

WWD ×  PayPal

The Power of Pay Later

Shifts in consumer behavior have created a demand for buy now, pay later, creating an opportunity for retailers to meet their expectations and drive sales.

Introduction

In this executive briefing report, WWD Studios teamed up with PayPal to look at the rapid emergence of “buy now, pay later,” why trust in a financial services provider is more important than ever as online sales continue to grow, and consumers flock to cashless payments.

Introduction

While buy now, pay later (BNPL) options have been around for some time, a confluence of factors accelerated its popularity in 2020. From the double-digit growth of online shopping and preference for cashless (and touch-free) transactions to a desire for greater payments flexibility and convenience, BNPL is poised to see continued growth this year and beyond.

This is good news for brands, retailers and consumers who value a friction-free shopping experience. The growth of BNPL is an immense opportunity to win new customers and grow the base of loyal shoppers.

But opportunities in BNPL also come with some challenges. In this executive briefing report, we will look at how the recent holiday shopping season shaped demand for BNPL and why it attracts consumers (especially Millennials and Generation Z). This report will also look at the role that trust and credibility play in a crowded and growing field of BNPL providers.

8.3%

Retail sales during the November to December holiday shopping period “grew an unexpectedly high 8.3 percent over the same period in 2019 to \$789.4 billion...

24%

...and online, retail sales soared nearly 24 percent to \$209 billion.

708.5

The global volume of non-cash transactions increased 14.1 percent to 708.5 billion from 2018 to 2019.

41%

41 percent of respondents aged 56 years or older said that they increased their use of digital channels post-pandemic.

Analysis

Twenty-twenty was a turning point in so many ways. The COVID-19 pandemic rapidly transformed how people live, work and play. When the pandemic struck last spring, thousands were left out of work. Families huddled in their homes, working and learning and trying to adjust to a new way of living.

As physical stores temporarily shuttered their doors, consumers flocked to online sites to buy essential goods and necessities. Essential large businesses remained opened and created a socially distant and safe environment for consumers to shop quickly and efficiently. Cashless and contactless transactions were the preferred method to shop along with curbside pick-up.

As retailers slowly re-opened, consumers remained cautious and continued to be wary of physical stores. Online, though, consumers switched from buying only necessities to doing most of their shopping on retail websites. By the fall, and an imminent second wave of the pandemic, shoppers fully embraced online shopping (resulting in double-digit e-commerce growth), seeking out new brands and also making major purchases.

Prior to these changes in consumer behavior, the market was also experiencing significant shifts in how, where and why consumers shop. With financial transactions, Millennials and Gen Z want flexibility and convenience, preferably in the form of an app. They also demand transparency and value trust. For example, according to research from Netfluential, 71 percent of consumers are more

The COVID-19 pandemic rapidly transformed how people live, work and play.



PHOTO: ADOBE STOCK

Analysis

likely to trust businesses that offer their preferred payment method while 81 percent of shoppers have already decided which payment to use even before they reach the checkout. In regard to trust, that same study found that 78 percent of respondents rate security above convenience when shopping online. And when asked about the top factor when paying online, 79 percent of those polled said it was trusting “that their financial information is secure.”

All of which created the perfect conditions for BNPL to grow and evolve. But that growth, as we will see, comes with challenges — not only for consumers, but for retailers and brands as well.

Holiday 2020: What happened?

Despite temporary and permanent store closures in 2020, the holiday shopping season was the best in five years.

According to the National Retail Federation (NRF), retail sales during the November to December holiday shopping period “grew an unexpectedly high 8.3 percent over the same period in 2019 to \$789.4 billion.” The NRF said results exceeded its expectations. Online, retail sales soared nearly 24 percent to \$209 billion.

Matthew Shay, president and chief executive officer of the NRF, said in the statement that, “Despite unprecedented challenges, consumers and retailers demonstrated incredible resilience this holiday season. Faced with rising transmission of the virus, state restrictions on retailers and heightened political and economic uncertainty, consumers chose to spend on gifts that lifted the spirits of their families and friends and provided a sense of normalcy given the challenging year.”

