RESEARCH CASE STUDY

Buy Now Pay Later

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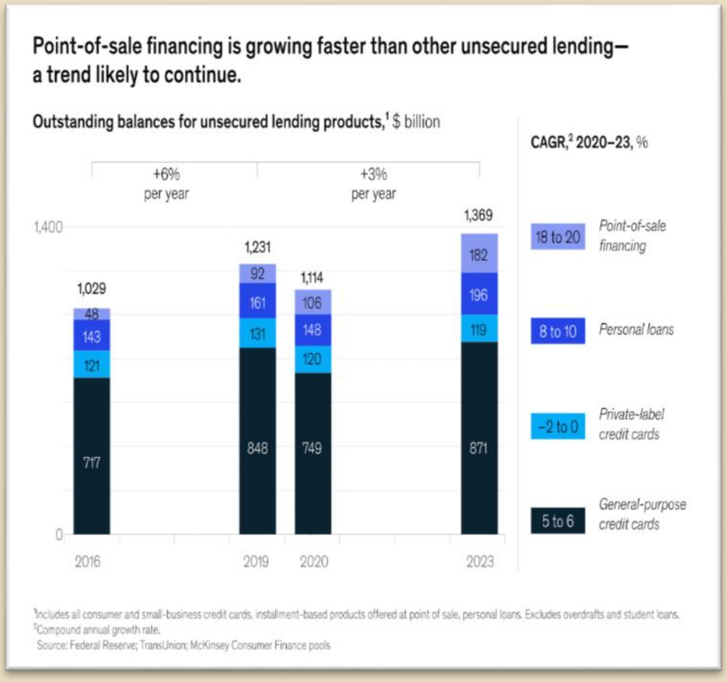
Introduction

The financial landscape has undergone significant changes, with the global payment sector increasingly leaning towards digitization and innovative credit solutions. One of the most notable developments in recent years is the rise of Point-of-Sale (POS) financing, particularly the "Buy Now, Pay Later" (BNPL) model. The COVID-19 pandemic has accelerated this trend, pushing both consumers and merchants to adopt more flexible and dynamic payment methods. As a result, BNPL has rapidly evolved from a niche offering into a mainstream financial product, driven primarily by fintech companies that have disrupted traditional lending institutions.

This case study explores the various business models within POS financing, examining their impact on consumer behavior, business operations, and the broader financial market. It delves into the factors behind BNPL's growth, the user segments most attracted to these services, and the challenges and opportunities for both consumers and companies. Additionally, the study compares the BNPL landscape in India with global markets, highlighting the advantages and disadvantages of this payment method. The insights gathered provide a comprehensive overview of how BNPL is reshaping the future of consumer financing and what this means for the financial industry moving forward.

Point-Of-Sale (POS) Financing Services

As per the McKinsey & Company Article, Point-of-sale (POS) financing, also known as "buy now, pay later" (BNPL), services in the United States have seen rapid growth, especially since the onset of COVID-19, driven by digitization, increased merchant adoption, and greater consumer usage, particularly among younger generations. Fintech companies have led this growth, diverting significant revenue from traditional banks, which have been slow to respond. POS financing is projected to grow from 7% of US unsecured lending balances in 2019 to around 13-15% by 2023.



Five Business Models to compete

1. Integrated Shopping Apps

Misunderstood by traditional banks as purely financing solutions, the leading BNPL providers are evolving into integrated shopping platforms that guide consumers from prepurchase to post-purchase. They aim to become "super apps" like China's TMall or Ant Group, offering shopping, payments, financing, and banking services. The core Pay in 4 model focuses on financing small purchases (typically under $250) with payments spread over six weeks. About 80-90% of these transactions are made with debit cards, with average ticket sizes between $100-$110. Pay in 4 grew 300-400% in 2020, reaching $15 billion in originations. McKinsey projects annual originations to hit $90 billion by 2023, generating $4-$6 billion in revenue. Providers are also moving into new categories, such as Klarna's integration with Etsy.com and Afterpay with Houzz.com.

2. Off-Card Financing Solutions

These solutions, like Affirm and Uplift, cater to midsize purchases ($250-$3,000) with average ticket sizes around $800 and loan tenures of eight to nine months. Consumers typically use these loans instead of credit cards, as they offer better terms. Around 65% of originated volume is from prime or higher credit scores, and 25-30% of originations in 2021 are expected to be in-store. These models are less engaging than Pay in 4 apps, with consumers using them about two to three times per year, compared to over 20 times for integrated shopping apps. The shift towards card-linked installments may pose a threat to these models.

