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Affirm Is Struggling To Define Its Competitive Edge For Merchants

Companies: ACIW, AFRM, AMZN, AXP, C, COIN, GPN, JPM, MA, PAY, PYPL, SEZNL, SQ, SYF, V, ZIZTF

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Research Question:

Do merchants see Affirm as a necessary and valuable partner that stands out from competitors?

Summary of Findings

- Affirm Holdings Inc. (AFRM) has an appealing proposition for consumers in the emerging Buy Now Pay Later (BNPL) industry, but sellers are not seeing much differentiation among the leading competitors, according to interviews with 11 merchants, payment industry specialists, and payment technology developers.
- For consumers, Affirm stands out because it does not charge late fees, offers longer repayment schedules, and is launching a debit card that allows buyers to use Affirm even when retailers don't offer it at checkout. Merchants, though, said they are not seeing much to distinguish between BNPL options such as Affirm, Block Inc.'s (SQ) Afterpay, Klarna AB, and PayPal Holdings Inc. (PYPL). Transaction rates, ease of integration, data sharing, and the ability to drive traffic all seem similar, sources said.
- That lack of differentiation puts a premium on strategic partnerships, an area where Affirm has staked out solid ground with its deals with Shopify Inc. (SHOP) and Amazon.com Inc. (AMZN). The Amazon deal in particular is a huge boost to Affirm's credibility and brand strength, seven sources said, though three said the Amazon alliance will likely provide more volume than profits.
- The similarity among the major vendors also hints that the industry is ripe for consolidation, with two sources suggesting it makes sense for Amazon to acquire Affirm.
- Buy Now Pay Later is not yet an essential offering, merchant sources said. They reported little to moderate use of BNPL at checkout, ranging from 1% to 15% of sales, and no strong evidence of an uplift in conversion rates. However, BNPL does encourage buyers to spend more, with merchant sources citing increases in average order value of as much as 27%.
- BNPL will continue to grow in the United States but is unlikely to match the adoption rate internationally because U.S. consumers are more wedded to credit cards and their related rewards than are their counterparts in Europe and elsewhere, four sources said.
- Affirm and other BNPL vendors should be concerned about credit risk, three sources said, especially given the relative inexperience of their young user base in managing credit.
- Banks and credit card networks offering installment plans are not a threat to BNPL vendors because their programs are more difficult to use and don't offer as much promise of sales growth to merchants.
- Four sources expect some increased regulation of the BNPL industry, likely around marketing and loan qualification standards.

Silo Summaries

1) Merchants Offering Affirm

Offering Buy Now Pay Later to customers has some advantages but is not yet a must-have option, all four sources said. BNPL does not seem to have improved conversion rates but has provided a significant uplift in average order sizes. **None of the merchants said they saw any major differences between Affirm and other BNPL vendors.** A growth opportunity for BNPL providers exists in offering installment plans for service providers, who typically have not had such financing options for customers. It will be difficult for Affirm to become a one-stop "super app" for a wide range of financial services because so many apps already handle the various pieces well, one source said.

2) Payment Industry Specialists

Affirm's partnerships with Shopify, Amazon, and some payment solutions providers will be the biggest drivers in its quest to sign up new merchants. **All four sources agreed that the Amazon alliance will be a boon to Affirm's credibility and scale, though one pointed out that the economic terms of the partnership are likely favorable to Amazon. The deal also puts Amazon in a position to possibly buy Affirm, two sources said.** All four sources expect Affirm to have success with its debit card. **The inexperience of Affirm's relatively young user base in managing credit is a concern,** as is the fact that Affirm has yet to go through a down credit cycle, three sources said. **All agreed that some increased regulation of the BNPL industry is likely.** While BNPL use has much room to continue growing in the United States, adoption rates may never match the levels seen in Europe, Australia, and some other regions.

3) Payment Technology Developers

Affirm is a better fit for merchants selling expensive items of about $750 and up because it offers longer repayment schedules, one source said, while Afterpay is a better choice in the $100-to-$200 range because its plans are interest-free and allow buyers to collect credit card rewards. Klarna has a much stronger brand name in Europe than Affirm. Klarna, however, operates under stricter rules because of its origins in Europe, and its relatively tight loan caps may provide an opening for Affirm to compete there, said one source. **None of the sources consider banks and credit card networks a threat to Affirm or other BNPL providers.**

Affirm Holdings Inc.

	BNPL's Value To Merchants	Affirm's Competitive Position	Impact of Affirm's Amazon Partnership
Merchants	→	→	↑
Industry Specialists	↑	→	↑
Payment Technology Developers	↑	→	↑

Background

Affirm, a leader in Buy Now Pay Later financial services, continued its rapid growth in its fiscal Q2. The gross value of purchases made with its installment plans rose 115% year over year to $4.5 billion, while total revenue climbed 77% to $361 million. Investors reacted negatively, however, to Affirm's wider-than-expected quarterly loss and a relatively modest revenue forecast for the current quarter, especially compared with the growth in its gross-merchandise value. Affirm's customer count was up 150% to 11.2 million at the end of 2021, and the number of merchants offering its payment plans to consumers increased 21-fold to 168,000, largely on the back of Affirm's partnership with Shopify.

Affirm makes money from interest on the short-term loans it provides to consumers and by charging fees to merchants that are often significantly higher than typical swipe fees for credit cards. Merchants seem willing to pay the high fees because of data suggesting that installment plans increase conversion rates by as much as 30% and average ticket sizes by up to 50%. BNPL is proving to be highly popular with consumers, too, especially with younger buyers who see the small, fixed number of payments as a safer and more responsible form of debt than the high-interest, revolving debt of credit cards. Affirm and others have tapped into that anti-credit-card sentiment by trying to be more transparent about costs and eliminating some of the most unpopular features of credit cards, such as late fees and even interest charges in some cases. Use of BNPL will reach nearly $1 trillion by 2026, up from $266 billion in 2021, according to Juniper Research.

Affirm is among a group of fintechs that have helped establish BNPL as a popular payment tool. One of those is European startup Klarna, which was valued at almost $46 billion in its latest funding round. The success of BNPL has quickly caught the attention of more established players. In August, Block Inc. shelled out $29 billion to acquire Affirm rival Afterpay, while PayPal has been heavily promoting its own Pay in 4 program. PayPal said it processed $3.2 billion in total payment volume through its BNPL option in Q4 and is expanding to include longer-term plans for bigger-ticket items. Credit card issuers and networks also have seen the writing on the wall. In September, Mastercard Inc. (MA) announced its Mastercard Installments offering, while American Express Co. (AXP) said in December it was partnering with Opy to allow its U.S. card members to pay in installments.

Affirm has established a leadership position through a series of major retail partnerships with the likes of Walmart Inc. (WMT) and Peloton Interactive Inc. (PTON). Peloton has accounted for as much as 29% of Affirm's gross merchandise value (GMV) in recent quarters, though that figure has fallen below 10%. A big step in Affirm's efforts to build its retail base was its Shopify partnership, which became widely available in June 2021. But its potentially biggest deal is with Amazon. Affirm will serve as Amazon's only credit card alternative for BNPL for baskets over $50 and will also be embedded as a payment method in Amazon Pay's digital wallet. Affirm also has high hopes to increase the use of BNPL for in-person purchases with the launch of its Debit+ card, which the company expects to make available to the general public this year.

One potential area of concern for Affirm involves credit risk, especially since BNPL appeals to a younger demographic, and the company has been loosening its credit parameters. Its provision for credit losses in fiscal Q2 was up more than fourfold compared with a year earlier. Some observers are worried that BNPL tempts consumers to make purchases they can't afford. In December, the U.S. Consumer Financial Protection Bureau said it was launching an inquiry into Affirm and other BNPL leaders because of concerns about accumulating debt, regulatory arbitrage, and data harvesting. Other regulators and lawmakers around the globe are taking similar steps, which could perhaps lead to regulations that limit charges or force affordability checks.

Blueshift Research sources began calling out the growth of BNPL in a July 24, 2020, report on PayPal. In Blueshift's April 28, 2021, follow-up report, sources identified BNPL as one of PayPal's best growth opportunities, ahead of segments such as in-store payments and cryptocurrency. At the time, a C-suite executive with a merchant acquirer said: "PayPal's upside is big for Buy Now Pay Later. The key is to have deals with big players, like Affirm did with Shopify and Peloton. PayPal has a huge advantage because any business that's online has PayPal."

Current Research

Blueshift Research assessed Affirm's appeal to merchants and its competitive position in the Buy Now Pay Later market. We employed our pattern mining approach to establish three independent silos, comprising 11 primary sources (including three repeat sources), and two secondary sources focused on bank-backed BNPL offerings and hidden risks for consumers in BNPL purchases. Interviews were conducted Jan. 31–Feb. 11.

1) Merchants (4)
2) Payment industry specialists (4)
3) Payment technology developers (3)
4) Secondary sources (2)

Next Steps

Blueshift Research will continue to watch the emergence of Buy Now Pay Later to see whether Affirm can differentiate itself from competitors and become a preferred platform for merchants.

Silos

1) Merchants Offering Affirm

Offering Buy Now Pay Later to customers has some advantages but is not yet a must-have option, according to the four retail sources in this silo. Buyers are choosing BNPL on only about 1% of transactions, according to a retailer of protective equipment who offers Affirm at checkout; 5% to 10% of sales for a clothing retailer offering Klarna; and about 15% of sales for a seller of mattresses and toppers. The fourth source offers traditional bank financing for in-store purchases and is considering adding a BNPL option for online sales. BNPL does not seem to have improved conversion rates, three sources said, but it has provided a significant uplift in average order sizes. None of the merchants said they saw any major differences between Affirm and other BNPL vendors. The Affirm user chose it because of its Shopify integration, the Klarna user chose it because of its easy integration with Stripe, and the Afterpay user said he was drawn to the possibility of Afterpay's marketplace driving traffic to his website but said that has not materialized. Consumers do not seem to have strong loyalty to a particular BNPL brand, one source said, and merchants are increasingly choosing one rather than multiple BNPL offerings. Amazon's deal with Affirm removes the ability of merchants to tout BNPL as a reason to buy directly from them rather than on Amazon. A growth opportunity for BNPL providers is in offering installment plans for service providers, who typically have not had such financing options for customers. It will be difficult for Affirm to become a one-stop "super app" for a wide range of financial services because so many apps already handle the various pieces well, one source said.

Key Silo Findings

BNPL's Value To Merchants

- 3 of 4 said offering a BNPL option is not essential.
- 1 uses Affirm, 1 uses Afterpay, 1 uses Klarna, and 1 offers multiple in-store financing options but none of the major BNPL vendors.
  - The Affirm user said it accounts for only about 1% of sales.
  - The Afterpay user said it is used on about 15% of sales.
  - The Klarna user said it accounts for about 5% to 10% of transactions.
- 3 said offering financing such as BNPL increases average order sizes.

