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CONSULTANCY SOCIETY**

180DCxICCS CASE COMPETITION

TRAVELPAY – BUY NOW. PAY LATER. TRAVELPAY.

MAY 2023



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TRAVELPAY

Buy now pay later, feasible for
the travel industry?

18th MAY 2023



Filippo Zucchetti

Year 3
Civil Engineering

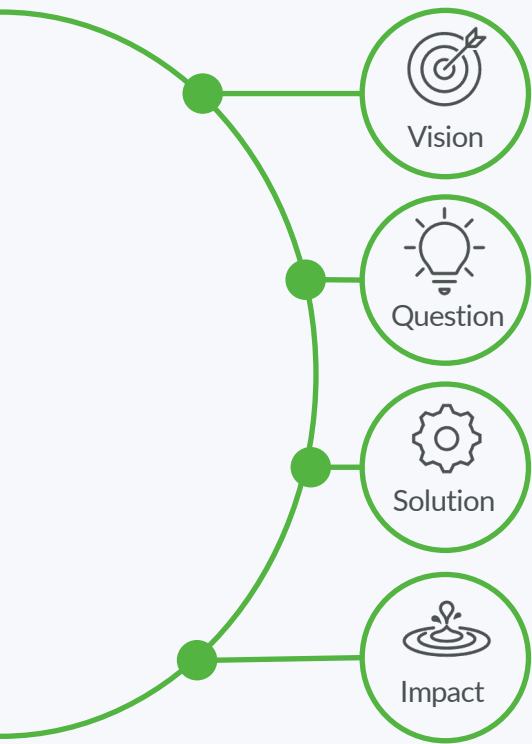


Martina Torcè

Year 3
Molecular Bioengineering



Executive Summary



TravelPay: Redefining travel with BNPL. All-in-one app for seamless booking and captivating Gen Z and Millennial travelers.

How attractive is BNPL market in the next decade in terms of size and profitability?	What markets should we target first? Why?	What are the opportunities and risks involved with entering this industry?
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International Expansion	Gen Z and Millennial Targeting	Complete travel planning app
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1,334,910 M
Estimated revenue for first year

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Insights



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Ideas



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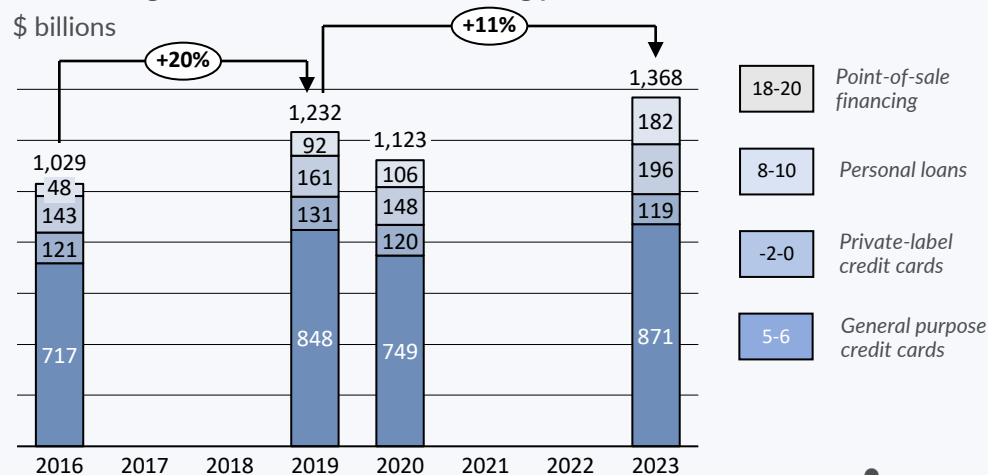
Implement



Point-of-sale financing (Buy Now Pay Later) is growing faster than other unsecured lending, especially integrated shopping apps and off-card financing solutions

Market Overview

Outstanding balances for unsecured lending products¹, US, CAGR², 2022-23, %



- About **60% of consumers** say they are likely to use POS financing over the next six to 12 months.
- Around **65% of total receivables** originated by point-of-sale lenders are with consumers having credit scores **higher than 700**.

