Competitive Intelligence on the 'Buy Now, Pay Later' Payments Market

CLIENT

A leading global US-based Ecommerce and Retail company

CLIENT INDUSTRY

Financial Services for Ecommerce

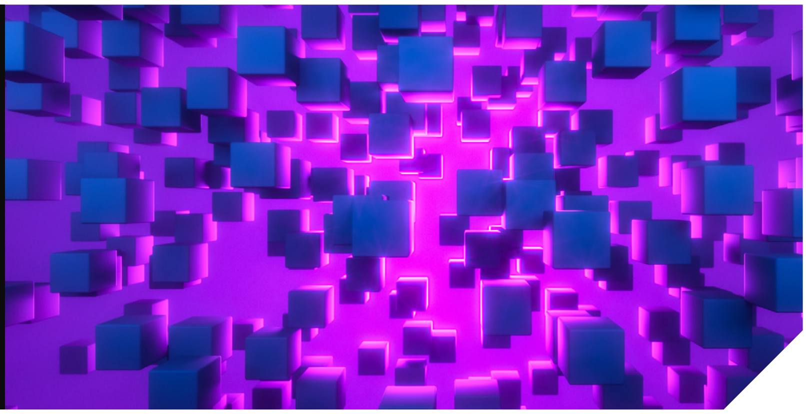
OBJECTIVE

- The client wanted to get an overview of the payments market, with a focus on the 'Buy Now, Pay Later' (BNPL) segment and its major players.

METHODOLOGY

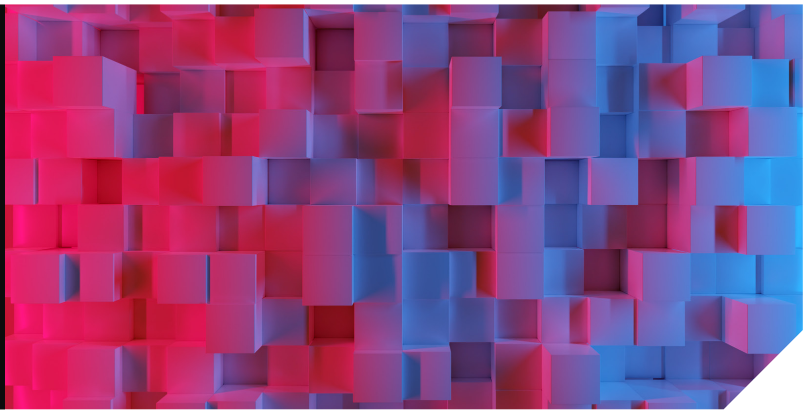
- The research was conducted using all-inclusive secondary research, with information pulled from syndicated and publicly available sources.

RESEARCH PROCESS



- Based on discussions with the client, a comprehensive research approach was adopted to identify consumer preferences, focus sectors, various business models, target audience, marketing strategies, and future BNPL trends.
- Data was collected from various surveys, news articles, press releases, payment companies' websites, social media and customer review sites.
- The key BNPL players were shortlisted based on a collaborative effort between the client and the C5i team. Their business models, features, and marketing strategies were identified and included in the study.
- The analysis also focused on recent innovations made by the companies covered in the study and the technologies they leveraged.

KEY INSIGHTS



- The 'buy now, pay later' market has started gaining traction in the B2B market and banks have also started offering this service.
- Leading BNPL companies rely heavily on social media to educate shoppers and are strategically targeting younger audiences, especially Gen Z, on social media.
- BNPL companies have been attracting money-conscious shoppers with seamless delayed payment alternatives that bypass the usual fees.
- Payment companies are continuously innovating and using technologies including AI, ML, ARM, and big data to provide enhanced experiences for consumers.

OUTCOME

- The study helped the client better understand the competitive payments market, revamp their solution, and reach a wider audience.
- Increased customer spending led to an observed increase in the bank's revenue.
- Financial Inclusion: Low credit-worthy customers were also identified.