   - 1 said ticket sizes are up 27% since his store started offering Affirm at checkout.
   - 1 said customers who check out with Klarna spend 10% to 15% more.
- 3 said BNPL has had a minimal effect on conversion rates.
- 1 said the $140 price point for his company's product is too low for BNPL to be appealing to most buyers; 2 others said their price points above $1,000 are too high for BNPL to be much of a motivator.
- 2, both of whom have websites powered by Shopify, said integrating BNPL into their checkout process was easy.
- 1 said Affirm charges 5.5% plus 30 cents for each order, while 1 other said he pays a 5% transaction fee to Afterpay.
- 1 said he wanted to market BNPL as a way for consumers to try the product before they buy, but the pitch was ultimately no different from an existing refund policy.
- 1 said he chose Affirm because of its Shopify integration.
- 1 said he was drawn to Afterpay because of the promise of increased visibility through the platform's marketplace, but that has not turned out to offer much upside.
- 1 said he chose Klarna because of its easy integration with Stripe for payment processing.
- 2 said BNPL use rates are tied to marketing efforts, such as website placement or email offers.

Competitive Landscape

- 3 said not much difference exists between the various BNPL vendors.
- 1 said he had chosen Klarna in the past because it was easiest to use, but now that Affirm is integrated into Shopify, Affirm is easier.
- 1 said Klarna is more rigid and cumbersome than others.
- 1 said the winners among BNPL vendors will be those with the best technology for merchants and the best name recognition.
- 1 said he does not think consumers have loyalty to a particular BNPL brand.
- 1 said retailers are starting to form relationships with BNPL vendors and do not want to offer multiple options at checkout.

Affirm's Opportunities and Challenges

- 1 said the biggest growth opportunity for BNPL providers is with the service sector, which has not historically had many financing options.
- 1 said Affirm's deal with Amazon means merchants can't tout the availability of BNPL on their websites as a differentiator from buying on Amazon.
- 1 said he expects installment payment plans offered by credit card issuers and networks to take a bite of BNPL volume.
- 1 said it will be difficult for Affirm or other BNPL vendors to become a super app with one-stop shopping for multiple finance functions because so many apps already handle the different pieces well.
- 1 said he would like merchants and possibly even consumers to be able to customize their BNPL terms at checkout.

1) President of an online seller of personal protective equipment

Only about 1% of customers choose to pay with Affirm, but those who do so spend 27% more on average than those paying through other methods. There has also been a slight lift in conversion rates since the company started offering Affirm, but it's unclear that the BNPL option is the reason. This source uses Affirm because it is integrated with Shopify, which powers his website. In general, it's difficult to differentiate between the various BNPL vendors, making Affirm's partnerships with Shopify, Amazon, and others key to its future.

BNPL's Value To Merchants

- "We're using Affirm [through] the Shopify integration. We launched that in April of last year. It's four individual installments for the customer, but we get paid as soon as [the purchase is made]. The first payment [to Affirm] doesn't happen until two weeks after the purchase is made."
- "How we were originally going to leverage [Affirm] was to use it as a 'try before you buy' program. The idea was that you get two weeks to try the product before you get your first installment. We sell full-face respirator masks, and a big part of that is making sure they fit on your face. So we figured [BNPL] could be a really good way for people to try out the mask and make sure it fits first, before fully committing to the purchase."
- "But we already offer a 30-day guarantee, whether you like [the product] or not, so [getting Affirm] didn't really change a whole lot for us."

- "On our end, the only thing that really affects us is [the transaction cost]. For a typical purchase through Shop Pay, which is credit cards, it's 2.4% plus 30 cents on each order. That's with the Advanced Shopify plan. With the Affirm payment, it's 5.5% plus 30 cents on each order."
- "We have the margin to absorb that, so it was pretty easy for us just to turn [Affirm] on [in Shopify] and see how it does."
- "For us, [turning on Affirm] didn't really affect our business. It just gives the buyer an extra option. Affirm and Shopify assume the risk if the customer doesn't pay on time, so that's nice. I assume Shopify and Affirm will keep that partnership going for the next few years to get more businesses to use [Affirm]. It means there's not much risk [for merchants] to try it out."
- "For our website, Affirm sales accounted for only 1% of our total orders since we implemented it last April."
- "However, where our average order value [AOV] on other payment methods was $117.71 during the same time period, Affirm's has been $149.15, [which is] 27% higher than people that pay upfront."
- "Conversion rates for the six months prior to implementing Affirm was 1.12%, while for the first six months after adding it as an option, our conversion rate was 1.25% or 11.6% higher. [However], I wouldn't take too much stock in the conversion rate change since our conversion rates have been steadily increasing as we continue to optimize the site."
- "The AOV metric is very transparent, however. Our customers are willing to pay considerably more per order when they purchase through the BNPL option."
- "You would think that [a BNPL] tool would help with conversion, but we didn't see anything [significant enough in the data]. I think it has to do with the price point. Once you start getting up into $300-plus, that's when the average consumer starts thinking they might need financial help. For a $140 product—a mask with a set of filters—I feel like people are mostly willing to pay that upfront."
- "Also, measuring conversion lift is tricky. … I think the only way you test that is turning the [BNPL] option on and off routinely. You have to have some kind of clear split test, where the same type of customers did not get that option vs. those that did. I think as we build out to different price points, it will be interesting to see whether [BNPL] does help conversion rate."
- "[These metrics are derived] from exporting our order data with filters. [The data is] not from Affirm, because that's not really a separate app or dashboard. It's just a payment processing method. As of right now, there is nothing I can see via Shopify that tells you how well the BNPL option is working."
- "If we were going to properly vet [the various BNPL offerings], then we would have asked for some type of good reporting capabilities, like app integration, which is usually what Affirm and others do. It's an app that you put in your Shopify store, and then they have separate dashboards that record how many people are using it."
- "We're an e-commerce merchant with about $5 million in annual sales. [Along with our own website], we also sell on Amazon, eBay, Wish, Walmart, Home Depot, and others."
- "Our orders are usually around $140."

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> *President of an online seller of personal protective equipment*

Competitive Landscape

- "[Other BNPL products] I've used in the past are Bread and Klarna."
- "In a recent previous role, I sold mattresses for two different companies. It was a couple of years ago, and we vetted out between various [BNPL] companies. Back then, we went with Klarna because it was the easiest to use. This was before Affirm [partnered with Shopify], and they required a bit more intensive background credit checks. But since [the Shopify integration], Affirm is actually the easiest to use if you're already a Shopify merchant."
- "Before that, I used Bread back in 2016, which would have won out over other options for ease of use."
- "I don't see a whole lot of difference between [the BNPL options], honestly. I think what's going to get people to go with one or the other is more their strategic partnerships. For Affirm now, through Shopify, there's no risk on us, and that's where the big advantage is."

Affirm's Opportunities and Challenges

- "One thing we would really like to have with Buy Now Pay Later is the option to determine the payment intervals. For example, for our 'try before you buy' program, instead of four incremental payments every two weeks, we could do a one-month payment at the end of 30 days or 60 days. [We would like] to be able to adjust those payment timelines as a merchant and maybe also give different options to the consumer, too. This would probably also increase conversion rates."

2) Senior marketing executive with a sleep products company

BNPL offers some value but is a long way from being essential for this source's retail operation, which has used Klarna, Affirm, and Afterpay. About 15% of sales are through Afterpay, a figure that was similar with Affirm. There is no evidence that offering BNPL is increasing conversion rates. Afterpay's "marketplace" model was an attractive pitch as a way to gain brand awareness, but the promise hasn't played out. Brick-and-mortar stores represent a big opportunity for BNPL vendors, with winners being those that are first through the door, since physical stores will not want multiple tools at the register.

BNPL's Value To Merchants

- "We started using Affirm around May or June of 2020, and it replaced Klarna. Then, about five months later, I switched us from Affirm to Afterpay after listening to a podcast that interviewed [Afterpay co-founder] Scott Molnar."
- "Our business does about $38 million in annual revenues across all of our channels, including online, white label, and some brick and mortar. Sixty percent of our revenue is e-commerce."
- "In addition to mattresses, we sell a lot of mattress toppers. By its nature, the [topper] product is a more cost-effective substitute for people who don't want to spend $1,000 and up and can spend more like $250. So these are customers that are not living hand-to-mouth by any stretch, but they're needing to break up some payments."
- "What motivated me to switch to Afterpay was [Molnar's comments on] the whole 'marketplace' notion—where in addition to providing this installment payment service to your customers for no fee to them, [Afterpay] takes all these brands and puts them into this model where they're telling all of their first-time users, 'Hey, you don't need to go to Amazon; you don't need to go to Google; next time you need to buy something, come back to Afterpay.'"
- "For us, this seemed like a great proposition, because we're trying to battle the big [competitors] like Casper and Tuft [& Needle]. This is the kind of publicity I needed and was part of the attractive value proposition—that so many people were coming onto the Afterpay platform, and they were going to find out about our brand."
- "But that promise definitely hasn't played out like that at all. We're just one additional small fish [in the Afterpay marketplace]. Even though we do decent revenues each year, you wouldn't be able to tell the difference [in the Afterpay marketplace between us and a smaller retailer]."
- "Where the [Afterpay marketplace] model falls short, they had, in our category particularly, two companies in the top row of their providers that were the equivalent of guys in their basement. Afterpay doesn't really take the time to figure out who the providers are that are actually driving revenue for their business so that they can then kick me some more volume."
- "We see the usage of the [BNPL] product on our own website: Roughly 15% of our sales on a monthly basis will use Afterpay, for which we get the pleasure of paying 5% to Afterpay. There are no other fees other than that commission on the actual purchase."
- "That [15% of customers choosing BNPL] didn't change much from when we used Affirm, which was roughly 13% [of sales]. It's been pretty consistent."
- "I don't think customers have a [BNPL] brand affinity. For someone who uses Afterpay, I would bet that that customer also uses Klarna and/or Affirm. I'd guess that changing that percentage [of customers who use BNPL] would be more a function of a brand more prominently featuring [the BNPL option] on their website and continuing to reinforce it as an option or putting it in an email, for example."
- "The $64,000 question is, would I have made those 15% of sales had I not had an installment payment service? Or would they have bitten the bullet and paid the $250 upfront? I've never A/B tested it, with and without Afterpay in our checkout flow. But if I look at my Google analytics session volume, I don't see a tremendous difference."

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>
> *Senior marketing executive with a sleep products company*

Competitive Landscape

- "We have Klarna on one of our subbrands, which is a mattress line, but they kind of suck. They're like a distant third to Affirm and Afterpay. They're a little rigid in the integrations and the actual presentation of how payments get broken up. It's more cumbersome. Supply chain problems have meant we haven't sold mattresses over the last 18 months, so [that sales channel hasn't been a priority but will be again]."