3. Virtual Rent-to-Own (VRTO) Models

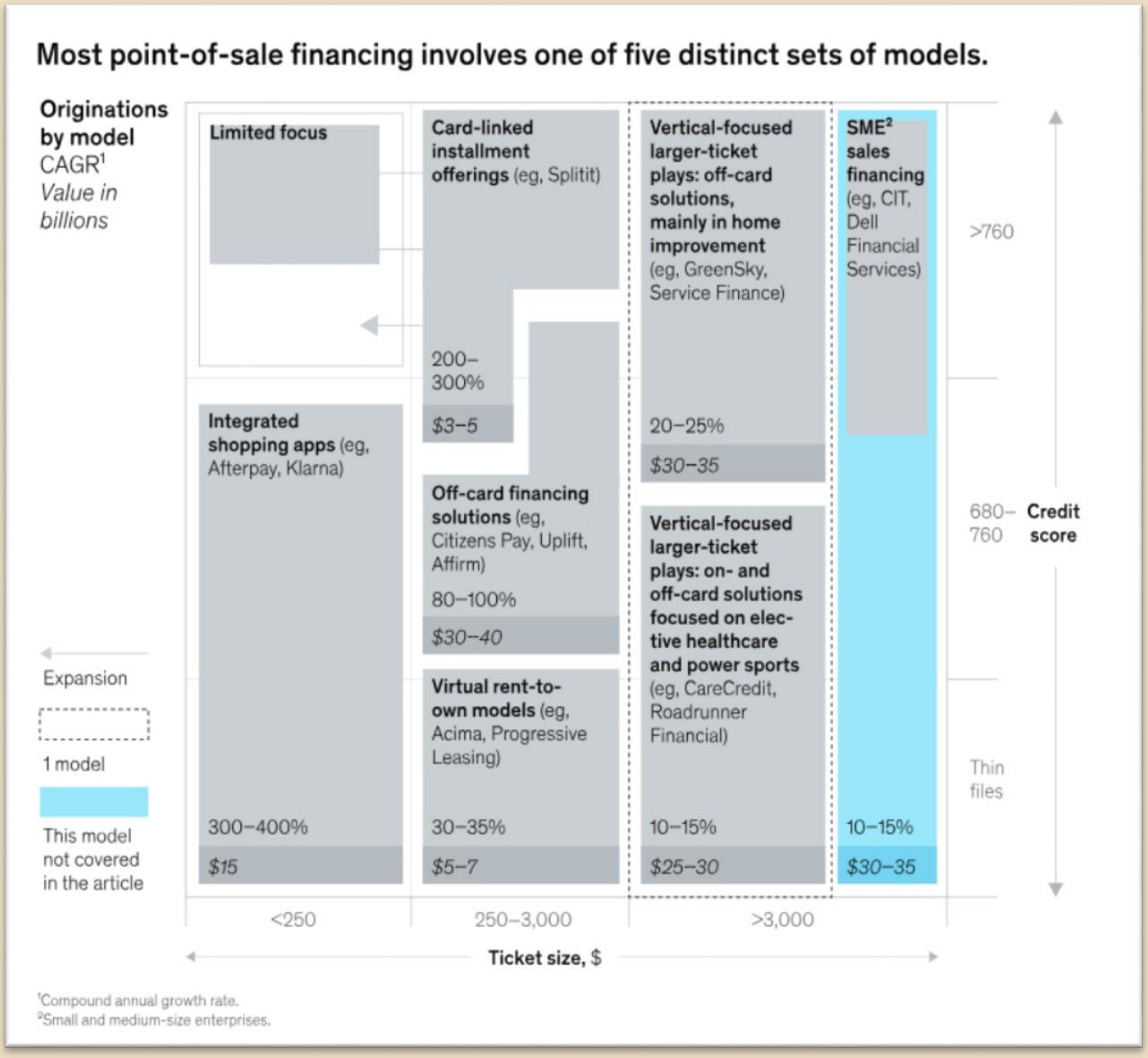
VRTO players, like AcceptanceNow and Progressive Leasing, target subprime consumers (95% with credit scores below 700) with high implied APRs. Most originations (78%) are in categories like mattresses/furniture and electronics/appliances. These players are often used as second- or third-look financing options in-store or digitally. Larger merchants sometimes receive rebates on originated volumes, making this model appealing for certain partnerships.

4. Card-Linked Installment Offerings

Common in Asia and Latin America, card-linked installments are gaining traction in the U.S., with fintechs like SplitIt and pilot solutions from Visa. These models enable merchant-subsidized offers with average ticket sizes around $1,000. While U.S. adoption has been slow, this approach could gain momentum as card issuers integrate installments into the entire purchase journey, potentially rivaling Pay in 4 apps.

