

Klarna heaps praise on AI and partnerships as it edges toward profit

Article

The news: Partnerships and embracing AI technology helped Klarna make “significant progress” toward profitability, cutting first-quarter operating losses by more than half, according to the firm’s earnings press release.

- **Operating losses narrowed** 78% year over year (YoY) to SEK 500 million (\$46.4 million), which Klarna said put it “firmly on track” to reach monthly profitability in the second half of the year.
- **Gross merchandise volume increased 13%** YoY to SEK 211 billion (\$19.6 million), slowing from 19% in the **fourth quarter**.
- **Marketing revenue shot up 276%** from two years earlier and remains the fastest-growing revenue stream.

Klarna’s profit drive is paying off: The firm has tightened lending standards and slashed costs—including **mass layoffs**—after **economic headwinds** and intensifying competition eroded growth and its bottom line.

But the pivot appears to be working: Costs are down, and rising revenues have shrunk losses. That should position Klarna well for the second half and temper investor concerns after a series of major **valuation cuts**.

Partnerships were a bright spot: Klarna’s global retailer revenues grew 17.3% YoY but surged 34% in the US, driven by a string of new tie-ins.

- Its partnership with **Airbnb** can help it tap the travel marketplace’s huge reach as users seek more flexibility to pay for trips.
- A tie-in with **Buddy**, a personal finance app that targets Gen Zers and millennials, builds out Klarna’s open banking business.
- And agreements with **Citcon** and **Ingenico** can boost Klarna’s use at digital and in-store checkouts.

Klarna hails AI: The company wants everyone to know that it’s embracing AI. Even though its 112-page **annual report for 2022** had just one reference to the technology, Klarna describes itself three months later as an “AI powered global payments network,” per the press release.

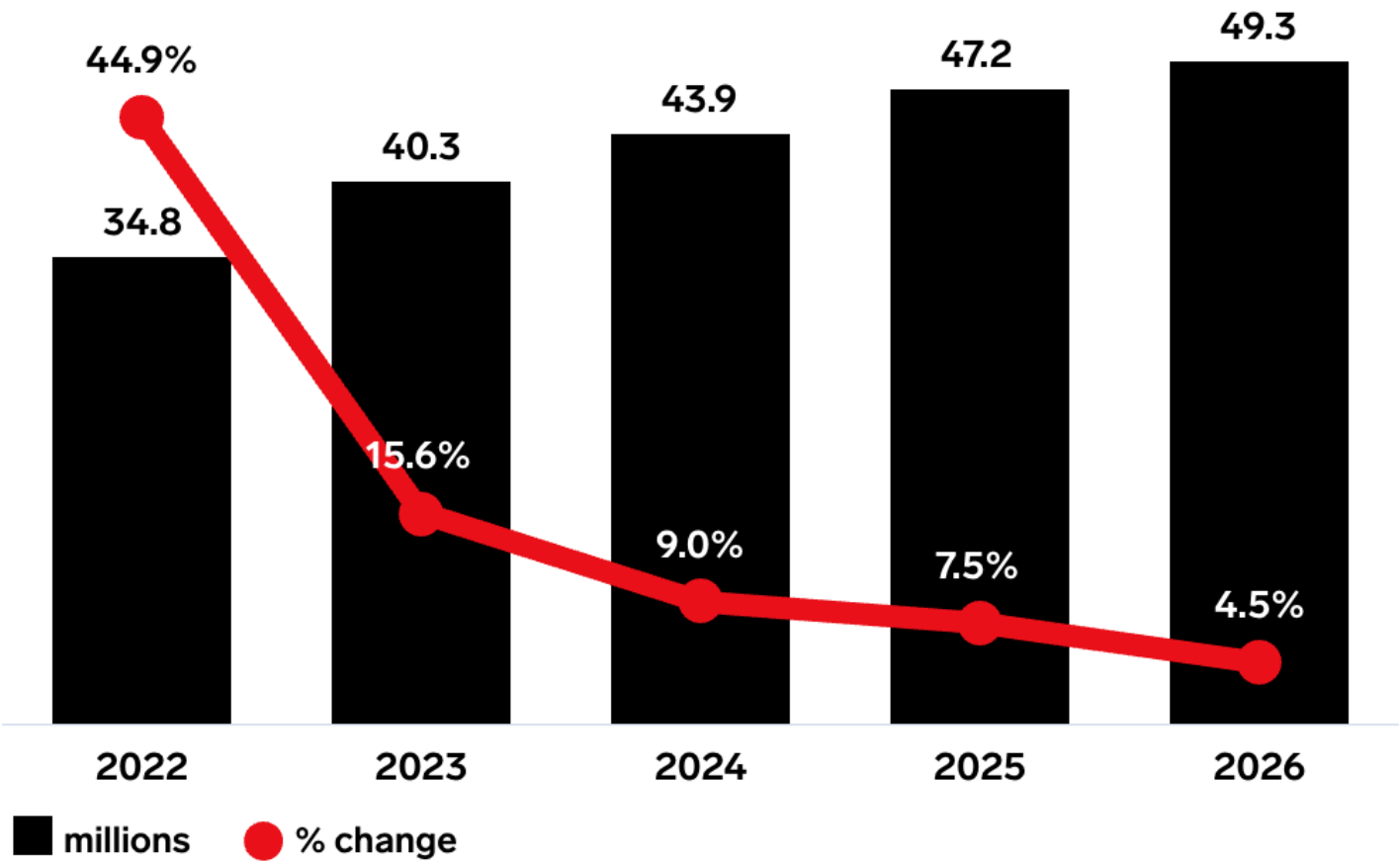
- Partnering with **OpenAI on a ChatGPT plugin** that gives users personalized shopping recommendations could help Klarna boost customer satisfaction and retention.
- Klarna is also milking opportunities to use AI to strengthen its brand and woo investors.

Not so fast: But AI comes with risky unknowns concerning its limitations, consumers’ preference for human customer support, privacy concerns, and new regulations that will likely materialize.

And it's not the first time Klarna has played up the tech of the moment: Its open banking platform, **Kosma**, launched with much fanfare last year didn't even get a mention in the earnings release. Klarna needs to think carefully about how AI will create value for the company and its customers that can't be easily replicated by rivals.

Klarna Users

US, 2022-2026



Note: internet users who have accessed their Klarna account digitally and have made a payment toward a purchase at least once in the past year; includes purchases of goods and services

Source: eMarketer, June 2022

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