- "[As mattresses come back into the supply chain], I do expect people to choose BNPL, but I don't think the percentage of people choosing BNPL will go much higher. I don't know that breaking up a $1,300 purchase over two months is really getting someone who needs to float that purchase what they need. [At that price point], I don't think it's going to vastly replace credit cards or get more people into it."
- "We moved over to Affirm [in 2020] when we saw some of the big players like Peloton move over. But when I heard about Afterpay's marketplace, I decided to switch. I think the others are trying to catch up [with their own versions of a marketplace]. Affirm had a small marketplace when I migrated to Afterpay, and Klarna nothing."
- "The [marketplace] idea is that you have your 'tile' on the Afterpay site. The entire site is geared toward categories like 'bed and bath' or 'housewares.' And then you see a deluge of brand tiles. You can click on them and get taken to the retailer's site. But there's very little differentiation [visually] other than top to bottom."
- "The integrations of [both Affirm and Afterpay] were easy. We have Shopify, and anybody who's selling these types of Buy Now Pay Later services are focusing on Shopify first, so it's got to be as streamlined as possible. You download the [BNPL] app; maybe you create a clone version of your theme; and [the BNPL company] installs it, we test it, and we're done."
- "Another thing I've seen in terms of differentiation [between BNPL products] is the race to brick and mortar. I've seen American Eagle [Outfitters Inc./AEO] and other brands starting to form relationships [with BNPL vendors], and they don't want to be bothered with [multiple BNPL options]. They just want to have one. And I have seen [BNPL] getting more into the physical stores."
- "From what I've seen thus far, it's been pretty subtle; they put the little decals in the [store] window, the same way Mastercard and others did 25 years ago. I think [adding in-store BNPL options] is just a function of the brick-and-mortar brands knowing how much commerce is happening online, and this is what people have become accustomed to. They think maybe they can scare up another 4% to 7% in sales."
- "The promise [of Afterpay for us] was it would increase the opportunity and attractiveness of me as a brand in their marketplace, vs. me doing hand-to-hand combat on Google or Amazon, which is impossible. But it never wound up really materializing."
- "If I got rid of Afterpay now, or any of the others, do I think my sales would suffer? Not in any meaningful way, at least on our AOV. But is it crippling, 5% [transaction fees] on 15% [of total sales]? No, not by any stretch. It's just another fee, whether it's commission fees on Amazon or transaction-related fees on Shopify. You just bake it into your unit economics to accommodate all of these."
- "I would not at all call [BNPL] essential. I would still probably give the nod to Afterpay if I had to pick again, but I think they're pretty much all the same."

I've seen ... brands starting to form relationships [with BNPL vendors], and they don't want to be bothered with [multiple BNPL options]. They just want to have one.

Senior marketing executive with a sleep products company

Affirm's Opportunities and Challenges

- "I was trying to drum up some good justification for getting consumers to buy on our website vs. buy on Amazon, where our products are also listed. I need that justification because it's more expensive on our website; we need to pay affiliates and a bunch of other stuff. One of my [pitches] was that we can tell people we have an installment payment program that they could sign up for, but [the Amazon partnership with Affirm] means that all goes to hell."
- "I think that's part of the reason Amazon did [the deal]. They just eliminated a differentiator. They stuck Shopify in the arm by doing that."
- "I never understand those things [like the Affirm Chrome extension]. I think there's a strong group of people who are dedicated to these platforms, and they use all the extensions and want to feel like they have all the best coupons. But I think they eventually all become one and the same. I don't know how much it differentiates vs. just eliminates the possibility of someone picking Afterpay over Affirm, for example."
- "[Credit card companies offering installment plans] will definitely take a chunk out. They're not going to go quietly, in the same way Capital One is going after Honey and Rakuten with its couponing. The credit card companies have so many relationships that selling this additional product into their install base and eliminating the possibility of losing a few transactions from that customer, it's well worth the investment of them creating that financial tool and adding it to their toolbelt."
- "I still think that Affirm, Afterpay, and Klarna will have a place. Maybe there's some consolidation at some point. Shopify will probably get into the game themselves."

- "It will be hard [for any BNPL vendor] to become a super app. There are just so many best-in-class apps for different parts of the shopping journey. It would be hard to build all that out without massive capex."

3) CEO of a West Coast jewelry group

It's difficult to see how Affirm stands out from competitors. The BNPL providers that succeed will be those with the most seamless technology, brand recognition, and the best rates for merchants. This large jewelry retailer uses Sunbit as one of its financing options for in-store sales and is looking at Affirm and competitors as options for its online sales. However, installment plans will not help most customers in the jewelry market, as the ticket sizes are generally too high for something like a four-installment payment plan to change the calculus. The biggest growth in BNPL is going to be in the service sector, which has been relatively untouched by such financing options.

BNPL's Value To Merchants

- "We are the largest independent jeweler with Buy Now Pay Later offerings. We have about $150 million in annual sales. Brick and mortar is 95% of our sales."
- "We've been using Sunbit for four or five years. We've always used a 'first look' prime offering with a company called Synchrony [Financial/SYF]. And then we've had second-look [financing options] for people who don't qualify for Synchrony. We offer leasing, and we also have our in-house financing."
- "The mix of [those different financing options] is proprietary, but I can confirm that financing of all sorts—including Sunbit—improves conversion and average ticket [sizes]."
- "Before Sunbit, we were working with a company called Genesis [Financial Solutions Inc.]. Genesis signed a long-term deal with Signet [Jewelers Ltd./SIG], which is the owner of Kay Jewelers and others—basically the 800-pound gorilla in the [jewelry] space. We basically got fired by Genesis because we're competitors to Signet."
- "We went shopping and we ran into Sunbit. They were brand new at the time and were looking for anyone to do a proof-of-concept with. We liked their technology, which [had advantages] relative to the traditional way of applying for credit—which is filling out paper or a digital application with name, address, and so on. Sunbit has the technology that enables you to just scan the back of your driver's license on an iPad, and that's the application. It's a no-hard-inquiry approval. We've been using it extensively."
- "One of the things that [Sunbit does] is variable interest rates and variable offers. Synchrony—even if you have an 800 FICO—it's one interest rate, which is 30%, and one set of terms."
- "Sunbit, depending on your FICO, will vary that. If you have an 850 FICO, you get one interest rate and one term; and if you have a 600 FICO, you get another one. They're able to customize the offer for the customer they're looking at."
- "Sunbit renamed themselves as a Buy Now Pay Later [product] just because of the sexiness of that phrase right now. But they're just a finance company. We've been working with finance companies for 50-plus years."
- "Sunbit has some innovations that make it somewhat unique in the finance space, but as a Buy Now Pay Later [vendor], that's just window dressing. They're a fintech upending the traditional finance lenders to some extent, but this isn't true [BNPL] finance. There's an interest rate. Affirm and others have a different business model."
- "With Sunbit, the customer is paying interest, and that interest rate can vary from as low as 7% to as high as 35%. And then we pay a discount rate to Sunbit; it's the same way Visa [Inc./V] and Mastercard charge a discount rate, but it's just significantly higher."
- "In our stores, 85% of the business is financed by some means. The customer is self-selecting, based on their credit history. They don't know that, but they are. The best customers are going to take the best offer for them, based on their credit."
- "Half of the business we finance on our own paper, and for that we have really good analytics: we know when they paid it off, when they can buy more, and we're constantly showering them with rebuy offers."
- "With our [financing] partners, we know a little bit, but it's not as integrated."

Competitive Landscape

- "Thinking that Affirm brings something different to the marketplace than the two dozen [financing] companies that we've worked with in the last 50 years is horseshit."

- "The winners in this space are going to be the best technology companies with the best offerings—and by that I mean best for the merchant and not the end consumer. The consumer mostly has no idea what they're signing up for, and so I think it's going to be who has the best offering for the retailer."
- "We have talked about bringing [Affirm or a competitor] in for our e-commerce site. [Choosing a BNPL vendor] has to do with how the technology works and the name recognition around it. We've talked about bringing a native [BNPL] provider, because integrating Sunbit in the e-commerce [channel] is always a challenge; likewise, Synchrony and the leasing providers. They're just not built for [e-commerce]. If there's a ready-set group of APIs from a company, then there's some value there."
- "For jewelry, four installments is meaningless. You're buying $1,000 [and up]. Four installments makes the payments ridiculously high for most customers."
- "When it comes to Peloton, you're marketing to rich people. They could have bought it on their credit card, but they decided not to because if you offer free financing, they're going to take it. But a customer that really needs financing—which is our core customer—if they could have put it on their plastic, they would; and now they're looking for reasonable payments. Four installments doesn't help."

> **Thinking that Affirm brings something different to the marketplace than the two dozen [financing] companies that we've worked with in the last 50 years is horseshit.**
>
> *CEO of a West Coast jewelry group*

Affirm's Opportunities and Challenges

- "I think the biggest growth [for BNPL] is going to be in the service sector, which has just been relatively untouched by financing over the years."
- "Sunbit is now a billion-dollar unicorn. They're making all their money in car repair and tires, dental, and eyewear, the latter two being new verticals for them. Their claim to fame is that they own the car repair business. They have one-half of the car repair guys out there, but it's mostly the dealers."

"The question I ask, when I see Affirm at H&M, is, are people really going to buy more disposable fashion because they can finance it? And if so, where does that lead us? If it just means that people are going to take tomorrow's spending power today, eventually it runs out."

4) Executive at a clothing retailer

This merchant uses Klarna exclusively and considers it the dominant player in the market. Buy Now Pay Later is a necessity for merchants because customers want it. Klarna accounts for 5% to 10% of the company's online transactions. That figure could rise because the younger demographic likes BNPL. Klarna has minimal impact on the company's conversion rates—providing a 1% to 2% bump. But customers paying with Klarna spend 10% to 15% more. The retailer chose Klarna because of its easy integration with its Stripe payment processing system.

BNPL's Value To Merchants

- "We have 250 transactions a day online—750 if you count our stores, where we don't use Buy Now Pay Later. We use only Klarna and installed it in December 2020."
- "The main reason we chose it is that it's the easiest thing to integrate with Stripe. It may have been a cost issue, too. I don't know what we pay in fees. I do know that we absorb the cost."
- "About 5% to 10% of the transactions on our website use Klarna. Usage is pretty steady, but if we mention Klarna in a marketing email, we'll see an upward shift. Going forward, the usage rate should stay steady or go up. Buy Now Pay Later seems more popular with the younger demographic."
- "Klarna has had minimal effect on our conversion rates—maybe 1% to 2%. A good amount of our customers would buy anyway."
- "The availability of Klarna is big for ticket size. Customers who use Klarna pay about 10% to 15% more. That's substantial on the clothes we sell. They're buying more expensive clothes. A guy who's getting married gets an Italian-fabric set of clothes with bells and whistles, as opposed to average workday clothes."
- "By helping to spread the payments out, Klarna makes people more comfortable with the purchase. It seems that for younger customers, it's a cash flow tool."
- "In terms of analytics, we get a monthly report that's pretty basic. It clearly shows how many transactions we had and the average order value. It's basic, but it's all we need. It's very accessible."

