Navigating Consumer Financing in 2023

Retailers' Survey

Charge After

Introduction

How consumers purchase is evolving. Demand for alternative financing options has been steadily rising and could leap in 2023, driven by inflation and rising interest rates.
Our annual retailers' survey offers a benchmark into how executives regard the state of consumer financing. The survey explores how well merchants are currently meeting their customers' demand for financing at the point of sale, how they believe consumer demand for financing will change in 2023, and how they plan to meet this demand.

Who We Surveyed
We commissioned a survey of 100 executive retail decision makers in the US with an annual revenue of at least $250M and average finance GMV above 10%. The executives surveyed are from a variety of verticals and have a minimum AOV of $250.
The survey was conducted by Global Surveyz, an independent survey company, in December 2022.

A note on terminology:
Buy now pay later (BNPL) offers consumers the chance to make low-ticket purchases and pay them through short term instalment loans. BNPL financing is usually offered by fintech companies.

Point-of-Sale (POS) financing is an umbrella term that describes a variety of alternative financing methods and products, including, but not limited, to BNPL. POS financing is offered by banks, lenders, and fintech companies.

Key Findings

1 Consumer demand for financing is on the rise, especially for lower-priced items

Merchants overwhelmingly expect consumer demand to grow in 2023, with 75% predicting an increase. Interestingly, this demand is more prevalent in those with an average order volume of under $500. Indeed, 100% of merchants with an AOV under $500 anticipate greater demand. Rising inflation means that consumers will need more financing options, even for lower-ticket items.

2 Only 12% of merchants achieve approval rates of 80% or above

29% of retailers shared that their approval rate for consumer financing requests is under 60%. Only 12% have an approval rate of 80% or higher. This means that for almost one-third of retailers, at least 40% of their customers walk away with a poor experience, and that businesses are at risk of losing significant revenue. This mainly affects near-prime and subprime customers, showing how critical it is for merchants to expand their financing options.

3 Expanding the portfolio of lenders is a top priority

To better serve customers covering the complete credit spectrum, retailers plan to expand their portfolio of lenders in 2023. 46% say they want to add a B2B lender, 29% say they want to add a tertiary lender, and 25% have plans to add a secondary lender to their financing portfolio. This drive to broaden options for consumers will directly improve approval rates and direct revenues for merchants who are not meeting their customers' financing needs. Additionally, a network of lenders enables merchants to keep discounted rates and offer customers competitive interest rates.

4 Providing omnichannel financing options is key for most, but smaller merchants lag behind

Today's customers require an omnichannel experience, and financing options are no different. Consumers may prefer to apply for financing online and only head to the store once they have their pre-approval. Over half of merchants (54%) offer a hybrid point-of-sale financing experience. Those with an annual revenue of more than $500M are more likely to be omnichannel, (63%) compared to those with an annual revenue of less than $500M (41%). Retailers who do not provide omnichannel consumer financing may lose out to the competition.

5 End-to-end management of the financial cycle is crucial for financing platforms

66% of retailers are prioritizing implementing a consumer financing platform in 2023. There is a wide range of demands for such a platform. The top priority is that it should manage the whole financing cycle, including reconciliations, chargebacks, and dispute resolution. This is followed closely by offering an omnichannel experience and connectivity to multiple lenders. Merchants require point-of-sale financing platforms that can manage the burden of multiple, complex requirements.

6 Consumer financing is becoming an integral part of the customer experience

The data paints a picture of consumer financing as an increasingly critical business function. It is linked to customer experience, revenues, and business growth. 27% say that it belongs to customer experience or omnichannel departments, while 16% have created a unique function. With technology investments and expansion a priority for 2023, merchants must consider whether their financing offer is competitive enough to support their business goals.

Current State of Consumer Financing

Buy Now Pay Later (BNPL) Options Offered by Retailers

On average, retailers offer their customers 1.3 BNPL payment options. 1% do not offer BNPL at all, and only 35% offer 2 BNPLs. The majority (64%) offer 1 BNPL option.
It is worth considering why most retailers offer only one BNPL option. It could be that offering more than one BNPL has a negative impact on the customer experience. In addition to complicating the application process for consumers, it contributes to back-end complexity for retailers. Another reason might be that BNPL offers are very similar, so there is no reason for retailers to use more than one.

