Charge After

The High Cost of **Low Financing Approval Rates**

2023 Guide for Retailers

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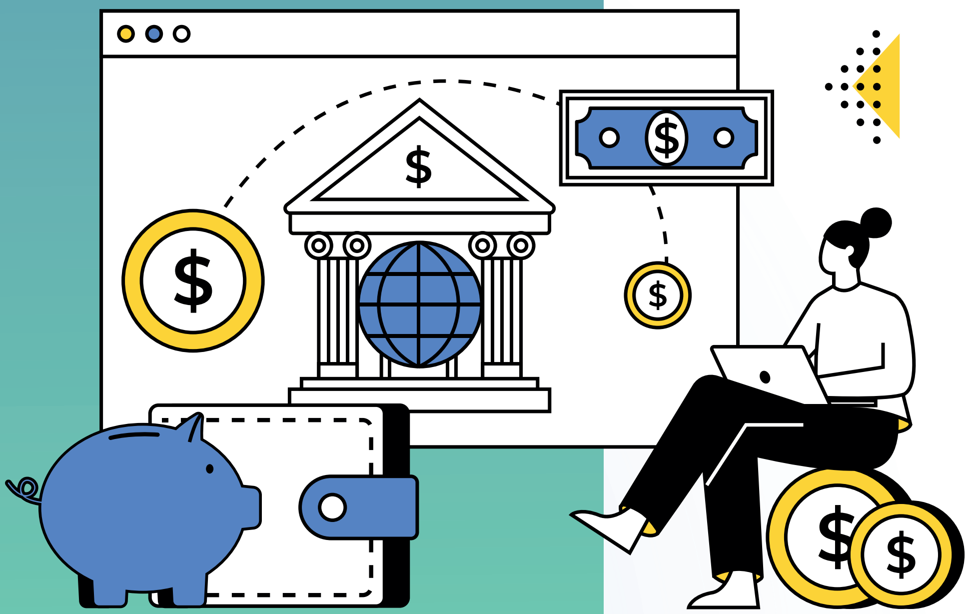


Introduction

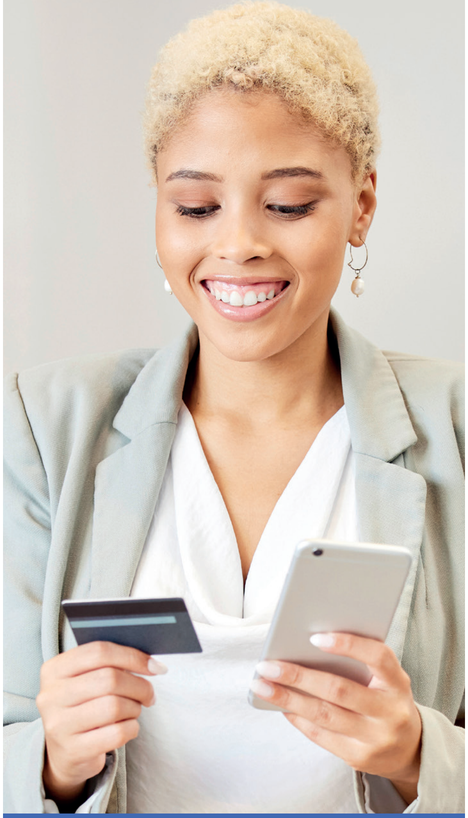
For retailers, customer satisfaction is essential to stay ahead of the competition.

However, maintaining satisfied and loyal customers is challenging, especially during this period of high inflation. As a result, to capture demand and grow market share, retailers continuously seek the best ways to meet changing customer needs and create an exceptional customer journey.

Consumer financing is becoming an integral part of the customer journey. It relates to customer experience, revenues, and business growth. By providing consumers with a superior financing experience, retailers build trust and improve loyalty, leading to improved sales and AOV.

Yet, meeting this demand for consumer financing is challenging. Managing multiple lenders and financing options at the point of sale - online and in-store - is complex. That is where this ebook comes in.

