splitit

Which Approach is Right for Your Business?

There are two main types of installment solutions. They might look similar at first glance because they allow customers to pay for a purchase in installments, but there's more than meets the eye.

Before we talk about the different options and help you decide what's right for your business, you should also keep in mind that you don't have to choose just one solution. The options that we cover in this guide are valuable to different customers at different times — many retailers have begun offering more than one option as a strategy to satisfy a wide variety of shoppers with different needs and preferences. After you read this guide, deciding to offer multiple options could turn out to be an excellent decision!

There are two main two main types of options:

Consumer financing

A third-party provider makes a short-term loan to the customer

↓

The customer applies for this credit at the time of purchase

↓

And pays it off in fixed installments over an agreed period

Card-based installments

Consumers use the available credit on their existing cards

↓

Most consumers — over 70% — have credit that they are not currently using

↓

The customer selects this option at the time of purchase

In the card-based installments option, the customer pays installments through accounts that they already have. The plan is set up and paid off seamlessly, with no separate application, no new lines of credit, and no additional accounts to manage. Splitit is the only solution on the market that uses this approach.

Each of these options offers benefits to your shoppers. The more you know about the customer demographics and shopping behaviors, the easier it is to understand what they will find valuable.

You can think of each of the factors below as a range. Ask yourself how many of your current and future customers fall into each category and whether installment payments can help you to broaden your appeal with more diverse segments.

1. Affordability and Budget

When reviewing potential installment solutions for your e-commerce business, you should take a close look at the total cost of implementation and ownership.

Cost comes from several factors, including:

- Signup and onboarding fees charged by the provider
- Implementation costs (whether you opt to use your own technical resources or support offered by your provider)
- Ongoing per-transaction costs

Make sure you understand the upfront investment required and the ongoing costs to your business. Some providers, including Splitit, offer free onboarding and easy integration with the most commonly used e-commerce platforms such as Shopify and Magento.

Your initial costs can be significantly higher if your business has heavily customized setups or homegrown e-commerce technology. Make sure you understand whether there is any cost impact with your e-commerce service provider, payment gateway, and merchant bank as well.

Concerning transaction costs, these can be tricky to understand. The typical cost structure includes a combination of a flat fee and a percentage for each transaction. The devil is in the details, however.

In addition, the "fees plus percentage" cost structure can vary. They will change if you want customers to have more options, if you wish to receive the full purchase amount immediately rather than by installment, and with some providers, even based on your industry and shoppers' risk profile.

Our advice: model this out carefully before you take the plunge. Talk it through with your CFO. Splitit pricing starts at 1.5% + $1.50 per transaction for the standard installments solution and at 3% + $1.00 per transaction for our merchants who want to receive the full amount of the purchase right away.

2. Credit History

Installment solutions also suit different customers based on their credit history and overall credit needs. Credit history can play a big part in whether you choose to offer more than one type of solution.

Consumer financing options can work very well for shoppers who have a limited credit history. Many such solutions use a variety of data to make credit approval decisions. It may be easier for shoppers without a solid credit report to get credit through an alternative consumer financing provider. Keep in mind, however, that some applicants will not be approved at all.

For younger consumers or those who have not built up much of a credit history, consumer financing can help them with their creditworthiness. They can build a track record of on-time payment that helps them apply for other credit, including traditional cards or auto loans.

If you know you do business with many shoppers with these credit history traits, you may want to consider this type of solution. Make sure you understand how your offering impacts your customers' credit.

In some cases, these solutions risk letting customers overextend themselves. In others, they charge high interest rates, late fees, or other penalties, resulting in adverse credit reporting. You don't want to add unnecessary financial pain to customers who are already struggling.

> The card-based approach works entirely differently because it uses shoppers' existing available credit limits.

It also works well for consumers who already have an established credit history or who have low utilization on their existing cards. These traits often correlate to shoppers who are over age 35 and somewhat more affluent than shoppers with a less solid credit history. If you have customers who fit this pattern, Splitit can work exceptionally well for them.

3. Price Points and Order Values

Factors such as average price points and order values can also play a role in determining which solution(s) you offer. Make sure you fully understand the maximum order amounts available with each installment solution provider you consider.

If most of your products or average baskets tend to be high, Splitit offers a lot of flexibility. Installment plan amounts are limited to shoppers' available credit, rather than having a fixed ceiling.

If many of your products are lower priced or your shoppers tend to place lower total orders, you may not need to worry as much about these limitations. Just be aware that limiting the amount for installment plans risks frustrating some of your shoppers who make bigger purchases, even if they only represent a small percentage of your customer base.

4. Product Category

The final consideration to keep in mind is your product category. As we said earlier, some providers charge different rates based on the risk profile of your business. But the buyer's mindset is an equally important factor.

Suppose your product offerings include projects that people might consider an investment, such as mattresses, jewelry, fitness equipment, and other high-ticket items that people plan to buy and use for a long time. In that case, you should offer them the option to use a card-based solution in addition to, if not instead of, consumer financing.

For these product categories, giving customers choices in choosing to budget for the purchase, managing their cash flow, and strategically using their existing credit makes sense.

The more you know about how your customers buy and how they make financial decisions, the more you can build the right experience for them with the available installment solutions in today's market.

Conclusion

If Splitit looks like a good option considering these four factors, the good news is you can sign up easily and quickly using Splitit Payments. It's so easy that you don't even have to open a separate payment processing account or handle the tricky details of setting up payment gateways.

If you want to consider some of Splitit's additional options or get support in setting up Splitit for your business, we are also happy to help.