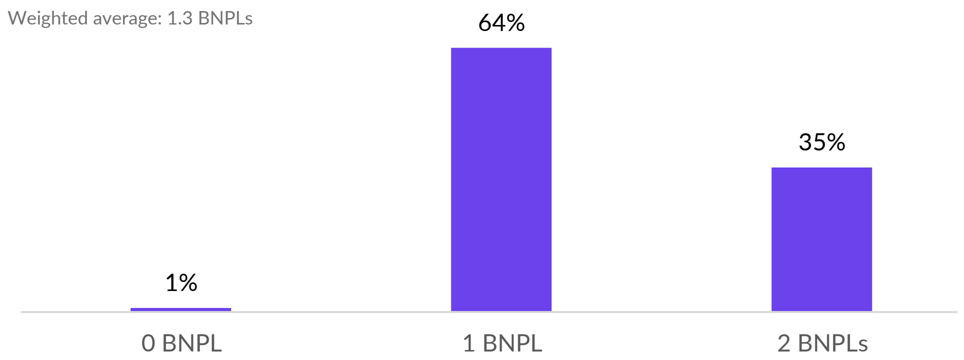

Figure 1: Number of BNPLs offered

Percentages do not add up to 100% due to rounding up of numbers

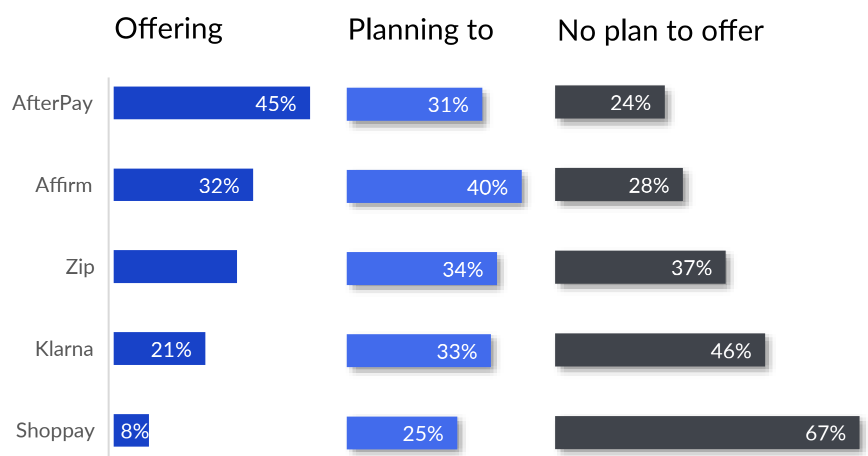

Figure 2: BNPLs offered

Point of Sale Financing Options Offered by Retailers

On average, merchants offer their customers three point-of-sale financing options.
Most merchants offer their customers a prime lender at point of sale (84%). 68% offer installment loans and 64% offer and a secondary look. Only 17% of retailers offer a tertiary lending option.
Merchants are at risk of losing business every time a prime lending application is rejected.
Merchants who want to provide financing opportunities for all of their customers must expand their point-of-sale offer to include multiple lenders that cover the credit spectrum.

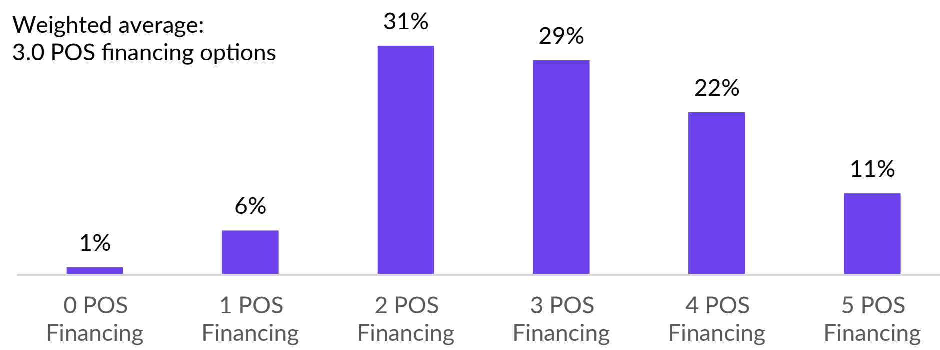

Figure 3: Number of point-of-sale financing options offered

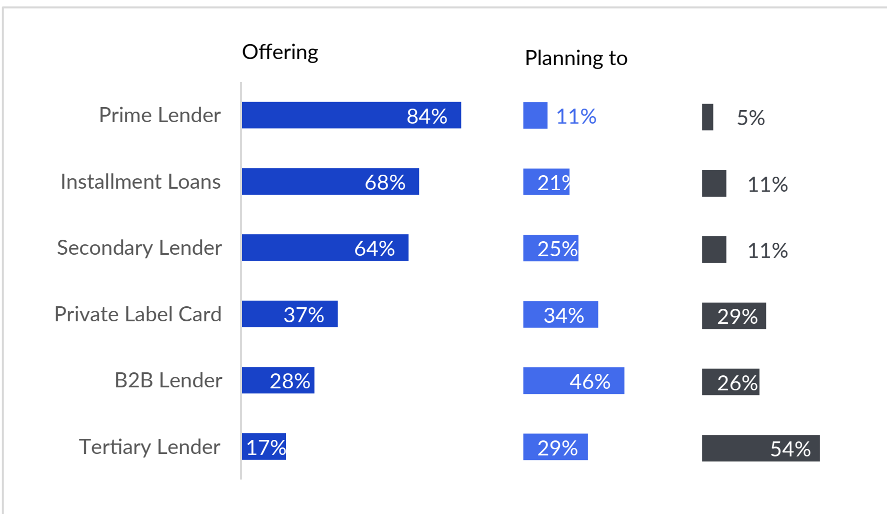

Figure 4: Point-of-sale financing options offered to customers

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Financing Options by Average Order Value (AOV)

A merchant's average order value does not affect the average number of BNPLs it offers. However, it significantly affects the number of POS financing options. When the merchant's AOV is under $500, the business usually offers 2.5 point-of-sale financing options. However, when the AOV is above $500, this number jumps to 3.5.