Shay’s assessment echoed what WWD reported throughout the holiday season: consumers found comfort in shopping — for gift-giving as well as for buying items for themselves. Their purchases included home goods, electronics, athleisure, comfort wear and beauty products.

Jack Kleinhenz, chief economist for the NRF, said in a statement that shoppers “shifted into high gear in December, giving the holiday season a strong finish that could be a good sign for the continuing recovery of the economy this year.” He noted that the 8.3 percent holiday season increase “was more than double the 3.5 percent average holiday increase over the previous five years, including 2019’s 4 percent gain.”

Kleinhenz said consumers “were able to splurge on holiday gifts because of increased money in their bank accounts from the stimulus payments they received earlier in the year and the money they saved by not traveling, dining out or attending entertainment events. Some families are still struggling, as are some retail sectors. But the promise of a new round of stimulus checks after a deal was struck before Christmas helped increase consumer confidence.”

The chief economist also noted that shoppers “turned to quick in-and-out trips to stores and took advantage of buy online, pick up in-store/curbside services retailers have perfected over the past several months.”

Craig Johnson, president of Customer Growth Partners, told WWD that online sales drove much of the gains for the holiday season, and said that “Big Box stores (e.g. Costco, Dick’s Sports, Home Depot, Target) saw soft footfall

“(Shoppers) shifted into high gear in December, giving the holiday season a strong finish that could be a good sign for the continuing recovery of the economy this year.”

—Jack Kleinhenz,
Chief Economist, NRF

2020: A Year of Change

2020

In the Spring of 2020, COVID-19 changes consumer shopping behavior for the rest of the year — and beyond.

As shoppers were stuck at home, online shopping soared.

Cashless transactions were preferred, and consumers also embraced buy now, pay later.

Curbside pick-up, BOPIS and contactless transactions rose in popularity.

Despite the pandemic, the 2020 holiday season saw robust sales.

8.3%

Analysis

growth converted into robust net traffic growth.”

“Average tickets rose as shoppers consolidated trips — while many retailers boosting their online sales by 40 percent to 80 percent,” Johnson said. “Home and hardlines categories — notably electronics, home improvement, sporting goods, etc.— all thrived, as consumer spending continued to rotate from apparel towards the home and Work-from-Home lifestyles.”

According to data from Salesforce, the online sales boom was a global phenomenon. Consumers doled out \$1.1 trillion online, worldwide, and \$236 billion just in the U.S., which compares to \$723 billion globally, and \$165 billion in the U.S. in 2019.

From a transaction and payments perspective, Salesforce said their data showed that during the holiday shopping season, “consumers embraced financing options” and noted that with shoppers “looking to pay for big ticket holiday gifts in installments, buy now, pay later usage saw a year-over-year increase of 109 percent, with the biggest increase taking place the week before Christmas.”

Gone cashless

Greg Lisiewski, vice president of Global Pay Later Products at PayPal, told WWD that consumers have gone through a transformation due to the global pandemic. Understandably, they’re concerned about safety and wary of handling cash. Lisiewski said with the impact of COVID-19, “consumers became more income challenged and cash strapped making alternative financing options more appealing.”

“As it relates to in-person shopping, the need for touch free payments is more important than ever before as consumers and merchants move away from handling cash or touching keypads due to social distancing and health concerns,” Lisiewski said. “In the wake of the pandemic, retailers have needed to quickly adapt to changing consumer shopping behaviors, with a shift to online shopping and digitized in-store experiences.”

Lisiewski said with physical stores “shutting down, social distancing in effect, and tightening wallets due to economic uncertainties of this time, PayPal has been helping merchants and consumers adapt to digital commerce and has mobilized around a few key product areas to better support merchants and consumers during this uncertain time, including buy now, pay later.”

In regard to cashless transactions, Lisiewski said global volumes had been trending upwards even prior to the outbreak of the pandemic.

According to a report from Capgemini, which surveyed 8,600 consumers across 21 countries and includes insights from 235 industry stakeholders, the global volume of non-cash transactions increased 14.1 percent to 708.5 billion from 2018 to 2019.