BNPL sector has been catering to various industries such as retail, travel, healthcare and automobile industry

BNPL Sector Focus is changing:

- Buy now, pay later companies have primarily been attracted to retail sectors. More categories are added to the services beyond apparel, beauty, and electronics while more countries around the world are adopting BNPL.
- For example, buy now, pay later companies like **Affirm and Uplift** are offering options within the travel industry.
- **Splitit** has been offering its flexible payment solutions at law and accounting firms across the US and Australia.
- **Sunbit** is another company that gives customers options for installment payments for car dealership services.
- It also launched a BNPL solution made specifically for dental practices, thereby offering access to financing for procedures between US$ 60 and US$ 10,000, with 6, 12, 18 and 24 month payment plan options.
- **Walnut** is one company in the U.S. that hopes to provide these services throughout the healthcare sector to patients. Currently, it offers patients an option for installment payments on a variety of elective procedures. These include cosmetic surgery, dentistry, and dermatology. But in time, Walnut hopes to provide similar options for emergency room patients and service providers in the community. Such offerings could go a long way in reducing financial stress among those with rising healthcare costs.

According to a survey in the U.S. market, consumers mainly prefer buying electronic and fashion items through BNPL options

Consumer Preferences in the U.S. :

- As BNPL emerged as an alternative to credit cards, many shoppers have embraced it as a way to manage their personal cash flow.
- Shoppers prefer buy now, pay later options for various reasons including convenience, flexibility, and transparency.
- Gen X and Millennials are the most frequent users of the service and they make up the vast majority of BNPL transactions.
- With their spending power, these shoppers have high potential for becoming valuable long-term customers.

Survey Findings:

- Ascent, which surveyed 2,000 Americans about their buy now, pay later habits between July 2020 and March 2021.
- Based on a survey by Ascent, consumers mostly prefer buying electronics, clothing and fashion items through BNPL options. They most likely have heard about BNPL through social media, online e-commerce channels (digital store) and through advertisements.

Klarna: Marketing Strategy

- Klarna's positioning is functional but it focuses on payment experiences as the main position.
- Klarna marketing strategy appeals to consumer reasoning by offering secure and easy ways to shop and save.
- Provide retailers with more tools to drive consumer demand and acquire, convert and retain customers. Shows revenue and growth based value to merchants and retailers.
- Klarna does not currently include any kind of messaging around Security and Privacy; however does mention secure payments briefly in their marketing messages

Merchant's Marketing strategy

- Partners with larger brands and focusses marketing likewise so as to acquire consumers.
- For Klarna, the most cost-effective way to scale customer acquisition is to sign up large retailers with well-known brands.
- Merchant Branding allows merchants to add and upload brand assets so their store can shine in front of customers and new shoppers.

Consumer marketing strategy

- Payment experiences and Shopping experiences as the main positioning driver for consumers.
- Puts the customer at the center of the shopping journey by offering a more personalized experience end-to-end, and that includes providing better, more flexible ways to pay

Innovations and technology summary

sezzle

- Uses artificial intelligence and machine learning for fraud detection and credit risk analysis.
- Sezzle uses scoped API keys to allow access to the API.
- It seamlessly integrates in-store with its virtual card to allow for rapid installations. (Source: Annual General Meeting, Sezzle, SEC)

afterpay

- Afterpay has been using the power of Augmented reality to combine and showcase the latest trends in fashion and financial technology at the New York Fashion week.
- It is also running an AR wayfinder experience at key locations in Manhattan. (Source: Virtual Reality World Tech)

splitit

- Launched Splitit Plus, a new service enabling merchants of all sizes to offer payment installments to their customers in minutes.
- Splitit has announced its instalment payments to its in-store retail locations worldwide with Splitit InStore. (Source: PR Newswire, Business Wire,)

zilch

- Uses open banking technology combined to give recommendations of what customers can afford and help prevent problem debt.
- It has expanded its with a new feature 'Snooze' so as to allow consumers to delay repayment of an instalment or entire payment plan by between four and seven days, with no interest or fee. (Source: Fintech, FinTech Futures

Bread

- Bread powers seamless payment experiences and APIs that allow retailers and partners to offer shoppers more ways to pay over time.
- Launched Bread Edge, a full-funnel payment personalization engine so as to personalize the payments experience for brands and retailers. (Source: PR Newswire, Bread