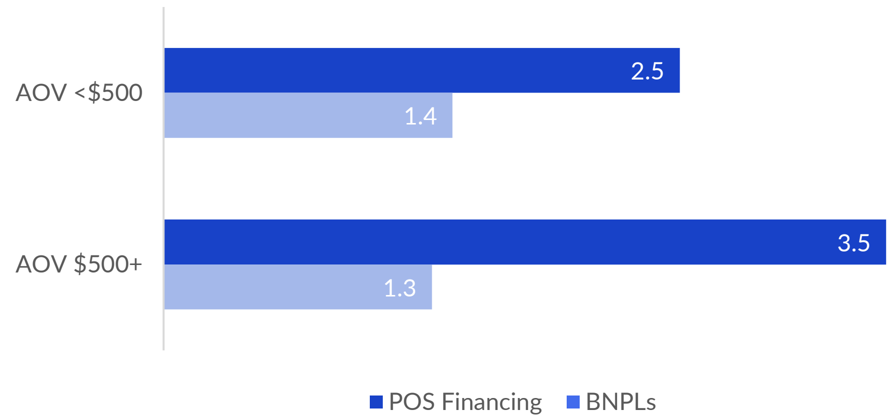

Figure 5: Average # of point-of-sale financing and BNPL options offered

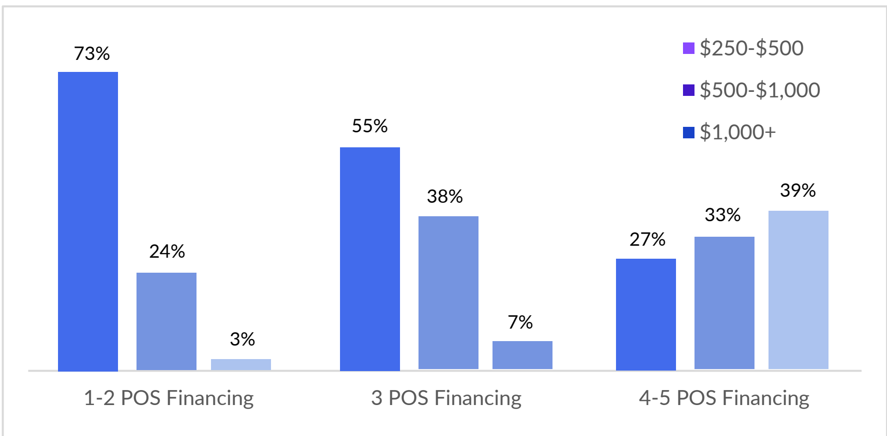

Figure 6: Number of point-of-sale financing options by AOV

39% of merchants with AOV above $1,000 offer more than 4 point-of-sale financing options, compared to 27% of merchants with AOV of $250-$500. As AOV increases, merchants are increasingly looking to diversify payment options to meet customer demand.

Financing Options by Customer's Credit Score

Merchants described the credit score that best represents their customers as follows: the biggest group is near-prime (52%), followed by prime (41%) and subprime (7%). Merchants must meet the needs of all of their customers. They recognize this. Those who mostly serve near-prime customers offer more point-of-sale financing options (3.3 vs. 2.6 when customers are mostly prime).
As BNPL solutions usually only offer one financial product for a specific customer type, their adoption doesn't vary based on customer credit score.

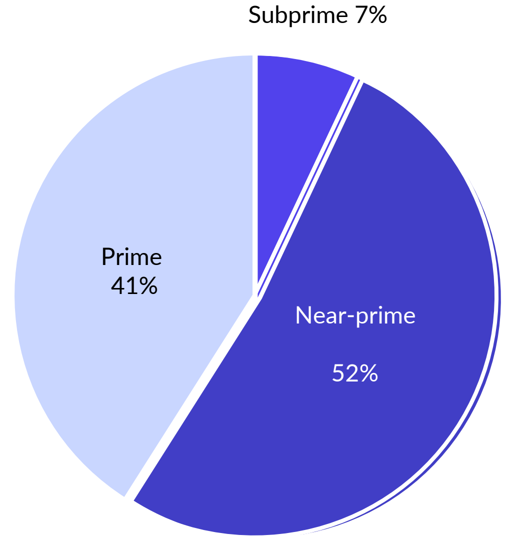

Figure 7: Customers' credit score

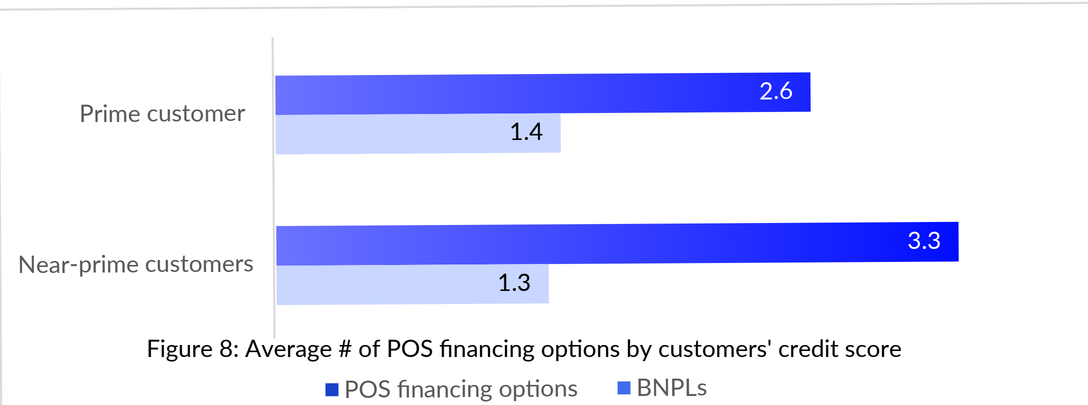

Figure 8: Average # of POS financing options by customers' credit score

How Retailers Offer Financing Options

The omnichannel experience is becoming increasingly important for customers and merchants. 54% of merchants offer financing options both online and in-store. 32% mainly offer financing options in physical locations, and 14% offer it mainly online.
Merchants with higher annual revenue ($500M+) have a higher likelihood of offering financing in a hybrid way (63%) compared to those with an annual revenue of less than $500M (41%).
Bigger companies are more focused on their omnichannel financing experience, as they understand that customers often want to check their financing online before they purchase in-store.

