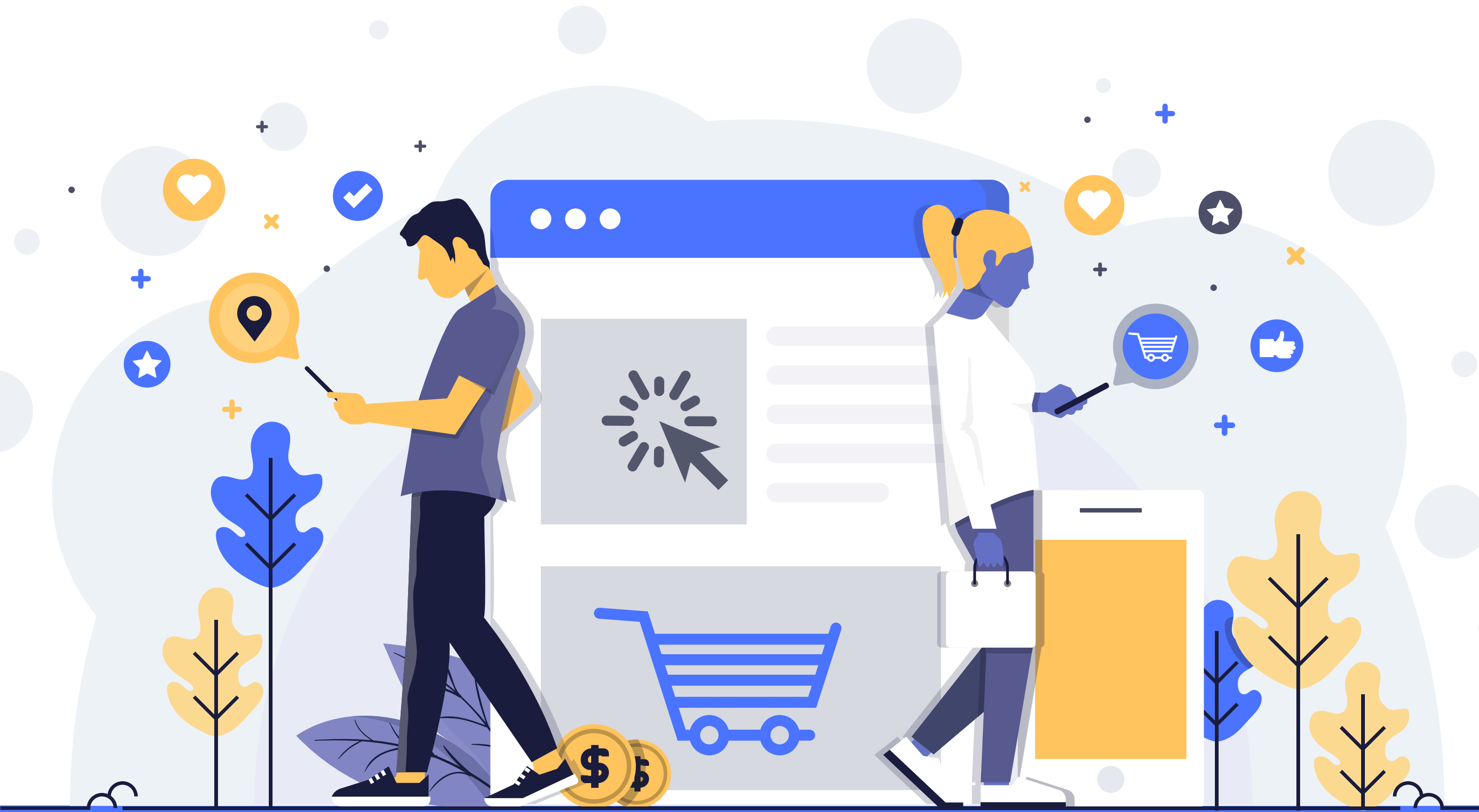
Online Consumer Financing: The Future of eCommerce

2020

Everything you need to know to get you ready for the next wave of (e)Commerce payments



ChargeAfter

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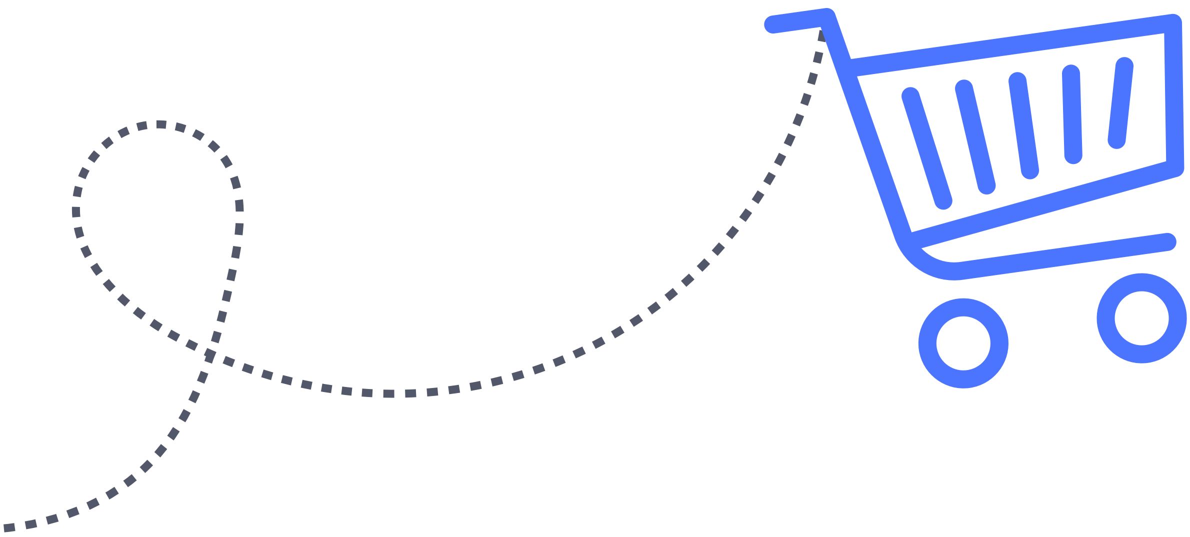