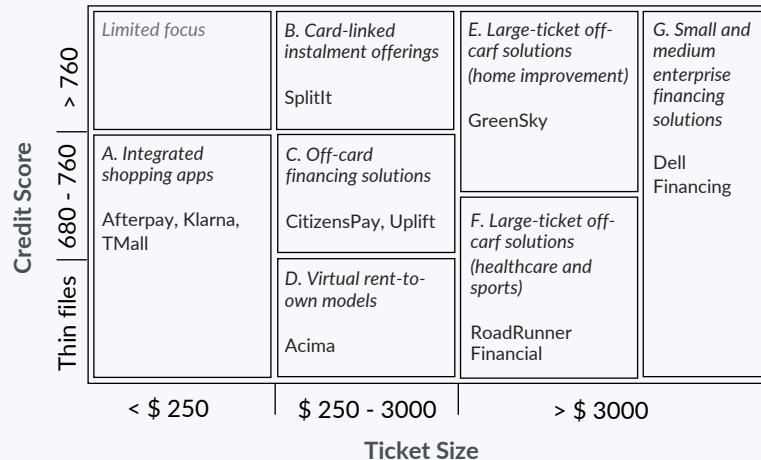


Lucrative

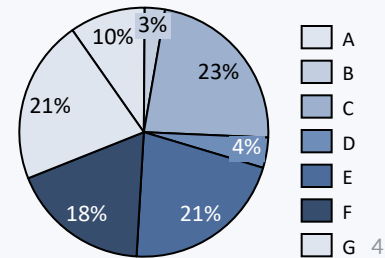
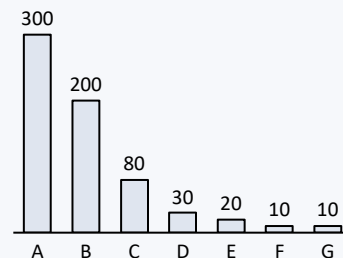


Secure

Point-of-sale financing market segmentation, US 2019



Unsecured lending CAGR, % Unsecured lending market share, %



¹Excludes overdrafts and student loans.

²Compound annual growth rate.

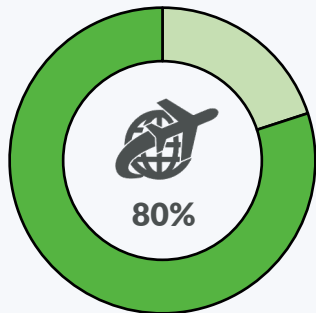
Source: McKinsey Analysis, McKinsey Consumer Finance survey

BNPL is a useful tool to reduce cart abandonment in industries with low conversion rates, especially in the travel industry

Market Overview

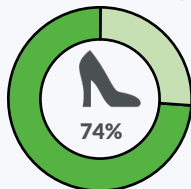
Challenges

Average cart abandonment
Rate¹, Travel industry

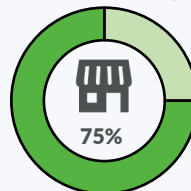


Average conversion rate²,
Travel industry

Fashion industry



Retail industry



How BNPL solves them

- ✓ The travel industry has a higher average order value, with customers tending to be more cautious. BNPL brings more flexibility and choice to customers.
- ✓ Easier for merchants to upsell as customer might make hotel upgrades or extend their stays.
- ✓ Implementing BNPL solutions leads to a **20-30% decrease in cart abandonment** rate for online retailers.



¹Cart abandonment rate: percentage of online shopping carts that are initiated by users but left abandoned before completing the purchase.

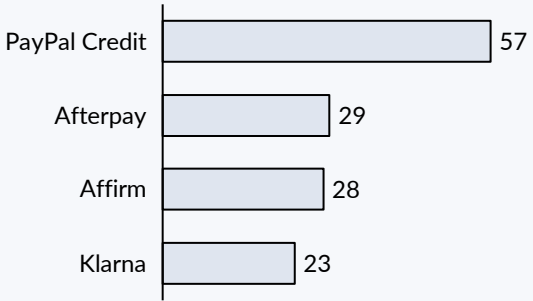
²Conversion rate: percentage of website visitors or users who take a desired action or complete a specific goal, such as making a purchase.

