eMarketer

How Afterpay Is Changing the Way Consumers Shop

Consumers who don't use credit cards are turning to digital installment plans

ARTICLE

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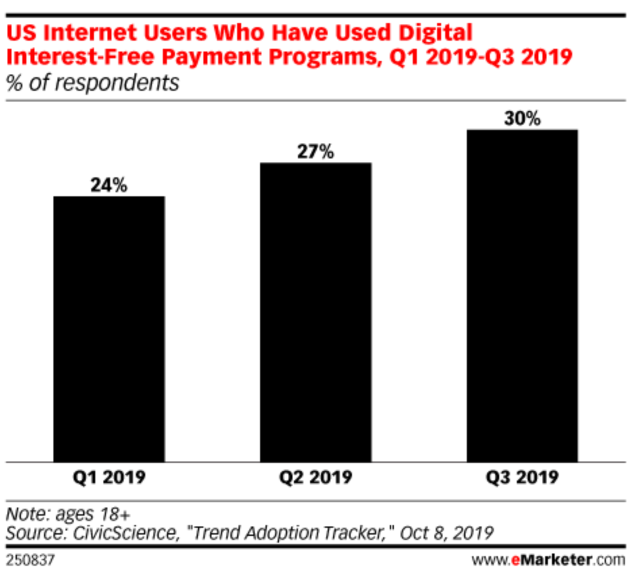
Digital installment plans are growing in popularity, particularly among more budget-conscious, younger consumers. In 2019, adoption of digital interest-free payment programs grew from 24% of internet users in Q1 to 30% in Q3, according to data from CivicScience.



We recently spoke with Ben Pressley, executive vice president of sales, operations and strategy for Afterpay, on how consumers are using the service, the growing payment installments market and what it means for retailers.

How does Afterpay work?

Afterpay is a global payment installment platform that started roughly four years ago in Australia when one of our founders, Nick Molnar, recognized interest among the rising generation—especially millennials and Gen Z—who weren't really using credit cards.

Currently, Afterpay has about 43,000 retailers globally that offer the service. In the US, it's over 9,000 retailers. There are more than 3.6 million consumers who actively use Afterpay in the US, and it's more than twice that globally.

Users pay every two weeks over four installments for their purchases, and then the retailer covers any of the fees associated with it. That means there's no interest or recurring fees to the consumer. Users love the product, especially those that aren't using credit cards, which is a very large percentage of the population. And retailers love it, too, because they're seeing much higher conversion rates, basket size, etc.

What's driving the adoption?

A number of studies have found that Gen Z and millennials are not using credit cards. I believe the Federal Reserve indicated that close to two-thirds of millennials don't even own credit cards. Afterpay is definitely resonating with these generations who like to shop on mobile and like the 'buy now, pay later' solution.

A lot of these folks grew up during the Great Recession and experienced a lot of the pain that comes with credit and maybe have large amounts of student loans. They like this idea of spending their own money when they want to spend it and having more control over the experience.

Will the adoption curve accelerate if we hit an economic downturn?

The use of installments will accelerate regardless of the economic circumstances. We're hitting on a need—again, going back to the fact that consumers want to avoid credit—that is independent of the macroeconomic climate that we're in.

In the past 18 months, we've seen a dramatic increase in Afterpay's usage—in the number of consumers using the service and those that are repeatedly using it. We see that continuing to grow. It isn't about not having access to money, it's more about avoiding credit and wanting to be able to have control over your own funds.

We're seeing more consumers use digital installments for lower-ticket items and not necessarily the big-ticket purchases you would expect. Are you seeing that as well?

Absolutely. One of the things that surprised me as I started to work with a number of retailers is the variety of use cases. Traditionally, you think of installments in the domain of making major purchases—buying furniture, appliances, jewelry, etc. In reality, it's been very effective for retailers to use Afterpay with much smaller basket sizes. Our average basket size is close to $125.

There's one retailer that we've worked with—a large retailer—and their average item price is about $15. And again, that's the sort of place you would not expect to see a consumer select Afterpay, but behaviors are changing. In that instance, instead of adding three items to a cart, when they use digital installments, they add seven items to their cart. And the basket size changes from $50 to over $100.

What the market is seeing, and what retailers are seeing, is the opportunity to look at installments or payments as a conversion tool instead of a way to pay. One of the big eye-opening moments for retailers over this past holiday season is, if you can optimize the experience for this rising generation that likes to look at things on mobile—and remove a lot of the friction from that mobile experience, including payments, and offer a payment method that consumers know and trust—you have a much better chance of completing that purchase on the spot.

You must also be looking at a lot of consumer behavior data. Are they continually using the service? Are there issues with collecting payment?

We see consumers coming to the Afterpay website or going to the mobile app—particularly the mobile app—searching for something they want to buy, and then they're directed to the retailer's website from there.

The consumer behavior that's interesting to highlight is, for example, someone who says, ‘I want to buy Nike's, and I know I want to do it with Afterpay, so I'm going to search on Afterpay for retailers that offer Nike's.’ They'll see the list of retailers that offer them, go straight to their sites and complete the purchase there. Consumers are no longer just looking at the item that they want to buy, but they're looking at other variables, including whether it can be purchased with the payment method they want to use.

There's a very large group of customers who are actively engaged with Afterpay. Once they use the product the first time, they come back again and again. In Australia, for example, that repeat usage is happening more than once a month.

Are you sharing specific learnings and data with the retailers you’re working with?

Yes, we have very close relationships with our retail partners. In fact, I was just talking to one of them the other day, a shoe manufacturer that does between $50 million and $100 million in annual online sales. Since implementing Afterpay, that retailer has seen its top-line sales go up over 100% and its gross margins increase by over 80%. And they give almost all credit to us for that. Another retailer said Afterpay has accounted for about 40% of its share of checkout. On average, most retailers are seeing closer to 15%, so there are some phenomenal success stories out there.