- "We haven't had to get in touch with [Klarna's] customer service, but the account management team is very easy to work with."
- "Buy Now Pay Later is a must-have for merchants, in that you need to meet your customers where they are. If a customer wants to pay with Buy Now Pay Later, you need to have that option available."
- "Generally in e-commerce, there's a push to meet people where their wallets are—payment options such as Apple Pay and Google Pay. Even PayPal is getting more popular. Anything that avoids a customer having to fish their card out is a payment option you should have on your site."

Competitive Landscape

- "In the U.S., Klarna has the brand recognition. It seems to be the dominant player, with people seeing it as the main one. There's still room for a lot of growth in the space. Every merchant that doesn't yet offer Buy Now Pay Later ultimately will."

> **The availability of Klarna is big for ticket size. Customers who use Klarna pay about 10% to 15% more. That's substantial on the clothes we sell.**
>
> *Executive at a clothing retailer*

Affirm's Opportunities and Challenges

- Did not discuss.

2) Payment Industry Specialists

None of the four sources in this silo, who represent payment industry consultants and other industry observers, see Affirm's having a major advantage over other BNPL vendors in appealing to merchants. Affirm's longer repayments could give it a small leg up, especially with merchants selling more expensive items. But the leading BNPL providers are similar in terms of transaction rates, approval rates, brand awareness, and efforts to serve as customer acquisition tools through their merchant directories. Affirm's partnerships with Shopify, Amazon, and some payment solutions providers will be the biggest drivers in its quest to sign up new merchants. All four sources agreed that the Amazon alliance will be a boon to Affirm's credibility and scale, though one pointed out that the economic terms of the partnership are likely favorable to Amazon. The deal also puts Amazon in a position to possibly buy Affirm, two sources said. For buyers, Affirm does have a persuasive sales pitch because of its consumer-friendly approach. One source said two-thirds of Affirm's users are repeat buyers, suggesting some loyalty to the brand. All four expect Affirm to have success with its debit card, especially among a growing number of younger users who do not have bank relationships and do not trust credit card issuers. Credit card issuers and networks that are rolling out their own installment payment plans are not a big threat to BNPL providers, three sources said. The inexperience of Affirm's relatively young user base in managing credit is cause for concern, as is the fact that Affirm has yet to go through a down credit cycle, three sources said. Human and veterinary medicine are good industries for Affirm to target because of the price points and limited number of existing financing options, two sources said. All four agreed that some increased regulation of the BNPL industry is likely, perhaps related to advertising or loan qualification standards. While BNPL use has much room to continue growing in the United States, adoption rates may never match the levels seen in Europe, Australia, and some other regions, largely because credit card use and rewards points are more deeply embedded here.

Key Silo Findings

BNPL's Value To Merchants

- No sources said Affirm has significant differentiation from competitors from a merchant's perspective.
- 2 said merchants are choosing BNPL vendors based on transaction rates, approval rates, brand awareness, and payment terms.
  - 1 said Affirm's longer repayment terms could give it an advantage over Afterpay.
- 2 said BNPL vendors are pitching themselves as customer acquisition tools with an ability to drive traffic based on their marketplace directories.

Competitive Landscape

- 2 of 4 said Affirm stands out from competitors in areas such as its partnerships, debit card, and a consumer-friendly approach that includes no late fees.
- 1 said two-thirds of Affirm's users are repeat buyers, suggesting some brand loyalty.
- 3 said credit card issuers and networks are not a big threat to Affirm with their own installment payment plans.
  - 1 said card-based payment plans are too difficult to use, and 1 other said the networks cannot offer merchants detailed data to drive traffic the way that BNPL vendors can.

Affirm's Opportunities and Challenges

- 3 said Affirm should be concerned about the level of credit risk with its customer base.
  - 1 said Affirm's younger demographic has little experience managing credit.
  - 1 said Affirm has yet to go through a down credit cycle.
- 4 said Affirm's partnership with Amazon will provide a huge boost to its credibility, scale, and merchant acquisition efforts.
  - 1 said, however, that the deal is likely on favorable terms for Amazon and thus will not be a big profit driver for Affirm.
- 2 suggested Amazon could be a potential buyer of Affirm.
- 2 said healthcare, both for humans and pets, is a good industry for Affirm to target.
- 4 said increased regulation of BNPL vendors is quite possible, perhaps around marketing and loan qualification standards.
- 4 said Affirm should get some traction with its debit card, especially among young adults who either do not like credit cards or have been unable to qualify for one.
- 4 said use of BNPL in the United States is unlikely to reach the same level as in Europe and some other countries because credit card use and rewards points are more deeply embedded here.
- 3 said Affirm has a big challenge to become a broader financial "super app," largely because it is so far behind PayPal and Block.

1) Ted Rossman, senior industry analyst for information services at Bankrate.com and CreditCards.com; repeat source

Affirm's competitive advantages include the quality and quantity of its partner relationships, with its Amazon alliance offering significant upside. Its debit card is a plus, too, deepening Affirm's reach into physical stores and appealing to young adults. Affirm has a customer-centric attitude with no-interest options and no late fees. Banks offering installment plans aren't a major threat. Affirm's credit risks look manageable. Healthcare and travel make sense as industry targets for Affirm. Some regulatory change is coming for Buy Now Pay Later vendors—perhaps qualification standards for loans. The BNPL industry is ripe for consolidation.

BNPL's Value To Merchants

- "Affirm does stand out from its competitors. First, there's the quality and quantity of their partner relationships. Also, the new debit card is very smart. It pushes Affirm deeper into stores."
- "Affirm is building out its super app. That's not unique, but Affirm is taking a customer-first attitude, like having a payment option with no interest rates. Some of it is spin, but Affirm is trying to embrace a kinder and gentler side."
- "I suspect [merchants are choosing between Buy Now Pay Later vendors based on] a mix of the specific financial terms being offered—for instance, the transaction fee that the merchant pays the BNPL company—and also the economics offered to customers, such as Afterpay only offering payment plans lasting up to six weeks, whereas a company like Affirm has plans that can stretch on for several years. A merchant that sells bigger-ticket items would probably gravitate to Affirm in that example."
- "I also know that BNPL companies tout themselves to merchants as customer acquisition resources—as in you may not know exactly where you want to buy those new shoes, but you love Affirm, and you look through their listing of available shoe stores and find the merchant that way. Affirm told me two-thirds of their users are repeat buyers, so there's definitely a loyalty element there. Affirm has become a shopping destination in its own right."
- "I think this [decision of which BNPL option to offer] is very data-driven, both on the economics side—the cost of doing a BNPL transaction—but also in terms of customer acquisition, driving greater engagement, fewer cart abandonments, etc. The BNPL industry has made a compelling pitch to merchants that it helps to increase sales. I'm sure each company has their own spiel along those lines for why they're better for driving sales, delighting their customers, etc."

> **Affirm is taking a customer-first attitude, like having a payment option with no interest rates. Some of it is spin, but Affirm is trying to embrace a kinder and gentler side.**
>
> *Ted Rossman, senior industry analyst for information services at Bankrate.com and CreditCards.com*

Competitive Landscape

- "There is a first-mover advantage for the fintechs like Affirm in Buy Now Pay Later. I don't think the typical cardholder views American Express, [JPMorgan] Chase [& Co./JPM], or Citigroup Inc./C] as Buy Now Pay Later. The moves by banks into Buy Now Pay Later have been defensive."
- "Buy Now Pay Later won't put credit cards out of business. But the fact that banks have entered the space isn't dampening Affirm and other competitors. Consumers use both the Buy Now Pay Later companies and their banks. They may use Buy Now Pay Later for special purchases, while using credit and debit cards for daily spending."
- "Consumers like the idea of predictability in payments and not putting it on their credit cards forever. With the finite payments [of BNPL], there's light at the end of the tunnel. People like the idea of paying X amount for Y months."

Affirm's Opportunities and Challenges

- "Affirm has widened the credit box a bit, but industrywide, we haven't seen anything noticeable in terms of increasing delinquencies and defaults."
- "There's no big risk on the horizon. The Fed and others say we're in a good spot with delinquencies. Unemployment is low, and consumers still have excess savings from stimulus payments and their own savings."
- "[Affirm's] partnership with Amazon is huge from a scale and credibility standpoint. Some think Amazon might buy Affirm. Amazon also might create a competitor. But I suspect the partnership will do quite well."
- "Buy Now Pay Later has hit the mainstream. Partnership strategies are key for Affirm to get in the door. Amazon is a part of all that."
- "My first thought was that [Affirm] being on Amazon as a checkout option is more meaningful than being part of Amazon Pay. But Amazon Pay is bigger than people realize. There are downstream tie-ins with all the merchants that use it."
- "Still, from a legitimacy and branding standpoint, being a checkout option carries more weight. In the end, both elements of the Amazon deal are significant."
- "In terms of new industries for Affirm to target, healthcare services is one. There's a big market and captive audience if you need medical attention for yourself or a pet. There's CareCredit as a payment option now, but they have very high interest rates. A company like Affirm could democratize the space."
- "Another industry Affirm can target is travel. Affirm already has deals with American Airlines [Group Inc./AAL] and [Booking Holdings Inc.'s/BKNG] Priceline."
- "There could be regulatory changes for Buy Now Pay Later. The CFPB is poking around, asking the industry for information. Affirm has said the right thing—that they believe in transparency and don't charge late fees. But they are a business."
- "The industry is lightly regulated so far. The CFPB might look at qualification standards. Buy Now Pay Later is easy to obtain [right now]. There will be scrutiny about whether companies are vetting customers enough on their ability to repay."
- "Data privacy also is an issue. A lot of data is shared between Buy Now Pay Later companies and merchants. Returns may be an issue, too. Sometimes Buy Now Pay Later companies make it difficult for consumers to get their money back."
- "Regulators may look at late fees, but that wouldn't apply to Affirm. Buy Now Pay Later will probably be added to credit reports, too. There's a need for the information to get on there so lenders know, and consumers can build their credit through responsible use of products."
- "[Affirm's] Chrome extension offers more choices in more places. That makes it easier for people. It's smart from a branding standpoint."
- "[Affirm's] Debit+ has big potential. Buy Now Pay Later appeals to debit-centric customers. For young adults, the idea of debt scares them. They're more likely to use debit cards, but sometimes you want to buy something now and can't pay for all of it. The debit card makes it easier to transact whenever and wherever you want."
- "Debit+ is probably the most direct competition Affirm has engaged in vs. banks. The customer gets more time to pay, and Affirm makes money on interest payments and merchant fees. Affirm isn't doing it blind. They know you have money in your account."
- "Affirm is well on its way to becoming a super app. There certainly is stiff competition. Square buying Afterpay was another feather in their cap. PayPal is also a formidable foe. And traditional banks have offerings. But there is room for multiple winners. Affirm has done smart things."