This ebook will tell you all you need to know about how consumer financing impacts the customer journey. After reading the ebook, you will have a clear path to how you can leverage consumer financing to expand your customer base and increase revenue.



As a special bonus, this ebook includes the main findings of ChargeAfter's retailers' survey, which provides exclusive information about how retailers apply consumer financing.

Section 1:

Consumer Demand Outlook in 2023-4

Financing in a Period of High Inflation

The past few years have been unstable. Covid-19 turned our lives upside down, changing consumer preferences and requirements and dramatically altering purchasing patterns. Just as things started returning to "normal", post-pandemic global supply chain shortages and the war in Ukraine led to the threat of an economic recession.

The upcoming years will be impacted by this turmoil. Post-Covid buying patterns are still being deciphered by businesses in an attempt to understand consumers' needs in a world that quickly became digitized. Meanwhile, economic uncertainty continues to change how people purchase and pay for goods and services.

According to Forrester, consumers are worried about the possibility of a recession. While they are expected to continue spending, they will be more cautious. Consumers will be selective about the brands they choose and prioritize those that offer value and a great experience.

Financing can support and facilitate new ways of spending.

Yet, it needs to be a seamless experience that is fast, personalized, and offers choices that meet diverse needs and demands including a blend of physical and digital experiences.

In 2023, point-of-sale financing is 70% higher than it was in 2020.

- McKinsey

Point-of-sale financing is growing faster than any other unsecured lending with a compound annual growth rate (CAGR) of 20%.

- McKinsey

Retailers who can implement the right consumer financing offer for their shoppers are likely to better succeed when navigating the unknown, and possibly choppy, months ahead.

Section 2:
Opportunities to Gain Through Consumer Financing in 2023

The Evolution of Point-of-Sale Consumer Financing

Consumer credit has evolved significantly in recent years, offering consumers more options for paying for purchases over time.
We take a quick look at the recent developments.

Credit Cards

According to McKinsey, credit cards are still a primary method of unsecured borrowing for US consumers, accounting for 78% of balances, and transaction volumes have grown by 10% per year in the past few years, reaching $49 trillion in 2021.

Credit Card Use in the US

78%
OF BALANCES

10%
GROWTH OF TRANSACTION VOLUMES Y/Y

$49
TRILLION IN TRANSACTIONS IN 2021

SOURCE: MCKINSEY

Buy-Now-Pay-Later

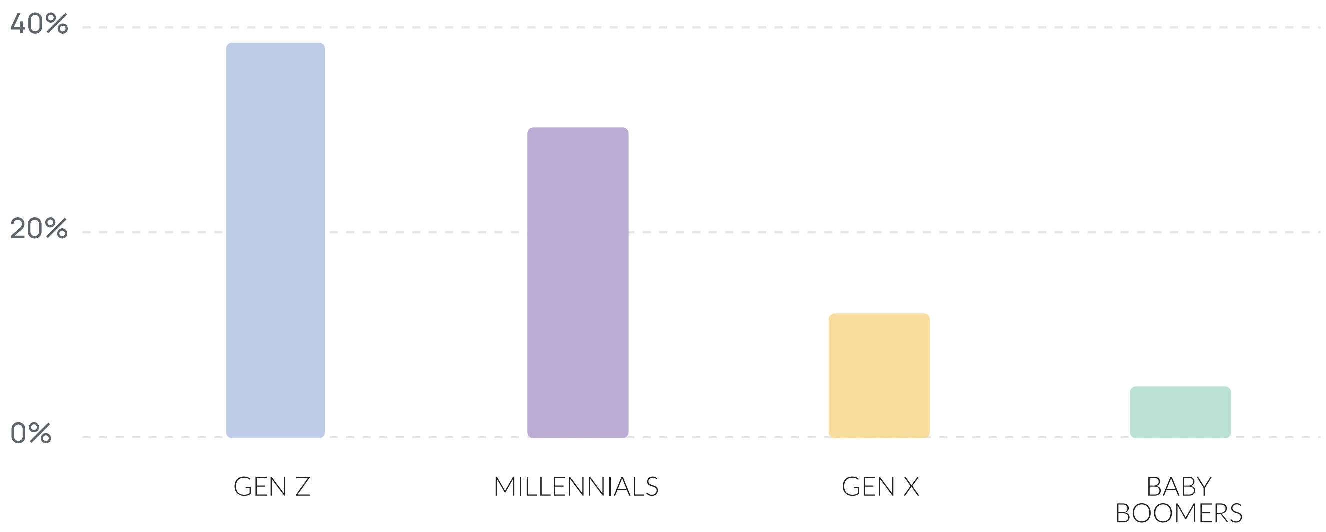
Yet, the market position of credit cards is slowly but surely being undermined. Research by GlobalData in 2022 indicates that credit card ownership among those under 35 has decreased significantly, with 47% not possessing one, in contrast to the 39% reported in 2016.

