



Learn How Buy Now, Pay Later Websites are Transforming Online Shopping

Description

Buy Now, Pay Later (BNPL) is a point-of-sale financing solution that has risen in popularity recently, particularly among younger generations. In the early 2010s, BNPL solutions arose to address the pain points associated with financing, precisely complexity and credit cards with high fees and APRs.



According to an Insider Intelligence analysis, these frequently expensive costs have prompted consumers to seek alternative payment options, thereby contributing to BNPL's success.

The COVID-19 pandemic aggravated numerous pre-existing financial stress concerns, such as late payments and dwindling credit limits. Because of this, total credit card usage in the United States has fallen in recent years, creating an opportunity for new payment methods to emerge — an opportunity that BNPL took advantage of.

BNPL solutions were created as an alternative to credit cards and other types of financing, allowing customers to acquire their product and pay in a predetermined number of payments over time.

Customers are frequently provided these solutions with little to no interest rates and hidden costs, implying no additional expense to the customer. The US BNPL loan industry was worth a few billion dollars in 2019, but it is expected to expand by 1,200 percent by 2024. With the increased adoption of

BNPL solutions, merchants searching for competitive advantage have a real opportunity – they need to seize it.

Who is BNPL's target customer?

The younger generations, Millennials and Generation Z, have been BNPL's target demographic. According to a Forbes survey, the rate of BNPL among Gen Z has increased by 600% since 2019, while the rate for Millennials has more than tripled.

While Gen X and Baby Boomer adoptions aren't far behind, the rise of BNPL among younger generations alludes to a future in which BNPL is no longer an alternate payment method but the primary one.

How Does BNPL Function?

At the checkout, customers often have the option of receiving their product immediately but paying for it in full after 30 days or in smaller installments over time. They usually make three or four evenly spaced installment payments with their payment card. If they pay on time, there are no further fees or interest to pay. Participating merchants pay the provider a 2-6% commission for each transaction plus a predetermined charge.

Buy Now, Pay Later choices for payment

Though specifics vary by country, most BNPL services provide users with three main options:

- After 30 days, pay in full.
- Divide your Later Installments payment into three or four equal, interest-free installments.
- Finance It allows you to divide the cost of more oversized items into as many as 36 monthly payments. Interest may be charged.

The Buy Now, Pay Later checkout experience.

Consider the BNPL experience from the eyes of the consumer. They discover an item they want, put it in their shopping cart, and go to the checkout. So far, so typical.

However, this is where things start to get interesting. Along with typical payment methods such as credit/debit cards and PayPal, they will have access to Pay with Sezzle and Pay with Klarna. Shoppers are allowed to buy now, pay later, and close to the areas for entering their card data, increasing consumer purchase flexibility through multiple flexible payment alternatives.

Pay Later at the point of sale.

Customers in various countries can order a real or virtual BNPL card, which allows them to buy now and pay later at retailers who do not usually provide this option. Purchases are charged to their account, with the option to pay immediately or via financing in 30 days.

Though internet stores handle most BNPL transactions, traditional brick-and-mortar retailers can also provide BNPL payment plans. This method typically entails the consumer creating a QR code in their BNPL app, which is scanned at the point of sale.

The shop receives the credit, and the buyer has the option to pay later. Customers' spending power increases, and their financial plans are more flexible when they can pay how and when they choose.

Why Do Customers Prefer Buy Now, Pay Later?

Businesses must understand why customers appreciate BNPL and how they can best position themselves to take advantage of it as it develops in popularity as a payment alternative.

Credit card use is decreasing.

Customers have been gradually turning away from the dominance of traditional credit cards since the beginning of the COVID-19 epidemic, with reasons such as high-interest rates, diminishing credit limits, and poorly managed rewards schemes compounding the problem. The loss of credit cards opens the door for other payment options, such as Buy Now and Pay Later.

It's a less expensive way to finance goods.

Unlike credit cards, which make money through interest rates and late penalties, BNPL alternatives offer a more inexpensive payment option because of their lower costs and interest rates.