The Buy Now Pay Later industry is ripe for consolidation. Affirm isn't profitable. Some of that is because it's a young growth company, but some of it is the stiff competition it faces.

Ted Rossman, senior industry analyst for information services at Bankrate.com and CreditCards.com

- "The Buy Now Pay Later industry is ripe for consolidation. Affirm isn't profitable. Some of that is because it's a young growth company, but some of it is the stiff competition it faces. There are probably too many similar offerings—Affirm, Afterpay, Klarna, and others. There will be consolidation."
- "But Affirm is a leader. I think they're doing a good job. It's very possible they will be bought by someone. Square's purchase of Afterpay is a warning. Amazon is the potential buyer that stands out. It's hard to see a bank buying Affirm; banks are doing their own thing. A buyer would probably come from the technology space."
- "It's possible that Affirm stays independent. The company's CEO, Max Levchin, has a long-term view. It's not just about making money but changing the financial world, with more transparency and affordable options."
- "The U.S. often follows foreigners' lead on payments technology, like chip cards, contactless, and mobile payments. Buy Now Pay Later is really hitting its stride in the U.S. The pandemic has juiced online commerce. People have access to credit and fear debt."
- "One key difference in the U.S. from overseas is that we have the most favorable credit card rewards programs. Other nations have more interchange fees, so there isn't money for that. That makes me think banks will be a considerable foe. I think Buy Now Pay Later will continue to grow, but it may not be as omnipresent here as in the rest of the world."

2) Analyst at a payment consulting firm

Affirm's differentiation from competitors is mostly on the consumer side, with products like a debit card and savings account, rather than on the merchant side. Credit card issuers offering BNPL won't have much impact on Affirm, as the banks' services are more difficult to use. Affirm should be concerned with the credit quality of its young customers. Its Amazon partnership is important to its future growth. The healthcare and veterinary markets could be good targets for Affirm. The BNPL industry is likely to see some regulation, perhaps curbs on advertising.

BNPL's Value To Merchants

- "Affirm has a few unique products [compared to BNPL competitors], such as its debit card and its high-yield savings account, which pays an interest rate of 0.65%."
- "Affirm also reports loans to [Experian], while many competitors don't report to credit bureaus. Reporting could help people build credit."
- "They don't have late fees, while many of their competitors still do."
- "Affirm really has a service now just for consumers. They would have to ramp it up for merchants."
- "My guess is that in many cases, merchants are trying out whichever [BNPL] services are reaching out to them first. Some Buy Now Pay Later firms likely also have deals with other types of value-added services the merchant may be using—e.g., software, processing—which can be another channel."
- "I think Affirm's benefit is that they can solidly point to their mission and discuss how their goal is greater financial freedom for their users. Perceptually, BNPL has been framed as a lending choice that can lead to a lot of debt, so some merchants may be wary about BNPL firms that have been mentioned negatively in the news. Compared to its counterparts, [such as] Klarna, Affirm has relatively more positive press."

Competitive Landscape

- "The effect of credit card issuing banks doing Buy Now Pay Later will be minimal on Affirm. Most payment plans from banks don't have their own apps. It's not in consumers' mentality to use them. It takes a lot of extra steps compared to Affirm."
- "It's not the product itself but how easy you can complete transactions that drives business. You will see some usage of the bank products, but they take too many steps for usage to get big."
- "The banks' version of Buy Now Pay Later makes it into something that's planned. We have seen consumers use Buy Now Pay Later for planned spending, but the greater consumer usage is people making impulse buys."

BNPL has been framed as a lending choice that can lead to a lot of debt, so some merchants may be wary about BNPL firms that have been mentioned negatively in the news. Compared to its counterparts, [such as] Klarna, Affirm has relatively more positive press.

Analyst at a payment consulting firm

- "If there are more steps, that gives people an opportunity to come to their senses and realize they don't really need that $500 item. PayPal, Klarna, and Affirm require maybe two steps in total. That reduces friction. I don't see the banks as a serious threat."
- "Where I could see users [of the banks' solution] is where banks have strong relationships with their customers. For example, American Express users tend to be loyal. But for young consumers used to two clicks, I don't think the banks will see much usage."
- "I also don't think card-issuing banks have the relationships with merchants in the same way that Affirm does. When you lack the connections, you could lose out on opportunities."

Affirm's Opportunities and Challenges

- "With young consumers, Affirm should be as concerned with getting paid back as a credit card company would be. And credit card companies have the advantage of having performed a credit check. Buy Now Pay Later is extending free credit. People are approved quickly. Affirm should be concerned about people who don't have experience managing their credit."
- "The Amazon deal is very significant. This will really boost Affirm's ability to compete. Most consumers do use Amazon. The deal will absolutely boost the number of people enrolling in Affirm's plan. And for others, it will boost their awareness, and they might think about using it next time."
- "The checkout option is more important than being part of Amazon Pay long term. More people use the Amazon site than use Amazon Pay. I don't know how meaningful Amazon Pay is when there are so many other [digital wallet] options."
- "The industries Affirm should target are ones where people make large purchases. There will probably be plenty of commentary that you shouldn't use Buy Now Pay Later for small purchases. What's the need for $5 or $10? Where Affirm should go is where purchases average a few hundred dollars."
- "Healthcare is an area where there are a couple Buy Now Pay Later options, but people are looking for more competition. Veterinarians could be good. People are attentive to their pets. Retail and electronics are other possibilities. Affirm already is popular in retail and is expanding into electronics."
- "There will be some new regulation [on BNPL], but I'm not sure what it will look like. There are a handful of states with regulations. The U.S. is pretty protective of businesses, so it's hard to know when regulation goes into effect."
- "There will likely be some regulation concerning advertising. In the UK, Klarna got dinged for encouraging people to spend excessively in its ads. We could see something similar here—limits on advertising."
- "If Buy Now Pay Later is classified as a loan, issuers could be subject to the same rules as credit card issuers. We may see credit checks as a mandate."
- "I don't know if the Chrome extension is make-or-break for Affirm. The winner will be the one who makes it easy to pay. Chrome does that, but you have to make an effort upfront to make it work. Individuals who aren't afraid of the set-up work will go to the trouble, but I don't think it will be mainstream."
- "The [Affirm] debit card might be something for the unbanked younger crowd, especially if they get rejected by a credit card company. For the older crowd, if they already have a debit card, they're unlikely to seek a second one."
- "It's the early days for super apps. PayPal and Square are massive and well-positioned. Affirm might be able to gain some market position, but they're not anywhere close to PayPal and Square. PayPal has a lot of merchants and consumers. Square also has merchants. It's well-regarded by small and medium-sized businesses. And they have the Cash App."
- "Affirm is too new. Its service isn't embedded into the landscape like these others. They don't have a massive following. They could be one of the super apps, but not dominant."
- "It's a different dynamic here [in the United States] than overseas. Most people [in the U.S.] are satisfied with credit cards, debit cards, and cash. If they don't need another payment method, they won't go for it. Buy Now Pay Later will grow here, but not at the same rate as in other countries, where people are more comfortable with alternative payment methods."

3) Payments consultant and former head of a major bank's payment subsidiary; repeat source

Affirm's partnership with Amazon may give it credibility with some merchants, but otherwise, Affirm does not stand out from competitors on the criteria that merchants care about. Affirm's efforts to develop a super app will be challenging, as it is far behind Block and PayPal. Offering savings accounts does give Affirm access to a funding source that it could use in making loans, but only if it registers as or partners with a bank. Credit card issuer banks offering Buy Now Pay Later put a limit on the interest rates Affirm can charge, as it can't charge more than the banks. Affirm should be concerned about credit risk, especially as it's never gone through a down cycle. The Consumer Financial Protection Bureau will look at how BNPL is marketed to consumers. Disclosures and aggressive pushing of loans will be issues.

BNPL's Value To Merchants

- "The Amazon deal makes Affirm stand out from the others. Klarna is big, and there are a lot of others. PayPal has entered the market, but it's not at the same level as the others. I would put Affirm and Klarna far ahead at the top. Klarna's been around for a long time."
- "Among the criteria merchants use to choose among Buy Now Pay Later services are cost, approval rate, knowledge of the brand in the market, ease of use for the customer, and ease of integration. In general, I haven't heard that Affirm stands out from the others for merchants."

Competitive Landscape

- "The fact that the credit card issuer banks are doing Buy Now Pay Later puts boundaries on what Affirm can charge. If the banks offer less, why go to Affirm? The banks are being fairly aggressive about marketing this. When you're making a charge with your card, a note will come up that you can spread your payments out over cycles."

Affirm's Opportunities and Challenges

- "Affirm and the others should be concerned about [customer] credit risk. They haven't been through the down part of a credit cycle. They should be stress-testing their portfolio against a downturn. But you don't know what it's like until you've been through one."
- "You have to think [Amazon] looked through all [of the BNPL vendors] and chose Affirm. They don't do anything without careful study. It says good things about Affirm that Amazon judged them the best. Other merchants will make decisions based on Amazon. It's like a Good Housekeeping seal of approval."
- "I would look at midticket merchants [as a good target for Affirm]—not the $5-to-$10 range, because the economics don't make sense; [but] maybe $50 to $75 on the low side to $400 to $500 on the high side. Above that, there are issues of whether the Affirm customer base can pay off the balance. Any retail merchant where [Affirm's] young demographic tends to shop is good."
- "The CFPB is going to look at how [BNPL] is being marketed to consumers. Is everything being disclosed to them upfront? Are they being overly encouraged to take out loans? The Fed might look at what having this number of firms means in an economic downturn. That's a fair amount of money in loans outstanding."
- "The [Affirm] Chrome extension is an interesting option, but I'm not sure it changes their market share. If it does work, it's a feather in their cap. We don't know how secure it is yet."
- "I would expect [Affirm's] debit card gets some traction, because it means consumers with the card can use it at places that aren't signed up with Affirm. Big merchants already have signed up. There, the issue is what's easier for consumers at the merchant site—a debit card or just clicking on the Affirm payment logo?"
- "Are there benefits for consumers and merchants in using the [Affirm debit] card? Using the card might delay the payment cycle. That would be an incentive for consumers to use it."
- "Affirm is trying to build on Buy Now Pay Later to create more financial services. We'll see what kind of traction they get. Everyone wants to do banking without being a bank. You're inviting regulatory review."
- "You also have to convince your customer who came to you for one service that they should now come to you for a commoditized product. That's not as easy a sell."
- "Affirm's brand now means one thing: Buy Now Pay Later. It's a difficult job to understand a brand that means something broader. It will take a lot of work in terms of marketing and advertising dollars."
- "There are a lot of companies offering financial services. You have to show what differentiates your product from everyone else. It's not so easy. What's so special about a savings account at Affirm when you can get it at Chase?"
- "If Affirm competes to attract customers based on high interest rates on its savings account, it's shrinking profit. Someone like Affirm can use savings accounts as money to fund loans if they're a bank. But that means they would have to register as a bank or get an arrangement with a bank. I haven't heard of deals like that."