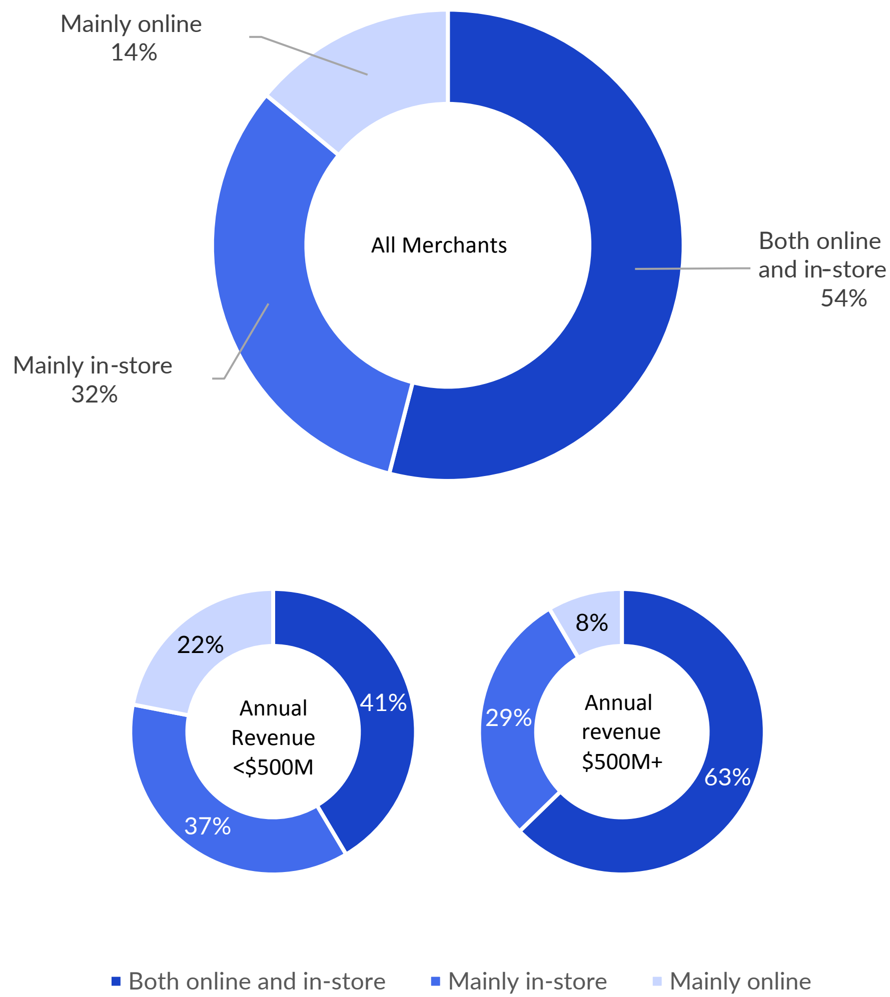

Figure 9: How retailers offer POS financing, by revenue

Consumer Financing Approval Rates

29% of merchants report an approval rate of 40%-60% for consumer financing. 59% report a 60%-80% approval rate, and only 12% report an approval rate of 80% or more.

A low approval rate hurts both revenues and customer experience. Merchants need to implement a strategy to join those that enjoy 80% approval rates.

Approval rates correlate to credit score, however offering more flexibility and variety for those who are near-prime and subprime will increase the approval rate for all types of customers.