This decline has been partly attributed to the rise of Buy Now Pay Later (BNPL) services. BNPL is attractive to consumers since it provides lower APR (sometimes 0%), predictable repayment terms, and is convenient to use.

According to McKinsey, US issuers could lose up to 15% of incremental profits to more innovative forms of borrowing, like 'buy now, pay later' (BNPL), by 2025.

It's no wonder that BNPL adoption surged during the pandemic. This payment method was led by fintech organizations rather than traditional financial institutions and banks, as an innovative approach was needed to solve a legacy problem.

WHICH GENERATIONS ARE ADOPTING BNPL?



37% - GEN Z

17% - GEN X

30% - MILLENNIALS

6% - BABY BOOMERS

SOURCE: MCKINSEY

BNPL is one of many point-of-sale financing options that can be embedded into the customer journey.

However, BNPL is only one of many point-of-sale financing options available. We review different types of financing programs below. Yet, none of them answer all modern consumer requirements. Each has a limited financial product offering and is subject to rising interest rates during inflation periods. Additionally, new regulations create new limitations, as do unexpected events. During the Covid pandemic, some lenders cut their approval rates by 50%. This was a disaster for retailers that only offered a single lender – and for their shoppers.

Retailers are increasingly aware of these limitations and seek to offer additional lenders with a more robust financial product, however, this too has limitations. Lenders typically specialize in a specific type of product and customer e.g. prime, near-prime, or subprime, as well as geographical location.

To meet the needs of all of their customers and provide them with the best offer/s, retailers must provide a choice of financing options from different lenders at the point of sale. The increased competition between lenders has even led to better terms and lower interest rates. This is the latest advancement in point-of-sale financing: multiple financing options.

Types of Point-of-Sale Financing

As the technology to underwrite at the point of sale has developed, multiple financing products have become available. They include:

BNPL (Short-term Installments)

Consumers pay back in fixed installments over a short period of time.

» No or low interest and fees

» Fast approvals

» Ease of use

Most BNPL loans range from **$50 - $1,000**

» Source: Consumer Financial Protection Bureau

0% APR

0% interest for an initial promotional period. Once the period ends, the remaining balance carries a predetermined interest rate.

» No initial interest rates

B2B Financing

Specialized financing for the retailers' business customers.

» Provides a solution for business customers
» Similar experience as B2C
» Supports SME customers as well as enterprises

Lease-to-Own

Consumers can lease a product and purchase it at the end of the lease term.

» Repaying is spread over time
» Flexibility to decide whether to purchase the item in the end

Long-term Installment Loans

Consumers pay back in fixed installments over a long period of time.

» Predictable payments
» Lower interest rates
» Reduced pressure to repay loans

Revolving Line of Credit

A set amount of funds that can be borrowed, repaid, and borrowed again over time. Interest is paid on the amount borrowed.

» Provides flexibility
» Enables long-term planning
» Less overhead

B2B Financing

Lease-to-Own

Embedded Multi-Lender Platform

Consumers enjoy quick and easy access to the most suitable financing options for their needs at the point of sale. A platform removes the complexity of managing multi lenders and enables retailers to provide an exceptional customer experience.