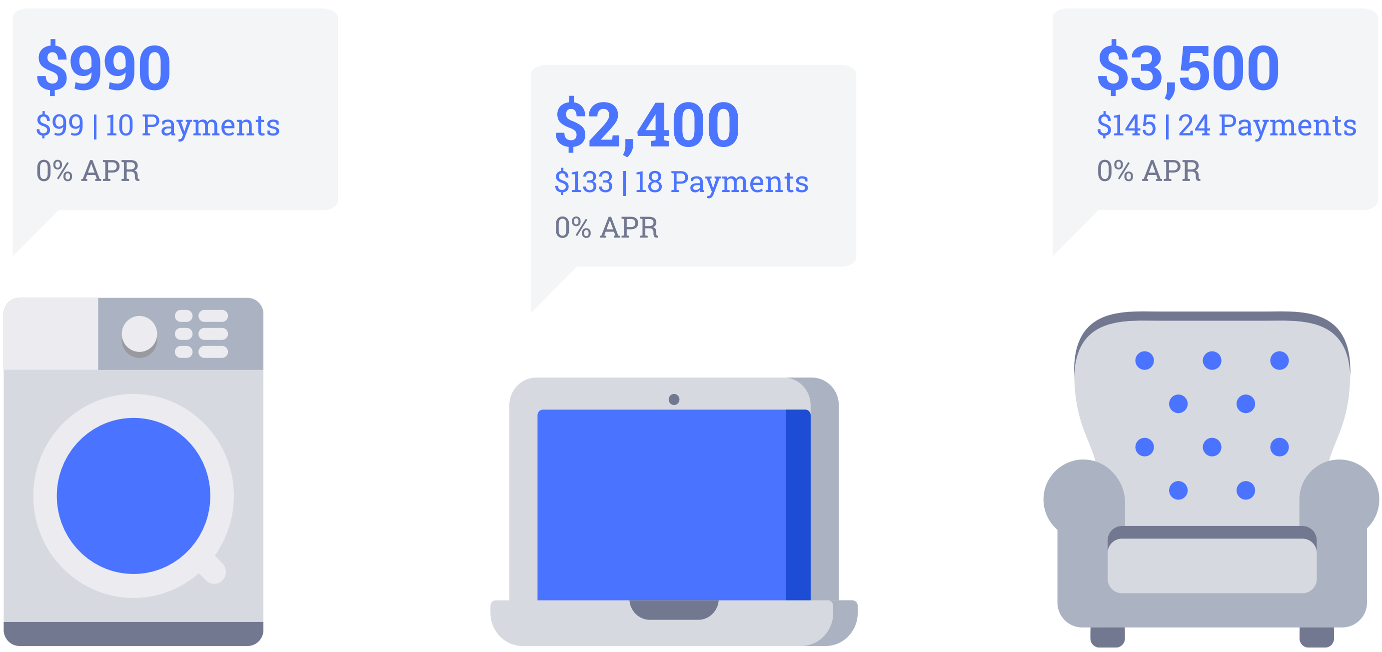
1. What is Consumer Financing?

As the landscape for ecommerce broadens, so has the pool of goods available for sale through digital channels. More than just gadgets and groceries, people are making even bigger purchases online these days-sometimes involving price points in the thousands of dollars.

The problem with high-price goods sold online, is that not every purchase can be made outright by everyone. Buying a $5,000 piece of furniture is much different than checking out with $50 worth of houseware! Many consumers are either unable to make this sizable purchase outright or are rightfully reluctant to do so because placing a high dollar amount purchase on their credit card which may not have the available line. This is where consumer financing has become important.

Digital financing, in simplest terms

Online financing is the quick solution to mid to high dollar value checkouts. Customers get the items they want, without immediately racking up a huge credit card bill. Instead, they're instantly approved for financing that's applied directly to their cart. Rather than spending big bucks outright, they're able to pay back their purchase in affordable installments over time.
The concept isn't novel—financing has always existed for big ticket items like appliances, furniture, jewelry and more. What is new, is the instant financing available through checkout online. As retailers of high-priced goods take their commerce online, checkout financing is the easiest way for them to bring financing options to customers there.



Simplicity is key

One of the chief reasons consumer financing is making headway in ecommerce is because of its simplicity. In an age where more steps equal barriers to conversion, financing is integrated in the same way as other familiar checkout options like Apple Pay, Visa Checkout and Google Pay. It's not seen as a barrier—simply another payment option. In fact, about 25% of purchases for mid to high ticket items are made through consumer financing at check out.

> "Instead of 20-25% approval rates through single-point lenders like credit card conglomerates and other consumer financing providers found on many of the leading eCommerce sites today, approval rates as high as 85% are possible through a diverse lender network!"

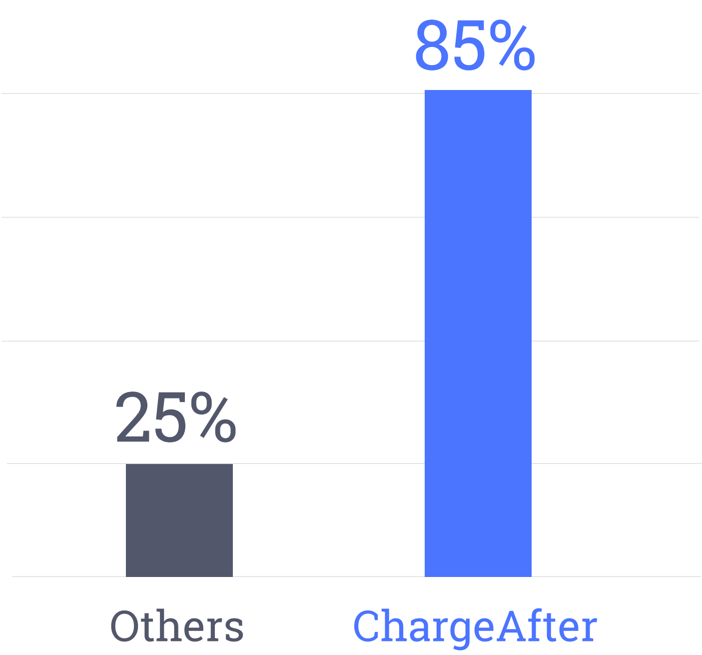
Financing at checkout also benefits from a streamlined credit application. Running a basic credit check is easier than ever, which means customers only need to provide their name, date of birth, phone number, email address, social security number and monthly income figure. This takes about as much time as filling in credit card data for a regular purchase. Credit approvals (or denials) are generated in seconds, which leads to faster checkout.