5. Vertical-Focused Larger-Ticket Plays

This model, akin to traditional sales financing, specializes in specific categories like healthcare (e.g., CareCredit) and home improvement (e.g., GreenSky). Healthcare financing ranges from $2,000 to $10,000 per ticket, focusing on elective services like dental and dermatology. Home improvement financing, with ticket sizes between $5,000 and $50,000, often involves HVAC, roofing, and remodeling. This model is increasingly competitive, with banks considering entry to acquire high-credit customers and cross-sell other financial products.



Consumer Behavior Analysis on using BNPL

The shift towards BNPL services is primarily driven by younger generations, such as millennials and Gen-Z, who are attracted to the convenience and flexibility it offers. Despite having financial resources, these consumers prefer BNPL over traditional credit options because it allows them to manage their expenses without accruing significant debt or fees. Additionally, more mature demographics, like Gen Y and X, are also embracing BNPL for its flexible and budget-friendly nature, contradicting the assumption that only younger or lower-income individuals use this service.

Reasons Behind BNPL Growth

BNPL's rapid growth is fueled by its simplicity and flexibility. The service offers consumers an easy way to finance purchases through installment payments, often without interest or with lower rates than traditional credit options.

This appeals to those who want to avoid the complexities and potential financial pitfalls associated with credit cards or loans. Additionally, the seamless digital experience—requiring minimal paperwork and no branch visits—has made BNPL an attractive option in an increasingly digital world.

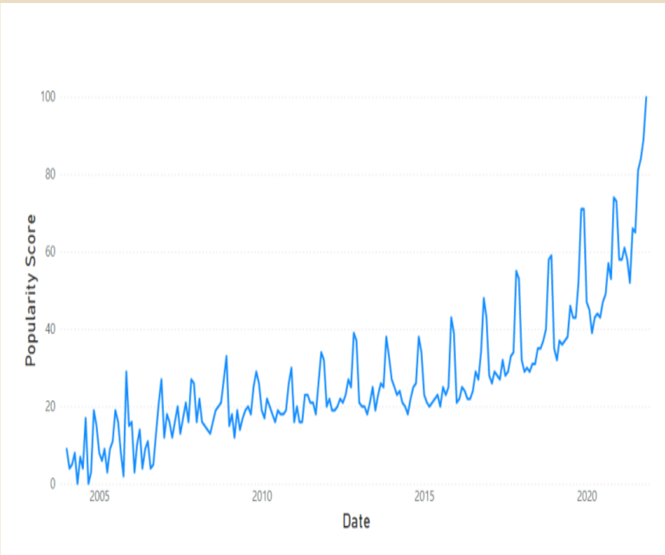


Fig 1: Popularity score of BNPL by Date. Adapted from Google Trends

Targeted User Segments and Growing Categories

BNPL particularly appeals to budget-conscious, credit-averse consumers across various age groups. While millennials and Gen-Z are often highlighted as the primary users, older demographics like Gen Y and X are also significant users. The service has gained traction in categories like retail, especially during holiday shopping, where it can incentivize higher spending. In countries like Australia and the UK, BNPL has quickly become one of the fastest-growing payment methods, with key players like Afterpay, Zip Pay, and Klarna leading the market.

Impacts on Businesses

For businesses, BNPL offers several advantages, including higher average order values, improved customer retention, and increased cart conversion rates. By offering BNPL, retailers can attract new customers and enhance engagement, especially among those who might struggle to access traditional credit. However, businesses must also navigate the challenges of integrating BNPL services into their payment systems and managing the potential risks associated with offering credit.

Comparison of Indian BNPL companies with Global Market

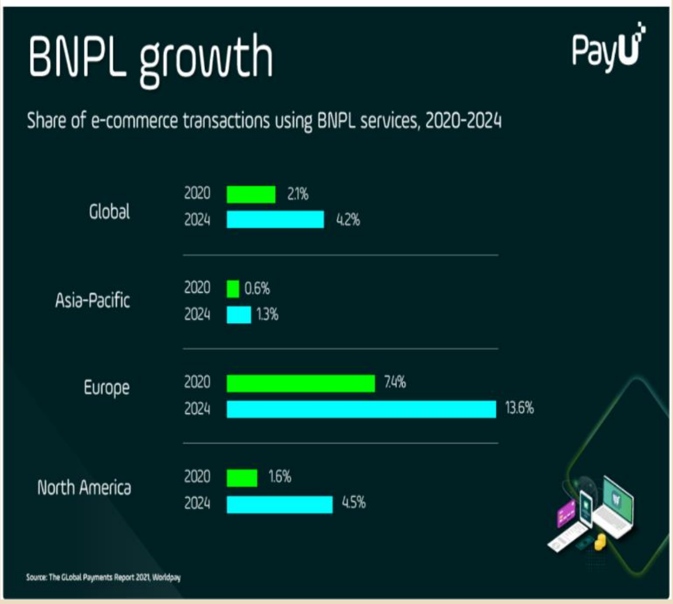
Indian BNPL companies, such as **LazyPay**, primarily cater to a rapidly growing e-commerce market in India. LazyPay offers innovative solutions like the **LazyCard**, which works similarly to a credit card, allowing consumers to make point-of-sale transactions and offering rewards and benefits akin to traditional credit cards.

