Behind closed doors of BNPL

What you need to know before choosing a BNPL solution

There's nothing new about payment plans in the retail sector — layaway, credit cards and store cards have been around for decades. However, consumer financing has been revolutionized over the past few years by becoming an integral payment method, with the availability of buy now pay later (BNPL) at point of sale.

There are quite a few reasons why BNPL solutions have become so popular in recent years — and why this trend isn't only here to stay but is expected to grow significantly in the coming years.

According to Insider Intelligence, the industry is forecasted to grow at a compound annual growth rate (CAGR) of 13.23%, reaching $680 billion in global transaction volume by 2025.

More shoppers than ever before are avoiding plastic and buying online using BNPL financing solutions at the point of sale. From July 2020 to March 2021, the proportion of American consumers who shopped using a BNPL service increased by nearly 50% from 38% to 56%. And with only 33% of shoppers between the ages of 18 and 29 carrying credit cards, retailers who don't want to lose out need to offer BNPL solutions.

As the popularity of BNPL expands, businesses that lag behind will lose customers, have more abandoned shopping carts and lose sales if they don't offer alternative payment solutions. On the other hand, businesses that have successfully rolled out BNPL platforms have benefited from over 30% increase in sales and an estimated 70% increase in the average order value (AOV).

The numbers show that providing BNPL is important, but not all BNPL solutions are created equal.

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In this article, we are going to give you an inside look at the issues that arise and various considerations when choosing a BNPL solution. These elements aren't always obvious and are sometimes overlooked — at a great cost to the merchant.

Over the past few years, Jifiti has gained expertise and know-how through implementing numerous integrations for retailers and banks worldwide. We are passing on these actionable insights for businesses looking to implement a POS financing solution that is right for them, in order to grow their margins and remain competitive in a changing market.

Cost to the Merchant

One of the most significant aspects of any BNPL solution is the cost to the merchant. True, the 30% increase in sales is tantalizing, however, different solutions carry different cost structures.

For example, major direct to consumer (D2C) BNPL solutions today charge the merchant a 3% to 6% per transaction fee.

So what other options are there?

Over the past few years, major banks have entered the BNPL space. The banks' low cost of capital, combined with their technological capabilities (largely thanks to partnering with fintechs) results in tangible savings to both the merchants and the customers.

So instead of paying 3% to 6% fees per transaction, merchants using a banks' POS financing can potentially pay as low as 1% to 3%.

We've seen merchants do the math and choose a bank BNPL solution over other solutions, knowing that over time they will be saving money for themselves and their customers.

For merchants looking at the long game, choosing a solution that cuts costs and provides competitive loan programs is the right move.

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Acceptance Rates

One Achilles heel of BNPL solutions is acceptance rates.

The higher the acceptance rates, the more shoppers will be able to buy. But acceptance rates are often low, resulting in disappointment and loss of potential sales. Shoppers will arrive at checkout, apply for BNPL and won't be approved by the lender's credit decision engine. Aside from lost sales, discouraged consumers may decide not to return to the store.

The solution lies in the waterfall model.

The waterfall model is a method of offering different loan programs from different types of lenders within a single BNPL application, broadening the lending potential with prime, near-prime and subprime lenders. When a customer is rejected by the primary lender, a secondary lender may choose to approve them, without having to reapply for the loan. Adding a secondary lender can increase acceptance rates by up to 90%, empowering customers to buy what they want while delivering a seamless and user-friendly experience.

When interested in a waterfall model, merchants usually explore working with technology platforms before selecting the lender. These service providers facilitate the financing programs for different lenders and banks, as opposed to working directly with a single D2C BNPL solution. Less rejections and higher acceptance rates translate into increased sales and happier customers.

The waterfall model - one application that provides multiple lenders can increase acceptance rates by up to 90%.

Branding

Most popular BNPL solutions are direct to consumer offerings. Shoppers shop at a specific store but become the BNPL's customer and are then marketed to by other brands and merchants.

A major consideration of merchants examining BNPL options is the ability to provide a completely branded experience, retain customers and data.

In order to provide an end-to-end experience, merchants should look for a white-labeled BNPL solution that enables them to protect their brand and keep their customers. A merchant's brand is vital to long term growth and success, and is therefore at the forefront of the decision making process.

Customer Data

Many of the merchants we speak to are emphatic that their customer is the most important aspect of their business. Owning customer data empowers merchants to better serve shoppers, making data ownership a significant consideration when launching a BNPL solution.