Flexible options

Consumer financing takes many forms, which increases the chance of approval in some capacity for most shoppers. Someone with great credit may choose higher payments at a lower interest rate for a lower payback duration. Someone else with less than perfect credit may opt for more accommodating terms.

This variety and flexibility comes from the diversity of lenders available. From traditional institutional lenders all the way down to the "lease to own" offers, different risk tolerances and capital loans enable more people to borrow. Instead of 20-25% approval rates through single-point lenders like credit card conglomerates and other consumer financing providers found on many of the leading eCommerce sites today, approval rates as high as 85% are possible through a diverse lender network! The result is widespread enabling of high-dollar ecommerce purchases.

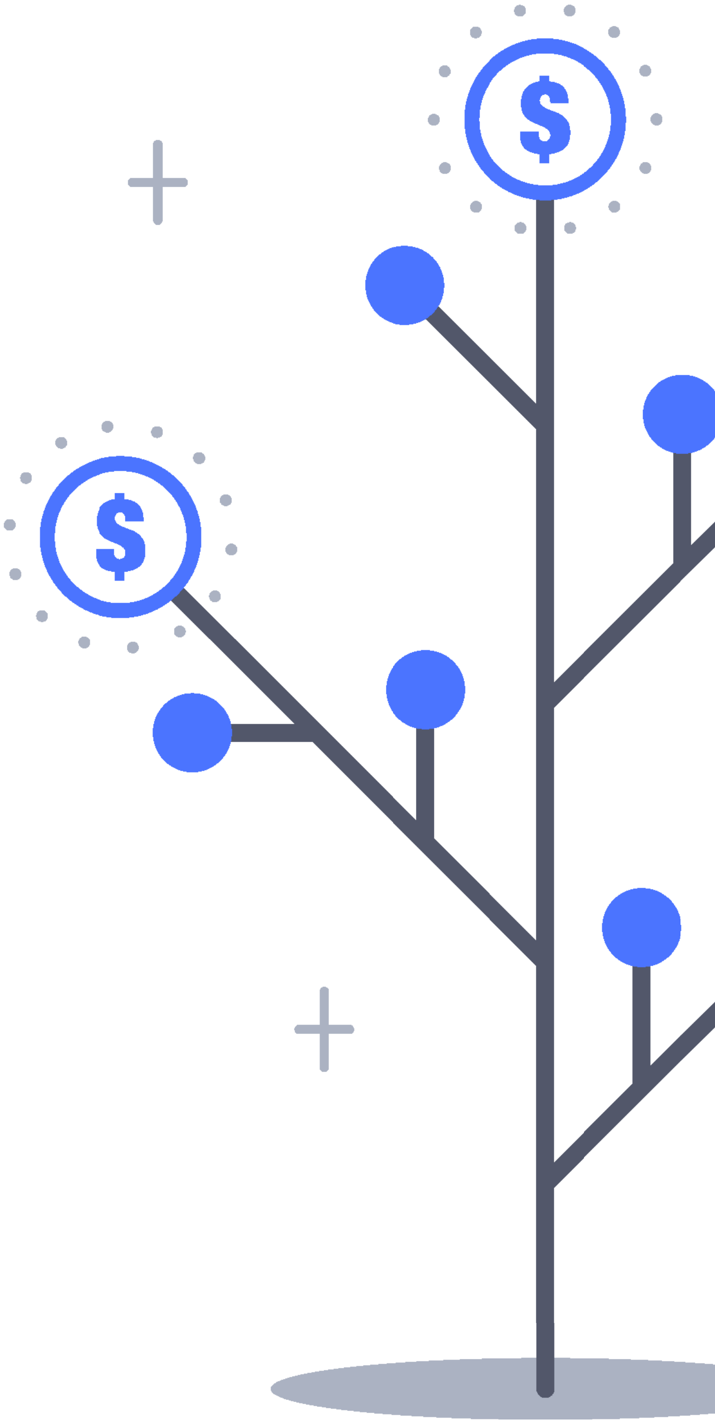
eCommerce approval rates:



Consumer financing is fueling ecommerce growth

It's abundantly clear that ecommerce is only growing. And, with high-value purchases starting to trend upward, it's also clear that simpler financing options are in-demand. Giving consumers an instant, secure way to finance their items at checkout will only continue to fuel demand for these items and enable online purchases.