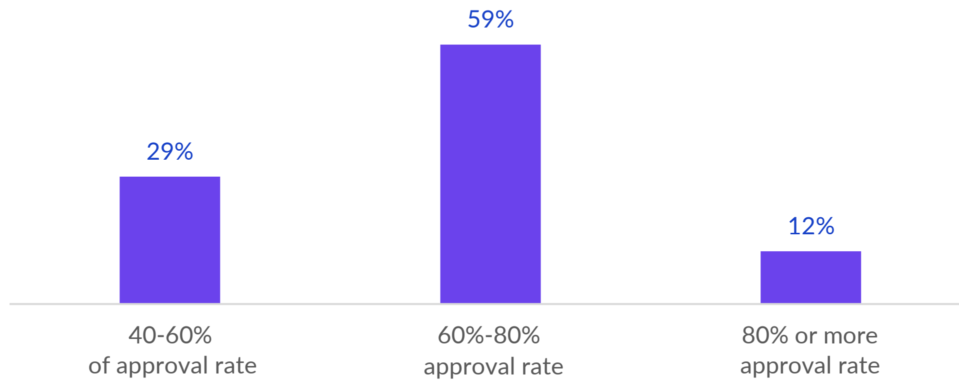

Figure 10: Customer approval rates for point-of-sale financing

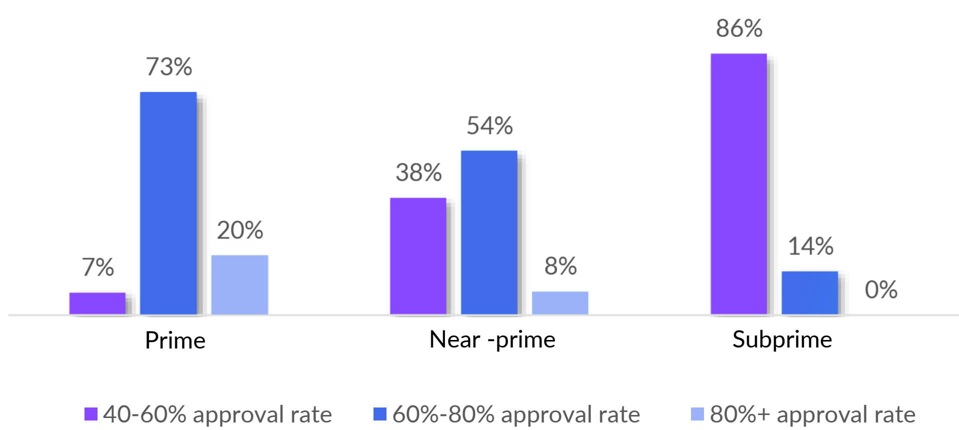

Figure 11: Approval rate by customer credit score

Consumer Financing Priorities & Challenges in 2023

Consumer Demand for Financing 2022 vs. 2023

Merchants overwhelmingly expect consumer demand to grow in 2023. In fact, 75% of respondents expect that the demand for consumer financing will increase in 2023.
Interestingly, there are differences based on the merchant AOV. 85% of merchants with an AOV of more than $500 expect an increase in demand, compared to 100% of those with an AOV of less than $500.
This is likely to be related to inflation and the increasing popularity of alternative payment methods. As demand for consumer financing grows, merchants are prioritizing how they will cater for increased demand.

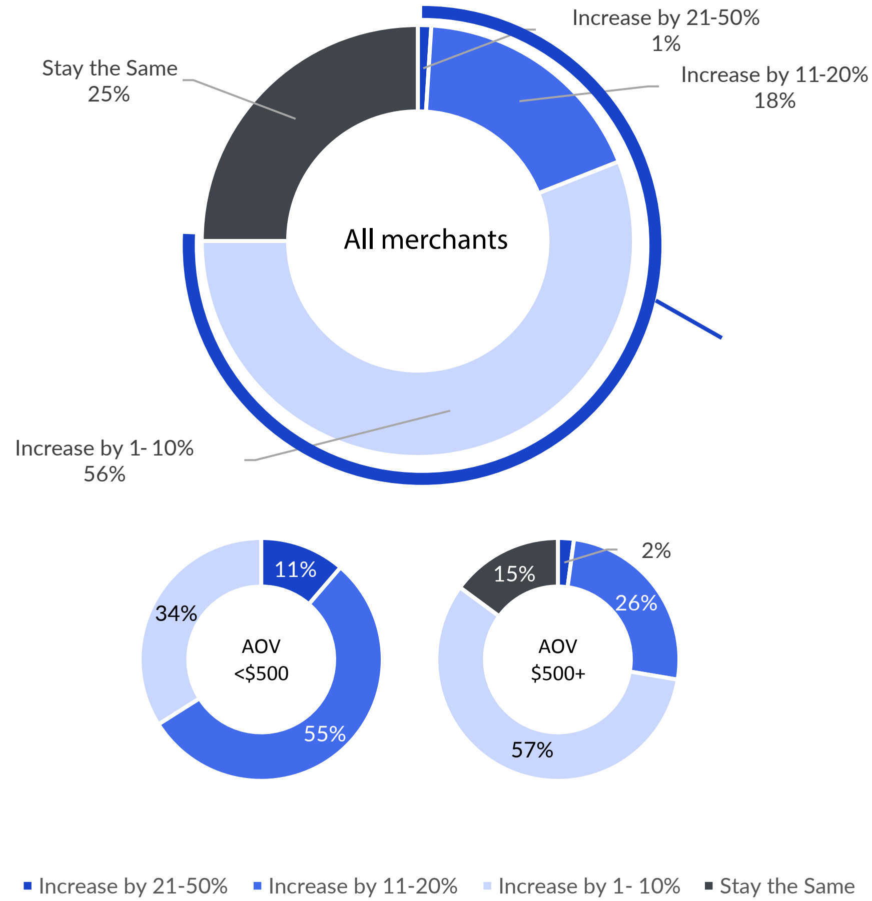

Figure 12: Expected 2023 demand for consumer financing, compared to 2022, by AOV

Challenges in Consumer Financing in 2023

95% of merchants admit to facing challenges in providing consumer financing.
The top challenge is expected increase in interest rates (47%). By offering multiple lenders, merchants can optimize the interest rates for their customers.
Other challenges noted are the complexity of managing reconciliation, chargebacks and dispute resolution (43%), and ensuring that the financial products comply with regulations (37%).
As companies expand their POS financing options, post-sale management becomes increasingly critical. Retailers want solutions that simplify the operational aspects of managing financing at the point of sale.