Source: RBC Capital Markets Research, Diggin Travel, "How to do shopping cart abandonment emails in travel, research into 40 real cases"

The most popular BNPL services already have hundreds of millions of active users, would be a tough competition for TravelPay if they offered travel products

Competitors Analysis

Most popular BNPL services among users, %



Competitors' possible reaction to TravelPay

- Increased competition**

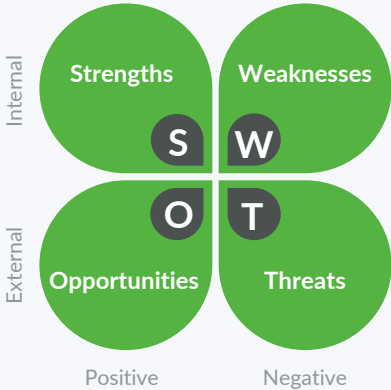
 - Expanding their BNPL services to include travel purchases or offering more competitive rates to attract customers.
- Strategic partnerships**

 - Form strategic partnerships with travel companies to offer bundled services or create attractive packages for customers.
- Market differentiation**

 - Such as offering superior customer service, more flexible repayment options, or stronger sustainability initiatives.

Source: C+R Research Customer Survey
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PayPal Credit



STRENGTHS

- Large customer base**
Over 300 million active users globally
- Competitive interest rates**
Interest rates as low as 0%
- Convenient checkout process**
One-click checkout process

OPPORTUNITIES

- Expansion into new markets**
New markets and geographies
- Strategic partnerships**
- Increased demand for online financing**
Due to the rise of e-commerce

WEAKNESSES

- Limited acceptance**
Not accepted by all merchants
- Late fees and interest charges**
If customers don't pay off balance
- Limited borrowing amounts**
Borrowing limits up to \$30,000

THREATS

- Competition from other lenders**
Offering similar services, e.g. Klarna
- Economic downturns**
Customers less likely to use credit
- Regulatory changes**
May impact operations and profits

Klarna

STRENGTHS

- Large customer base**
Over 90 million customers globally
- Innovative product offerings**
No interest rates
- Strategic partnerships**
Major retailers like H&M and Sephora

OPPORTUNITIES

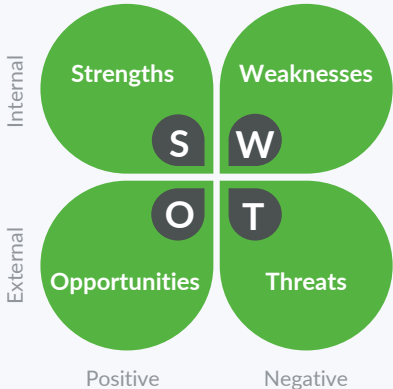
- Expansion into new markets**
- Collaboration with financial institutions**
To offer complementary services
- Development of new features**
To differentiate from competitors

WEAKNESSES

- Regulatory risks**
Changing laws in different markets
- Credit risk**
Customers unable to repay loans
- Limited revenue streams**
Majority revenue from merchant fees

THREATS

- Intense competition**
- Economic downturns**
Customers less likely to use credit
- Cybersecurity risks**
Like data breaches and hacking



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Insights



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Implement



Is BNPL a viable and profitable business model? Although it's growing steadily, even the big players are in the negative due to rising costs

Business Model Analysis

Challenges of BNPL



Very high volume

Large customer base is fundamental



Very low profit margins

Average industry profit margin at **-2.6%**

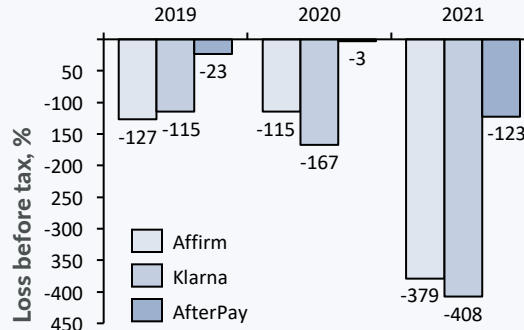


Sensitive to funding costs

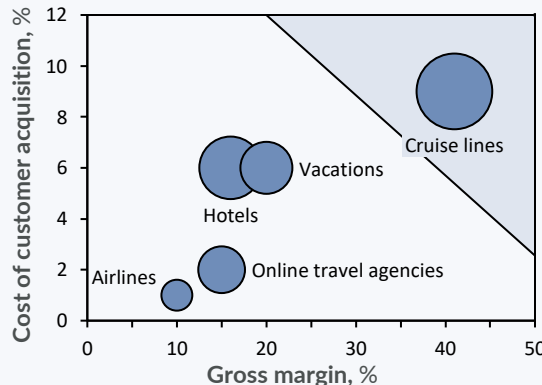
BNPL providers rely on loans for the money that they lend to customers for free, rising interest rates have made those more expensive.

Source: McKinsey Analysis, McKinsey Merchant POS Survey
Source: Finextra, "B.N.P.L. all of this hype for a non-so-profitable business?"