The report noted that a consumer propensity for digital payments “will make non-cash transactions reach a record volume of 1.1 trillion by 2023.” Researchers at Capgemini also revealed some consumer trends specifically born out of the pandemic. For example, in regard to the share of respondents who had tried a new payment method in 2020, 41 percent had tried a contactless card. And 35 percent who owned a card had added it to a digital wallet while 27 percent tried out QR code payments.

Global Phenomenon

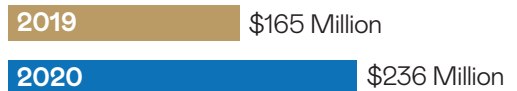
Online sales were booming globally during 2020.



Worldwide Online Sales



United States Online Sales



Analysis

“More than half the respondents (53 percent) said that they increased digital channels (online banking plus mobile payments) usage post-COVID,” Capgemini said in the report. “Notably, 41 percent of respondents aged 56 years or older said that they increased their use of digital channels post-pandemic.”

The data from the Capgemini report is not surprising as consumers spent more time online during the pandemic and less time in physical stores. And, as the survey revealed, it was not just Millennials and Generation Z, but older demographic cohorts such as Generation X and Baby Boomers.

The allure of pay later

Research and consumer surveys as well as WWD reports show that Millennials have a penchant for using multiple payment methods. According to a recent PYMNTS study, “Millennials are both more likely than other generations to have credit cards, as nearly 9/10 own one, and have unique priorities when it comes to purchasing online, specifically flexibility and budgetary control,” Lisiewski said. “And this is why various pay later online financing options are gaining traction with this demographic.”

Lisiewski said transparency, spending control and convenience are the key motivations for using a pay later solution. “Millennials who use BNPL tend to

Customers who only purchased sweaters and scarves can graduate to purchasing designer handbags and jewelry because of the ability to manage smaller, regular payments.



PPHOTO: ADOBE STOCK

Analysis

Research has shown that these consumers* have financial resources but are looking for a responsible way to finance purchases without incurring fees and debt.



Bridge Millennial Consumers

A subset of older Millennials who are aged 32 to 41.

be budget-conscious and financially responsible – they want to stay within their means and not blindly put charges on credit cards or accept unclear financing terms,” he added.

Further, research from Boston Consulting Group shows that Millennials, especially young Millennials, have been some of the hardest hit by the economic environment across the globe, making the need for flexible financial options has also become more of a demand.

“You saw buy now, pay later in the fashion, and even luxury space, start to come around pre-COVID but like many things it has accelerated with COVID and its driven by demand and supply,” Sarah Willersdorf, Managing Director and Partner, Global Head of Luxury at Boston Consulting Group told WWD. “On the demand side when we think about the consumer [it’s the] mindset shifts which are driving them. Our research shows that millennials were the hardest hit financially, but they’re actually the most optimistic around the future so it’s kind of it’s a nice balance. But certainly, the number one reason is that they’re looking for value.”

The second mindset driving both Millennials and Gen Z consumers towards BNPL options is the transparency they offer. And third, she said, is a sense of control over finances. “This is a generation that is heavily into subscription and used to paying monthly or weekly for all sorts of payments even fitness and media. If you are thinking about budgeting, it is really easy for [consumers] to break things down into monthly costs.”

The same PYMNTS study also found that so-called “bridge Millennial consumers,” (a subset of older Millennials who are aged 32 to 41), “tend to be more established in their careers and embarking on major financial responsibilities, such as having children and purchasing homes,” Lisiewski said. “Research [from a PYMNTS report] has shown that these consumers have financial resources but are looking for a responsible way to finance purchases without incurring fees and debt.”

“Some of the research that we’ve seen indicates a different viewpoint around spending and saving,” said Zach Aron, U.S. banking and capital markets payments leader and co-leader of the global payments practice at Deloitte Consulting.

“We definitely see a group that is a little more debt averse and debt conscious,” Aron said adding that BNPL is used by this cohort of consumers because it allows them to pay in installments. “It meets a specific need and it corresponds to that different attitude,” he said.

That approach is ideal, especially when the purchase is a big-ticket item such as major appliances or high-end electronics. Lisiewski said PayPal Pay Later can help retailers introduce customers “to new price points and increase comfort with credit, driving customer loyalty.”

