

# ***MAKING THE MOST OF BNPL:***

HOW EDUCATION AND TOTAL  
COST TRANSPARENCY CAN  
LEAD TO BIGGER BASKETS

retail  
**TouchPoints®**  
SPECIAL REPORT



## INTRODUCTION

Buy now, pay later (BNPL) adoption is growing into a wave retailers can't afford to miss. Global BNPL spend will reach **\$995 billion** in 2026, accounting for **24%** of physical goods purchased by value, according to **Juniper Research**. The spend is projected to rise **274%** from 2021 levels, with the total number of BNPL users expected to exceed **1.5 billion** in 2026, compared to **340 million** in 2021.

"Ultimately, we believe that BNPL will continue to grow," said Nick Maynard, Lead Analyst at Juniper Research in an interview with *Retail TouchPoints*. "As it becomes more prominent for users, this will incentivize merchants to integrate these options where they have not already. Regulation will likely place rules around BNPL operations, but we do not believe these will restrict growth meaningfully. **Retailers need to ensure that they offer a convenient experience that is focused around the BNPL offering — integrating payment values in the ecommerce page is one way to make it more prominent.**"

Retailers need to guide curious shoppers to their BNPL offerings while also adjusting their own operations to maximize the benefits of this payment option. Key strategies retailers should consider include:

- **Educating the shopper:** BNPL is a fairly new form of credit, which means shoppers may not be familiar with the term. This can be a source of frustration if consumers are hit by fees, but offering total transparency up front can actually encourage purchases, even motivating shoppers to finalize planned future purchases earlier than they would have;
- **Making use of BNPL's unique benefits:** Smart retailers can take the technology beyond payment flexibility by positioning BNPL as a way for shoppers to reach shipping thresholds and even associating it with the resale market;
- **Adding BNPL to your payment ecosystem:** While BNPL is largely associated with ecommerce purchases, its growing popularity means it's moving in-store too. Making BNPL part of a seamless payment ecosystem can enhance the brick-and-mortar experience, provided retailers can keep payment data safe; and
- **Expanding the appeal:** BNPL is currently most popular with younger shoppers, but opportunities exist to expand to other demographics and product categories, particularly as the option becomes more commonplace.

## A QUICK OVERVIEW OF BNPL



BNPL programs are similar to credit cards in that the providers charge fees for each transaction. Most are a percent of sales in the **3% to 5%** range and they often stipulate a flat minimum amount in the **low tens of cents**, according to Rick Watson, Founder and CEO of **RMW Commerce Consulting**.

In return retailers can use these services to build bigger ticket sizes (as much as **20% to 30%** higher than without BNPL), an improved customer experience thanks to contactless options and immediate payment on large purchases. Additionally, BNPL means retailers themselves don't have to deal with checking a customer's credit

Providers differ on whether they charge shoppers for late payments — for instance, Afterpay includes late fees but Affirm does not, according to Watson.



## TRANSPARENCY IS THE KEY TO EDUCATION – AND BIGGER PURCHASES

In many ways, trust is the ultimate loyalty driver. Shoppers want retailers they can trust to consistently deliver the best prices, offer reliable merchandise and meet their needs in a convenient manner. This desire carries over to BNPL as well, where retailers need to ensure shoppers understand the service and how it may or may not differ from other payment options. A shopper that misunderstands the terms and ends up paying unexpected interest will likely blame the retailer for the situation.

The simplest way to achieve this is to “be upfront and straightforward about showing the ‘true cost’” of a purchase to help shoppers make their budgeting decisions, according to Hemal Nagarsheth, Associate Partner in the Financial Services practice of **Kearney** in an interview with *Retail TouchPoints*. “Prior to checkout, retailers can clearly display what is the total purchase cost over time, factoring in fees and/or interest, and how this could compare to other sources of credit the consumer may have. Deferring this to post-purchase can often erode trust, whereas upfront openness can show the consumer that the retailer is ‘on their side.’

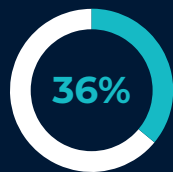
“We are increasingly seeing this behavior as helping cultivate consumer loyalty, sometimes to a greater extent than the monetary rewards customers are accustomed to for loyalty,” Nagarsheth added. **“The technology advantages accruing from today’s BNPL offerings can provide real-time and interactive planning/decision making,** which is not always replicated by other forms of credit which may rely on offline/post-purchase manual steps.”