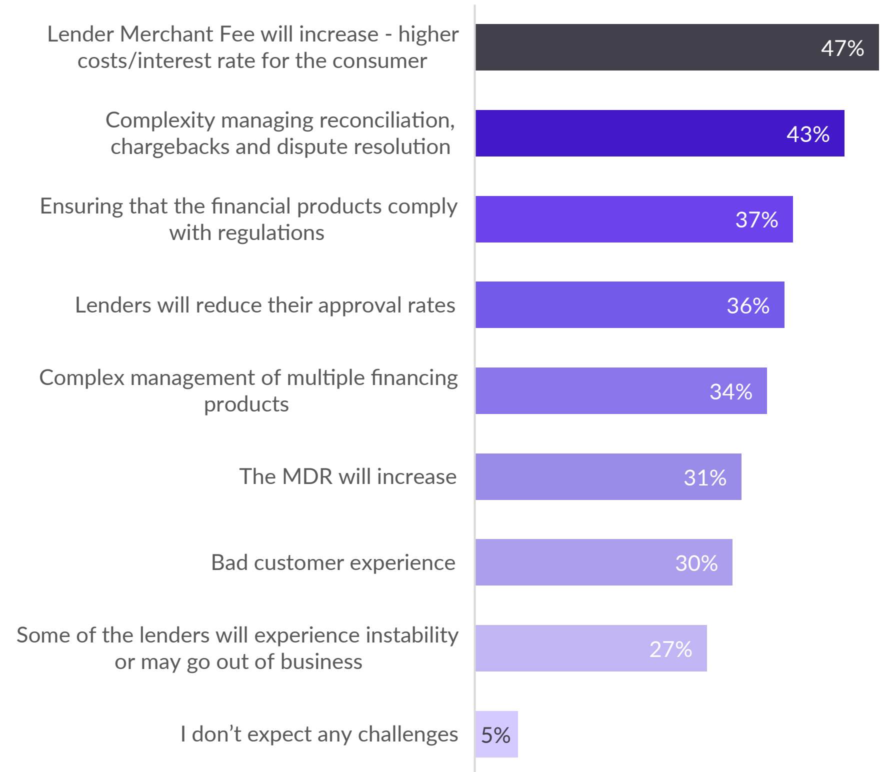

Figure 13: Major challenges in consumer financing in 2023

Challenges in Consumer Financing in 2023

Merchants are looking to expand their point-of-sale financing solutions in different ways. These include implementing new BNPL solutions (73%) and expanding point-of-sale financing to in-store (61%), in addition to online and expanding the portfolio of lenders.

This is why implementing a platform that can manage the full spectrum of BNPL and additional financing options and offer an omnichannel experience is second highest priority.

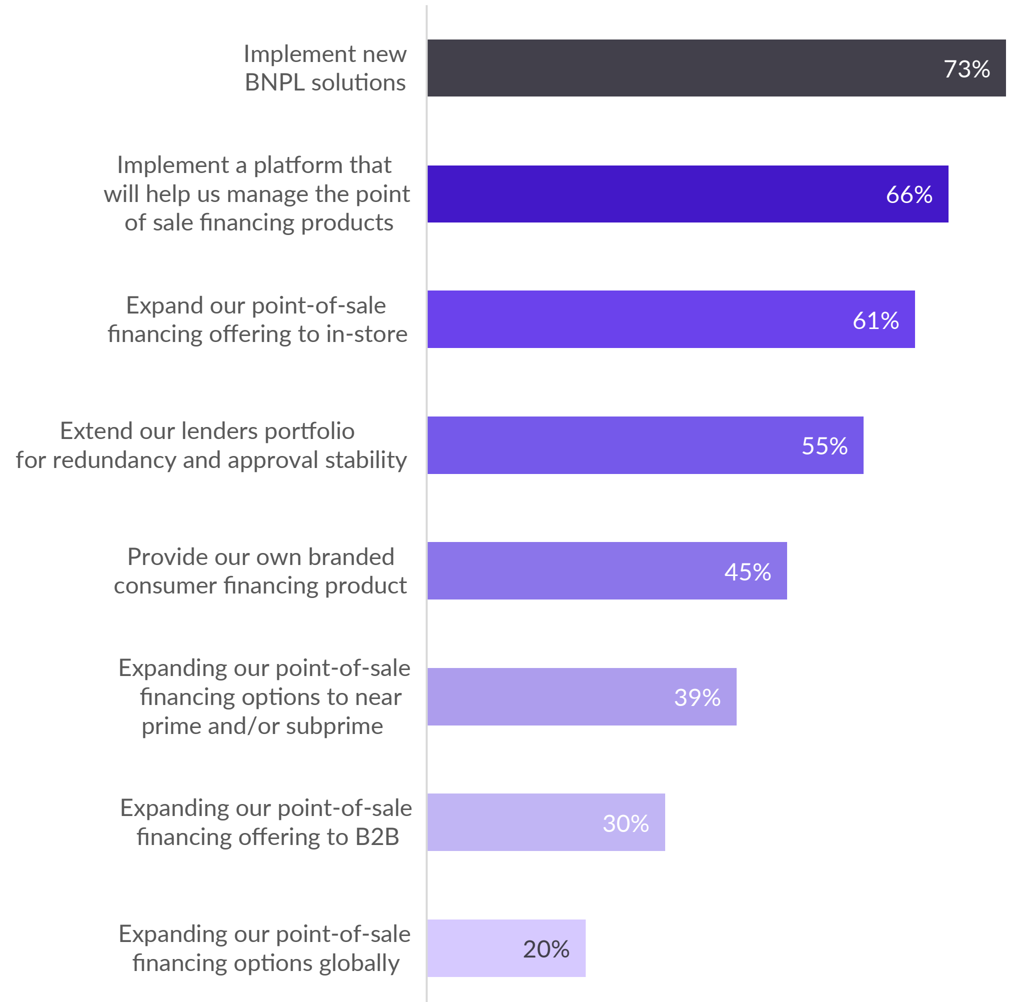

Figure 14: Point-of-sale financing priorities, 2023

Considerations When Choosing a Point-of-Sale Financing Platform

Retailers shared their top considerations when choosing a point-of-sale financing platform on a scale of 1 (low) to 5 (high).

The critical features of a consumer financing platform are: end-to-end management of the financing cycle, including post sales processes such as reconciliation, refunds, and disputes (4.2 avg.), omnichannel capabilities (4.1 avg.) and multi-lender options for all credit types and financing products.

