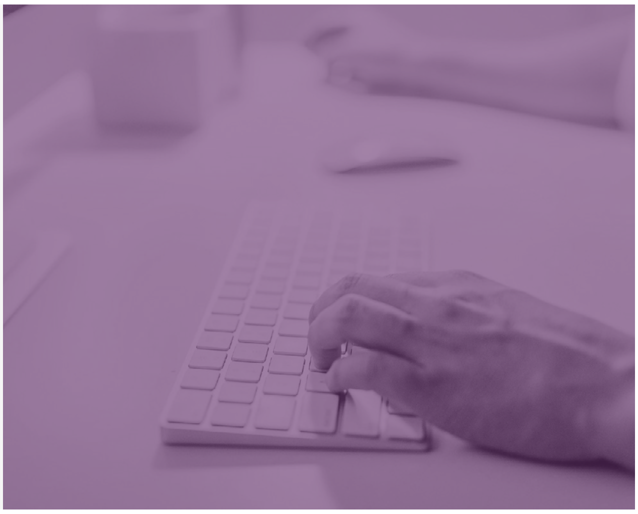
The Merchant's Guide to "Buy Now Pay Later" Solutions



Online shoppers have very high expectations... and very low levels of patience. In the fast-moving world of ecommerce, trends emerge and catch fire within a matter of months.

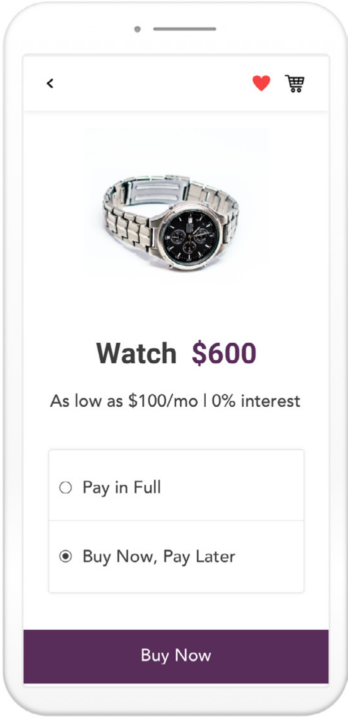
"Buy Now Pay Later" (BNPL) solutions in particular have had a big impact. They are becoming a norm on checkout pages. But many merchants still have questions and are not quite ready to move forward with them. Below, we cover:

1. What merchants need to know about BNPL solutions and how to capitalize on them
2. The difference between consumer finance and card-based installments
3. The truth about common misconceptions regarding solutions
4. Best practices for implementation
5. How to choose a BNPL provider

1 What Are "Buy Now Pay Later" Solutions

BNPL solutions enable shoppers to purchase an item without paying for it in full upfront. The phrase "installment payments" is also used to describe BNPL. These solutions are today's equivalent of things from a bygone era like layaway plans and store credit.

With BNPL solutions, shoppers add items to their online shopping cart and then begin to complete their purchase. When providing payment information, such as a credit card or debit card, they also see options to pay for the item over time, as shown on the right:



Not all installment options work the same way, however. Several companies now offer merchants various ways to extend installment payment options to shoppers. We will cover those differences below.

2 Consumer Finance Versus Card-Based Installments

The two main categories of BNPL solution are consumer finance and card-based installments. The difference between them has a big impact on shoppers' experience and satisfaction with merchants.

With consumer finance, shoppers have to apply for credit when beginning to complete their purchase, providing personal details and requesting credit approval. This is a new line of credit, regardless of the amount of available credit they already have on their credit cards. So, a $600 purchase means $600 of additional debt, in addition to potential interest charges and other fees. Almost all of the solutions that allow merchants to offer installment options include some degree of new credit application and approval (requiring a Social Security Number or other identification credentials) and in turn some additional cost for shoppers, because while they look like installments, they are actually a form of financing.

With card-based installments, shoppers do not apply for any additional credit. They make installment payments using their existing cards, choosing the number of payments that number of payments that best suits their needs. As a result, they can better control their finances. In this approach, with a $600 purchase split into 6 monthly payments, only $100 would be charged against their account, first, in the month they make their purchase, and then for five months after that. There are no additional interest charges or other fees on top of the cardholder's interest rates (for example, if they choose to carry a balance or make a late payment). Splitit is the only solution on the market that offers this approach. It reflects our commitment to "responsible credit."

3 Common Misconceptions For Merchants

Misconception	True	False
Shoppers May Not Trust Them		✓
Best for Small to Midsize Purchases		✓
Have To Choose Only One		✓
Creates Additional Complexity		✓
Only Available for Ecommerce		✓

Many merchants make assumptions about BNPL solutions based on reasonable caution or based on things that used to be true but have since changed. These are the five most common questions we hear from merchants as they explore whether BNPL solutions will work for their shoppers.

Aren't shoppers cautious about choosing new options?

This was partially true when BNPL solutions were new and unfamiliar. However, more and more merchants now offer BNPL options. Shoppers have likely noticed them at checkout, even if they have not yet tried them. Shopper trust has grown as the market has matured and merchant adoption has increased. In fact, Splitit research has found that 35% of shoppers are more likely to make a purchase if they are offered the ability to pay in interest-free installment payments.

However, lengthy application processes that request sensitive information such as Social Security Numbers, income, or other financial information still can raise concerns. They offer no advantages over applying for store credt. Asking shoppers to apply for credit and share sensitive details before completing a purchase risks privacy encroachment, ultimately causing shoppers to leave before completing a purchase. Regardless of which solutions are being used, the process should be seamless and clear to shoppers in order to reassure them.