Revolving Line of Credit

Long-term Installment Loans

BNPL (Short-term Installments)

0% APR

Benefits of Embedding Consumer Lending at the Point of Sale

Point-of-sale (POS) financing is fast becoming a cornerstone of businesses since it answers customers' needs exactly when they need it. From increasing sales to making the business's brand outdo its competitors, consumer financing can help your business grow in any economic climate. The main benefits include:

- Increased Sales
- Higher AOV
- A Competitive Advantage
- Improved Customer Loyalty
- Bringing in New Business
- Improve Brand Recognition

1. Increased Sales

The main benefit of point-of-sale consumer financing is that it increases sales and revenue for retailers. Consumer financing makes products and services more accessible and affordable by enabling customers to pay at their convenience and spread the cost over time. As a result, financing removes purchasing blockers, such as limited cash availability and boosts consumers' purchasing power. This encourages more sales, both in terms of the number of deals and the size of each deal.

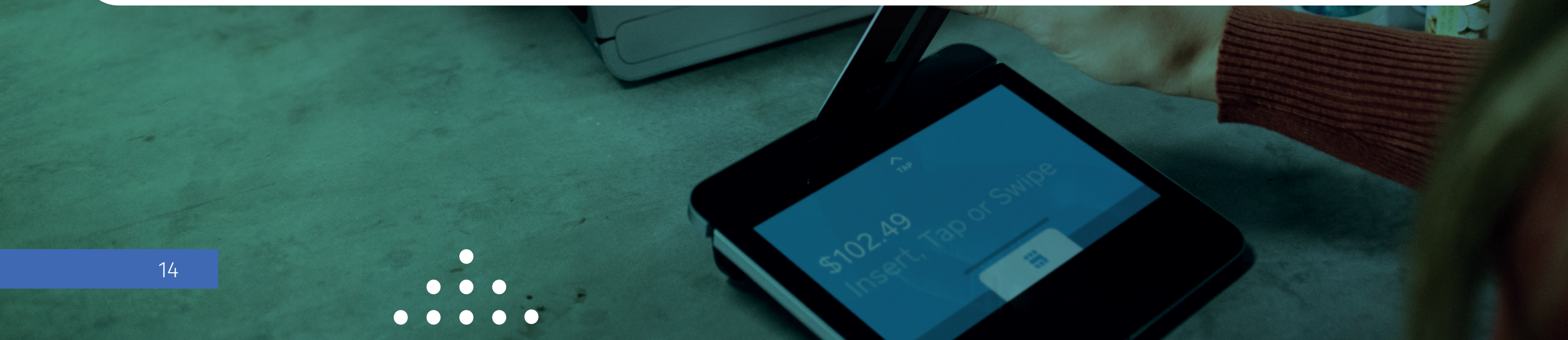
Consumer financing also encourages brand loyalty (see below). In addition, retailers can widen their consumer base since financing helps bring in new consumers who might not be able to afford the products otherwise. Returning consumers, consumer recommendations, and new customers contribute to higher revenue.

Jerome's Furniture achieved a 67% increase in consumer financing applications with a steady approval rate after implementing ChargeAfter's platform.

Source: ChargeAfter

2. Improved Customer Loyalty

Offering financing options to customers can enhance their overall experience. Customers appreciate the flexibility and convenience of being able to purchase on credit. The feeling that a business has gone out of its way to accommodate its customers' needs increases satisfaction and builds trust, meaning that consumers are more likely to return.
In addition, consumer financing may be viewed as a benefit or perk of doing business with the company, which can also help create a loyal customer base that will continue to support the business over time.



3. Higher AOV

Access to consumer financing encourages upselling since it makes higher-priced products affordable and reduces price sensitivity for consumers. Customers who can spread cost over time are instantly granted increased purchasing power, which removes purchasing barriers and encourages them to buy more costly items. In addition, consumer financing can be linked to the bundling of multiple products and services, which can also contribute to higher AOV.

