

Sezzle allegations highlight tough BNPL landscape for smaller providers

Article

The news: Buy now, pay later (BNPL) provider Sezzle's shares tanked after short-selling firm Hindenburg Research alleged the company engages in risky lending practices. The report

also claims the [BNPL](#) provider is hemorrhaging customers and merchants.

Sezzle denied the claims, calling them "misleading and out of context." The company said it was confident in the outlook it provided in its Q3 results. Sezzle bumped up its revenue forecast for FY 2024 from 35%-40% YoY growth to 55%.

Dividing into the report's allegations:

- **Risky lending.** Sezzle's earnings growth was driven by lower-quality loans, according to Hindenburg. The company's provision for credit losses grew 130% YoY through Q3 2024, while its loan book only grew 6% YoY.
- **A decline in merchants.** The company said it had 23,000 active merchants in 2024, a 51% drop from 2021. But Hindenburg claimed the actual number could be even lower given the list of merchants on its website only totals 6,776. Sezzle also quietly lost key partnerships with large retailers like **Target**.
- **Fewer customers.** Sezzle's active customer count has dropped 20% since 2021. The report also said Sezzle enrolls users into its recurring monthly subscription product without their awareness, artificially inflating member numbers.

The report concluded that Sezzle will not survive in the long term.

The bigger picture: As the BNPL industry matures, the competitive landscape is [thinning out](#). In 2024 alone, **Apple, NatWest, Laybuy, ZestMoney, and Openpay** shut down their BNPL operations, and Zilch reduced its operations.

Providers face industry-wide slowing user growth and an inherently low-margin business. And the biggest players are getting even bigger, making it harder for smaller firms to compete.

- **[Affirm will account for 28.2% of BNPL payment value in 2025](#)**, per our forecasts, and **Klarna will account for 28.1%**. Following behind, **Afterpay** will make up 11.4% of the payment value.
- These players are all also scoring major non-merchant partnerships, making them available at most places consumers shop. For example, Affirm and Klarna [partnered with Apple](#) to get their installments in **Apple Pay**. (They are also [available in Google Pay](#).)

Our take: Whether Sezzle's situation is as shaky as Hindenburg claims is uncertain. And even if it is, Sezzle could still turn things around.

But what is becoming increasingly apparent is that only the strongest BNPL players will survive as the industry matures. We expect the shakeout will continue in 2025.

Buy Now, Pay Later Payment Value Penetration, by Company

US, 2025

% of Total BNPL Payment Value

Affirm	28.2%
Klarna	28.1%
Afterpay	11.4%
Zip	4.6%

Note: includes products or services paid with a buy now, pay later service platform
excludes payments such as bill pay, taxes, or money transfers, gambling and cash
goods sales

Source: EMARKETER Forecast, August 2024



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