Clearly laying out the terms also can encourage purchases that may not have been otherwise feasible. “BNPL brings forward the timeframe of an actual purchase,” said Chris Ventry, VP in the Consumer and Retail practice of **SSA & Company** in an interview with *Retail TouchPoints*. “Many consumers have a set budget for each shopping visit, and this budget may not always align with actual need. For one off-price retailer we’ve advised, the customer always came into the store and spent about **\$40**, and frequently the purchase satisfied just one or two family member’s needs. **With BNPL the customer can bring forward next month’s purchase today and still not break the \$40 budget.**”

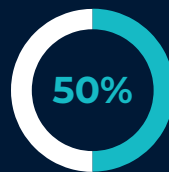


## EVEN IN THE SHORT TERM, BNPL IS ON THE RISE

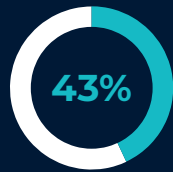
In July 2020, **The Ascent by Motley Fool** surveyed **2,000** shoppers about their BNPL habits and found that **37.65%** had used such a service. Another survey in March 2021 revealed that **55.8%** had used BNPL — nearly **50%** growth in less than a year. Other results from the surveys include:



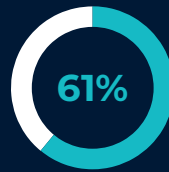
**36%** of shoppers used BNPL once a month or more



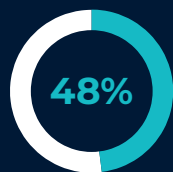
The number of shoppers who say they understand BNPL at least somewhat well increased by nearly **50%**



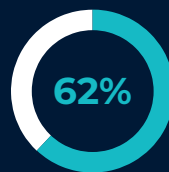
PayPal was the most common provider, with **43%** of shoppers saying they've used the brand's BNPL options



**61%** of shoppers would rather use a BNPL service offered directly from the retailer they're buying from than going through a third party



**48%** of shoppers have used BNPL to buy electronics, making it the most common category



**62%** of shoppers think BNPL could replace their credit cards, though only about 25% want that to happen

*Source: The Ascent by Motley Fool*





## ***FLEXIBILITY IS KING FOR MAKING THE MOST OF BNPL***

Utilizing BNPL to its fullest means understanding what makes the service appealing to shoppers. The obvious answer, of course, is the ability to make expensive items more affordable in the immediate term: a shopper who can't afford to pay **\$1,000 up front** often can handle four **\$250 payments** over the course of several months. Additionally, flexible payment terms can build baskets by helping shoppers reach an order threshold that would be out of reach if they had to pay upfront.

"BNPL assists with conversion, and can help increase the units in the basket," said Ventry. "This is especially true when there is a free shipping threshold. Adding that extra item into one's cart can help qualify for free shipment. Couple that with an extended time period to pay, and **the retailer converts a wish into a sale.**"

Ventry also pointed out BNPL's intersection with another hot topic: **resale**. SSA & Company surveys have found that a growing number of shoppers are factoring in their ability to resell items during the BNPL period. They purchase a new item, use it temporarily, and then use the proceeds from reselling it to pay off the balance. This enables BNPL programs to act as quasi-rental platforms and can encourage purchases that customers may otherwise avoid.

In general, the key to making the most of BNPL is by stressing its flexibility rather than directly encouraging large purchases. Focusing marketing efforts on financial freedom and affording better quality goods can inspire shoppers to use BNPL to build bigger baskets on their own terms.