4. Bringing in New Business

Financing options help businesses attract new consumers who may not otherwise have been able to afford their products or services. When retailers make their products more accessible and affordable, they expand their market reach to a new customer base.
In addition, financing can be used creatively for marketing activities and building brand awareness. Word-of-mouth and dedicated campaigns promoting financing options are two marketing channels that can benefit from financing.

5. A Competitive Advantage

Access to multiple lenders at the point of sale creates a competitive advantage for retailers who implement it. Consumer financing options are a benefit that can help customers purchase products or services. Consumers who need or want financing will choose retailers that offer financing services over those who don't. In addition, more sales, AOV boost, and increased customer loyalty help organizations build and maintain their competitive advantage. Finally, consumer financing can be a significant business differentiator, making a retailer memorable and more accessible when compared to the competition.

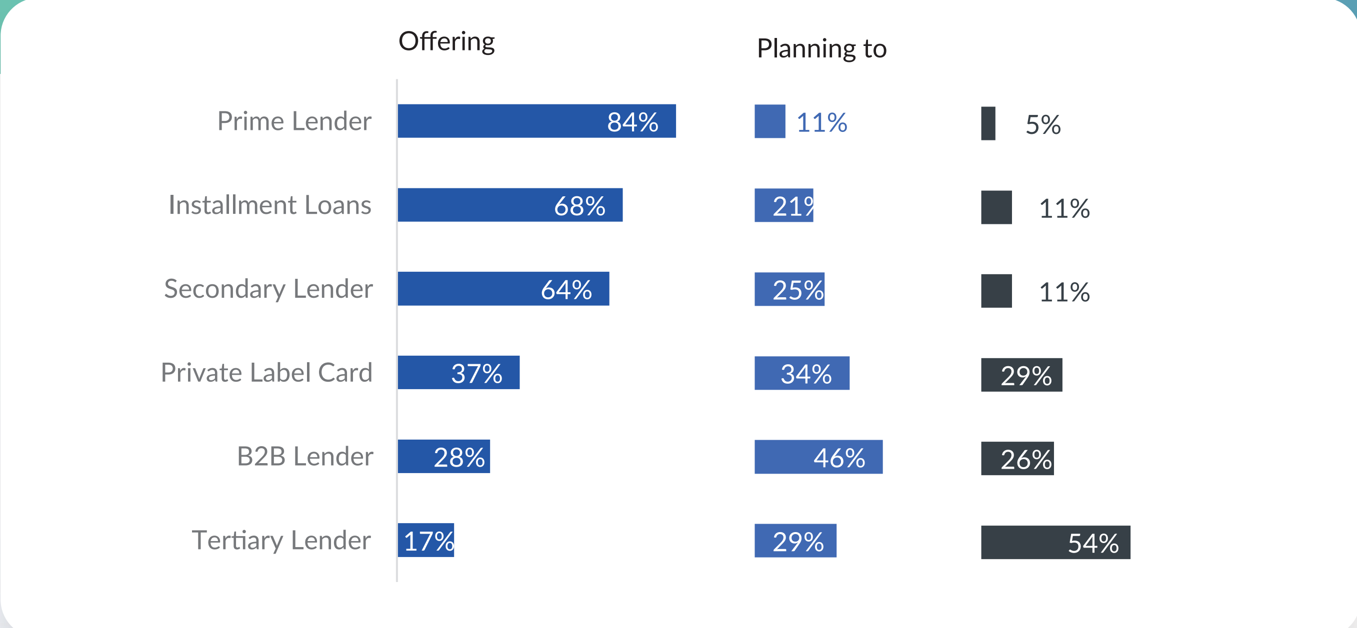
6. Improved Brand Recognition

Retailers who provide embedded lending will benefit from enhanced brand recognition among their target audience. The positive customer experience financing provides, increases customer satisfaction and brand loyalty. This trust encourages repeat business and word-of-mouth recommendations, which all help build a positive brand perception. In addition, financing can increase visibility and exposure when leveraged through marketing campaigns like advertising or on social media.