“For example, customers who only purchased sweaters and scarves can graduate to purchasing designer handbags and jewelry because of the ability to manage smaller, regular payments,” he added.

“As a way of growing share of wallet for brands it is very interesting,” said Willersdorf. “And maybe that means a consumer purchasing the basket builder that they maybe wouldn’t have bought before. It’s very exciting as a payment vehicle to be looking at how it’s evolving the industry especially in

The Consumer Mindset

Despite the global pandemic, consumers continued to shop for a variety of product categories.

Popular categories included consumer electronics as well as personal care and beauty products.

As consumers adjusted to WFH while others were left unemployed, there was a shift in spending for many households.

As consumers adjusted, shoppers were more mindful of household budgets.

Many were attracted to the installment options of buy now, pay later.

Household spending and flexible payment options remains in the spotlight for 2021.



Analysis



▲
Deloitte Consulting sees some consumer cohorts as being “debt conscious” and attracted to pay later installments.

the next couple of years when coming out of COVID, and in the U.S. coming out of political unrest.”

Notably, Willersdorf said, these younger consumers who are key users of BNPL are also largely driven by sustainability and, moreover, how their shopping behaviors create impact wherein consumers spend more to buy less. “This type of payment vehicle does lend itself to this market trend,” said Willersdorf. “It’s basically buying less things of better quality as opposed to just having so much stuff.”

According to Eric Shea, managing director of Accenture Strategy’s Retail Industry Sector, as it becomes more commonplace to rent or share things, paying subscriptions will be a trend that we’ll likely continue to see in retail. And in the case of offering young consumers the ability to receive the item while paying in installments is one way retailers can help consumers.

“What’s different is that these financial offerings are fully integrated into the shopping experience. And it’s really quite easy,” said Shea. “One of the big differences is that retailers are able to offer these kinds of solutions in place without [consumers] needing to leave the site to go apply for a credit card.”

She said retailers are “doing a great job and working with partners to make

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Analysis

92%

Kaleido Intelligence (fintech research company) said that BNPL dollar volume was \$353 billion in 2019, and the firm expects it to soar 92 percent to \$680 billion by 2025.

it easy for their customers, and making it very seamless. And I think part of that goes beyond just the financial need. I think that younger generations are getting more used to paying for things in regular installments.”

Within the fashion apparel and luxury space, retailers and brands offering BNPL can take the same approach, Lisiewski said. To gauge the sentiment of consumers using BNPL for luxury and designer product purchases, WWD recently conducted an anonymous survey of subscribers and LinkedIn followers in the U.S. and Europe.

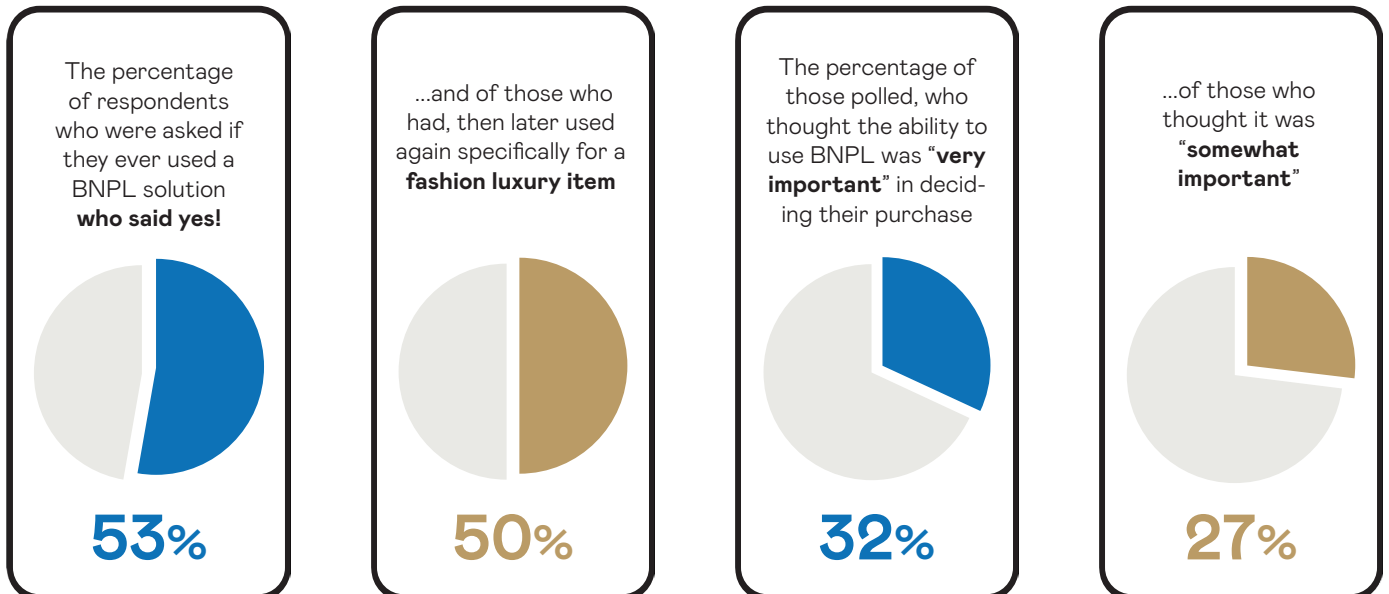
When asked if they ever used a BNPL solution, over 53 percent of respondents said yes. And of those who had, 50 percent had used pay later specifically for a fashion luxury item. In regard to why they used a pay later solution, most of the respondents said it was a good way to pay over time without incurring interest and was: “a smart way to get quality products that I want in a financially responsible way” or because: “it allows me to pay over time without interest.”

