

DEFERRED PAYMENTS: 2020

A solution within the 'Payments' category of RetailDNA

RX001: February 2020

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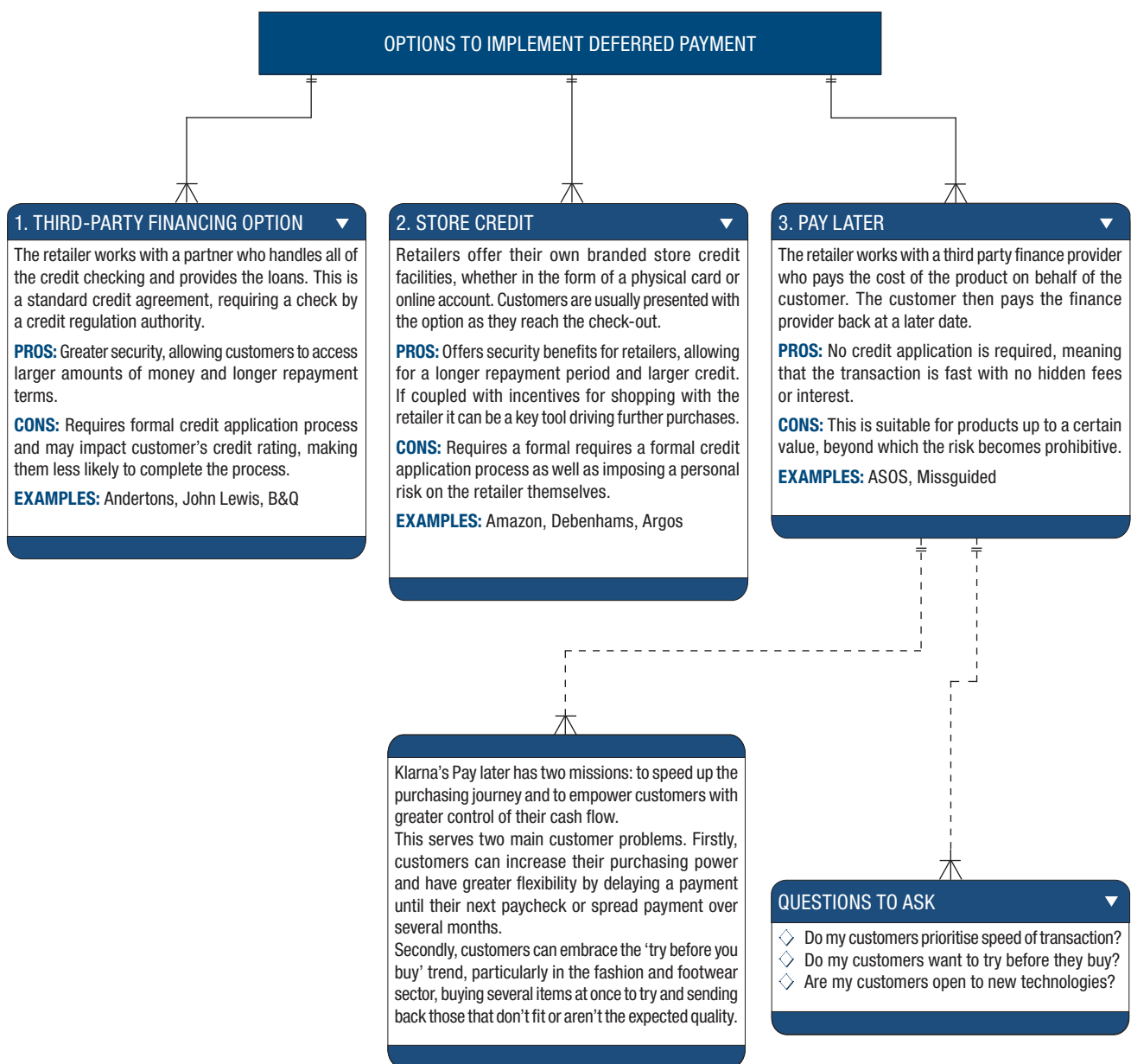
A solution within the 'Payments' subcategory of 'Selling'