"It can be as much about enabling consumers to make purchases where they may need more financial flexibility," said Nagarsheth. "For example, paying for an unexpected expense such as a broken appliance or enabling the consumer to move up to a better-quality product that the consumer couldn't otherwise afford. **We have observed retailers use BNPL offerings to achieve better open rates for marketing outreach**, which in turn has attracted new customers and driven follow-up purchases, as well as enabling migration to a better quality purchase for the consumer, **at a higher margin for the retailer.**"



## BNPL CASE STUDY: BareMinerals

Clean beauty brand **bareMinerals** partnered with **Afterpay** to add a BNPL option online at the beginning of 2019, and in-store in late 2020. The retailer advertises the option across its site, including the homepage and near the price on every product detail page. The service is even mentioned on bareMinerals' immersive web experience pages, which are full of details about specific products and collections. The effort to position BNPL so prominently has paid off:



**40%**

A **40%** increase in average order value (AOV) with Afterpay online;



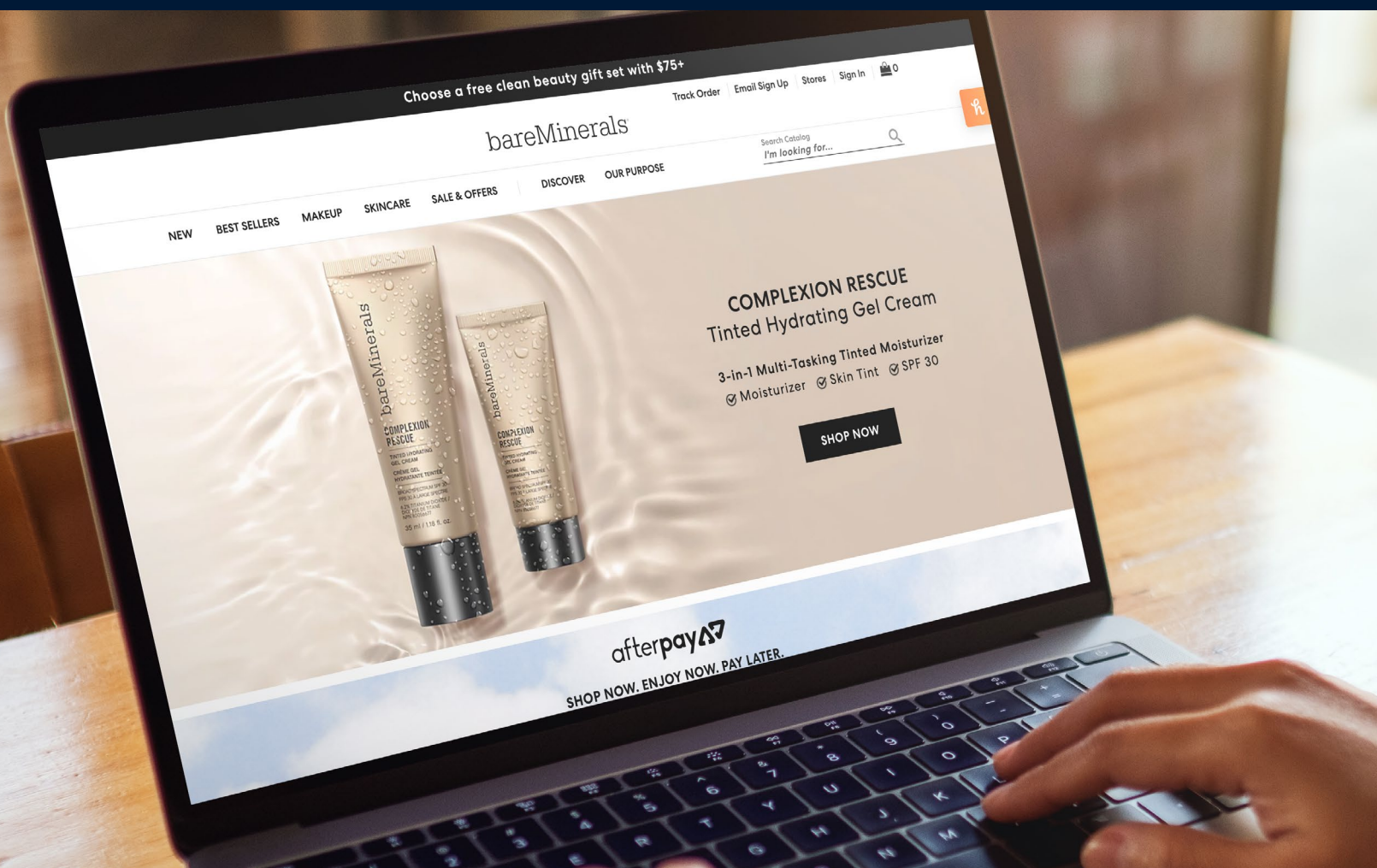
**128%**

A **128%** increase in AOV with Afterpay in-store:



**20%**

A **20%** repeat purchase rate for BNPL purchases in-store, higher than any other payment method.