And of those polled, 32 percent said the ability to use BNPL was “very important” in deciding their purchase, while 27 percent said it was “somewhat important.”

Making it work

In regard to marketing pay later options to Millennials, Lisiewski said it is important to create a seamless checkout experience “that takes friction from the transaction out of the equation, something that companies like Uber have mastered.” He said the actual payment portion of the high-end buying experience can take away from the luxury experience itself. “If you can minimize the transactional part of the experience, you can improve the overall buying experience,” he said.

It is also important to offer Millennials the financial flexibility and responsibility “they desire with multiple payment and financing options while giving them repayment options (credit, debit, ACH) and different repayment schedules



Analysis

to fit their individual preferences,” Lisiewski said, adding that retailers and brands also need to consider offering in-store and online financing options “that give customers a more personalized experience. Consumers can secure flexible financing options from their fingertips that fit their needs.”

There’s just one problem...

While it is clear that the power of pay later has a lot of momentum in the market, there’s a downside from the perspective of consumers, retailers and brands: there’s too many providers. A quick internet search in January 2021 of the term “buy now, pay later,” resulted in 3.3 billion results and according to Google Trends, over 11,000 searches in the U.S. in just one month. And recent data from Kaleido Intelligence showed explosive growth in the pay later market over the next four years. The fintech research company said that BNPL dollar volume was \$353 billion in 2019, and the firm expects it to soar 92 percent to \$680 billion by 2025.

Aside from PayPal, BNPL options are offered by a host of startups and newly-public companies. But who should retailers and brands work with? And who should consumers choose to use? This is where the provider’s brand trustworthiness and suitability come into play.

Deloitte’s Aron said brands need to do due diligence as with any

“[It’s] the trust of the PayPal brand — that makes it a compelling experience for our customers.”

—Ujjwal Dhoot,
Chief Marketing Officer,
DXL

Data from Kaleido Intelligence shows explosive growth in the pay later market over the next four years.