InternetRetailing Blue Paper - Solutions to commercial questions

 RetailDNA	Blue Papers focus on solutions to commercial opportunities and challenges in multichannel retail and digital direct sales.	Publisher: InternetRetailing CEO: Ian Jindal	InternetRetailing 123 Cannon Street London, EC4N 5AU Tel: 020 7062 2525 Web: www.internetretailing.net 	
	Our White Papers, Sector Reports and Top500 performance rankings set out the board-level discussion for commercial success and our Blue Papers examine the point solutions, technologies and systems that form part of the solution.	Editor: Alex Sword Commercial Director: Andy James andy.james@internetretailing.net		
	Section: Payments	Drawn from our comprehensive industry directory of technologies and services in use by our Top500, RetailDNA, our Blue Papers form a regularly-updated library of actionable, proven solutions.		Designer: Julia Webber
	Vendor: Klarna			
Product: Pay later				

At a glance

DEFERRED PAYMENT allows the customer to complete a purchase and secure the product without immediately issuing the funds. This brings forward purchasing power and allows customers to try products without the hassle of pursuing a refund should they choose to make a return. It also makes transactions faster and easier, catering to mobile-centric shopping.



The opportunity

With deferred payments, customers can complete the check-out transaction without paying straight away.

ADVANTAGES:

- ◇ Increase sales by allowing customers to complete a transaction without needing to commit the cash on the spot; purchases are no longer delayed until pay-day
- ◇ Solve cash flow problems by allowing customers to complete a transaction when they want to but then pay after their next paycheck
- ◇ Sell products at full price now, rather than having to discount them later
- ◇ Free up customers' cash so they can shop again sooner
- ◇ Improve speed of checkout and increase the likelihood of purchase by removing the need to enter card details
- ◇ Make it simpler to issue refunds for returns by not taking the payment in the first place
- ◇ Allow customers to try out products at home without making the payment

TARGET MARKET:

The solution targets millennials, who now make 60% of their purchases online according to a report by CouponFollow. Millennials face higher living costs than older generations, especially in rent, which puts pressure on their spending power. GfK research finds that 71% of millennials consider smartphones to be their most important shopping tool. On the mobile channel, time and attention are at a premium and a purchase may need to be completed in the 20 seconds of cellular connectivity between two Tube stations.



What is the product?

Klarna's two credit-free deferred payment solutions analyse the limited data that a customer provides at checkout to assess whether they can safely use the product.

PAY IN 30 DAYS

WHAT: Pay later is an invoicing product which allows consumers to complete a transaction online without paying straight away. Consumers enter their basic details (i.e. address) and Klarna assesses their ability to pay. If they are eligible then they are given the option to purchase. Klarna sends them an invoice once the item is shipped which is due in 30 days.

Once the merchant has dispatched the product the consumer can pay at any time up to their due date (with no fees or interest). Klarna sends reminders up until the due date and continues to do so if they miss it. After a certain period, if a shopper doesn't pay, they will lose the ability to use Klarna in the future.

WHO: Shoppers who want to try products before they buy them, typically with purchases below £100.

PAY IN 3 INSTALMENTS

WHAT: Customers pay a third of the basket price on the spot, another third in 30 days and the final third in 60 days. As with pay in 30 days, customers input their details and Klarna assesses their ability to pay. In the US version of Klarna the payment is split into four to account for bi-weekly paychecks.

WHO: Higher end fashion shoppers, buying products costing between £100 and £400. no interest no fees and no hard credit check.