## BNPL SHOULD BE PART OF A LARGER ECOSYSTEM – BUT MAKE SURE IT'S SECURE

While BNPL has seen its strongest success online, the service also is a natural fit for in-store transactions — particularly as retailers continue merging their physical and digital offerings into a single seamless ecosystem. The key to in-store success is reducing friction wherever possible. Having a shopper sign up for a BNPL service at the POS can be a drawn-out process that generates friction for the customer and the entire line behind them.

**“In-store, retailers again need to make BNPL as seamless as possible — it needs to be as easy as paying with any other method,”** said Juniper’s Maynard. “One way is to integrate BNPL with their own retail apps to offer it within an omnichannel experience, so when the user chooses to click and collect, they can preemptively have the BNPL details set up. Ensuring that the user fills out the registration process before they visit in-store is essential.”

Once a shopper is registered for BNPL, new avenues for frictionless checkout open up, particularly in the mobile and contactless space. While not all retailers have a proprietary app where payment options would feel natural, some digital wallet providers are looking into the possibility.

“The first contact is online or with a POS, which involves some contact,” said John Harmon, Senior Analyst at [Coresight Research](#) in an interview with *Retail TouchPoints*. **“The subsequent payments are drawn from a bank account or credit card and do not require contact.** BNPL could certainly work with digital wallets like Venmo, and it has been reported that [Apple is working on it for its Apple Card/Apple Pay](#).”

BNPL vendors themselves also have been looking into new options such as the [Klarna One-time card](#), which generates a virtual card that can be added to a digital wallet for use at POS.

Harmon noted that retailers should keep data privacy top of mind as they integrate new payment methods. “Consumers likely don’t want their most-sensitive information shared freely among multiple financial service vendors, as it offers a greater opportunity of it being stolen in a data breach,” said Harmon.

Kearney’s Nagarsheth suggested that retailers can manage what information is shared themselves, or rely on banks and other established financial institutions to safeguard the data. The firm’s surveys have found that consumers trust these companies to properly protect their data.



**“In-store, retailers again need to make BNPL as seamless as possible — it needs to be as easy as paying with any other method.”**

**Nick Maynard, Juniper Research**



## **BNPL THRIVES AS A CREDIT ALTERNATIVE WITH ITS OWN INCENTIVES**

BNPL usage is particularly high among millennials and Gen Z, who tend to cycle between multiple payment methods based on the context of each purchase, according to research from Kearney. The digital, mobile-friendly nature of these services makes them popular with younger, tech-savvy shoppers. However, BNPL also provides an incentive that holds appeal across generations: it's often easier and less expensive than using a credit card.

"BNPL is appealing to these users for a number of reasons," said Maynard. "For starters, a BNPL service will do a soft credit check only, which can be easier for [those with thin credit files] to pass than a credit card application. Credit cards can be more expensive than BNPL and require an application process that is separate to the ecommerce checkout. BNPL is tightly integrated, so it's more convenient. For other demographics, **BNPL providers should focus on comparisons to credit cards — they can be significantly cheaper, which will be a major driver.**"

Even shoppers who want to use a credit card but currently have limited options can utilize BNPL to demonstrate that they are responsible users, according to Nagarsheth: **"Retailers should be prepared to take bolder actions to incorporate payments and credit into their customer's journey,** and actively shape the experience through increased awareness and focus on the role of payments and credit in-store and online, exploring partnerships and not being afraid to strive for great versus good in driving differentiation that meets the customers' needs."



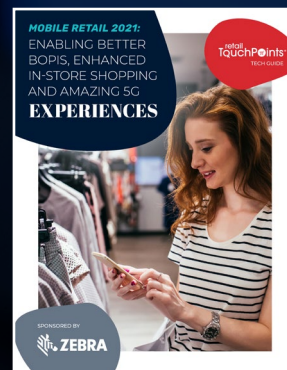
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