Among the criteria merchants use to choose among Buy Now Pay Later services are cost, approval rate, knowledge of the brand in the market, ease of use for the customer, and ease of integration. In general, I haven't heard that Affirm stands out from the others for merchants.

Payments consultant and former head of a major bank's payment subsidiary

- "Square has been able to sell other financial services. PayPal has, too, though not to the same extent. But not many people look at them and say, 'They're my personal finance provider.' They say, 'I get these services from them.' It's difficult for anyone [to become a super app], and Affirm is nowhere near PayPal and Square."
- "Affirm has to think about how they will attract customers. It's a challenge to go from Buy Now Pay Later to all-around financial services. There is a reason for them to do savings and checking accounts, because they could provide a cheap source of funds for their loan portfolio."
- "I would be surprised if the U.S. catches up to foreign countries on Buy Now Pay Later in the next year because there are many more [payment] alternatives in the U.S. market. Credit cards penetrate far deeper in the U.S. than almost any other country, for example."
- "In three to five years, it's anyone's guess. There is a large unbanked population and Buy Now Pay Later is a perfect product for them."

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Payments consultant and former head of a major bank's payment subsidiary

4) COO of a payments consulting firm; repeat source

Affirm stands out from competitors for its deep market penetration and its debit card, which could appeal to people who don't qualify for a credit card. Affirm's marketplace is attractive to merchants as a way to boost traffic to their stores. Mastercard and Visa aren't a threat to Affirm, which has much better data on its transactions. The Amazon partnership likely won't make a lot of money for Affirm, as Amazon probably set ungenerous terms, but the deal will help Affirm's image. It could also lead to Amazon's acquiring Affirm. Regulators are likely to require more transparency in fee disclosures by BNPL vendors. Affirm could succeed as a super app, but only with consumers who already use its BNPL service.

BNPL's Value To Merchants

- "Affirm's market penetration is strong, as is its partnerships with payment processor ACI [Worldwide Inc./ACIW] and VeriFone Holdings Inc./PAY]. I like the [Affirm] debit card. It blurs the line between debit and credit cards, because a Buy Now Pay Later purchase is like a credit card purchase."
- "I'm not sure how merchants choose their Buy Now Pay Later service. Some are selecting multiple providers. For example, Target [Corp./TGT] chose Affirm and Sezzle [Inc./SEZNL]. Merchants are using aggregators to provide multiple Buy Now Pay Later options to consumers."
- "Affirm has a deep marketplace, so a merchant knows if it gets in the marketplace, it will get bigger traffic. Affirm is doing a good job tailoring its offers to consumers."

Competitive Landscape

- "Mastercard and Visa may have Buy Now Pay Later offerings, but they are legacy behemoths. It's easier for merchants to integrate their network with Visa and Mastercard, but they can't take SKU-level detail from transactions and use it in offers."
- "Affirm is collecting detailed data and can use it to drive traffic to merchants. Mastercard and Visa don't know all the details of a transaction on their network."

Affirm's Opportunities and Challenges

- "Affirm does have to worry about repayments from its customers. I've read in several places that all of these providers have delinquency rates of about 30%. So Affirm has to be sophisticated in managing it."
- "I don't think there's a lot of money in the Amazon deal for Affirm. Amazon probably set terms that will give Affirm thin margins, but it helps for Affirm's name and brand position. It also puts Amazon in a position to potentially acquire Affirm."
- "I do think there will be regulation [of BNPL vendors]. Affirm itself supports that. I think there will be requirements for more transparency in disclosure of fees. There may be something about aggressive advertising; it depends on whom they're targeting."
- "As for [Affirm's] Chrome extension, I have seen similar things like the Honey extension. I find them confusing and annoying. I don't know how millennials will view this, but I don't think it's a big deal."

- "For millennials and folks just starting out with credit, people who can't afford a credit card, Affirm's debit card is one step above a regular debit card."
- "Affirm has a good opportunity for a super app, because like PayPal, it has a marketplace, bank accounts, and a pseudo card. But Affirm's opportunity is just for the market they serve—Buy Now Pay Later. The people who would use the super app are ones who already use Buy Now Pay Later."
- "Someone who's not using [Affirm for BNPL] won't store their cryptocurrency with Affirm; they'll do it with someone like Coinbase [Global Inc./COIN]. But people who already use Affirm may go from one application to another. They will grow into it."
- "I don't think [the U.S.] will quickly catch up to some foreign countries on Buy Now Pay Later usage. A lot of [other countries] don't have deep usage of credit cards like we do. But I think there is more room in the U.S. for penetration of Buy Now Pay Later."

3) Payment Technology Developers

Affirm does not have a strong argument that it offers more value to merchants than competing BNPL vendors, said the three sources in this silo. Affirm is a better fit for merchants selling expensive items of about $750 and up because it offers longer repayment schedules, one source said, while Afterpay is a better choice for purchases in the $100-to-$200 range because its plans are interest-free and allow buyers to collect credit card rewards. However, regulatory scrutiny may force Afterpay to change its business model, which involves adding credit risk on top of existing credit risk. Klarna has a much stronger brand name in Europe than Affirm, which is hardly known at all, according to a UK-based source. Klarna, however, operates under stricter rules because of its origins in Europe, and its relatively tight loan caps may provide an opening for Affirm to compete there, said one source. One source was skeptical of BNPL provider claims that they drive customer traffic to merchants. The extra back-end management involved with offering multiple BNPL options at checkout, combined with the lack of consumer loyalty to specific BNPL vendors, means smarter merchants should only offer one payment plan option. None of the sources consider banks and credit card networks a threat to Affirm or other BNPL providers. Affirm's partnership with Amazon is a big win, providing significant sales volume.

Key Silo Findings

BNPL's Value To Merchants

- 1 of 3 said BNPL vendors do not deliver on their sales pitch to be a customer acquisition tool for merchants.
- 1 said savvier merchants will not offer more than one BNPL option at checkout because it involves extra management, and consumers are not loyal to BNPL brands.
- 1 said he expects individual BNPL providers to increasingly try to focus on specific industries.

Competitive Landscape

- 2 said not much differentiation exists between Affirm and other leading BNPL providers.
- 1 said Affirm's brand recognition is far behind Klarna's in Europe.
- 1 said Affirm has more appeal for higher-priced items because its status as a true lender allows it to spread out payments over longer terms.
  - Purchases of $750 and higher are where that advantage starts to show.
- 1 said Afterpay has an advantage with purchases of $200 and below because its payment plans are interest-free and allow consumers to get credit card rewards points.
- 1 said Afterpay may have to change its model because regulators are scrutinizing the way it adds credit risk on top of existing credit card loans.
- 1 said Klarna, because of its focus on Europe, operates under stricter rules, including caps on loan sizes.
  - Such caps could provide an opening to Affirm to compete in Europe.
- 1 said Affirm charges lower transaction fees to merchants—around 4%—on payment plans where it is also charging interest to buyers, whereas Afterpay and Klarna charge merchants 5% to 6% because their plans are interest-free.
- 1 said he has had discussions with merchants in Australia who say 60% of their sales are completed with Afterpay, especially for fast fashion brands targeting girls ages 16 to 25.
- 1 said a BNPL vendor paid a large retailer several hundred thousand dollars to offer its payment plan at checkout, a model that he called unsustainable.
- 1 said Sezzle is more overbearing in its debt collection efforts than other BNPLs.

- 3 said they do not see installment plans offered by banks and credit card networks as a threat to Affirm and other BNPLs because they have been too slow to roll out, do not offer sales growth opportunities to merchants, and younger consumers do not trust banks.
- 1 said brand loyalty programs are a way for BNPL providers to differentiate themselves, something Klarna has embraced.

Affirm's Opportunities and Challenges

- 3 said Affirm's partnership with Amazon will bring Affirm a significant amount of order volume.
- 1 said a growth opportunity exists for BNPL vendors in payment plans for service providers.
- 1 said he expects consolidation in the BNPL industry.
- 1 said the credit risk on BNPL transactions is lower than that for credit cards because BNPL loans are for smaller amounts, and user credit is assessed in much shorter cycles.

1) Matthew Steinbrecher, vice president of platforms and partnerships for Reach, a cross-border payments platform

Affirm's debit-based lending model makes it a better fit for larger purchases, such as those $750 and up, because it can spread payments over longer terms than competitors such as Afterpay. Affirm is also attractive to merchants because it charges a lower transaction fee than Afterpay in cases where it is also collecting interest from buyers. Afterpay's credit-card-based platform gives it an advantage on smaller purchases around $100 because people want credit card rewards points and are fine with short payback terms. Because Afterpay is not a bank or true lender, it is getting more scrutiny from regulators and may have to change its approach. Klarna has a similar approach to Affirm's but operates under stricter rules and lower price caps because of its focus on Europe, giving Affirm an opening to compete there on expensive items.

BNPL's Value To Merchants

- "Affirm would need to adopt a different strategy, I think, for lower-ticket items. But they have a way stronger value prop for higher transactional items than anyone else in the market right now—for merchants and for consumers."
- "Debit-based transactions at higher values is always going to be an existing need. The question is, at what level does Affirm find its sweet spot? Is it $500 and up? Is it $1,000 and up? Or is it $2,500 and up? They're going to have to define that and then market that really well to stay strong in the industry."
- "Then it's going to be a matter of Affirm making it more accessible to consumers. They'll start to have a marketplace available on their app, so I can browse and buy stuff that might be a couple of thousand dollars."