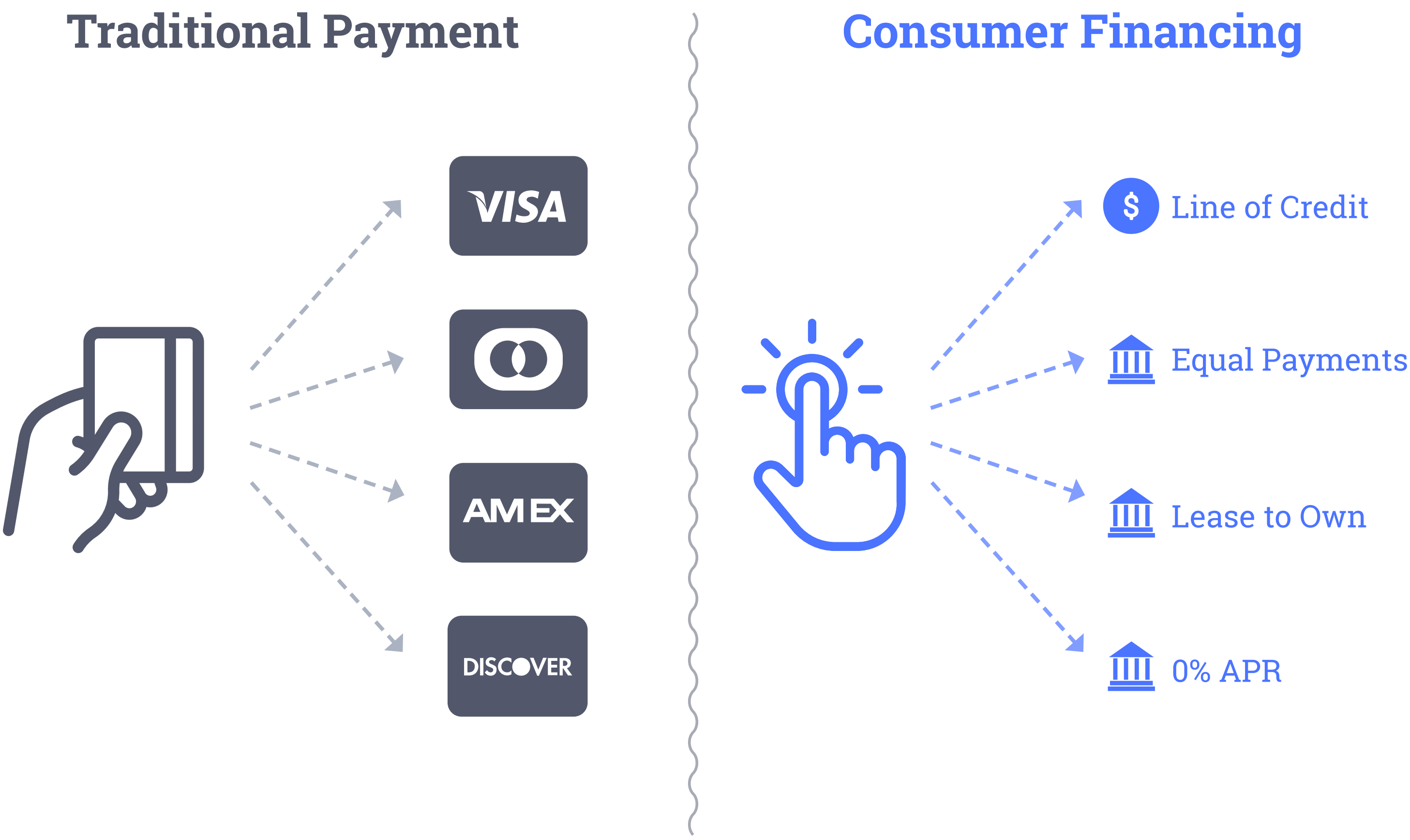
ChargeAfter is making it easier for customers to get the right financing terms at checkout, without the barriers of long-winded applications. Using a multi lender network, we help online retailers enable quicker purchases of higher value goods, without the burden of a huge upfront purchase. We're the smart solution to ecommerce growth for companies relying on convenient consumer financing!



2. How Does Consumer Financing Differ from Traditional Credit Card or PayPal Checkout?

It's a lot easier to swipe a credit card for $20 than it is for a $2,000 purchase. The same goes for online checkout. Unfortunately, it's unavoidable when it comes to something like a computer or an armchair, which retail for hundreds if not thousands of dollars baseline.

The advent of instant consumer financing provides an alternative. Instead of paying the full price upfront—charging hundreds or thousands to a credit card—it enables shoppers to get the item they want now, with an affordable payback plan in place. It's a solution with broad-ranging benefits for shoppers, not least of which is avoiding a major charge upfront.



The problems with traditional payment

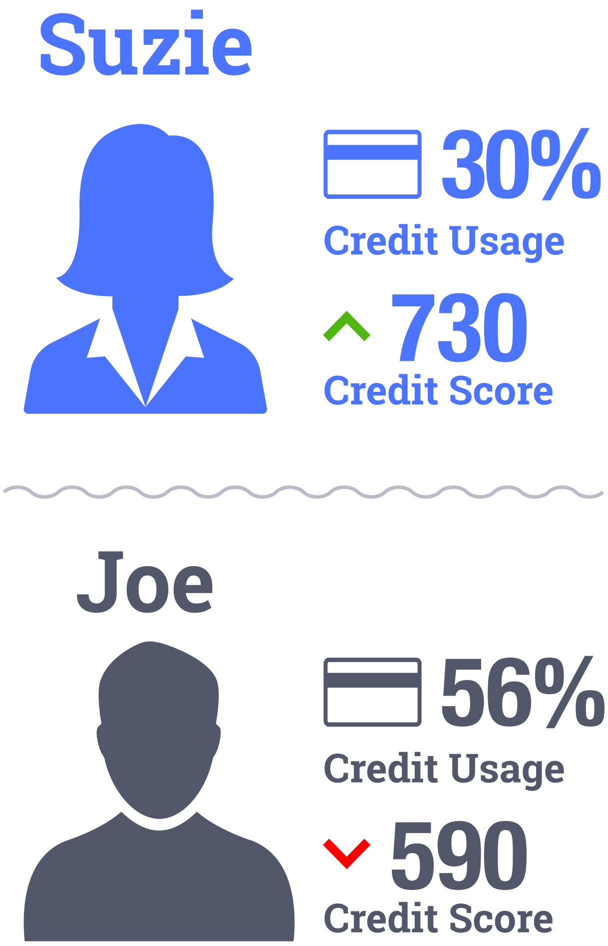
Joe wants to buy a new MacBook Pro. He customizes his computer on Apple's website and heads over to the checkout, where he's met with a grand total of $2,100. He decides to charge his credit card, which has a limit of $8,000 and already has a balance of $2,400 on it. After checking out, Joe has a credit card balance of $4,500 and his credit utilization is at 56%!

There are numerous problems with this scenario. First, if Joe has any emergency expenses, he might not have the means to cover them. Second, his credit score is going to suffer mightily from high credit utilization. Finally, it's unlikely Joe is going to pay off his entire credit card balance, meaning major interest payments are coming his way soon.