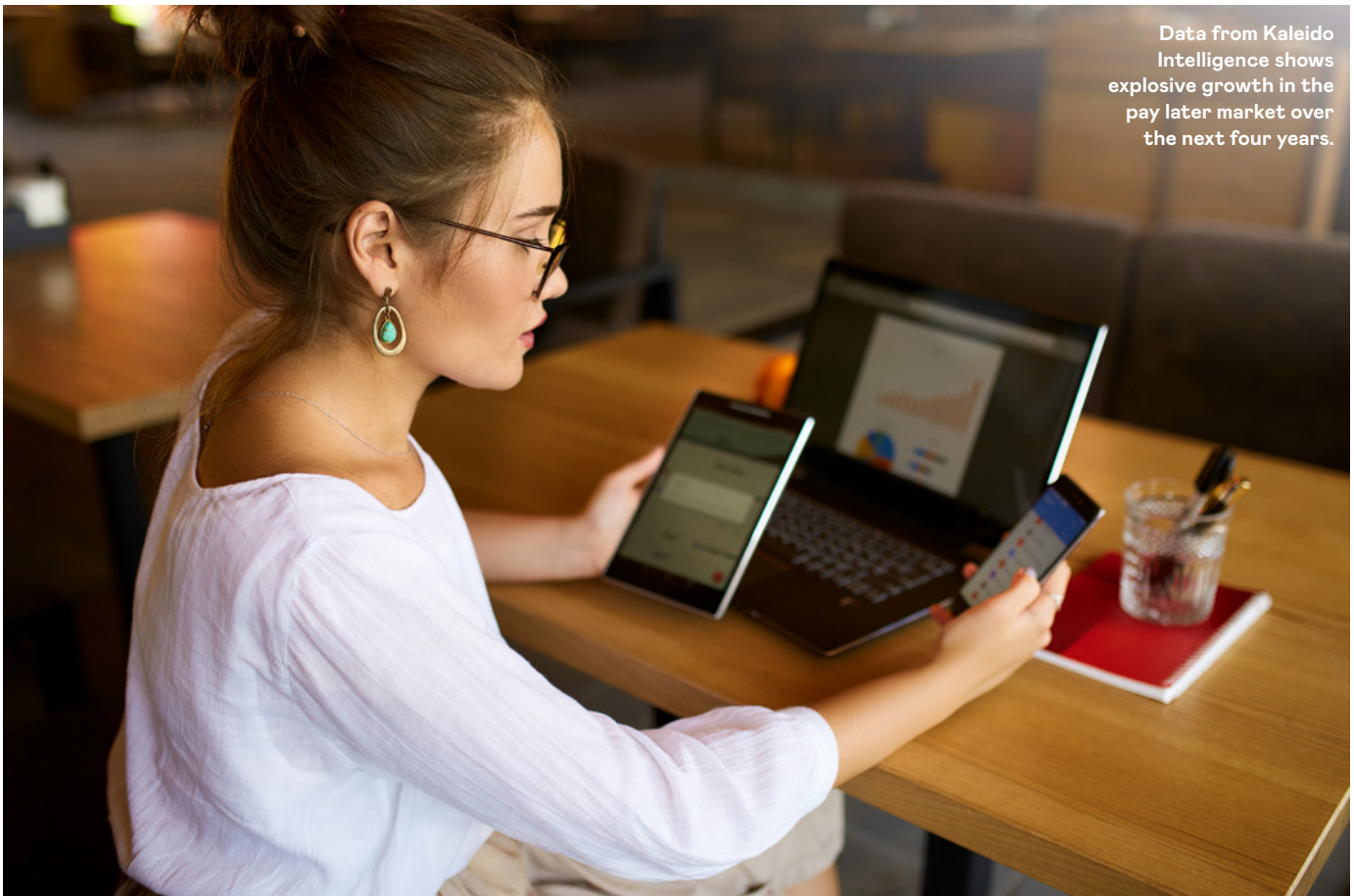
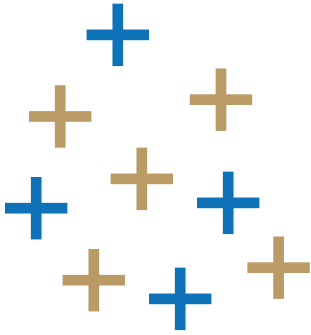


PHOTO: ADOBE STOCK

Analysis



Positive shopping

Research found that the availability of a pay later option “has a positive impact on online shopping, boosting consumer confidence.”

28%

were more likely to shop at a merchant again if they offer a buy now, pay later option

32%

said BNPL allowed them to “make purchases they would otherwise postpone.”

81%

decide upon which payment method to use before they even get to the checkout.

investment. In fact, he said, the questions to ask are twofold with one aspect being how the product enables a great checkout experience both in terms of speed and providing choice and the second being how it will help provide better insight about customer trends.