RETAILERS TYPICALLY SEE:

Source: Klarna

20%



higher annual customer purchase frequency

15%



increase in average order value

7%



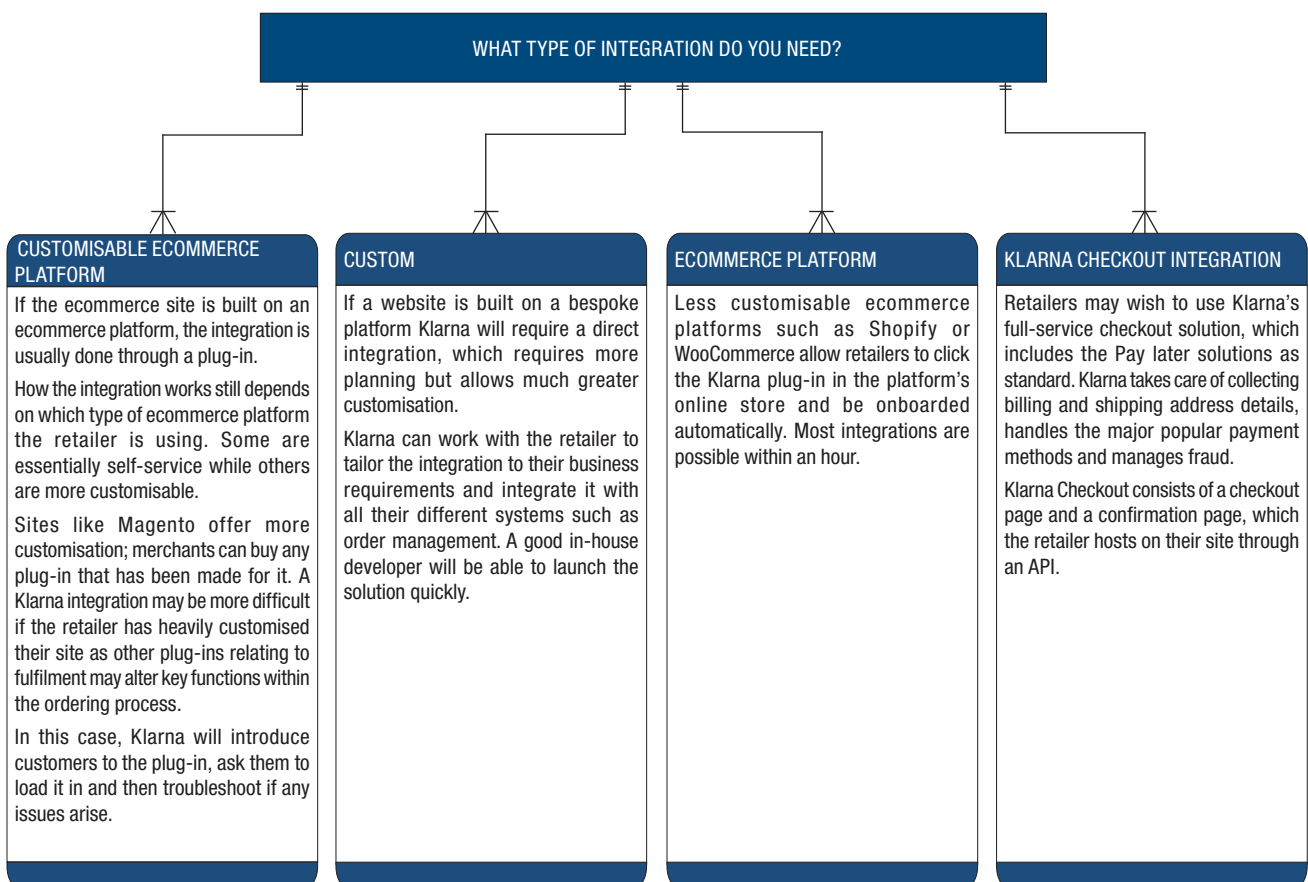
higher conversion rate vs. card transactions