Big-three players losses since 2019



Merchant categories by average ticket size



Key takeaways

- None of the pure-players are as-of-today profitable due to rising expenses aimed at expanding customer acquisition
- Most of the travel industry's products have a **low gross margin** and **low cost of customer acquisition**
- This means merchants will likely **not** be willing to form partnerships with BNPL companies by subsidizing customer interest
- Big increase on the number of players, harder to achieve massive scale, therefore profitability

A specific portion of the population is extremely suitable for BNPL industry: Gen Z and Millennial consumers have higher rates of frequent travel

Customers Recommendation



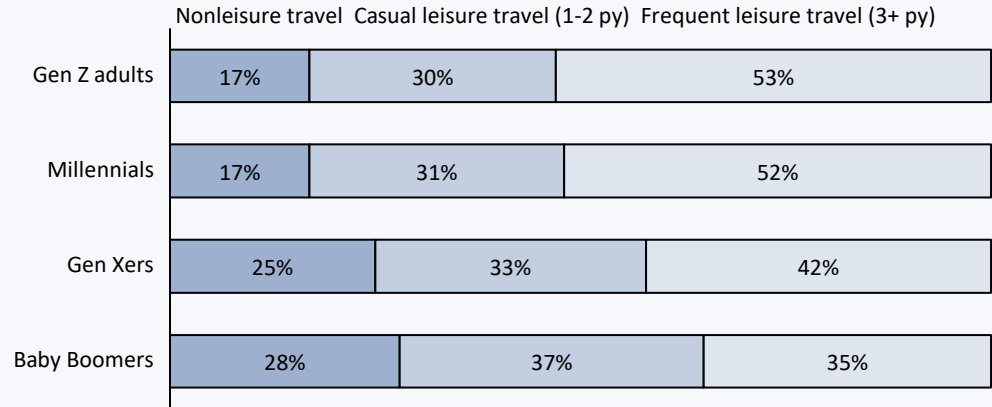
How can BNPL acquire a strong customer base and make a profit?

Turn to Gen Z and Millennial consumers in specific high-tourism countries

TravelPay should target the younger generations, which are also the ones willing to **cut on other expenses** in order to be able to travel.

Many adult Gen Z turn to **technology** for travel inspiration and booking discounts, with many spearheading for their family vacations as well.

Travel frequency by generation



Source: CNBC travel, "Gen-Z travel trends travel often save money and seek adventure"

The EU provides the best opportunity for TravelPay to establish itself in the world of BNPL, due to high sustainability focus and smaller competitor landscape

Market Recommendation	UK	US	Canada	Australia	Germany	France	Eastern EU	Sweden
Market size	●	●	●	●	●	●	●	●
Growth potential	●	●	●	●	●	●	●	●
Competitor Landscape	●	●	●	●	●	●	●	●
Consumer Behaviour	●	●	●	●	●	●	●	●
Sustainability Focus	●	●	●	●	●	●	●	●
Propensity to Travel	●	●	●	●	●	●	●	●
Technological Readiness	●	●	●	●	●	●	●	●
Economic Factors	●	●	●	●	●	●	●	●

Economic powerhouses like **UK, US, Canada and Australia**, as well as **Sweden**, have a significant degree of **competitor strength** within the BNPL industry.

EU markets such as **Germany, France** and, less so, **Eastern EU**, could be lucrative markets due to the high focus on **sustainability** and the **less established** competitor landscape.

Leveraging established BNPL markets for market entry and unlocking potential in promising territories for TravelPay's expansion strategy

Expansion Recommendation

The established countries



63.3 M

UK residents made a total of 93.1 million trips abroad, spending **an estimated £62.3 billion** on their travels.

23% of UK travellers have used BNPL services for travel-related purchases, and this number is expected to increase.

55% of Gen Z and millennials in the UK are more likely to book a holiday if they have access to BNPL options.



83.2 M

In 2019, Germans spent **€93 billion on outbound travel**, and is expected to hit 117.9 million by 2024.

In 2021, **over 50% of Germans** would consider using BNPL services for travel expenses.

The German BNPL market is expected to reach **€27 billion by 2024**, with travel being one of the key industries driving growth.

The opportunity



37.7 M

In 2019, Poland recorded over 83 million overnight stays by tourists, with a **year-on-year increase of 3.4%**.

Poland has been witnessing a rapid increase in digitalization and e-commerce adoption. As of 2021, the country had around 29 million e-commerce users, with an **annual growth rate of 5%**.