Considering financing as the alternative

Suzie wants to buy the same MacBook for $2,100. She's in the same boat as Joe: A credit card with an $8,000 limit, with $2,400 already on it. Instead of charging her purchase, however, Suzie uses point of sale financing. She checks out with no money added to her credit card. Instead, she has 12 months to pay back the purchase, with a 12% interest rate. All told, Suzie will pay $196 monthly, equating to $2,352. Additionally, some merchants may even offer a 0% APR if paid back in full within 6-12 months which will directly contribute to more deep savings for Suzie.

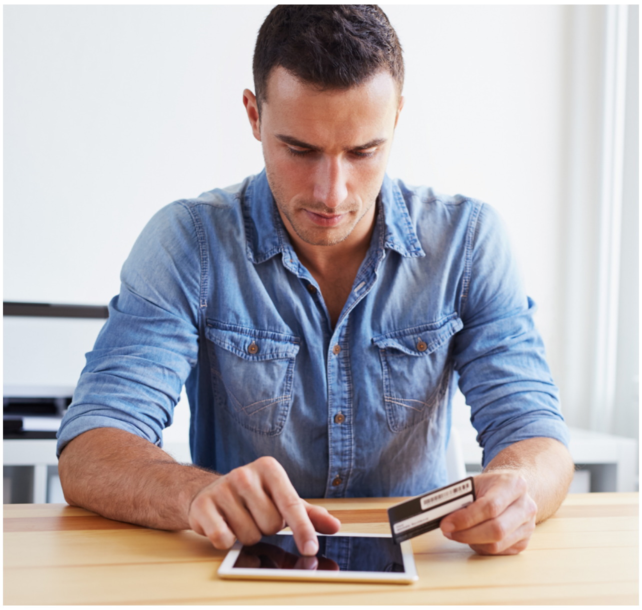
At a glance, it's easy to decry Suzie's choice since she'll pay a small premium in the end. But, looking closer, it's actually the more fiscally responsible decision to make! Suzie will keep her credit utilization at 30%, which won't hurt her credit score any more than it already has. She'll also avoid the 25% APR or more of a credit card! Finally, Suzie will actually build her credit by making on-time payments on a small personal loan.



Stacking up the benefits

Examining these two scenarios, it's clear who comes out a winner. Both people are getting their computer… but, while Suzie may be paying an extra $252 for hers upfront, she's avoiding the many pitfalls of increased credit card debt, inflated interest rates, and unforeseen emergency expenses. Joe is at the mercy of all these variables, which will end up costing him far more.

For individuals who want control over their finances and the ability to make good fiscal decisions, checkout financing is the clear choice. It offers flexibility and protection that a credit card simply can't, paving the way for peace of mind with bigger purchases.



Joe purchased a Mackbook Pro with his credit card. After checking out, Joe's credit utilization was at 56%!

"For individuals who want control over their finances and the ability to make good fiscal decisions, checkout financing is the clear choice. It offers flexibility and protection that a credit card simply can't, paving the way for peace of mind with bigger purchases."

3. Single Lender vs. Multi-Lender Consumer Financing

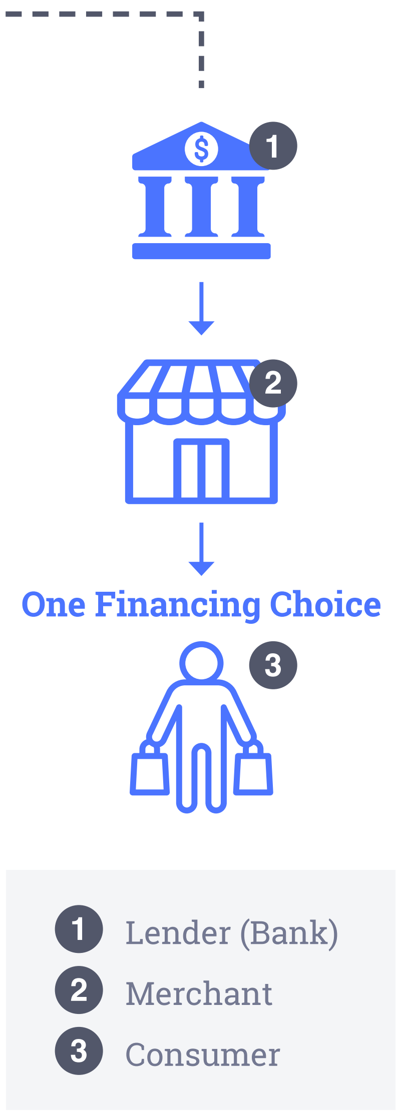
The world of consumer financing has a distinct split between single lenders and multi-lenders. To the consumer, this distinction is almost impossible to spot. For retailers, it makes a big difference. Single vs. multi-lender platforms can have a huge impact on who gets approved for financing or not, and what terms are available, and what sales look like.

Single Lenders

Single lenders focus on "prime" credit applicants. They're after consumers with good credit and the most favorable variables working for them. This includes good credit history, high income and low or no existing debts.

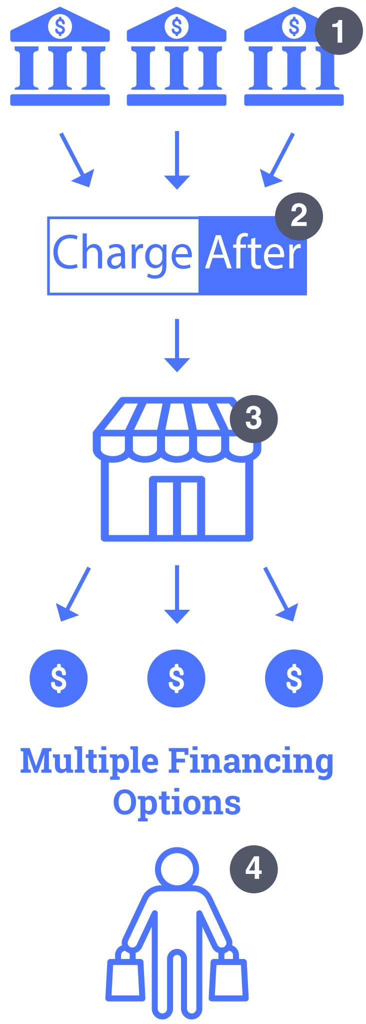
These lenders — Affirm, Bread, and others—use specific credit underwriting terms to target prime consumers. Single lenders also act as banks and usually have one source of fund distribution. This means their risk is higher, which attributes to their focus on prime borrowers. Anyone not fitting the "prime" mold is typically denied, which means turning away roughly 70% of applicants to focus on the top 30%~.