Major players involved in BNPL innovation

- Resolve, a start-up has raised USD 60 million capital so as to scale its embedded billing platform for **B2B businesses** to facilitate buying and selling on credit. (Source: FinLedger, May 2021)
- Fiserv has announced that retailers using its digital commerce technology can enable customers to pay for their purchases with **interest-free instalment payments.** (Source: IBS Intelligence, September 2020)
- Mastercard has entered the BNPL space by announcing a new program called '**Mastercard Instalments**' for U.S., Australia, and UK markets so as to provide consumers with flexible, ubiquitous way to pay online and in-store through equal, interest-free instalments. (Source: Mastercard Newsroom, September 2021)
- Wisetack has raised USD 45 million in a Series B funding round led by Insight Partners. Its focus is on service-based businesses, such as HVAC contractors or plumbers. With this funding, the company plans to expand itself into **other service-based verticals,** such as auto repair, elective medical, dental and veterinary and legal services. (Source: Techcrunch, September 2021)
- Uplift has secured a USD 68 million credit line from Atalaya Capital Management. The funds will help Uplift extend financing to Uplift customers who want to **book now and pay overtime for travel purchases** in the New Year and to launch important strategic growth initiatives. (Source: PR Newswire, January 2021)
- Many travel brands have been integrating **Partial.ly** into their **booking system** so as to let customers pay in smaller chunks over time. (Source: GLOBETRENDER, October 2020)
- Sunbit leverages its own proprietary **machine learning technology** to create personalized payment plans for each customer. (Source: Built in LA)
- It also leverages **machine learning technology** to approve nearly all customers within seconds with credit card-like rates. (Source: Altifi)
- Sunbit has launched a BNPL solution made specifically for **dental practices** so as to improve its patient lives by offering them the best possible dental care by providing access to financing options that are fair and accessible to nearly everyone. (Source: AP News, June 2021)

Comparison between Affirm and Klarna

Parameters	Affirm	Klarna
Value Proposition	Allows consumers to Buy-Now and Pay-Later (BNPL) in 4 installments without fees or interest • Alternative to Credit Cards for Consumers • Marketing and Loyalty Channel for Merchants, increasing AOV and Retention • Savings Account to help Consumers save more money	The first Buy-Now and Pay-Later (BNPL) player. • 30 Days to Pay and Pay in 4 products are the traditional BNPL model of no-interest, no fees • Financing products is available for higher-value items • Savings Accounts on the roadmap
Market Share (US)	16%	34%
Main Financial Product	Loan structured with availability in longer terms (up to 36 months)	Split in 4 product
Other Financial Products	Virtual Card Split Pay Marketplace app High Yield Savings account Credit Card for Split Payments	Pay in 30 months 6-to-36 month financing Virtual Card
Revenue Streams	Network Revenue: approximately 50% of Affirm's revenue (Q3 21) comes from 'Merchant Network Revenue' and affiliated streams - Take Rates are around 5% of transaction value Interest Income: another around 50% relates to 'Interest Income' and affiliated streams (from their other BNPL product) offered to Merchants for their customers to pay back certain rates	Pay in 4 and 30 Days to Pay: Klarna takes a transaction fee from the merchant of $0.30 + 5.99%. Consumers are charged nothing as long as the make the payments on time Financing product Klarna takes a transaction fee from the merchant of $0.30 + 3.29%, plus applicable consumer APR
Target Audience	Both Merchants and Consumers	Both Merchants and Consumers
Consumers	Millennials and Gen Z	Millennials, Gen Y and Gen Z
Consumer Positioning	Consumer Positioning is mostly directed at the number of people who buy with Affirm " More People Buy with Affirm" , 6.2+ Million Consumers, focusses on ease of payment and shopping	Mostly directed at the overall shopping experience and easy payments - "Payment experiences shoppers love" , 90 million global shoppers, 20 million US shoppers
Merchants/Retailers	All merchants, however better suited for large value purchases due to loan structure	All merchants, not suited for large value purchases for their split in 4 solution
Revenue Segment	<5M, >5M+	<500k, 500k-2.99M, 3M-10M, 10M+

ABOUT US

C5i is a pure-play AI & Analytics provider that combines the power of human perspective with AI technology to deliver trustworthy intelligence. The company drives value through a comprehensive solution set, integrating multifunctional teams that have technical and business domain expertise with a robust suite of products, solutions, and accelerators tailored for various horizontal and industry-specific use cases. At the core, C5i's focus is to deliver business impact at speed and scale by driving adoption of AI-assisted decision-making.

C5i caters to some of the world's largest enterprises, including many Fortune 500 companies. The company's clients span Technology, Media, and Telecom (TMT), Pharma & Lifesciences, CPG, Retail, Banking, and other sectors. C5i has been recognized by leading industry analysts like Gartner and Forrester for its Analytics and AI capabilities and proprietary AI-based platforms.

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