FEB 02
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Acquisition completed, Block makes Afterpay available to sellers

Article

The news: **Block** (formerly Square) completed its acquisition of Australia-based buy now, pay later (BNPL) firm **Afterpay** and made it available to its online merchants in Australia and the US, per a press release.

Merchants can accept Afterpay free of charge until May 10. Block said it will make Afterpay available for in-store purchases and on its developer platform in the coming weeks.

The opportunities: The deal provides competitive advantages for both Block and Afterpay.

Block can use Afterpay to increase merchant loyalty and boost sales volume.

- BNPL adoption is rising: The number of US BNPL users is **expected to grow 31.4% year over year** (YoY) in 2022, per our forecasts. Offering BNPL to the growing pool of consumers who want it is becoming more important to merchants, in part because it helps limit cart abandonment and increases conversions: **BNPL can juice retail conversion rates by 20% to 30%** and average ticket sizes by 30% to 50%, according to estimates by RBC Capital Markets.
- Offering Afterpay not only helps Block generate more revenues, but it also increases its value proposition to merchants. This might be especially true for small businesses—which make up a large part of Square's seller base—that may otherwise not be able to afford to work with major BNPL providers.
- Bundling Afterpay into its merchant services can also help Block stay ahead in the in-store space, where competition is growing more intense: For instance, **PayPal** is becoming a bigger threat to Block as it expands **Zettle**, its small-business-centric point-of-sale (POS) solution.

Afterpay can capitalize on Block's reach.

- Being acquired by Block gives Afterpay a distribution opportunity: The BNPL provider can take advantage of Block's lucrative global merchant base, which in Q3 generated **$41.7 billion in gross payment volume**. Afterpay processed less than half of that ($22.4 billion) from underlying sales volume in its fiscal 2021.
- This also gives Afterpay a more diverse array of merchant partners. It already works with several large name brands, but now smaller businesses will also use its services. And unlike its deals with large brands, Afterpay likely won't face the same competitive pressures with smaller merchants. Many large companies like **Target** work with several BNPL providers, making it harder to capture sales.

The bigger picture: Block has undergone changes in the last few months that reflect efforts to diversify its business.