There's nothing wrong with this strategy for lenders—they're targeting people most likely to pay back their loans! For ecommerce merchants, however, this impacts sales. Customers outside of the prime category may not qualify despite their clear ability to pay back their loans. Likewise, denied shoppers may abandon their cart altogether to shop elsewhere. Abandoned carts skyrocket, conversion rates fall and missed opportunities abound.



Multi-lenders

Multi-lenders (like ChargeAfter) use a network of financing options, funneled through a single user checkout experience. Customer data isn't processed against a set of uniform terms targeted at prime applicants. Instead, it's put through a "waterfall" of diverse lenders, with a variety of options provided to the consumer.



The waterfall method is simple. A consumer financing application is checked against the prime lenders for approval, and if declined, it moves down to near-prime options. From there, sub-prime options are explored and so on, all the way down to lease-to-own financing options, all in one single application with results back in under 3 seconds!

Because multiple lenders are checked in the waterfall, different rates and terms are available to shoppers once approved, allowing them to pick the best personalized offer for them at checkout. ChargeAfter provides an up to 85% approval rate for applicants by enabling merchants to offer more financing options and allowing shoppers to select the right option for them!

The effect on eCommerce

As mentioned, denying a shopper access to financing can have disastrous results for abandoned carts, conversions and even customer loyalty. Conversely, giving borrowers more options with flexible repayment terms can encourage confidence at checkout. It may even enable higher average order values (AOV) at checkout!

1. Lenders (Banks)
2. ChargeAfter
3. Merchant
4. Consumer

More people are shopping online than ever before. Big-ticket items are more available, too. As a result, it's in the best interest of online retailer to bring their customers diverse financing options to meet all credit types. Choosing a multi-lender platform means casting a broader net for interested shoppers and bringing in more sales. You'll also turn away fewer potential borrowers with the ability to make good on their financing.

In an age where it's easier to buy an armchair online than going to a physical furniture store, ecommerce stores need the diversity multi-lenders offer. Not everyone has pristine credit, but that shouldn't disqualify 70+% of shoppers seeking consumer loans.

> "More people are shopping online than ever before. Big-ticket items are more available, too. As a result, it's in the best interest of online retailer to bring their customers diverse financing options to meet all credit types".

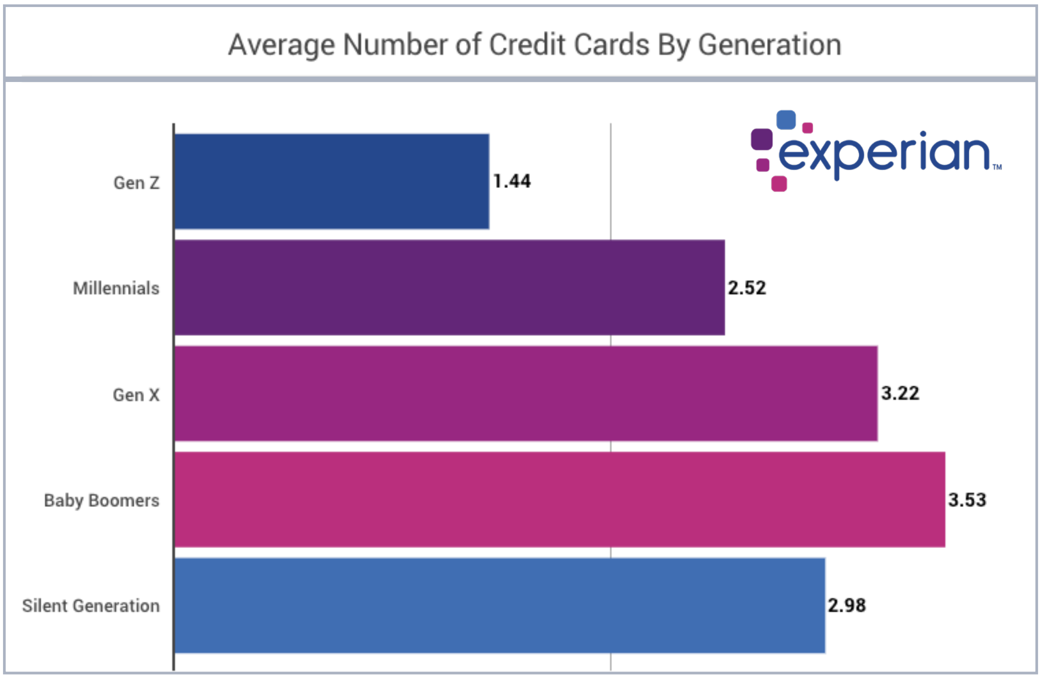
4. Consumer Financing: The New Frontier of Payments

Millennials and Gen Z shoppers are rapidly taking over as the primary spenders in the economy. Unfortunately, these groups are much more reluctant to make impulsive purchases or stretch themselves thin financially. Additionally, credit card applications are down—especially those who have been previously denied.

All these variables add up to a major consumer group that's wary of making large online purchases and, in some cases, unable to even if they wanted. With high-priced items subsequently moving into the ecommerce space, there's trouble on the horizon for shoppers unable or unwilling to make big purchases outright. Consumer financing is the solution. As the new frontier of online payments, consumer financing, or consumer credit is the happy medium between price-minded Millennials and big-ticket online purchases.

Aversion to credit cards

Too many Millennials have seen what credit card debt can do to those trapped under it. Their parents (Baby Boomers) have accumulated more credit card debt than any other generation. Most Millennials and Gen Z shoppers have seen and heard the cautionary tale of credit cards.



