INFO5992 Understanding IT Innovations
Tutorial 07 Group Worksheet

<u>Australian Startup - Afterpay</u>

Tutorial Time:	Tutor Name:

Group Name:

Q1. Discuss with your peers on whether you have used buy now, pay later services. If yes, which company did you use?
- Why did you use buy now pay later rather than a credit card?
- What are your concerns if you are using buy now pay later service?

Reasons for using BNPL rather than credit card:
- **Interest-free payments**: More affordable than paying interest on a credit card balance.
- **No credit check**: Some BNPL services don't require a credit check. This can be beneficial for people with poor credit or no credit history.
- **Budgeting**: BNPL services often offer fixed payment plans, which can help people budget and manage their finances more easily.
- **Convenience**: BNPL services are often integrated into online shopping platforms, making it easy to use them at checkout without having to enter credit card information.
- **No fees**: Don't charge late fees, annual fees, or other hidden fees that credit cards may have.

Concerns:
- **Debt accumulation**: If someone is not careful with their spending or payment schedule, they could accumulate debt and potentially face financial difficulties.
- **Impact on credit score**: May report late payments to credit bureaus, which could negatively impact someone's credit score.
- **Limited payment options**: Unlike credit cards, BNPL services typically only offer one payment option, which could limit someone's flexibility in managing their finances.
- **Hidden fees**: Some BNPL services may charge hidden fees, such as late fees or additional interest, which could add up over time and increase the overall cost of the purchase.
- **Temptation to overspend**: The ease of using BNPL services and the ability to defer payment could tempt some people to overspend and potentially face financial hardship.

Q2. Can the Customer Development Process be applied to Afterpay?
- **Who are the target customers of Afterpay (The most important question)?** *from 4 perspective*
- Did Afterpay discover a previously un(under)served customer segment?
- How did Afterpay validate the customer segment?
- How did Afterpay create new customers?

Targeting Customer: The target customers of Afterpay are typically younger, digitally savvy consumers who prefer to shop online and value flexibility in their payment options. These consumers often have limited credit history or are hesitant to take on credit card debt, but still want to make purchases that may be beyond their immediate budget.

Un(Under)served Customer: Before Afterpay, traditional credit products such as credit cards and personal loans were the main options for consumers looking to make purchases beyond their immediate budgets. However, these products often come with high interest rates, hidden fees, and rigid payment terms, making them unattractive or unaffordable for many consumers. Afterpay saw an opportunity to disrupt the traditional credit market by offering a

more flexible and affordable payment solution for consumers, especially for those who prefer to shop online. By allowing customers to pay for their purchases in interest-free installments over time, without the need for a credit check, Afterpay has made it easier for many consumers to manage their finances and make purchases that might have been out of reach otherwise. In doing so, Afterpay has tapped into a previously **underserved customer segment that values affordability, convenience, and flexibility in their payment options**.

Validate Customer Segment: Afterpay validated its target customer segment through a combination of market research, data analysis, and customer feedback.

- **Market research**: Before launching its service, Afterpay conducted extensive market research to understand consumer needs and preferences in the payment space. The company analysed industry trends, surveyed potential customers, and studied the competitive landscape to identify gaps and opportunities.
- **Data analysis**: Afterpay also used data analytics to gain insights into customer behaviour and preferences. The company analysed transaction data, customer demographics, and other metrics to understand how customers were using its service, what products they were buying, and how frequently they were making purchases.
- **Customer feedback**: Afterpay actively solicits customer feedback through surveys, reviews, and other channels. The company uses this feedback to improve its service, identify pain points, and better understand its customers' needs and preferences.

Create New Customers:

- **Partnering with merchants**: Afterpay has partnered with a wide range of merchants across different industries, including fashion, beauty, electronics, and home goods. By integrating Afterpay's buy now pay later (BNPL) service into their checkout processes, these merchants have been able to offer customers a more flexible and convenient payment option. This has helped to drive customer acquisition by making it easier for consumers to purchase products that may have been out of reach otherwise.
- **Marketing and advertising**: Afterpay have invested heavily in marketing and advertising to raise awareness of its service and attract new customers. The company has used social media, influencer partnerships, and other channels to reach its target audience and promote the benefits of its BNPL service.
- **Referral programs**: Afterpay has implemented referral programs that reward customers for referring friends and family to the service. By offering incentives such as discounts or cash rewards, these programs have encouraged existing customers to spread the word about Afterpay and bring in new users.
- **International expansion**: Afterpay has expanded its service to new markets, including the United States, the United Kingdom, Canada, and New Zealand. By entering these new markets, Afterpay has been able to reach new customers and gain a larger share of the global BNPL market.

Conclusion: Customer Development Process can certainly be applied to Afterpay.

Q3. Why is the Traditional Model not a good fit for FinTech start-up companies like Afterpay?

Why the Traditional Model is not a good fit for FinTech start-up companies like Afterpay:

- The traditional payment model involves using credit cards or loans, which require customers to pay interest and other fees over time, making it inflexible and costly.
- Traditional model does not allow FinTech start-up like Afterpay to get first contact with customers.
- Traditional companies always rely on credit scores and historical data to make lending plans, while start-up companies like Afterpay do not have sufficient historical data.
- Tech startups have various uncertainties such as funding, the market, technologies involved, team, product related uncertainties etc., and the traditional model leaves room for very few uncertainties and expects most things to be finalized, which is not feasible for fintech startups.
- The business plan of fintech startups relies on untested assumptions, whereas in a traditional model, facts and figures that are tested and proven are employed.
- The traditional model devises business plans that are often rigid and hard to modify, which is not likely to work well for a fintech startup.
- The traditional financial model is based on physical locations and lengthy processes, making it incompatible with the digital and mobile environment of fintech startups like Afterpay.
- AfterPay offers innovative and disruptive services, which require a more agile and flexible approach.
- In short, the Traditional Model is not a good fit for FinTech start-up companies like Afterpay because it is often too rigid, complex, and expensive.