Don't BNPL solutions work best for small-ticket items?

Some solutions have specific transaction limits, but not all. Splitit is a notable exception in this area.

Even though paying in installments makes logical sense for larger purchases or order values, transaction limits can constrain shoppers and even lower their order value unintentionally. Similarly, because consumer finance solutions submit transactions for credit approval, the approved amount depends on the shopper's finances and credit history. In addition, many consumer finance solutions charge installments every two weeks. These factors do result in purchases of smaller-ticket items.

As a card-based installment solution, Splitit does not place any limits on unit costs or overall order sizes. Many Splitit merchants offer Splitit for exactly this reason: they serve a more affluent shopper segment, and sell merchandise at a more premium price point. Typically, shoppers with lower order values tend to be millennial shoppers, whereas shoppers over 30 and with higher incomes will place higher value orders. In addition, Splitit installments are charged monthly. So, in the case of Splitit, BNPL works well for big-ticket items as well. In fact, Splitit actually drives higher order values because of the way it helps shopperts optimize their use of credit.

How can I choose the best solution from so many good options?

The good news for merchants is that BNPL solutions are not an "either-or" scenario. Many merchants now offer them side-by-side, just like they will often offer multiple digital wallet options (Apple Pay, Google Pay, etc.). Doing so helps them reach as many shoppers as possible by serving shoppers with different needs and preferences.

One of the most common side-by-side scenarios is to offer a consumer financing option alongside Splitit's card-based solution. Shoppers who want to build their credit history with new credit can still choose to do so. Shoppers who want to make better use of the available balances on existing credit cards can also do so. Merchants and the shoppers they serve get the best of both worlds.

Won't multiple payment methods make things more complicated?

BNPL solutions should integrate seamlessly with most ecommerce platforms and work without issues with payment gateways and merchant accounts. Once they have been implemented, they do not add any additional overhead to keep the solution working. Nevertheless, merchants should always do their due diligence and ask lots of questions when evaluating BNPL solutions. Common questions to ask include:

Do you have a hosted solution that we can deploy quickly?

Do you have a robust API if we want to develop our own transaction flow?

Do you have a plugin that supports our ecommerce platform?

Do you have webhooks or other ways to support event notifications so that we can track our shoppers and installment plans?

Is your solution 100% compatible with smartphone and tablet browsers?

What is your customer support model for merchants?

What is your customer support model for shoppers who use your solution?

What service levels do you guarantee (uptime, response times, etc.)?

What risks do we assume, if any, if shoppers fail to pay all of their installments?

Isn't it a bad idea to offer something that won't work in my physical stores?

It's an increasingly omnichannel world. Luckily, many solutions on the market today include support for in-store Point-Of-Sale (POS) systems or offer the ability to add custom POS support.

Often, merchants with both online and physical storefronts will pilot BNPL solutions on their website first. Once they see the benefits in shopper satisfaction they want to extend them to shoppers in stores. Solutions that are designed to work with POS systems allow merchants to make the leap from pilot to omnichannel easily.

4 Implementation Do's and Don'ts

Once BNPL solutions have been selected, merchants should follow a three-step path to success.

1. Make sure shoppers know it's there: In Splitit's most recent shopper research, we found that most shoppers want to know that an installment payment option is available to them as early as possible. Two-thirds of shoppers want to know about it before they start browsing or shopping, and one-fourth want to know about it while shopping. Merchants should make sure to include information about BNPL solutions at every stage of the shopper's journey, from ads and promotions to home page banners to product pages and finally to the shopping cart. It never hurts to over communicate. Find out more about shopper preferences here.

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2. Keep it simple: Shopping cart abandonment is the bane of ecommerce merchants — 25% of shoppers who abandon their cart left because the navigation was too complicated, and 21% felt the process took too long. Following two design principles will increase the odds that shoppers will complete their purchase: simplifying site navigation, and keeping the checkout process short by asking for as little information as possible and preferably only on one page. Here are some additional design tips to help keep checkout simple.

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3. Make customer service easy: Customer service goes beyond handling issues. Good service includes giving shoppers self-service tools to manage their accounts, proactive communication via email or text, and a combination of virtual and live support options.

5 Merchant Decision Guide

In summary, the time for adding a BNPL solution to your checkout is now. BNPL has fully entered the mainstream. Not only do shoppers understand the option to pay differently — they now demand it. The real question for mechants is how to move forward and choose.

Here are eight takeaways to make the best decisions for merchants and shoppers:

- Choose solutions that will have the greatest impact on average order value and cart abandonment.
- Review the consumer ratings of providers, so that shoppers have a consistently positive experience.
- Assess the impact of application and credit approval concerns on shoppers' willingness to choose installments.
- Consider offering a pure installment option side-by-side with consumer financing to build relationships with shoppers who wish to build their credit history and purchasing power.
- Confirm that the provider's transaction limits are appropriate. Some providers place limits on the amount that they will split and charge installments every two weeks.
- Make sure to put yourself in the shopper's shoes. Take careful account of all membership fees, higher interest rates, late fees, and other credit arrangements that shoppers will incur.
- Assess the financial risk for your customer based on total fees and default rates.
- Consider how the level of service and potential financial risks will impact your brand reputation.

Making the right choices can have a big impact on common pain points such as cart abandonment and customer acquisition costs, while at the same time boosting conversion, sales, shopper satisfaction, and loyalty.

For more information on how you can get started, talk with a Splitit representative today!

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