

Buy now, pay later sees holiday spike. Will low consumer adoption slow down the major players next year?

Article

If Cyber Five trends hint at what to expect from the rest of the holiday season, expect buy now, pay later (BNPL) to be a big hit. According to Adobe Analytics, orders placed with BNPL grew 85% over the course of the five days, echoing the growth BNPL providers saw in the third quarter. Though adoption is still relatively low, there's a massive opportunity for providers who can prove their worth to consumers.

Holiday boost: As inflation continues to weigh on consumers, they are looking to BNPL to help with holiday shopping.

- In an October survey, 20% of US respondents **planned to use BNPL** this holiday season, according to the Electronic Transactions Association and The Strawhecker Group. Those who had previously used BNPL are 38% more likely to say they would use it again.
- BNPL emerged as a major trend during the **Cyber Five**. Orders placed with BNPL services grew 85% and BNPL revenues increased 88% compared with the week prior, according to Adobe.
- Companies from **Amazon** to **Expedia** are leaning into BNPL to encourage consumers to spend during the holidays. Amazon partnered with Affirm to offer 0% APR on holiday purchases during the Cyber Five period, while Expedia is offering BNPL for the first time via Afterpay.

The major players: Increased consumer use spells success for BNPL providers.

- Between January and September, Klarna's US gross merchandise volume hit \$8.6 billion, growing 92% year over year.
- **Affirm's** gross merchandise volume grew 62% year over year in its fiscal Q1, ending September 30. Despite a slight slowdown, Affirm hopes to become profitable by the end of fiscal year 2023.
- **PayPal** processed almost \$5 billion in BNPL volume in the third quarter, a 157% rise year over year. More than 25 million customers use its BNPL product, which is offered by over 280,000 merchants on their product pages.
- **Block's** BNPL offering, Afterpay, grew 120% over the Cyber Five compared to pre-holiday levels. Block reported strong growth in nontraditional BNPL categories like food and beverage (up 251%), travel and experiences (57%), and auto (32%).

The adopters: Only 12% of US consumers use BNPL regularly, according to an October survey by Bizrate Insights.

- While almost half (44%) of consumers report they have not used BNPL and are not interested, there's a small opening for providers as over 1 in 5 US consumers are somewhat or very interested in the service.
- However, this number may continue to shift in favor of BNPL use if economic pressures continue to weigh on consumer budgets.

Give 'em what they want: What features can BNPL services offer to entice more adoption? According to our 2022 **“US Buy Now, Pay Later Feature Demand”** report, the top five most in-demand features for US BNPL users fall into two categories: fee avoidance and rewards.

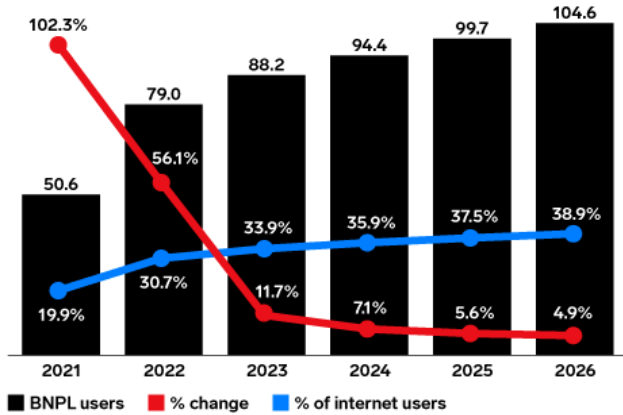
- Over half (57%) of customers wanted the ability to pay a loan off early without a fee. Nearly as many (52%) like to make payments without incurring service fees.
- 56% of users are interested in earning rewards that don't expire. Earning rewards on every purchase (52%) and earning rewards for paying on time (52%) were other in-demand features.

All talk: At the **Money20/20 event** earlier this year, BNPL was one of the most prominent themes, with many conversations centering around differentiation and innovation.

- Our analyst Dan Van Dyke **claimed that BNPL 2.0 is approaching**, marked by new business models that are more customer-focused.
- He said that as BNPL adoption normalizes, volume growth will become more resilient, and cross-selling and affiliate revenues will drive profitability.
- To increase engagement while also mitigating regulatory concerns, BNPL providers should also offer customers financial wellness tools, said Van Dyke.

What lies ahead: Though adoption is relatively low, we expect that to quickly change. We forecast **BNPL payment value** will reach \$75.60 billion in 2022, growing by double digits each year to reach \$143.44 billion in 2026, when almost 40% of internet users will have used a BNPL solution.

US Buy Now, Pay Later (BNPL) Users, 2021-2026
 millions, % change, and % of internet users



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

Source: Insider Intelligence, June 2022

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As we transition into the next wave of BNPL, providers will need to innovate and differentiate themselves to capture a share of those consumer dollars.

Pro tip: A **Gen Z** strategy is a must-have for providers, as they are the generation most likely to use a BNPL service. For example, this year, 55.1% of Gen Z digital buyers will use a BNPL service, versus 48.6% of millennials, 31.2% of Gen Xers, and only 16.3% of baby boomers. When targeting Gen Z, there’s a huge opportunity to capture consumers who haven’t built up credit yet but still want to finance small purchases.

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