Noting the deeply rooted belief that if you don't have the money, you shouldn't buy it. **Re-educating consumers** and creating a new market with a new instrument that is transparent and easy to understand.

①

Insights



②

Ideas



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Implement



TravelPay

A complete app to plan and pay for your next trip

1

Provide an app aimed at making it simple to plan the **whole journey** with a **one-time purchase** that is payable with the **BNPL system**.

2

Recommend destinations and activities based on **customer budget**.

3

Help customers find and compare the **best deals** for each stage of their trip, from buying plane tickets to transportation to the accommodation.

FINANCIAL WELLNESS

Help customers compare and choose the best available deals to save money

TRUST

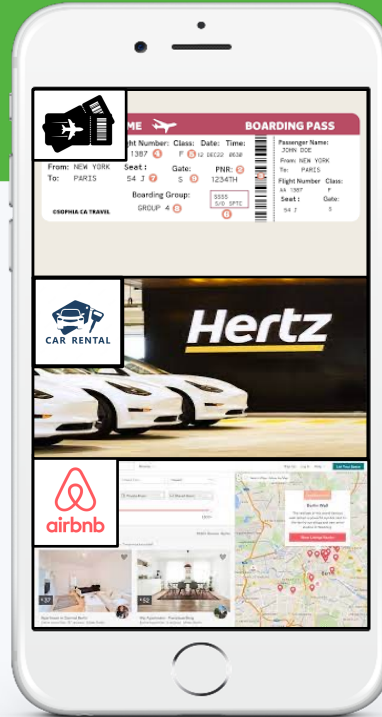
Give customers security in online shopping

COMPLETENESS

Help plan a complete journey experience

SUSTAINABILITY

Partner with companies that meet certain ESG standards



Enhance customer experience, make it total and sustainable.



- TravelPay will act as an **advisor**, delivering insights on budgeting and supporting customers in achieving financial goals
- This is done by recommending **tailored routes and destinations**
- Helping to improve customers financial health will lead to repeat business, loyalty, and trust



- **Accompany the customer** through the whole trip planning
- From the plane ticket to accommodation and activities, offer bundles and discounts on combined purchases
- This way different **merchants will mutually benefit** from each others presence in the app and willing to increase their subsidizing fees to TravelPay



- Partner familiar brands, offer loyalty programs, and discounts as Gen Z especially value tailored promotions to **enhance trust and affiliation**
- **Extended repayment terms** to enhance flexibility
- For frequent customers give priority for limited special deals



- Partner only with companies that show **commitment to ESG values**
- Propose **sustainable method of transportation** options to customers
- Implement a carbon offset program where a portion of the fees or profits generated is allocated towards investing in renewable energy projects

Predicted revenue for TravelPay's first breakthrough in three countries is estimated to be greater than £1,000,000 only through the main revenue streams

Financial Projection

MAIN PROJECTED REVENUE STREAMS	ESTIMATED FIRST-YEAR REVENUE	ASSUMPTIONS
Merchant-subsidized interest fees	£360,000	<ul style="list-style-type: none">Avg. interest rate per purchase: 4%Est. number of purchases per country: 30,000Avg. ticket price: £300
No autopay, but late fees	£675,000	<ul style="list-style-type: none">Est. number of TravelPay customers per country: 20,000Est. people incurring late fees: 10-20%Avg. charge for late fee: 25% of avg. ticket priceAvg. ticket price: £300
Premium service fees	£179,910	<ul style="list-style-type: none">Est. customers using premium service: 15%Price for premium service: £19,99
Data monetization	£120,000	<ul style="list-style-type: none">Est. earned through data monetization per customer: £2

Managing risks: addressing slow growth, credit default rates and cybersecurity vulnerabilities in TravelPay's BNPL venture

Risk Analysis

SLOW GROWTH

In countries like Poland **penetration rate and growth** in the market might be slower compared to the UK which is 20 or 30% as people might be skeptical about borrowing in a cash-oriented society.

CREDIT RISK AND DEFAULT RATES

As a instalment-based financing business model, TravelPay will incur in customers **defaulting on payments** which will impact the company's profitability and stability.

CYBERSECURITY AND DATA PRIVACY

Fintech companies handle **sensitive customer data**, making them potential targets for cyber threats and data breaches.

Maintaining robust cybersecurity measures, implementing data protection protocols, and adhering to industry best practices are essential to safeguard customer information and maintain trust.

Thank You

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