In an effort to gauge how familiar shoppers in the U.S. are with various providers of online financing and installment programs as well as to better understand consumer perceptions in terms of trust, security, suitability and convenience, PayPal commissioned Netfluent Ltd. to conduct a consumer survey last year.

The research found that the availability of a pay later option “has a positive impact on online shopping, boosting consumer confidence.” The report showed that 28 percent of respondents were “more likely to shop at a merchant again if they offer a buy now, pay later option.” And 32 percent of those polled said BNPL allowed them to “make purchases they would otherwise postpone.”

Lastly, the research showed that 81 percent of shoppers decide upon which payment method to use before they even get to the checkout.

And there's a solution...

For its part in the pay later market, PayPal has a network composed of more than 375 million global, active merchant and consumer accounts. Lisiewski said PayPal's Pay Later solutions “help merchants drive conversion, revenue and customer loyalty without taking on additional risk or paying any additional fees, while enabling consumers to make a purchase and repay over installments with no fees or interest.”

“PayPal brings predictability, scale, trust, and ubiquity to an otherwise unpredictable and fragmented marketplace with 15-plus years in the online financing space,” Lisiewski said, adding that the company's Pay Later solution works with their existing PayPal integration while leveraging all of the investment the merchant already made in integrating PayPal as a payment type, from settlement to money movement to exception processing — and all at no additional cost.

From the perspective of a merchant, the combination of an integrated, trusted brand that provides flexibility for consumers creates a positive and satisfying shopping experience.

“By offering a flexible payment option for our customers in the new macro economic reality, the overall shopping experience has been elevated,” said Ujjwal Dhoot, Chief Marketing Officer at DXL. “Since we offer the broadest range of big and tall men's apparel and accessories, including activewear, pants, shirts, shoes and suits, our customers can literally purchase a full wardrobe and pay for it in four, low-interest installments. And it is that flexibility in making payments, — and the trust of the PayPal brand — that makes it a compelling experience for our customers.”

Conclusion

Closing Thoughts

Consumers' ability to make payment in interest-free installments is appealing for a host of reasons and include greater flexibility and the ability to take a more budget-minded approach to finances and purchases. For brands and merchants, offering a pay later option is a simple way to improve the shopping experience.

The growth in buy now, pay later has also created challenges for both consumers and merchants: over the past few years, the number of pay later providers has increased, which creates confusion in the market. But merchants who work with well-established providers with whom they already have an integrated payments platform can make offering a pay later solution easier.

Editor's Note

This report was researched, written and edited by Arthur Zaczekiewicz, WWD Executive Editor, with contributions from Alexandra Pastore, WWD Business Reporter. For a short bio and links to stories by Zaczekiewicz, [click here](#). To read news articles relating to consumer behavior, fintech and retail trends by Pastore, [click here](#).

As consumers adjust to a post-pandemic world, BNPL and other shopping preferences are expected to remain popular.



PHOTO: ADOBE STOCK

Reference



Sources

Listed below are the source materials used in this report:

Capgemini's World Payments report can be found [here](#).

Kaleido Intelligence's BNPL Digital Spend Report can be found [here](#).

National Retail Federation's press release on the 2020 Holiday Shopping season is [here](#).

Netfluent's data was based on an online study commissioned by PayPal and conducted by Netfluent in November 2020, involving 1,000 U.S. online shoppers aged 18 to 39.

Women's Wear Daily's (WWD) Buy Now, Pay Later survey data was based on an anonymous online survey of WWD subscribers and LinkedIn followers conducted by Women's Wear Daily in March 2021, involving 100 consumers located in the U.S. and Europe.

PYMNTS' Buy Now Pay Later: Millennials and the Shifting Dynamics of Online Credit report is an online study commissioned by PayPal and conducted by PYMNTS.com, based on two surveys with nearly 15,000 U.S. consumers, December 2020.

PYMNTS.com Early Shopping And BOPIS Lead as Consumers Navigate a Tricky Shopping Season can be found [here](#).

Salesforce's 2020 Holiday Season Report can be found [here](#).

The Washington Post: The Covid Economy can be found [here](#).

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