"These payment options offer the same convenience as credit cards—get the item now and pay later—without the threat of high APR and big upfront spending costs. Millennials are much more open to spending $2,000 on a 12-month installment plan than charging it upfront and dealing with overhanging credit card debt."

Younger consumers who do have credit cards are still using them for big purchases, but paying them off faster and not racking up as much debt. As a result of self-imposed spending limits, bigger purchases are few and far between for these shoppers. But the demand is still there. That's why pay-as-you-go plans, installment plans and checkout financing are all on the rise.

These payment options offer the same convenience as credit cards—get the item now and pay later—without the threat of high APR and big upfront spending costs. Millennials are much more open to spending $2,000 on a 12-month installment plan than charging it upfront and dealing with overhanging credit card debt.

Reasonable debt

The concept of consumer financing is appealing for more reasons than just avoiding a big upfront charge.

- It doesn't have the stigma of credit card debt, or the compounding interest that comes with it.
- Shoppers recognize it as debt, and understand the nature of it, but they're more willing to take it on because they have control over it.
- Borrowers know exactly how much they'll need to pay on a checkout financing loan each month—it won't rise or fall.
- They get to pick their terms and rate. They're aware of their payments ahead of time. And, when the debt is closed it's done with outright.
- Moreover, it's a debt they can't add to by swiping their card absentmindedly.
- In short, financing for consumer loans has become a staple of "reasonable debt."

5. Financing vs. Buying it Outright with a Credit Card

Credit cards have always been a great tool for improving purchasing power. They allow you to buy now and pay later, granting you access to things that may otherwise be unattainable. You broke your smartphone and need a new one today, but it costs $600 you won't have until your next paycheck a week from now. Credit cards solve this problem! The only problem is, they do it on their terms.

Micro financing, or consumer financing is a different path to the same result for shoppers. It still allows you to get what you need, when you need it. However, it puts the purchasing power and terms back into the hands of the consumer. You may not have $600 for a new phone today, but you can finance it and know exactly what terms you'll have to pay it back under.

Take a look at the key variables setting credit cards and checkout financing apart. It's easy to see why consumers are more trusting of consumer loans than credit cards when it comes to making large online purchases:

> "Micro financing, or consumer financing is a different path to the same result for shoppers. It still allows you to get what you need, when you need it".

Aversion to credit cards

Flexible terms: Signing up for a credit card means accepting the standard terms of the company. This usually means agreeing to 18-26% APR, with all sorts of other contingents. Any purchase you make is subject to these terms, too. For consumer financing, shoppers get to choose their terms based on several available options.

Controlled payments: Paying back credit card debt means paying a minimum of accumulated payments. This changes month over month, depending on the outstanding balance. For consumer loans, the payment is always the same. It's a predictable expense that financially responsible shoppers can look forward to.

Set payoff date: Like controlled payments, consumer financing has a set payoff date. Buyers will know exactly when they've paid back their loan, as opposed to credit cards, which accumulate interest month-over-month and can see the balance grow with each new purchase. Every new charge pushes the payoff date back further.

Competitive interest rates: As stated, credit card interest rates are usually fixed at 18-26% APR, depending on the provider. There's no negotiating! Because consumer loans give buyers a variety of financing choices, a wide range of interest rates are usually accessible—some as low as 0%!

Credit score impact: Charging $2,000 to a credit card with an $8,000 limit means automatically bumping your credit utilization rate to 25%. This is a major factor in your credit score and will drag it down until the balance is paid off. Because checkout financing is actually a form of personal loan, your credit score will actually increase with on-time payments!

The common theme across all these variables is who's in control: The consumer! They pick the terms they like, which means controlling their monthly payment amount and payoff date. They're also making a fiscally responsible decision not tied to credit utilization.

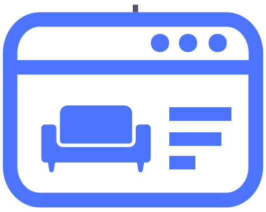
As shoppers become smarter and demand more control over their purchasing power, micro financing will quickly begin to supplant credit cards. Consumers are already showing that they value more control over their debt than rewards points or high credit limits.

6. Why the Sudden Rush into Consumer Financing?

Anyone shopping for big-ticket items online lately has probably seen financing options popping up on retail websites across the web. There have always been buttons for Visa, MasterCard, PayPal, Apple Pay, Google Wallet and others. Now, consumer financing is right there next to them.

Consumer financing options may be a recent development, but they're spurred by bigger trends that have been a long time coming. Check out a few reasons why consumer financing and credit is rapidly being implemented as an option at checkout on ecommerce sites across the web.

Purchases are getting bigger



Until recently, big ticket items still commanded a trip to the store. Shoppers had too many concerns about online ordering. What happens if my Rolex is lost in the mail? What if package thieves nab by MacBook Pro while I'm at work? What if my big screen TV arrives damaged?

As ecommerce has become more and more a part of everyday life, these concerns have mostly dissipated. Most retailers offer favourable return policies and are willing to work with customers to resolve issues. Consumer confidence has never been higher, which has led more people to save themselves a trip to their local retailer and instead, order online.

With a move towards making bigger purchases online, traditional in-store financing has also had to move online.

Consumers are more responsible

Millennials and Gen Z are much more attuned to the burden of credit card debt than previous generations. They'll avoid it at all costs, which means seeking alternative forms of financing for more expensive purchases. Unwillingness to pay high interest rates and the demand for more favourable terms has led to consumer financing as a mainstay online.

Younger shoppers are much more amenable to choosing their own repayment terms and accruing debt that's less burdensome than traditional credit card debt. With fixed monthly payments and a clear payoff date, it's easier to stay on top of financed purchases.

Lending is getting easier

We've come a long way from traditional financing, which was a point-to-point exchange of funds by a single entity to a single borrower. Today, platforms like ChargeAfter harness entire networks of lenders to provide consumers with a variety of financing options. Regardless of the amount financed or the credit score of the consumer, there's almost always one or more options for financing available.