Buy now, pay later is a more convenient and flexible method of purchasing.

BNPL provides a simple, flexible payment solution for people who are suspicious of credit cards and rarely carry cash. If you are currently in a store, payment approval is immediate. If you want to order products for a later date, BNPL can help. It allows you to pay advance to assure on-time delivery without any payment issues or forgetfulness.

The Advantages of Using BNPL Options for Retailers

Even if consumers wish to spread the expense, retailers prefer to be paid immediately. Upon a customer's purchase, a BNPL provider such as Klarna, Affirm, or Sezzle will quickly transfer funds to the retailer. Because of clever algorithms, these companies can bear credit risk for the store (paying them even if the consumer defaults) and the consumer. Everyone is safe no matter what occurs. Here are some of the critical advantages that shops will gain from implementing a BNPL option:

Brings in new customers.

The ability to try before you buy has long been a problem for online retailers — people like to feel the fabric between their fingers and see if the shoes fit before committing. Buy now, pay later specialists offer a great chance to make this work in the online space.

Through features like free returns and dedicated support staff, organizations using BNPL can lower entry barriers for consumers and give them flexibility when making purchases. It's tempting to dismiss free returns as a waste of money, yet they quickly become a necessary business tool. According to a UPS survey, 66% of customers check return policies before making a purchase, and more than half of online shoppers avoid companies with strict returns. Businesses that view returns as an opportunity to improve consumer relationships are more likely to succeed.

Improved customer experience.

While it is true that Millennials and Gen Z enjoy shopping, browsing, and simple delivery, they, like everyone else, demand and expect a superior shopping experience. To attract and retain younger generations as clients, you must establish a platform equal to the challenge. That must happen before considering reward programs, loyalty schemes, or other nice-to-haves.

Sales have increased.

Purchasing a large-ticket item can be difficult, whether it's the shock of such a large sum of money leaving your bank account or the potential of hefty interest rates on your credit card. That is one of the reasons why BNPL has a good impact on conversion rates. According to the Baymard Institute, the price was the most frequently mentioned reason for cart desertion. Offering payment plans can dramatically lessen price shock, encouraging customers to complete their purchases.

Increased customer lifetime value (LTV).

BNPL ultimately benefits consumers since it gives them greater flexibility and control over what and how they buy. Merchants gain new Millennial and Generation Z clients, increase recurring visits, and convert larger average basket sizes. Because a great purchasing experience is critical to client retention, positive experiences mean they'll return again and again. Furthermore, once customers realize you have a BNPL option, they will return to you for their next big-ticket item.

How to Pick the Best Provider of Buy Now, Pay Later

When looking for the best BNPL supplier, you must first understand the products you intend to offer, the pricing, and, most importantly, who your clients are. Once you've mastered that, the following options are crucial in determining the best BNPL supplier for your company.

Terms of repayment.

BNPL firms often provide numerous installment plans and term lengths ranging from a few weeks to

several years. It is critical to estimate your average order value while analyzing your business and deciding which repayment options suit you (AOV). If your AOV is substantial, BNPL suppliers who offer payback over a more extended period, ranging from several months to years, are likely to be your best option. If your AOV is lower, it may be best to seek plans with fewer installments spread out over a shorter period.

Limits on credit.

The majority of BNPL providers set minimum and maximum credit limitations. Before deciding on a provider, consider your company's credit limitations and AVO to see what works best for you.

Geographic areas served.

Which supplier you select may be determined by the market in which you are located or operate. Depending on your budget and access, this may entail employing numerous providers for different markets.

Conclusion

Expect the desire for flexible payment options to grow as younger generations mature and obtain more purchasing power and as credit cards continue to wane in use. Buy Now, Pay Later offers a flexible alternative to disrupting the payments industry, stealing clients from credit card firms, and allowing them to spread their payments over time – without the unpleasant interest fee accumulation.

Digital finance possibilities will only expand in tandem with an increasingly computerized environment. Implementing Buy Now, Pay Later into a storefront can only help firms that want to stay on the cutting edge – and meet a shifting customer base.

Category

1. Finance

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