Competitive Landscape

- "To understand the key nuances between the [BNPL competitors], you need to look at different geographic regions, industries, and price points. Most people understand that Afterpay dominates in Australia, Klarna in Europe, and Affirm is getting a strong foothold in the U.S. But it's the different underlying financial models of the three which really explain their differences."
- "Some of the brands I talk to [in Australia], especially in fast fashion—where their primary target is girls aged 16 to 25—60% of their sales are with Afterpay."
- "There's a lot of controversy around Afterpay's model. … Afterpay made a specific model where they took on all the risk, but it was fueled through credit cards. They basically just ping your credit card every week [or at the agreed intervals] over six weeks. Afterpay gives the retailer the full payment upfront and takes on all the credit risk of that customer defaulting on the credit card."
- "All the [BNPLs] are dealing with credit risk, but the key difference is that Afterpay is not a licensed bank. They're just a payment method, and they're running on credit card rails—Visa and Mastercard rails—which are also not banks but credit card networks. Afterpay is not a bank, nor is it a lender. It's a payments method. In a sense, it's adding a credit lender on top of a credit lender, and that's where the regulators are starting to poke holes in this business model and starting to say this should be regulated."

Afterpay is not a bank, nor is it a lender. It's a payments method. In a sense, it's adding a credit lender on top of a credit lender, and that's where the regulators are starting to poke holes in this business model and starting to say this should be regulated.

Matthew Steinbrecher, vice president of platforms and partnerships for Reach, a cross-border payments platform

- "[The effect is that] Afterpay doesn't want to take on credit risk of credit risk over a longer period of time because it opens their exposure to [customers'] credit cards hitting their limits. The acquisition [of Afterpay] by Square is probably going to change a lot of this soon, because if [Afterpay] gets too much heat [from regulators], they're going to have to figure out a [different model]."
- "By contrast, Affirm is a straight-up lender; they are pulling money from your bank account directly, so it's a debit-based transaction—vs. Afterpay, which is credit cards."
- "Affirm's model—for example, with Peloton--was interest-free installments over two years. That got customers to sign on with Affirm, and then purchases through Affirm after that are [most often] now going to come with interest."
- "The key difference with Affirm is that instead of running that credit on credit, they're actually a true lender. They're literally giving you microloans, and they're regulated as a lender. They have to go through all the 'know your customer' checks. They're going to check my credit score to make sure that I have a high probability of paying this back and that I'm not overleveraged and drowning in debt."
- "Because Affirm is a true microloan, their real value proposition is going to be at price points around $750 and up, whereas for $200, you're probably more likely to use Afterpay if you had both options because it's interest-free."
- "The higher the average order value, the more likely the shopper is to use Affirm, which can lend over a longer period of time and break up those larger amounts into payments that are manageable—vs. Afterpay, which has a lot of caps; they usually won't go over a certain [price] threshold for some merchants. If I'm a luxury fashion merchant, [Affirm] is going to be a much better fit than Afterpay. It comes down again to that nuance of a proper lender vs. authorizing credit on top of credit card payment rails."
- "European-based Klarna is a regulated Swedish—and some other markets—bank, and all the banking regulations are generally stricter than [the U.S.]. They are the market leader in legislation and business practices [in BNPL] to protect consumers, which is clearly displayed in their FAQ terms for shoppers on merchant sites."
- "Klarna also has one-time debit-based transactions. Merchants like it because it's cheaper than processing credit cards."
- "If I'm selling product for around $200, all three of those are pretty similar to the end-consumer. But they are all strong in different regions. Affirm would not be powerful for a $100 transaction because [consumers] don't want interest payments on that."
- "With Klarna and Afterpay, they charge significantly more to the merchant, so the merchant ends up paying the cost of interest that typically the consumer would have to pay."
- "Affirm for a merchant is closer to 4%, whereas Afterpay is normally 5% to 6%. They're a little cheaper in Australia, because the credit card rails are cheaper in Australia than the U.S."
- "Klarna's value proposition is very similar to Affirm's, but Klarna caps their loans; they don't do large transactions in most markets without additional regulatory requirements. I think in a lot of markets, Klarna will only go to $2,500, whereas Affirm can take on a $25,000 transaction if they want to, because it's truly a microloan. That's where I think that their focus should be in disrupting the industry—not massive loans, like buying a car; but not $100, either. Affirm can possibly challenge Klarna even in Europe."
- "I don't know how much adoption [the BNPL offerings of credit card companies] will have, because [the BNPL demographic] just doesn't trust banks. People don't trust the banks to be as transparent in their shopper-facing voice. That's why branding is everything. People trust the BNPL brands more right now than banks. I think that if banks had adopted [BNPL] quickly, it would have been a different story."
- "If [banks] offer a lot of interest-free options or some other drastically sexy offering, then maybe they can [get some market share]. There'll be some adoption, but I don't think it will be to the degree that we've seen with these three leading players."
- "We're a payments company that specializes in cross-border. Our main value prop would be overseas shoppers buying a U.S. brand, for example. You want to purchase in Australian dollars and pay with Afterpay, and pay with a familiar price and currency set that you know as a consumer. Likewise for a U.S. consumer paying for a brand in another country. It's really just offering the ideal shopper experience, based on wherever in the world the customer is, regardless of where the brand is based. Pretty much all of our business is e-commerce."

Affirm's Opportunities and Challenges

- "Affirm's biggest opportunity is to focus on higher-ticket items, to partner with the likes of Casper and Purple and all the mattress companies, for example, because it's high-price-point stuff, with younger consumer bases who want to pay over time. They want the convenience of installments and are happy to pay the markup."
- "[Affirm's] deal with Amazon is interesting. Even though they sell plenty of high-ticket items, Amazon's average order value is probably low—under $100, I would guess. You're going to get a lot of Affirm adoption through that. It's super-

strategic and important, but I still think overall, Affirm's value proposition is the higher-ticket purchases. That's where their sweet spot's going to be."

- "For lower-ticket items, people also want lower-ticket stuff to be on credit cards because we want all the [rewards] points."
- "Affirm lives in an interesting space right now. There's definitely a lot of competition, depending on the market region. But there is definitely delineation between the three and where they sit in the segment. Klarna is big in Europe, Affirm is getting bigger in the U.S. for high-ticket value, and then they're all fighting at the lower level of the $100-to-$500 range."
- "It's a pretty even battle at those [lower] price points. But because Americans love credit cards, they'd prefer to pay with Afterpay on their card. That's where Afterpay is probably going to keep seeing adoption. With Square [owning Afterpay] now, that's also huge additional penetration to the U.S. market in particular."

2) Founder of a Buy Now Pay Later startup

The major BNPL vendors, including Affirm, do not have much differentiating one from the other. Affirm does have a leg up in that it offers longer-term credit than competitors. Despite what vendors say, BNPL does not work well as a customer acquisition tool, especially for small merchants. It does not make much sense for merchants to offer multiple BNPL options to customers, as people do not seem to attach much brand loyalty to specific BNPL vendors. Credit card networks offering BNPL are not a critical threat to Affirm and others, mainly because their plans do not drive traffic or sales for merchants. The credit risk on BNPL is lower than on credit cards because of shorter assessment cycles.

BNPL's Value To Merchants

- "When Uber came out and all of a sudden you could do Uber for food and all different verticals, that's what you're seeing happen in BNPL. There's BNPL for airline tickets, for cars, and all that sort of verticalization of it. That's the expectation of where the market's going to go. I do think there will be more verticalization."
- "Merchants get a payments report or transaction report every day and every month that [breaks down] Visa, Mastercard, and BNPL. They're doubling their daily reconciliation process because they're getting two settlements, two statements, two transaction reports. If you add more [BNPL options], you just exacerbate the problem."
- "Depending on the shopping cart the merchant uses, they can have multiple payment methods. That's all [BNPL] is, just adding another payment method. What you're seeing is some less savvy merchants offer Visa; Mastercard; and then a slew of logos of Affirm, Afterpay, Klarna, Sezzle."
- "I think the more savvy merchants will limit [the options to a single BNPL vendor] because the increased back-end processes and management just aren't worth it. Cardholders have shown they have no loyalty to any one BNPL brand, so why carry more?"
- "Part of the value prop [of BNPL] to the merchant is, 'We can bring you more business,' so to treat [BNPL] as a customer acquisition tool. But I disagree with that in the long term. As the adoption curve peaks, you can't lead with the referral message because you're not bringing new customers."
- "If you launch the Klarna app, for example, they're wanting to become this shopping mega-app, but it's pay-to-play in the sense that it's no different to who can afford to put an ad on the front page of the paper."
- "When a consumer makes a purchase—say I bought a pair of running shoes—within 24 hours, I'm getting ads from the BNPL provider, [which is] totally separate and unbeknownst to the original [shoe] merchant that worked hard for my business. So the merchant's lost that customer. I'm no longer the merchant's customer but Afterpay's or Klarna's customer."
- "That's really bad for your mom-and-pop shops because they've worked damn hard to win my business. But now I'm getting ads for big-box stores because they can afford to run ads through Afterpay. And I was getting ads for women's clothing, not men's shoes. So there's also an algorithm issue there."

> **Part of the value prop [of BNPL] to the merchant is, 'We can bring you more business.' ... But I disagree with that in the long term.**
>
> *Founder of a Buy Now Pay Later startup*

Competitive Landscape

- "I don't think Affirm stands out in any way [from competitors]. I think they've done a really great job at managing their way through an IPO, stumping up their revenue with one marquee customer—Peloton—and responding to the [Wall]

Street feedback. They bought PayBright here in Canada. When that deal closed 14 months ago, [Affirm] only had 7,000 merchants, and that more than doubled Affirm's merchant count."

- "I don't see a lot of differentiation [between BNPL options]."
- "All the BNPLs are starting at the top [with the largest merchants] and working down. I know of one large retail merchant where one of the BNPLs paid them several hundred thousand dollars to put BNPL on their site. That's not sustainable."
- "I don't think you'll hear much of Afterpay for a little while. The economics of that [acquisition by Block is such that] Afterpay has to get embedded into Block or into the Cash App, and the Cash App has to get embedded into the Afterpay user base."
- "Sezzle feels more of a debt collection piece [in that] they're slightly more overbearing in their customer experience."
- "I don't think [credit card issuers offering installment plans] is having a detrimental effect on the current BNPL players. You have to break up the purchase journey between pre-purchase and post-purchase. All of the BNPLs are on the pre-purchase side—i.e., 'I know that I can spend more because I know that I can pay it off.' The banks and card schemes are coming out with their post-purchase activity, which doesn't change consumer behavior."
- "Card schemes are throwing tons of money at the [merchant] acquirers to integrate Visa and Mastercard [installment plans]. That's exactly how the card schemes get acquirers to do stuff: 'Here's $500,000. Can you do the integration?' "
- "[However], I think the products that the major cards are coming out with don't compete with BNPL because they don't offer sales growth to merchants. Visa Installments and Mastercard Installments are really great for issuers, but there's nothing in it for the merchant and nothing in it for the acquirer."
- "It would not be a shock if you saw Capital One come out with a BNPL."
- "Here in Canada, you're seeing Global Payments [Inc./GPN do a recent deal] with Visa and Desjardins to roll out Visa Installments. Again, great product for the issuer, integrated by the acquirer so that it's on the [point of sale] terminal, but it doesn't change consumer behavior to [benefit] the merchant [because] it's post-pay. I'm not going to get to the terminal, tap my card, see installments as an offer, and go back and grab another shirt."
- "The installment payments [offered by credit card networks] are processed in the same way that you pay off your credit card today. It's just an ACH (automated clearing house) transaction in the background. It creates more transactions for the card issuer. All the card issuer has to do is change the credit terms on that particular purchase and make it 0% on that purchase for 60 days, and then they've done Buy Now Pay Later."
- "In BNPL, you're seeing the current players move into becoming card issuers, because they are consumer brands."