Sourcing financing from multiple lenders also casts a wider net for those eligible for financing. Checkout financing isn't just for prime applicants—it can extend to near-prime and even sub-prime borrowers thanks to a broad scope of lenders with their own unique terms.

More than a fad, consumer financing is the future

All these variables add up to one very clear point: Consumer financing is here to stay. Purchases will continue to get bigger, consumers will (hopefully) stay cognizant of their buying habits and lending will continue to get easier. As a result, financing will become more common for larger online purchases.

It's a trend benefitting consumers and retailers alike! Consumers get the buying power they need, with terms they feel confident in. Retailers see the result of more sales thanks to more diverse financing options. It's the way of the future in a world of ecommerce that's growing every day.

7. Should I Stay or Should I Go?

Think about how many steps are involved in making a purchase online. From finding the right retailer, to locating the product, to checking all of the variables, a shopper has likely made a dozen decisions by the time they reach the checkout screen! Now, they're faced with one more: How do I pay?

The higher the value of their cart, the more thought they're going to give this question. It's easy to click the PayPal button for a $20 t-shirt. It takes a monumental effort to type in a credit card number for a $2,000 leather couch! By the time a shopper types in their name, credit card number, CVV, mailing address, zip code and other information, there's a good chance they've also talked themselves out of pulling the trigger on that sale.

Why do customers leave?

The numbers don't lie! Customers get the jitters when the payment process takes too long or is too complicated:

70%-90%

The average eCommerce site has **a cart abandonment rate of between 70%-90%**

28%

of shoppers abandon their carts due to **long & complicated check out processes**

19%

leave because they **don't trust the site** with their credit card information

8%

leave due to **lack of payment options**

4%

skip the checkout because their **credit cards are declined**

From this data we can learn two things.

First, the longer the checkout process, the more likely customers are to walk away. Second, credit cards cause a lot of grief when it comes to completing payments.

How do you close the sale?

The solution to both of these issues is simple: Consumer financing. Implementing ChargeAfter takes care of both issues simultaneously. Here's how:

- ChargeAfter adds a financing button to the payment options, taking care of the 8% of customers demanding more diverse ways to pay.
- Clicking on the financing button brings up information about how financing works, as well as the first step of the credit application.
- If they choose to proceed, the credit application is just 5 fields of information that can be filled out in seconds. When they submit, customers get to see their financing options moments later. This helps address the 28% of customers who are concerned about the long or complicated checkout process.
- After they're approved and select terms, customers can check out without entering their credit card. Instead, they accept the financing for the amount of the total. This satisfies the 19% of shoppers who are wary of giving away their credit card info and the 4% of customers dealing with a declined card.

Consumer financing streamlines checkout, addressing all the major factors that might otherwise lead to abandon carts.

Pose a different question

Consumers making a high-dollar purchase already have enough decisions to make. When it comes time to deciding how to pay, they'll avoid pressing the buy button at all costs when their credit card is at the receiving end of the transaction. However, when they're able to painlessly pick their own financing terms, the decision to check out becomes a lot less painful!

Instead of the last decision being "should I stay or should I go?" make sure your customers' last decision is "which of these financing terms is right for me?" Your abandoned carts rates drop, conversion rates rise and, best of all, returning customer numbers soar.

8. More Options, More Sales

The Paradox of Choice says that fewer choices means lower anxiety for shoppers—fewer chances to make a purchase they'll regret. But this doesn't apply to payment options. Nearly 10% of customers abandon their shopping carts on ecommerce sites that don't offer a diverse range of payment options. The numbers don't lie: More payment options and more choices mean more sales.

This is precisely why consumer financing has rapidly risen in popularity. More than just the choice between Visa or MasterCard, consumer financing gives shoppers a much broader choice of options. What sort of interest rate do you want? What monthly rate are you comfortable paying? How long do you want the term of financing to last? These choices don't create a paradox—they create opportunities, leading to sales.

Consumer financing, by the numbers

There's a positive domino effect that happens when shoppers are given more options and more choices for consumer financing. Putting the power of flexible financing at the fingertips of a buyer has staggering results. Let's take a look at the numbers.

By using a multi-lender approach to consumer financing, retailers are able to provide a diverse range of financing options to shoppers ranging from prime applicants to sub-prime borrowers. This results in, on average, **an 85% approval rate** for consumers.

High approval rates are just the start. When approved, consumers unlock a new level of buying power they're in direct control of. Because they pick their terms and understand their payback structure, they have the confidence to make purchases higher than they would with a credit card or out-of-pocket. The result here is, on average, a **52% increase in average order value.**

The benefits don't stop here, either! There's one final domino left to fall. More customers approved for financing—with favorable financing behind them—spurs confidence in buying. They're checking out with bigger orders more frequently, which ultimately leads to, on average, a **30% increase in sales** for retailers offering financing.

These numbers are staggering—maybe even more so when you account for other data, such as returning customer frequency, margins, customer loyalty and even customer acquisition costs!

More is better for ecommerce

Ecommerce sales are increasing year over year, still growing at an exponential rate. Unfortunately, as more retailers join the party, consumers have more options to choose from. That means more competition for every retailer in specific space.

Retailers working hard to stand out amongst the competition need to find new ways to compete, without sacrificing margins. Consumer financing is the way to do it. Not every retailer has found a way to implement consumer financing, which gives the edge to those who have. They're able to offer their customers a key differentiator: The ability to pick their own payment method.

The future of ecommerce is all about more. More sales, more shoppers, more opportunities, more competition and so on. To keep up and stay competitive, online retailers need to embrace more. Today, the simplest way to do that is to offer more options and more choices when it comes to payments, to reap the reward of more sales as a result.

About ChargeAfter

ChargeAfter is a market leading point of sale financing platform that empowers retailers to offer consumers personalized financing options at checkout from multiple lenders. Through its growing global network of lenders, merchants can now approve 85% of applications in real-time and increase sales by up to 45%.

Founded in 2017, ChargeAfter has offices in Tel Aviv, New York, and San Francisco to better support our global clients.

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