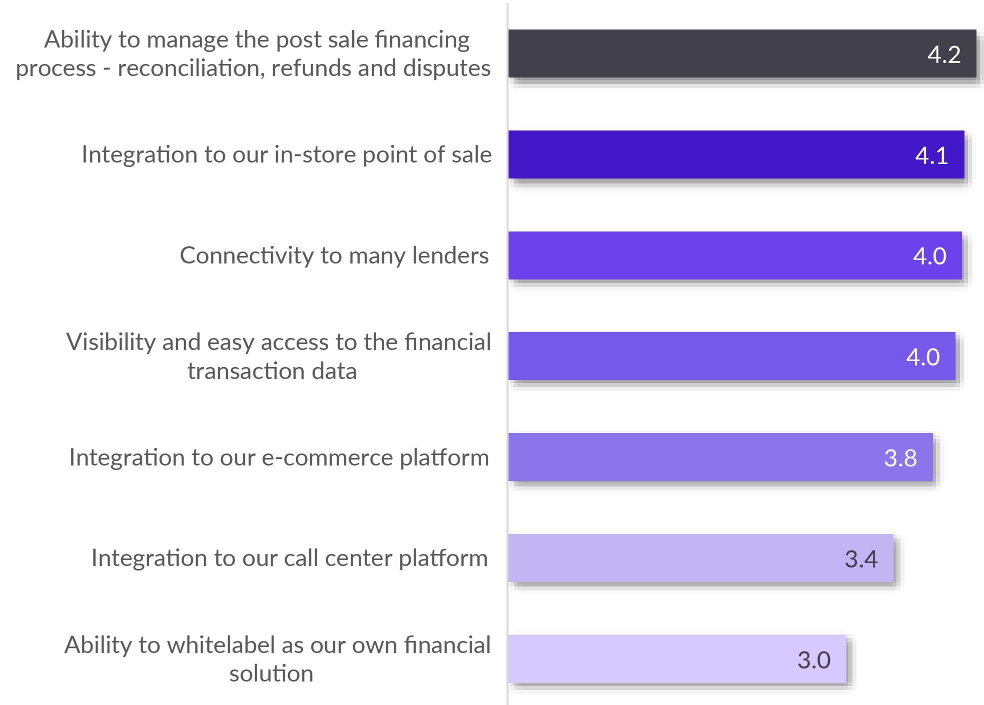

Figure 15: Considerations when choosing a point-of-sale platform, by importance

Who is Responsible for Consumer Financing within companies?

Financing is becoming a core value proposition for retailers. Many companies allocate this responsibility to Customer Experience or omnichannel departments (27%) or Finance/Accounting departments (23%). Currently, 16% of retailers have created specific departments focused on consumer financing and credit.

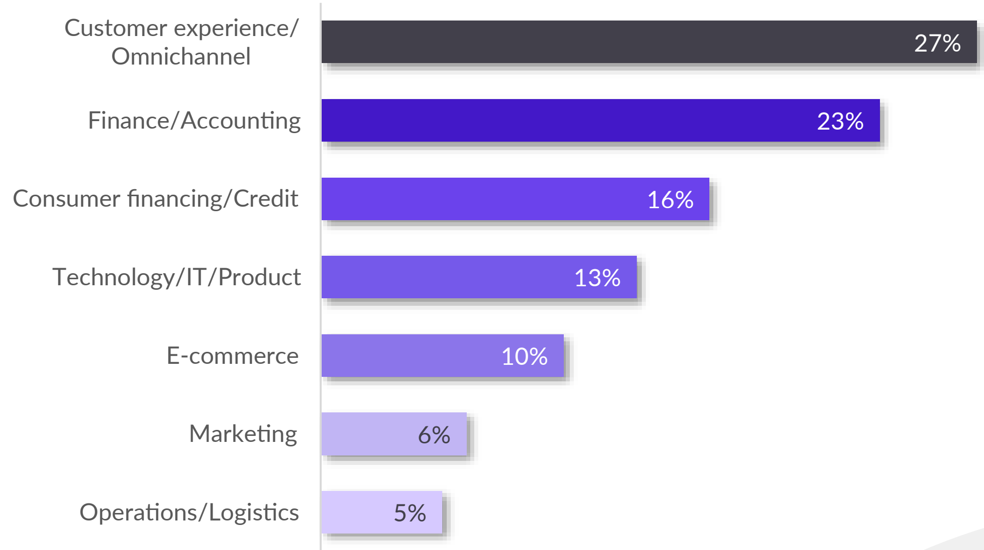

Figure 16: Ownership of consumer financing within companies

Demographics of Those Surveyed

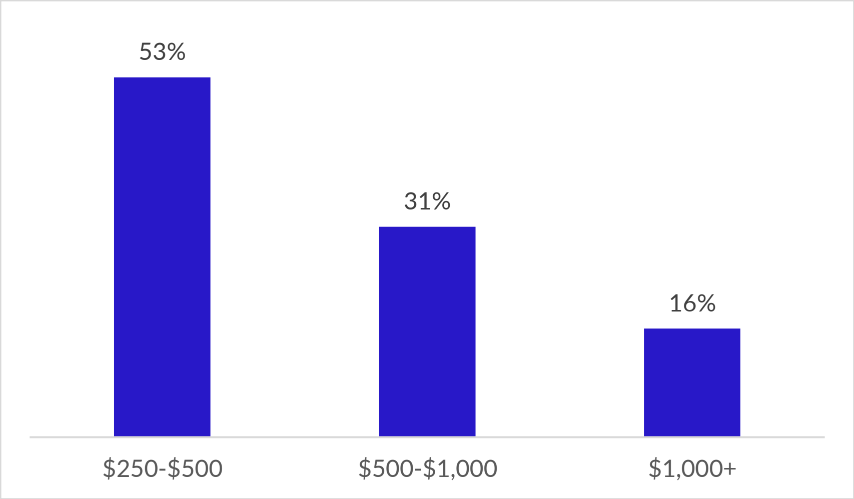

Figure 17: Average Order Value (AOV)

