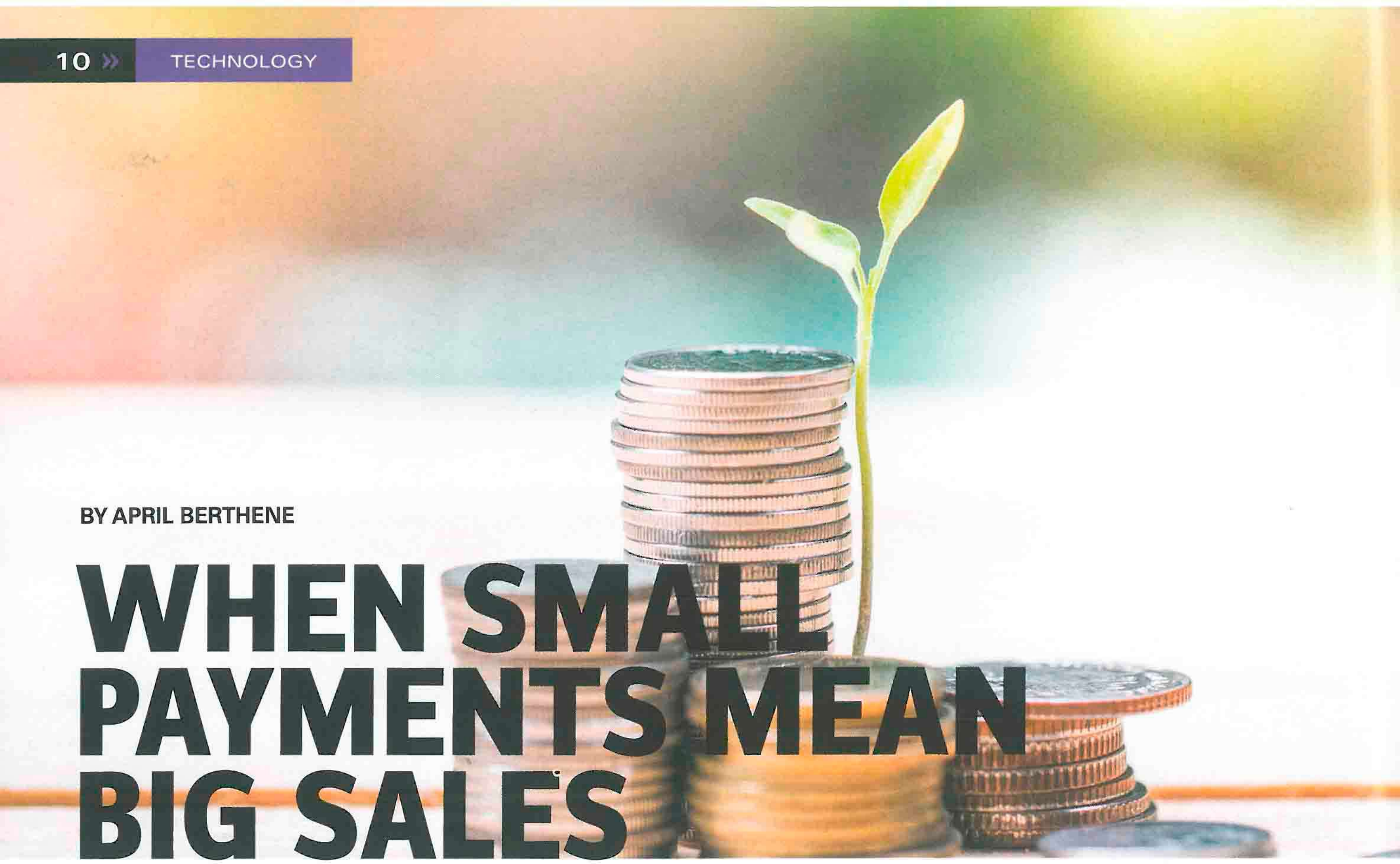

BY APRIL BERTHENE

WHEN SMALL PAYMENTS MEAN BIG SALES

ALTERNATIVE PAYMENT METHODS THAT ALLOW SHOPPERS TO BUY NOW AND PAY IN SMALL INSTALLMENTS ARE BECOMING POPULAR WITH SHOPPERS AND WEB MERCHANTS.

DON'T SEND SHOPPERS OFF THE checkout page. That's the golden rule of e-commerce. However, Tracy DiNunzio, CEO of web-only luxury goods consignment retailer Tradesy, found an exception to the rule.

DiNunzio added online payment service Affirm Inc. to her site in 2014. The service functions as a lender that allows shoppers to break up the cost of a purchase into installments rather than pay the full amount upfront with a credit card. If a shopper chooses the Pay in Installments button on the checkout page, she leaves Tradesy.com and is taken to the Affirm website, applies and finds out within seconds if she is approved for credit financing.

