

The Impact of Buy Now, Pay Later in the US

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The rise in prices of goods and services, higher borrowing costs, and the resumption of student loan payments are just some of the reasons why Americans household budgets are stressed.

As consumers continue to look into budgeting tools and ways to avoid revolving debt, the use of Buy Now, Pay Later (BNPL) services has grown as shoppers find it to be an easy to use, convenient, and a low-cost way to make purchases and spread expenses over a longer period of time without incurring financial strain.

In fact, the BNPL industry is poised for significant growth in the coming years. The value of BNPL transactions constituted an estimated \$50 billion² in 2022 of total US e-commerce spending.³ By 2027, BNPL payment value in the US is forecast to reach almost \$125 billion;⁴ a projected annual growth rate of close to 18% between 2022 and 2027.

Oxford Economics was commissioned by Afterpay to examine BNPL's impact on U.S. consumers, merchants and the overall U.S. economy. Information in this report was gathered through surveys from BNPL customers and merchants, who use Afterpay—supplemented by data provided by Afterpay and evidence from other third-party sources. This executive summary provides highlights from the report, and how Afterpay and the BNPL industry are providing consumers with more choice at checkout.

Note: For the purpose of this report, we define BNPL as a service that allows for people to pay for their installments over time, instead of paying the full amount upfront.¹



BNPL helps consumers manage their spending

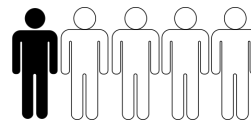
US inflation peaked at more than 9% in June 2022, a 40-year high. In response, the US Federal Reserve raised interest rates from near zero to their highest level in more than 20 years in an attempt to cool the economy and tame inflation.

Higher borrowing costs have further weighed on US households' finances, particularly those with higher levels of debt. In response to rising prices, Americans have collectively drawn down on their savings and taken on more debt, including via credit cards.^{5,6}

Overall the costs of buying and borrowing are high for Americans, and as a result, consumers are looking for alternative ways to manage their household budgets.

BNPL has provided them with a low-cost option to spread payments, enabling them to manage their budgets better and helping avoid financial stress.

We found that **nearly 2 in 5 US consumers use BNPL services**, and almost half (47%) of BNPL users in our survey report that they used it more than once a month in the past 12 months. In the context of today's economic landscape, BNPL users find that it provides them greater flexibility and choice, and helps them reduce the financial stress of large expenses.



One-in-five BNPL customers (20%) say it is their preferred method of payment ahead of cash, credit or debit cards.



Close to half of BNPL customers surveyed indicated that they **preferred it over credit cards for their purchases.**

BNPL provides more financial flexibility

By allowing consumers to spread out payments over time without the burden of high-interest debt, BNPL enables households to make purchases without incurring financial strain.

We found that a majority (60%) of the BNPL users surveyed agreed that BNPL helps them manage their finances, with a similar proportion (61%) indicating that it helped them manage the impact of inflation in particular.

BNPL services provide a low-cost alternative to manage large expenses in particular. One in five of those surveyed said they would use BNPL services, if available, to cover a sudden, unexpected bill of \$300, and would prefer it to borrowing from other sources (banks or other providers, or from friends and family). BNPL is also cheaper than using credit cards, with more than two-thirds of BNPL customers surveyed indicating that they do so to avoid paying interest-bearing credit card debt.

For context, if repayments are missed, a \$500 purchase made using a credit card would accrue almost 4-times more in interest in 12 months compared to the cost of missing BNPL payments for the same purchase.⁷



BNPL services provide a low-cost alternative to manage large expenses.

One in five surveyed said they would use it to cover a sudden unexpected bill.



Afterpay is a **trusted** and **valued** BNPL service

BNPL is helping consumers reduce financial stress, as it is cheaper than other forms of credit and it enables access to credit when other sources are not available.

The ease of registration, and the low access and use costs (including zero-interest rates if payments are made on time) allow for a streamlined process.

Nearly a quarter of the BNPL customers surveyed had used Afterpay; and it was the most trusted (46%) and used brand (45%) among those who had tried it.

Estimates state that BNPL provided American customers an overall “consumer surplus” benefit of \$4.2 billion in the last 12 months.