When comparing Indian BNPL services to global counterparts:

1. **Market Penetration:** Indian BNPL services like LazyPay are still expanding within the country, while companies like **Klarna** in Europe or **Afterpay** in Australia have established extensive international networks.
2. **Product Offerings:** Indian BNPL providers focus on blending traditional credit card benefits with BNPL features, as seen with LazyPay's LazyCard. Globally, BNPL companies also innovate with diverse payment options, such as **Divido's white-label technology** or **Affirm's virtual cards**.

3. **Regulatory Environment:** The Indian market has a regulatory landscape that BNPL companies must navigate, especially with the Reserve Bank of India focusing on consumer protection. In contrast, global markets like Europe have a more mature regulatory framework, which companies like Klarna and PayPal must adhere to.

Overall, Indian BNPL companies are adapting quickly to a growing market, with potential for rapid growth, similar to the developments seen in global BNPL markets like Europe, North America, and Australia. However, the Indian market is still in the early stages compared to more established markets where BNPL services have already achieved significant penetration and innovation.



Below table provides a concise overview of the key BNPL providers in different regions, highlighting their features and markets:

Region	Key BNPL Providers	Key Features and Markets
Europe	-Klarna -PayPal -Divido -PayU Credit -TwistoPay - PayU Installments	- Largest BNPL player in Europe, partners with 250,000 merchants, 90 million consumers across 40 countries. - Entered BNPL in 2020, rapidly expanded through eBay integration. - Retail finance platform allowing branded installment payments. - Top online credit broker in Poland, Czech Republic, and Romania. - Popular in Poland and Czech Republic, expanding to Romania. - Free installment options for merchants, collaborated with eMAG in Romania.
Asia	-LazyPay -Cashalo - Paidy	- Leading BNPL provider in India, launched LazyCard for POS transactions with credit card-like benefits. - Philippine consumer finance platform offering flexible credit lines. - Japanese fintech offering POS financing with monthly consolidated billing.
Middle East & Africa	-Payflex -RCS -Tabby - Tamara	- South African leader, split payments into four installments over six weeks. - South African finance company with installment payments accepted at 26,000 stores.

		- Split payments into four installments or pay within 14 days. - Payment split into three installments with no fees or interest.
North America	-Affirm -Afterpay - PayPal's 'Pay in 4' - Sezzle	- Popular in the US with 12,000 merchants including Amazon and Target. - Global platform offering payments in four installments over six weeks, widely used in US retail. - Spread payments into four installments over six weeks. - Partnered with US retailers and healthcare providers, offering interest-free installments.
South America	-Addi - RecargaPay - Swap	- Bogotá-based startup, operating in Brazil and Colombia, payment plans up to 24 months. - Integrated consumer loans with BNPL, allowing utility payments in installments. - Brazilian platform using virtual cards for BNPL transactions.
Australia	-Afterpay - Zip	- Leading BNPL provider in Australia, expanded to US. - Available in Australia, New Zealand, South Africa, US, and UK, offering virtual cards for shopping with interest-free installments.

Advantages and Disadvantages for Consumers and Companies

For consumers, BNPL offers the advantage of easy access to credit without the burden of high interest rates or fees. It also provides flexibility in managing finances, making it an appealing option for those who prefer not to use traditional credit methods. However, the downside is the potential for overspending and accumulating debt if payments are not managed carefully.

For companies, BNPL can drive sales and customer engagement by offering a payment method that aligns with consumer preferences. It can also attract new customers and increase the average transaction value. On the flip side, companies must manage the risks associated with offering credit, including potential defaults and the complexity of integrating BNPL services into their existing payment systems.

Conclusion

The rise of BNPL services marks a significant shift in consumer financing, driven by digital transformation and the demand for flexible, convenient payment options. Popular among younger generations, BNPL also attracts older demographics due to its ease of use and financial control. This method has reshaped consumer spending habits and provided businesses with a powerful tool to boost sales and customer engagement.

Globally, BNPL is expanding rapidly, with markets like India emerging as key players. However, while offering clear benefits, BNPL also presents challenges such as overspending risks for consumers and credit management concerns for businesses. Going forward, responsible practices will be essential to ensure the sustainability of BNPL as a financial tool.

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