Layaway as a Purchasing Option

Layaway purchase plans are making a comeback. A layaway plan allows a consumer to reserve an item in a store with a deposit, make interest-free payments until the item is paid off, and then take it home.

Dating back to the Great Depression, layaway plans faded into near obscurity during the 1990s and early 2000s as credit became easier to obtain. Then, with the economy approaching a recession in 2007, retailers revived layaway purchase plans for the convenience of their customers – and in attempts to grow sales. With the holidays approaching, retailers have been heavily promoting layaway programs.

After a strong return to layaway programs last year, a number of major retailers have dropped or lowered their upfront fees and rolled out their holiday layaway programs earlier this year. While this makes the program look more attractive, consumers still run the risk of not being able to save for the payments to pay for the item in full by the due date.

The National Retail Federation is expecting a 4.1% increase in holiday sales this year – its most optimistic forecast since the recession. A CouponCabin.com survey conducted in September 2012 reveals that (34%) of U.S. adults are at least somewhat likely to purchase items on layaway this holiday season. Nearly one-in-ten (9%) said it is very likely they will do so.

Are layaway plans a good purchasing option?

In recent years legislators and consumer advocacy groups have cautioned consumers using layaway plans to read the "fine print" and ask about all the layaway fees before choosing to participate as some plans may cost more than using credit cards.[ii] In addition to requiring a 10% to 25% down payment for the purchase, most layaway plans stipulate that if the consumer is unable to pay for the item in the specified timeframe (usually 30-90 days), then they don't get their merchandise. They also don't get their service fee back, and most plans charge a cancellation fee of $10 to $20. Customers will get a refund on what payments they've made, but it's almost never cash. Typically, it's in the form of a gift card that must be used at the retailer.s[i]

At Toys R Us this year customers still must pay 20% down and have 50% of the total cost of the order paid within 45 days. Kmart, too, removed its layaway service fee both online and in stores through November 17.

Using credit cards – assuming the consumer has access to them – may not be a viable alternative to a layaway plan as getting caught up in the minimum payment trap can make the purchased item extremely costly.

That's where we believe we are a better option. Purchasing Power's employee purchase program gives eligible workers the ability to buy the same brand-new, name-brand products, but pay for them through automatic payroll deductions over 12 months, which makes us more affordable to purchase high-ticket items such as a large-screen TV, computer, refrigerator, or dining set.. Unlike a layaway plan, merchandise is delivered right away to employees' doors so there's no wait.

Purchasing Power's employee purchase program offers all-inclusive pricing that includes the actual product, value-added features such as extended warranties and accessories, shipping and handling fees, as well as any applicable taxes. Employees know the total cost upfront. There is no credit check, and no down payment is required. A 12-month payroll deduction schedule helps ensure that they won't miss a payment, so they don't risk late fees or loss of merchandise like they would with layaway and they have more time to pay off their balance, making the holidays less stressful.

Purchasing Power provides a financially responsible way to purchase not only during the holidays, but anytime during the year. When cash is not an option, Purchasing Power is a better way to buy.

i CouponCabin.com and Harris Interactive Online Survey, Sept. 13-17, 2012.
ii The Miami Herald, "Critics offer caution on consumer layaway programs," Lindsay Wise, Sept. 11, 2012.

$100 of toys put on layaway

Layaway

$10 down payment **+ $5** service fee

Toys are paid off over a 60-day period

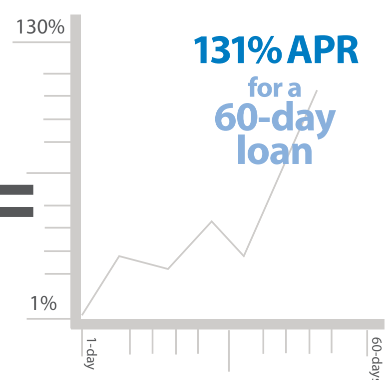
The national average for APR on a credit card is about 15%. For those with bad credit, it's about 24%.

Customer will pay 44% APR for a $90 loan*

*Louis Hyman, "Debtor Nation: The History of American Red Ink"

Failure to Pay...

+ $10 cancellation fee **=**



131% APR for a 60-day loan