> **The products that the major cards are coming out with don't compete with BNPL because they don't offer sales growth to merchants.**
>
> *Founder of a Buy Now Pay Later startup*

Affirm's Opportunities and Challenges

- "[The biggest headwind for Affirm] is relevance in the cardholder's mind and in the merchant's mind. A merchant's going to pay, depending on the region and the country, anywhere between 5% and 8% to offer BNPL. They have to get something for it—more basket size, for example."
- "Affirm needs to come out with something pretty interesting [to differentiate itself]. Probably a brand refresh wouldn't hurt."
- "I'm interested to know what's next for competing BNPLs. Is there a drive more into a consumer brand? As they're driving more into cardholders, what are they going to do next? In my mind, they have to go into longer-term credit, and Affirm already has that. They have to move closer toward [being] a full-scale lender because what else do you offer? Savings accounts?"
- "I think you'll see a shift into [offering BNPL for] services. BNPL for services is tricky because I'm on the hook if you don't pay your bill. But where's the liability shift if you pay your yoga teacher using Pay in 4, and the yoga teacher doesn't deliver? There's a liability shift that's got to happen. There's creative ways to do it, though. It's totally possible."
- "The Amazon partnership is a volume play [for Affirm]."
- "The valuation metric that we've seen used most often is price per merchant, enterprise value per merchant. When you run that metric across everybody, it's a bell curve, but Affirm is off the charts in terms of enterprise value per merchant. This is because they have a few number of merchants—Amazon, Peloton, Expedia. They've started at the top end of town."
- "There will be consolidation. Zip [Co. Ltd./ZIZTF] has been most hungry on the acquisition trail."

- "The credit risk on BNPL is lower than on a credit card. This is because credit card limits are assessed in very long intervals and are easily increased by the issuer. A lot can happen in a cardholder's life between getting a card and getting assessed again that could cause them to be unable to repay."
- "BNPL credit is a much, much smaller amount and assessed in six-week blocks. The exposure is lower and the risk assessment is tighter because of those rapid intervals."
- "The consumer's behavior during that six weeks dictates an increase or decrease in limits. The shorter assessment cycles reduce risk for the BNPL and for the cardholder."

> **The credit risk on BNPL is lower than on a credit card. This is because credit card limits are assessed in very long intervals. ... A lot can happen in a cardholder's life between getting a card and getting assessed again.**
>
> *Founder of a Buy Now Pay Later startup*

3) Alex Preece, co-founder and CEO of Tillo, a gift card management platform

Merchants are still sorting out how to use BNPL, with some willing to offer multiple installment plans at checkout and others choosing a single partner. Affirm does not have nearly the name recognition of Klarna in Europe. Loyalty programs are one way that BNPL brands are differentiating themselves. Klarna, for example, has an offering that gives users rewards they can turn into gift cards and is one reason the brand has become a leader.

BNPL's Value To Merchants

- "It's interesting to see the different approach by merchants to the BNPL offerings. Premium brands, like [luxury fashion retailer] Mr Porter here in the UK, have an affiliation with Klarna only. You can see they don't want their checkout clogged with loads of [payment options]. But you go to JD Sports, a huge trainer business in the UK, and they've got loads of options."
- "It's not unlike the mobile-payments wave, when everyone thought there'd be lots of mobile-payments acceptance at the merchant till. Now it's Apple or Samsung, and that's where it's ended, because that real estate at the checkout is vital not to distract from the consumer."
- "Merchants have told me that Buy Now Pay Later definitely drives higher spend."
- "BNPL and cash back and reward is a really interesting space for us. Tillo was born by helping enterprise businesses build loyalty programs and acquire new customers using gift cards. We help businesses power their underlying loyalty program—Klarna being one of them. We help those businesses acquire new customers by giving an incentive or reward for signing up or doing something."
- "An example might be, 'Sign up and get a $50 Amazon card,' or go shopping and collect rewards that can be exchanged for a Nike gift card. We make it really easy on our two-sided marketplace. We've got enterprise clients on one side and then brands on the other side, and we help them connect."
- "We sit in nearly 30 countries and process nearly a billion dollars worth of gift card volume. Our pitch to brands is we're going to help you take your typical B2C offering, where you offer gift cards, and we're going to drive substantial sales within the B2B space, within the reward and loyalty space."

Competitive Landscape

- "We in the UK don't really hear about Affirm because they're not really here. We don't work with Affirm yet because our business at the moment is mainly UK. About 35% of sales do come from the U.S., and we'll be [moving into North America in a bigger way this year]."
- "I think branding is important, and [outside the U.S.], Affirm's competitors have an edge on brand recognition. Klarna seems to have cleaned up in [Europe]."
- "I think the credit card companies have been too slow [to move into BNPL]. I think we're going to see the evolution of the BNPLs going to bankinglike products in their offerings."
- "We've started to work with BNPL companies primarily to help them with their loyalty [programs] and additional add-ons to their services. So we're helping them with creating a loyalty program that makes them different to anyone else."
- "Klarna is a great use case with their Vibe loyalty program. You go shopping with Klarna, you get Vibes, and you can only move those Vibes onto gift cards. It's like a cash-back program. [Klarna] is also using it as a 'sign up today' bonus and get a gift card."
- "The nice thing is that with a gift card, it can be spent anywhere. It's as good as cash in some respects."

- “The way Klarna’s loyalty program works is that a consumer knows when they sign up with Klarna, whenever they use [the payment system], they are rewarded for doing so. Once that transaction has gone through, that reward is given to you in an e-wallet, your Klarna account, and you can move that reward onto another reward.”
- “Klarna is putting a set number of brands [into the rewards program] that they know their consumers love, and they’re not fussed about whether those brands are Klarna-accepted merchants or not. They’re just offering them because they know that their customers love shopping there. That’s the simplicity of it. I think it’s why it has stood out and has done so well. It’s like the ultimate cash-back program. It’s in contrast to [credit card] cash-back programs, which are essentially funded by the consumer. With Klarna, the program is funded by the merchant.”
- “We’re working with many different [payments] providers, to both help them do a better job and differentiate themselves from one another. We’re working not just with the BNPLs but in the wider fintech arena and the open banking arena. It’s the credit card arena and crypto as well.”
- “Brand loyalty programs are one important way these [BNPL brands] can differentiate themselves. What is the incentive to the customer [to use the BNPL vendor]? And what is the incentive to the merchant?”
- “As a customer, what am I getting for using [a BNPL] in addition to [payment] flexibility? It has to be something better than what my credit card is offering. I think the one that has the most powerful loyalty program built within the offering is going to win. And I think at the moment, the clear winners are the Klarnas of the world, because they’ve thought about how their brand position appeals to customers and how they’re looking after them.”

As a customer, what am I getting for using [a BNPL] in addition to [payment] flexibility? It has to be something better than what my credit card is offering. I think the one that has the most powerful loyalty program built within the offering is going to win.

Alex Preece, co-founder and CEO of Tillo, a gift card management platform

Affirm’s Opportunities and Challenges

- “I think Affirm’s deal with Amazon is incredible—for it to be embedded within that ecosystem that is so tightly controlled by Amazon.”
- “The others, including Afterpay, have cash-back programs that I think are really interesting ways of creating their own brand loyalty programs.”

Secondary Sources

These two secondary sources focused on the opportunity for traditional financial institutions to get into Buy Now Pay Later and consumer confusion about BNPL purchases.

January PYMNTS.com report

A consumer survey, which showed Affirm as the fourth-most popular BNPL option, suggests that banks have an opening to become significant players in installment plans.

- “Our research shows that most consumers want access to BNPL plans offered by banks—financial institutions (FIs) they have long known and trusted. They also want access to products that offer flexible payment schedules and the ability to switch among various payment methods, regardless of whether they are checking out online or in a physical store.”
- “Offering BNPL plans could help banks win over not only consumers who are interested in using flexible payments but also those who already use BNPL plans. Of current BNPL users, 70% say they would be interested in using BNPL products from their banks if such offerings were available. This interest is considerable among all age groups, income levels and financial lifestyles PYMNTS tracked.”
- “PYMNTS found that Afterpay is the most frequently used BNPL plan, used by 44% of consumers shopping online and 47% of those shopping in-store. PayPal’s Pay in 4 came in a close second (44% of online shoppers and 43% of in-store shoppers), followed by Klarna (38% online, 41% in-store) and Affirm (34% online, 30% in-store).”

Feb. 9 Newsweek article

The appeal of putting off payments is understandable, but many consumers do not realize what they are getting into with BNPL. Risks include late fees, damage to credit scores, and being tempted to spend too much.

- "It sounds like one of those too-good-to-be true propositions: Buy an item online, shell out just a fraction of the price at checkout and pay the remainder in installments over time, typically at no extra cost. As online shopping has soared during the pandemic, the popularity of these new payment programs, known as buy now, pay later (BNPL) plans, has skyrocketed as well. Last year alone, Americans spent $20.8 billion through these services, with purchases overall up 230 percent since the start of 2020, according to a study by Accenture commissioned by Afterpay, one of the leading players in the field."
- "Traditionally offered just for online spending by financial tech companies like Affirm, Klarna and PayPay Credit in addition to Afterpay, the types of BNPL plans available and the companies that provide them has grown sharply. Now the plans have been extended to include some in-store purchases too, and credit-card issuers are getting into the act as well, offering their own versions of installment payment plans. In other words, they're everywhere these days. While estimates of use range widely, the consensus suggests that between at least one-third to one-half of Americans have used an extended payment plan at least once and that roughly three-quarters of them are repeat customers."
- "The appeal is understandable: In addition to the typically free financing, the application process is easy, with barely any credit check involved, and approval is nearly instantaneous. But there are risks too, and they're often not understood by consumers. They include late fees that can pile up, possible damage to credit scores, a lack of the traditional oversight that governs other types of loans, and some shoppers being lured into spending more than they can afford. Those risks were considered serious enough by the Consumer Financial Protection Bureau that the watchdog agency recently launched an inquiry into the business practices of the five leading BNPL providers. The three major credit bureaus also announced changes at the end of last year to better track usage of these programs."

Additional research by Emily Carr and Dan Weil.