We estimated that BNPL users obtained a value of \$44 per user from BNPL services but Afterpay users valued BNPL services more.

Afterpay users obtained consumer surplus from BNPL services of \$143 more per user, over three times higher compared to the others in the survey.

The low cost and convenience of BNPL services over credit cards is especially favored by Afterpay users, 57% of whom prefer it over credit cards, compared to 48% of non-Afterpay users. For example, Afterpay's pay in four solution remains interest-free despite rising interest rates.



The **median value** associated by BNPL customers was estimated to be **\$44 per customer** per year.



BNPL generated **\$4.2 billion in value**, as measured by 'consumer surplus', to customers.



Generational demand for BNPL

More than two-thirds (69%) of customers indicated that they would use BNPL more if it were more widely available, with the demand for BNPL services being higher among Gen Z customers and Millennials (79%).

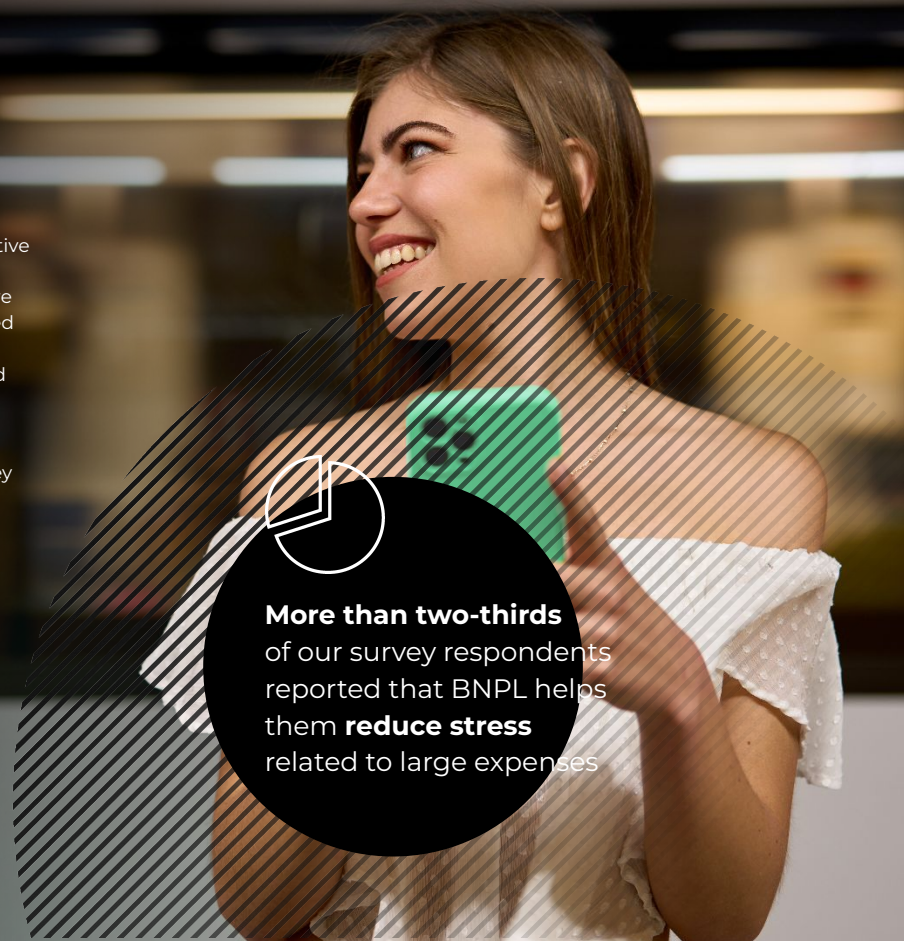
Research found that younger generational cohorts tend to use BNPL services more frequently, with 75% of Gen Z and 74% of Millennial BNPL customers reporting using the service at least once a month, compared to 52% of Gen X customers.

However, when thinking about large expenses and holiday spending, the positive impacts of BNPL in helping customers manage and alleviate financial stress were noted by a larger proportion of those aged 45 or above (i.e., customers who may be more likely to be under pressure to spend on their families and children, especially around holidays).