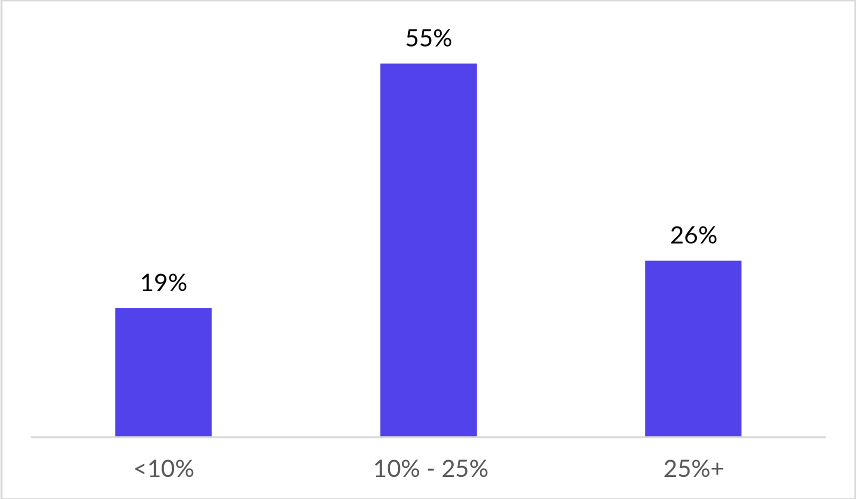

Figure 18: Company's Financed GMV

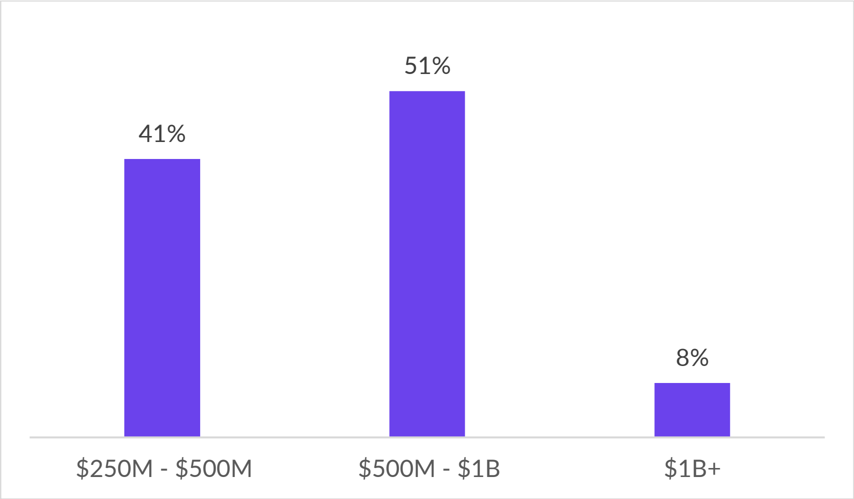

Figure 19: Annual Revenue

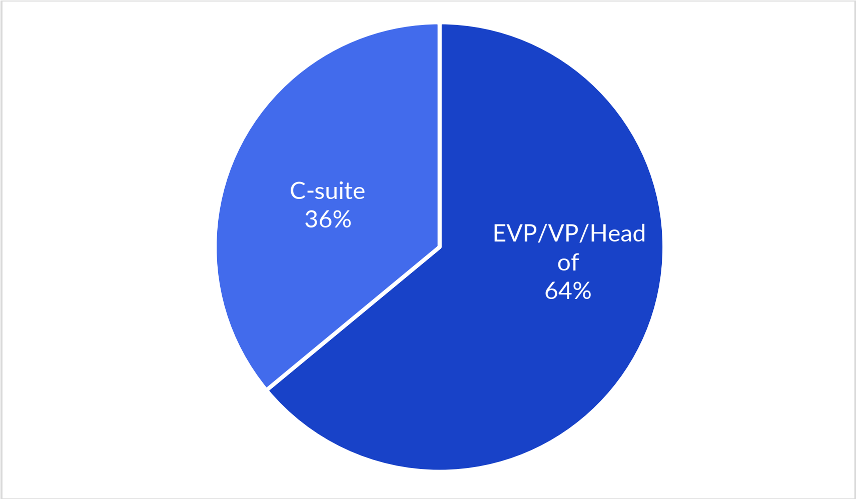

Figure 20: Job Seniority

About ChargeAfter

ChargeAfter is leading the point-of-sale financing revolution. It empowers retailers to meet the financing needs of their customers, in-store and online. ChargeAfter's multi-lender platform offers consumers quick, convenient, and personalized financing options from over 40 different lenders. In a single application, customers connect to a wide choice of financial products and lenders, resulting in an 85% approval rate.

As well as providing a seamless solution for consumers, ChargeAfter simplifies the financing cycle for retailers. The platform enables retailers to manage all aspects of the cycle, including reconciliations, refunds, and relationships with vendors. Retailers improve their sales and provide an exceptional customer experience without the headache of managing ever-complex financing requirements. ChargeAfter can be quickly integrated and is compatible with all e-commerce platforms and points of sale.

Request a Demo

For more information, please visit us:

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