billion in 2024 to USD 167.58 billion by 2032, exhibiting a CAGR of 20.7% during the forecast period.

Buy now, pay later (BNPL) has grown for a number of reasons, including:

- **Online shopping:** The rise of e-commerce has increased the demand for BNPL options at checkout.
- **Consumer demand:** Shoppers like the flexibility of BNPL to manage their finances by spreading out payments.
- **Cost-effective:** BNPL services are often more cost-effective than credit cards.
- **Avoid credit card debt:** Consumers may prefer BNPL to avoid credit card debt, especially for big purchases.
- **Low credit card penetration:** BNPL can be an accessible alternative for people who don't have a credit card.
- **Sustainability:** Younger consumers who are key users of BNPL may be driven by sustainability.
- **Loyalty programs:** Loyalty programs are a cost-effective way for BNPL providers to keep users engaged with the brand.



Popularity of Buy Now, Pay Later (BNPL)

Buy now, pay later (BNPL) is popular with younger generations, such as Gen Z and Millennials, and with middle-income consumers. BNPL is also used by consumers with budget limitations and lower incomes to reduce the upfront cost of purchases.

Here are some of the categories that are growing with BNPL:

- **Consumer electronics:** BNPL is a popular option for purchasing electronics like smartphones, tablets, and laptops, which can have high average selling prices. BNPL allows consumers to split the cost of these devices over instalment plans.
- **Retail:** Retailers are increasingly offering BNPL services to meet customer demand for spreading out payments over time. BNPL can make larger purchases more affordable and accessible to consumers.
- **E-commerce:** BNPL services can provide instant approvals and quick payment options, which can reduce cart abandonment rates and boost online sales.

Comparison of Indian and Global Buy Now, Pay Later Providers

The Buy Now, Pay Later (BNPL) market has experienced rapid growth both in India and globally. While global giants such as Afterpay, Klarna, Affirm, and PayPal dominate internationally, Indian companies like ZestMoney, LazyPay, Simpl, and ePayLater are carving out significant market shares domestically. This comparison highlights the key differences and similarities between Indian BNPL providers and their global counterparts.

1. Market Penetration and Reach

Indian BNPL Providers

- **ZestMoney:** One of the largest BNPL providers in India, offering services through partnerships with major e-commerce platforms and offline retailers. It targets middle-income consumers who may not have access to traditional credit.
- **LazyPay:** A product of PayU, LazyPay integrates with various online merchants and provides small-ticket credit for daily expenses.
- **Simpl:** Focuses on a seamless, one-tap checkout experience with a significant presence in the food delivery and online retail sectors.
- **ePayLater:** Offers short-term credit for online purchases, targeting both consumers and small businesses.

Global BNPL Providers

- **Afterpay:** Originating in Australia, Afterpay has expanded to North America, Europe, and parts of Asia. It is known for its strong presence in the fashion and beauty sectors.
- **Klarna:** A Swedish company with a robust presence in Europe and North America, Klarna offers a wide range of financial services, including BNPL, to millions of users.

- **Affirm:** Based in the USA, Affirm partners with a broad range of retailers, from small businesses to large enterprises, providing transparent installment loans.
- **PayPal's Pay in 4:** Leveraging PayPal's extensive user base, Pay in 4 is available in multiple countries, offering BNPL as an additional payment option.

2. Technological Integration

Indian BNPL Providers

- **ZestMoney:** Uses AI and machine learning to assess creditworthiness and personalize credit limits. It integrates seamlessly with e-commerce platforms like Amazon and Flipkart.
- **LazyPay:** Offers a quick, OTP-based sign-up process and integrates with numerous Indian online services, including Swiggy and Zomato.
- **Simpl:** Provides an easy, one-click checkout process that enhances user experience and drives repeat usage.
- **ePayLater:** Utilizes data analytics to offer personalized credit and integrates with various e-commerce and utility payment platforms.

Global BNPL Providers

- **Afterpay:** Features a user-friendly app and seamless integration with both online and in-store retail systems. It uses data analytics to predict consumer behavior and optimize offerings.
- **Klarna:** Offers a comprehensive app that includes shopping, financing, and banking services, with extensive merchant integration.
- **Affirm:** Provides transparent financing terms and integrates with major e-commerce platforms like Amazon and Shopify.
- **PayPal's Pay in 4:** Leverages PayPal's existing infrastructure to offer a smooth BNPL experience across its wide network of merchants.

3. Consumer Experience

Indian BNPL Providers

- **ZestMoney:** Appeals to consumers who lack traditional credit options, with a focus on affordability and accessibility.
- **LazyPay:** Targets young, tech-savvy consumers who prefer quick, hassle-free credit for small purchases.
- **Simpl:** Known for its simple user interface and ease of use, making it popular among frequent online shoppers.
- **ePayLater:** Focuses on providing flexible credit solutions for both consumers and small businesses.

Global BNPL Providers

- **Afterpay:** Attracts a young demographic, particularly Millennials and Gen Z, who appreciate the interest-free installments and seamless shopping experience.

- **Klarna:** Offers a broad range of payment options and a smooth user experience, appealing to a diverse consumer base.
- **Affirm:** Known for its transparency and flexibility, making it attractive to consumers wary of hidden fees and complex terms.
- **PayPal's Pay in 4:** Benefits from PayPal's established trust and convenience, appealing to a wide range of users.

Conclusion

Indian BNPL providers focus on accessibility and simplicity to cater to a rapidly growing market with significant unmet credit needs. In contrast, global players leverage advanced technology, extensive partnerships, and regulatory experience to dominate the international landscape. Both markets are poised for continued growth, driven by consumer demand for flexible payment solutions and ongoing innovations in fintech.

Advantages and Disadvantages of Buy Now, Pay Later (BNPL)

Consumers:

1. **Convenience:** BNPL allows consumers to spread out their payments over time, which can make it easier to afford large purchases.
2. **Flexibility:** BNPL offers consumers a variety of repayment options, so they can choose a plan that works best for their budget.
3. **Choice:** BNPL is now available from a variety of merchants, so consumers have more options than ever before.

Fintech companies:

1. **Revenue:** BNPL companies generate revenue from transaction fees and interest charges.
2. **Data:** BNPL companies can use data to better understand consumer spending habits and develop new financial products and services.
3. **Growth:** The BNPL market is growing rapidly, which presents an opportunity for fintech companies to expand their businesses.

The Future of Buy Now, Pay Later (BNPL)

The BNPL market is expected to grow at a compound annual growth rate of over 24% from 2023 to 2030. As more consumers begin using buy now, pay later options routinely, they're going to expect BNPL as a standard checkout feature.

It's also becoming a fast staple for younger generations. Gen Z already uses BNPL for small, everyday purchases like clothing and groceries. And even older generations are using it for larger purchases like furniture. Implementing BNPL now can help your ecommerce brand win over customers, increase sales, and establish your business as a customer-centric brand.

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