Overall more than two-thirds of our survey respondents reported that BNPL helps them reduce stress related to large expenses (70%); and in particular, reduce stress by spreading out costs related to holiday spending (67%).



More than two-thirds of our survey respondents reported that BNPL helps them **reduce stress** related to large expenses



Afterpay supports merchants thus stimulating the economy

BNPL providers, and Afterpay in particular, have become key partners for merchants by enabling them to adapt and compete in the modern, digital marketplace as consumers are seeking a better omnichannel experience.

Merchants have partnered with BNPL providers to help boost sales, mitigating the impact of the inflation to some extent, while also reducing the costs of attracting and serving customers, helping them deal with rising input costs.

Afterpay provides significant advantages for merchants by driving new customer acquisition, increasing customer retention, and driving repeat purchases and larger basket size.

These increases were driven by a variety of factors: approximately 80% of merchants believed that greater brand awareness; higher conversion rates; Afterpay promotions; better customer experience; increased web traffic; customer referrals from the shop directory; and reduced cart abandonment were important or very important. Merchants see Afterpay as a true marketing partner.



Spending among BNPL users is increasing, with almost 85% survey respondents indicating that they **maintained or increased their spending through BNPL services**

Based on estimates provided by merchants, we estimate that Afterpay generated an incremental \$8.6 billion in sales in the 12 months to August 2023 in the US.

This is substantiated by the results of our BNPL customer survey, where 86% of BNPL customers surveyed expressed a greater inclination to make purchases if they could spread payments without incurring fees or interest.

Additionally, 32% of respondents were willing to make purchases if they could spread payments, even if it involved paying some amount in fees for this service.

\$5.6B

Afterpay has generated **\$5.6B in net benefits to merchants**



86% BNPL customers were more inclined to make purchases if they could spread payments



Methodology

The findings presented in this report were based on a bespoke survey of 1,390 U.S. BNPL customers, 1,000 U.S. merchants offering Afterpay services, and supplemented by data from Afterpay and other third-party sources.

A bespoke consumer survey was designed for this study and administered to a representative sample of the U.S. population by YouGov, from which BNPL customers were identified and BNPL-specific questions were fielded to them.

Insights regarding merchants were drawn from responses to a merchant survey designed for this project. The survey was administered by Pureprofile, facilitated by Afterpay, and was fielded to a survey of U.S. merchants using Afterpay.



1. A key feature of BNPL services is that people do not pay interest on the purchase when installments are paid on time. For the purpose of this report, Afterpay is qualified as the traditional Pay-in-Four offering and the Afterpay Plus Card offering, where available. 2. eMarketer, "[US Buy Now, Pay Later Forecast 2023](#)", Au 3. Worldpay FIS, "[Global Payments Report 2023](#)", May 2023.gust 2023. 4. eMarketer, "[US Buy Now, Pay Later Forecast 2023](#)", August 2023. 5. Federal Reserve Bank of New York, "[Balances are on the rise – so who is taking on more credit and debit card debt?](#)", November 2022. 6. Federal Reserve Bank of New York, "Quarterly report on household debt and credit", August 2023. 7. Note that consumers are able to use their credit card for purchases via Afterpay 8. The calculations assume that an 20.7% annual interest rate, equivalent to the commercial bank credit card interest rate, applies and the outstanding balance starts accruing interest 45 days after the purchase with monthly compounding. Commercial bank interest rates sourced from FRED Economic Data, "[Commercial Bank Interest Rate on Credit Card Plans](#)", May 2023. 9. 'Consumer surplus' is the value of benefits derived from a product or service. This is the difference between the price a consumer is willing to pay to access a product or service and the price paid – which is zero for most BNPL services. Further detail on how we estimated consumer surplus is provided in the [Appendix](#). 10. Why is BNPL \$44 vs Afterpay's \$143? Using the survey, we've highlighted that Afterpay customers value cost-effectiveness and convenience more than others. For example, Afterpay's Pay in Four model is one of the only Pay in Four BNPL offerings that is interest free regardless of if payments are made on time.

Thank you

For more information on this research
and to view the full report, please visit
the [Afterpay Newsroom](#).



For The full methodology can be found at the bottom of the
Economic Impact of Buy Now, Pay Later in the Afterpay
Newsroom.