Section 3
How Retailers Apply Consumer Financing

How do most retailers apply consumer financing? A survey by ChargeAfter found that most (84%) of retailers offer their customers a prime lender at the point of sale, 68% provide installment loans, 64% offer a secondary lender, 37% offer a private label card, 28% offer B2B lending and only 17% offer a tertiary lending option.

In addition, 31% offer two financing options at the point of sale, 29% offer three, 22% offer four, 11% offer five, and 6% offer one.



This means that there is ample room for consumer financing expansion: by offering more financing options and more diverse types. As we recall from earlier in this ebook, this will be key to gaining a competitive advantage in a world of economic instability.

Indeed, to serve customers across the credit spectrum, retailers are seeking to expand their portfolio of lenders in 2023. To achieve this, ChargeAfter found that retailers are exploring different financing solutions, like implementing new BNPL solutions (73%), implementing a platform (66%), expanding point-of-sale financing to in-store (61%), and increasing the portfolio of lenders (55%).

Yet, manually integrating these financing solutions generates lots of overhead. Integrating lenders requires time and resources. Then comes the need to handle post-sales management such as reconciliations and disputes. The retailer also needs to ensure that all platforms operate smoothly and securely.

Finally, the customer experience offered is mediocre, at best, since, despite multiple options, consumers are forced to apply to each one individually and find the best one for their needs. This creates more confusion and tension than a single, clear option and results in customers abandoning their cart at the exact moment they wish to make a purchase.

The Platform-First
Approach

The easiest and most efficient way to offer multiple lending options to consumers is through a single platform. A platform makes it quick and easy for both the retailer and the customer to manage the point-of-sale financing process.

With a platform approach, retailers are able to easily offer and manage multiple financing options while offering a quick, smooth, and easy experience for their customers, at all points of sale. For example, a customer can apply for pre-financing approval at home, then head to the store to make the purchase. The customer only needs to apply once to be connected to the most suitable loan or loans for their needs, in a matter of seconds.

A platform provides:

» An easy plugin to multiple lender offerings of products and credit spectrum, which eliminates the headache of integrating separate lenders, their systems, and requirements.

» Integrations to any in-store, e-commerce, and call center point-of-sale systems, to provide a great customer experience in one, state-of-the-art app that applies to multiple lenders.

» A live instant process – from application to approval within seconds.

» A back-office module to manage disputes, chargebacks, refunds, advanced reports, and analytics that optimize financial programs.

66% **OF RETAILERS PRIORITIZE IMPLEMENTING A CONSUMER FINANCING PLATFORM IN 2023**

Given the importance of consumer financing for business success in 2023, it is recommended that retailers research which financing options they can provide and implement a platform that will help them execute their financing strategy. These simple steps can make the difference between a happy and loyal consumer and one that looks elsewhere to spend during an economic recession.

ONE PLATFORM. MULTIPLE LENDERS.
SO MANY WAYS TO SAY YES.

About ChargeAfter

ChargeAfter is leading the point-of-sale financing revolution.

It empowers retailers to meet the financing needs of their customers, in-store, online, and in call centers. ChargeAfter's network of lenders offers consumers quick, convenient, and personalized financing options from over 30 different lenders. In a single application, customers connect to a wide choice of financial products and lenders, resulting in an 80% approval rate.

As well as providing a seamless solution for consumers, ChargeAfter simplifies the financing cycle for retailers. The platform enables retailers to manage all aspects of the cycle, including reconciliations, refunds, and relationships with vendors. Retailers improve their sales and provide an exceptional customer experience without the headache of managing ever-complex financing requirements.

ChargeAfter can be quickly integrated and is compatible with all e-commerce platforms and points of sale.

To request a demo, email us at sales@chargeafter.com or visit www.chargeafter.com/demo