One question merchants ask is what happens to customer data during the BNPL process.

Many BNPL providers co-own the data of any customers utilizing financing options, essentially converting them to their own customer. This is a big issue today as customers are inundated with marketing emails, sales emails, new offer emails and everything in between.

When a service takes ownership of the customer's data, this will dilute the merchant's brand and distract from their marketing efforts. Using a white labeled BNPL solution keeps the customer's data theirs (and only theirs).

Not Everyone is a Millennial

Different merchants cater to different demographics and this should impact the merchant's choice of the appropriate BNPL solution.

For example, a merchant selling hearing aids was discussing POS financing solutions with various banks. Their clientele is naturally an older demographic who may not own a smartphone and aren't necessarily technologically savvy. Therefore most of the company's sales are conducted through a call center.

The merchant’s top priority was to find a lender that has a dedicated solution for call centers as opposed to a typical point of sale. They also needed a complete solution for legal compliance and user experience optimization.

The merchant required phone reps to be able to get a legally binding consent for BNPL over the phone and walk the customer through the process in the simplest and most user friendly way.

Always look for a BNPL provider who has experience with the merchant’s specific requirements.

Corporate Structure

The corporate structure of the merchant will also determine specific considerations when choosing a BNPL solution.

For instance, if the merchant has hundreds of locations, but each one is a franchise operating independently of the others with different points of sale, this necessitates a very specific offering.

A BNPL solution for franchises puts best practices in place and is POS agnostic. This allows each franchise to be seamlessly onboarded to the corporate program without the need for an integration at each separate POS.

Some questions we’ve seen come up with franchise models that don’t come up elsewhere include: Does the lender need to underwrite each franchise separately? Who is responsible for the merchant? How is the program deployed?

These and other concerns are addressable with a BNPL program that caters to franchises or individual dealers as part of their standard business operations.

Not Only for e-Commerce

Integrating BNPL for online stores is much more straightforward than for physical stores, however, not all BNPL providers offer in-store solutions.

For online merchants that have physical stores, keeping payment platforms consistent is a serious consideration. Additionally, physical stores that do not offer POS financing could be missing out on sales.

Although online sales have soared this past year, physical stores still need to offer their customers the same point of sale payment options that are offered online. Merchants' due-diligence processes include finding a provider that is capable of providing them with an in-store BNPL that is as seamless and as branded as their online version.

Physical stores should offer their customers the same point of sale options offered online and vice versa.

SKU-Based Financing

Merchants that sell a wide variety of products, such as department stores, may want to offer different loan terms for individual items. These merchants look for BNPL providers that can offer SKU-based loan programs at the point of sale, enabling them to provide different loan programs for different types of products.

For example, TVs can be financed for up to 12 months with 3% APR, but refrigerators can be financed for up to 36 months at 2.3% APR. This is all done behind the scenes and is seamless and transparent to the consumer. Giving the merchant complete control over what and how they sell.

Global Footprint

Merchants with an international presence will usually go through a grueling process of integrating separate lenders in each country with their point of sale. Due to this fragmented setup, global merchants lack full control and visibility over all of their loan programs across all regions. Additionally, they are challenged with providing a unified user experience across their stores worldwide.

These merchants are actively looking for a solution that has global capabilities to act as a hub for different lenders and streamline the experience throughout the different markets. Merchants are looking to avoid the resource-intensive integration processes in each marketplace and have a centralized platform that offers full transparency and control.

Conclusion

There are various BNPL solutions available today, however, not all BNPL solutions are created equal. An out of the box solution may not be suitable for everyone. More and more merchants are conducting thorough due diligence to better understand how a lender-agnostic solution can provide them with a customized platform that will support their needs going forward.

About Jifiti

Jifiti is a leading fintech company bridging the gap between lenders, retailers, and consumers by delivering customizable BNPL solutions. With a white labeled platform and seamless deployment, banks can utilize the platform to onboard hundreds of merchants per month and merchants can quickly offer competitive consumer loan programs either in store or online.

By partnering with leading banks and lenders, Jifiti combines cutting edge technology and user experience with the best loan programs available. Jifiti works with leading financial institutions including Mastercard, Citizens Bank, CaixaBank, Credit Agricole, and retailers including IKEA and Walmart.

For more information please visit www.jifiti.com or email hello@jifiti.com.