DiNunzio was nervous about shoppers leaving her site, but with Tradesy's high price points—a used Prada bag sells for more than $1,000—she wanted to offer more flexible payment options that could appeal to different customers. She tested the feature and found that customers who use Affirm spend more than other shoppers. For instance, the average order value for shoppers who used Affirm to buy was $570 last year, more than double the $280 average order value for customers who pay with a credit or debit card, DiNunzio says.

"We drive better sales and more [gross merchandise value] having it there," she says.

Affirm processed 23% of Tradesy's revenue last year, up from 19% in 2015 and 13% in 2014, she says. That percentage ticked up to 24% in January.

Retailers have offered financing for store and online purchases for decades and it is a proven tactic, says Brendan Miller, a principal analyst at research firm Forrester Research Inc. Within the past several years, online alternative payment services that immediately approve consumers for a line of credit and break up a purchase into installments, such as Affirm, Klarna Inc. and PayPal Credit's Easy Payments, have gained traction with e-retailers and consumers. E-retailers offering alternative payment methods say doing so helps them widen their customer base and increase their average order value.

Online retailers, such as Vita-Mix Corp. and Jomashop, are also finding that such payment options resonate in particular with younger adults in addition to subprime consumers—shoppers who struggle to obtain credit. Experts say e-retailers should consider adding these alternative payment options to their e-commerce operation if they sell high-ticket items or if their target customers would benefit from it. Retailers should also consider which payment service is the right fit for their customers and how easily the service integrates with their site, as each service has a slightly different flavor.

NATHAN DECKER, DIRECTOR OF E-COMMERCE at evo, steered clear of the checkout page when he integrated an alternative financing service onto the outdoor gear and sporting goods e-retailer's site. Decker added credit financing service Blispay Inc. to the product detail pages because the integration was quick and he didn't want to interfere with checkout, he says.

"We were honing in on the holidays, with the site code freeze and cutoff date in October," he says. "I was under the gun to get something done quickly with as light of technology as possible."

Making a change to the checkout flow involves a number of technical changes, and Decker says he has more control over messaging on the product detail page, making it easier to integrate there. It took a few hours to incorporate the messaging, which reads "No payments, no interest on all purchases over $199 + 2% cashback!", and about a month to deploy the technology from the time evo started talking with Blispay to when it went live, Decker says.

Although Tradesy and evo featured the financing option in different spots on their sites, evo's results were comparable. The average order value for shoppers who purchase via Blispay is $550, 150% greater than evo's other shoppers' average of $220, Decker says. Evo has offered the financing option for a few months, so the number of consumers using the feature is a small percentage of the total, Decker says. Still, he is pleased with the rollout and the trends he sees. For example, a shopper was on a product page for a $2,000 mountain bike, applied for credit and Blispay approved him for $4,500. That shopper went on to buy a $4,500 bike, Decker says.

Like evo, treadmill e-retailer NordicTrack.com and guitar retailer Ryan Fowler's Guitar Experience wanted to offer a credit financing option to shoppers and prioritized having a simple integration.

Ryan Dunkley, vice president of marketing at ICON Health and Fitness Inc., the owner of NordicTrack, chose credit lending technology platform Vyze Inc. for NordicTrak.com because it connects the retailer to multiple lending platforms within a single integration. For example, the retailer advertises on the product detail page that a $3,000 treadmill that can be paid for in installments as low as $96 per month. NordicTrack has agreements with three lenders to underwrite loans, and in the order NordicTrack selects, the lenders will either approve or deny the applicant. The first lender to approve the shopper underwrites the loan, and the shopper knows within seconds the financing terms. NordicTrack is in the processes of deploying Vyze and declined to share results.

Even simpler, any retailer that offers PayPal as a payment method also enables PayPal Credit, which allows shoppers to apply for credit for purchases of more than $99. PayPal doesn't charge interest if the amount is paid back in six months; longer repayments incur an annual percentage rate of 19.99%. PayPal Credit was formerly known as Bill Me Later. Consumers can apply for PayPal Credit after selecting PayPal at checkout and logging into their PayPal account. When owner Ryan Fowler learned he could offer PayPal Credit without having to do anything—it already offered PayPal as a payment option—he started letting shoppers know about the service in a hero image on the site's home page carousel.

WHILE TRADESY, RYAN FOWLER'S GUITAR Experience, evo and NordicTrack chose different ways to implement financing, they have one thing in common—an average order value that exceeds $200. This is a large factor when a retailer decides to offer alternative financing, Forrester's Miller says. If a retailer has an average order value of $20, integrating a payment installment feature is probably not worth the effort, Miller says.