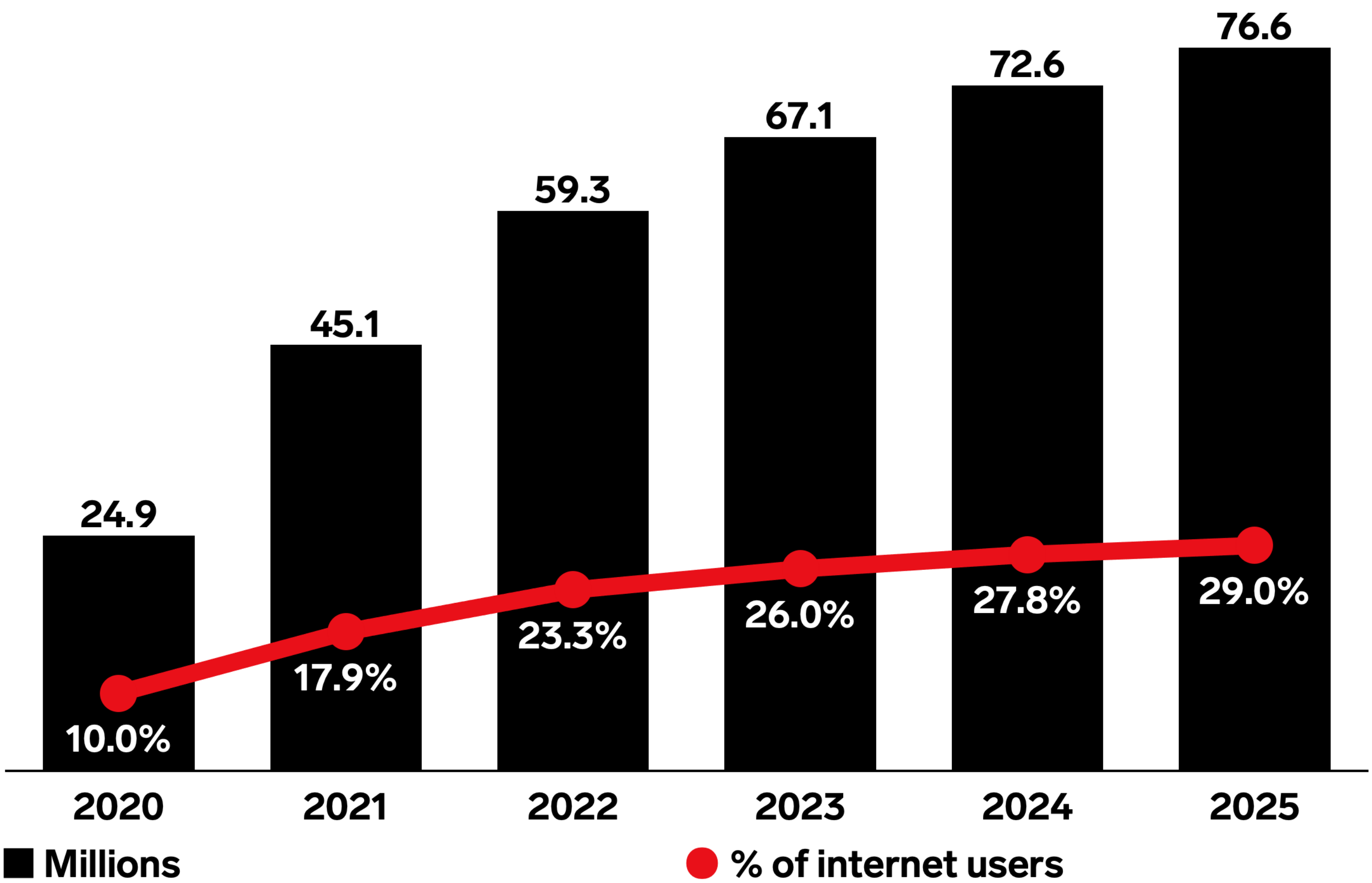
- In early December, the company changed its name to Block to position itself in the burgeoning cryptocurrency space. And CEO Jack Dorsey (an avid crypto supporter), resigned from his Twitter post, which means he may increase his involvement in Block. Several products are currently in the works at the firm, including a Bitcoin hardware wallet and Bitcoin mining system.

- Block may decide to bring cryptos into its seller ecosystem, potentially by enabling it as a payment method at the point-of-sale, like what PayPal is doing. This could give Afterpay a digital currency opportunity that offers its own competitive advantages as players like **Affirm** plan to move into the sector as well.

Related content: *Interested in learning more about Block's competitive advantages? Check out the "Payment Facilitators" report.*

Buy Now, Pay Later Service Users

US, 2020–2025



Note: Ages 14+; internet users who have accessed a buy now, pay later account digitally and have made a payment toward a purchase at least once in the past year; includes purchases of goods and services. Buy now, pay later (BNPL) services are defined as

purchases of goods and services. Buy now, pay later (BNPL) services are defined as interest-free solutions provided by third-party payment platforms that allow consumers to purchase and finance a product or service, and pay in scheduled installments; also known as digital installments, installment lending, and point-of-sale financing. Users are typically allowed to pay off balances in weekly, bi-weekly, or monthly installments. Failing to adhere to a predetermined payment plan will usually lead to late fees and interest charges. Consumers access these solutions at the point-of-sale (online or in-person), usually via a merchant's website or app, via the third-party provider's app or via proximity mobile payment apps like Google Pay and Apple Pay. Examples include Affirm, Afterpay, Klarna, Sezzle, and PayPal's BNPL service. Excludes services that provide a revolving line of credit, and retailer- and bank-branded financing options.
Source: eMarketer, May 2021
Methodology: Estimates are based on the analysis of survey and traffic data from research firms, historical consumer adoption and buying trends, payment adoption trends, reported company data, interviews, demographic and socioeconomic factors, and macro-economic conditions.

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