THE COST OF ALTERNATIVE FINANCING
TO RETAILERS AND SHOPPERS

AFFIRM
Retailers: 3.3%

Consumers: Between 10-30% APR

BLISPAY
Retailers: The same as their Visa credit card transaction fee

Consumers: Six months to repay at 0% interest, or else a 19.99% APR

KLARNA
Retailers: Between 2-3%

Consumers: 0-19.99% APR

PAYPAL CREDIT
Retailers: Standard PayPal transaction fee between 2-3%

Consumers: Six months to repay at 0% interest, or else a 19.99% APR

PAYPAL CREDIT EASY PAYMENTS
Retailers: Standard PayPal transaction fee between 2-3%

Consumers: 12.99% APR

Merchants should also consider their profit margin, as financing can eat into a retailer's margin making it difficult to justify the cost of offering the service, Miller says. Each payment service charges retailers a different amount ranging from nothing to 4% of the transaction. Most retailers interviewed for this story say the fee is on par with what they pay to process a credit card transaction.

The interest rate the consumer pays varies between 0-30% depending on the installment plan, how fast she pays back the loan, her credit score and if the retailer wants to subsidize the interest rate so it can advertise a lower rate to entice more shoppers to make the purchase.

Premium blender manufacturer Vitamix, for example, offers PayPal's Easy Payments, which is a separate service from PayPal Credit. Easy Payments allows shoppers to break up a purchase into installments over six, 12, 18 or 24 months, depending on the purchase price and what the retailer chooses to offer. PayPal charges a 12.99% APR for Easy Payments, and rather than have the customer pay it, Vitamix absorbs the interest charges and advertises Easy Payments on product pages as charging no interest, says Holly Hacker, the manufacturer's director of sales and customer experience.

Between the transaction fee PayPal charges and fronting the interest cost, Hacker estimates that, on average, PayPal Easy Payments and traditional PayPal transactions cost Vitamix 5% of each transaction.

"I have room in my margin to offer a 5% cut for each transaction in order to gain the kind of sales I'm gaining," Hacker says.

Of the 20-plus retailers that have PayPal's Easy Payments, most of them shoulder the interest cost, a PayPal spokesman says. Easy Payments launched in 2015.

Vitamix added the installment payment feature to increase the conversion rate on its most expensive products, which are blenders that cost more than $500, Hacker says. Vitamix.com launched PayPal Credit at the end of March 2015 and experienced a 40% increase in its conversion rate in the first three months compared with the previous three months, Hacker says. While the spring season—which includes Mother's Day—is a high sales period for the retailer, Vitamix's year-over-year conversion rate remained higher in the following months, Hacker says. In 2016 the average sales increase was about 20% compared with 2015, she says.

VITAMIX ALSO EXPANDED ITS CUSTOMER base with the credit installment tool. The retailer has 5% more shoppers under the age of 35 who use PayPal Credit than its typical customer, Hacker says. Plus, 18% of Vitamix customers who use PayPal Credit are in households with incomes of less than $75,000, which is 6 percentage points higher than its 12% average, she says.

Going after the millennial generation, or consumers born between the early 1980s and late 1990s, is often a goal in offering alternative financing. Luxury watch e-retailer Jomashop, for example, has offered installment payments via Affirm since mid-2015 to help give more consumers, including millennials, access to luxury goods, says Osher Karnowsky, the retailer's general manager. More than 10% of the e-retailer's transactions are financed, and of that 10%, 35% are from consumers ages 18-34, he says.

Younger consumers are interested in installment payment methods as a way to manage their credit. "This consumer cohort has a lot of college debt and they are just managing their monthly payments," Forrester's Miller says. "Installments allow them to have predictability and control."

FlexShopper Inc., a lease-to-own online marketplace for electronics and home goods, knows this is true, as more than half of its customers are millennials, says CEO Brad Bernstein. "There's not enough information for a traditional credit lender to underwrite millennials and give them credit," Bernstein says. "While we don't provide them with credit, we provide a spending limit they can use on a lease-to-own basis."

While alternative financing is a way to attract underbanked consumers, e-retailers should note that the thinking that millennials aren't interested in credit cards may be a myth, Miller says. Millennials are taking a longer time to establish themselves, and thus their credit, so it is too early to tell what their credit habits are, he says.

Thad Peterson, a senior analyst with consulting group Aite Group LLC, agrees. "Millennials don't have any money—yet," he says. "The front end of that cohort is only now becoming economically viable and their behavior will change as they mature and become more affluent."

Online retailers report offering buy now, pay later options boosts average order values, and often significantly. Adding an alternative payment method may not make sense for retailers with small cart sizes and could interfere with the checkout flow if not executed correctly. But if done right, online retailers have the opportunity to acquire new customers at a negligible cost.

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