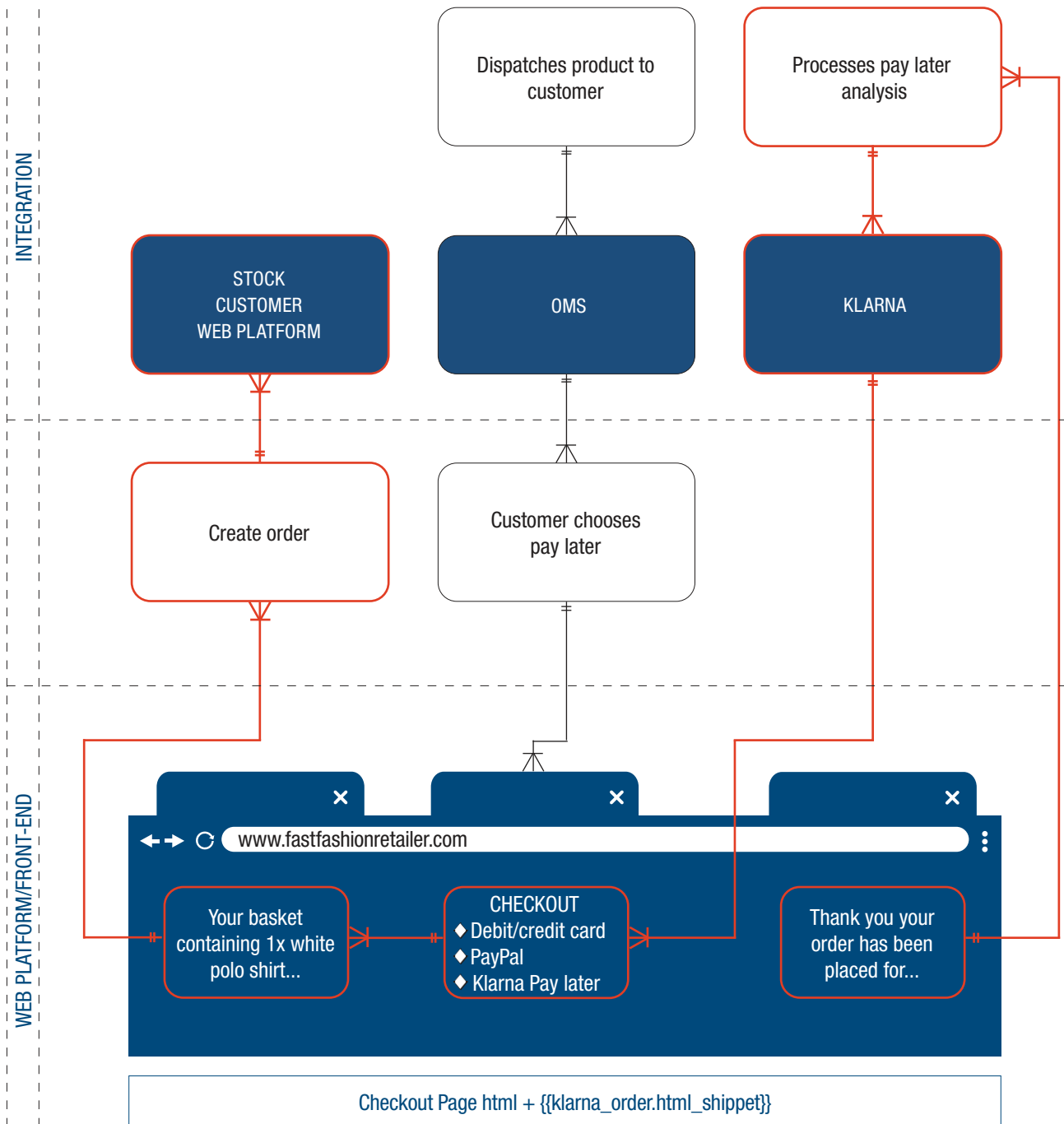
Practicalities: Integrating Klarna

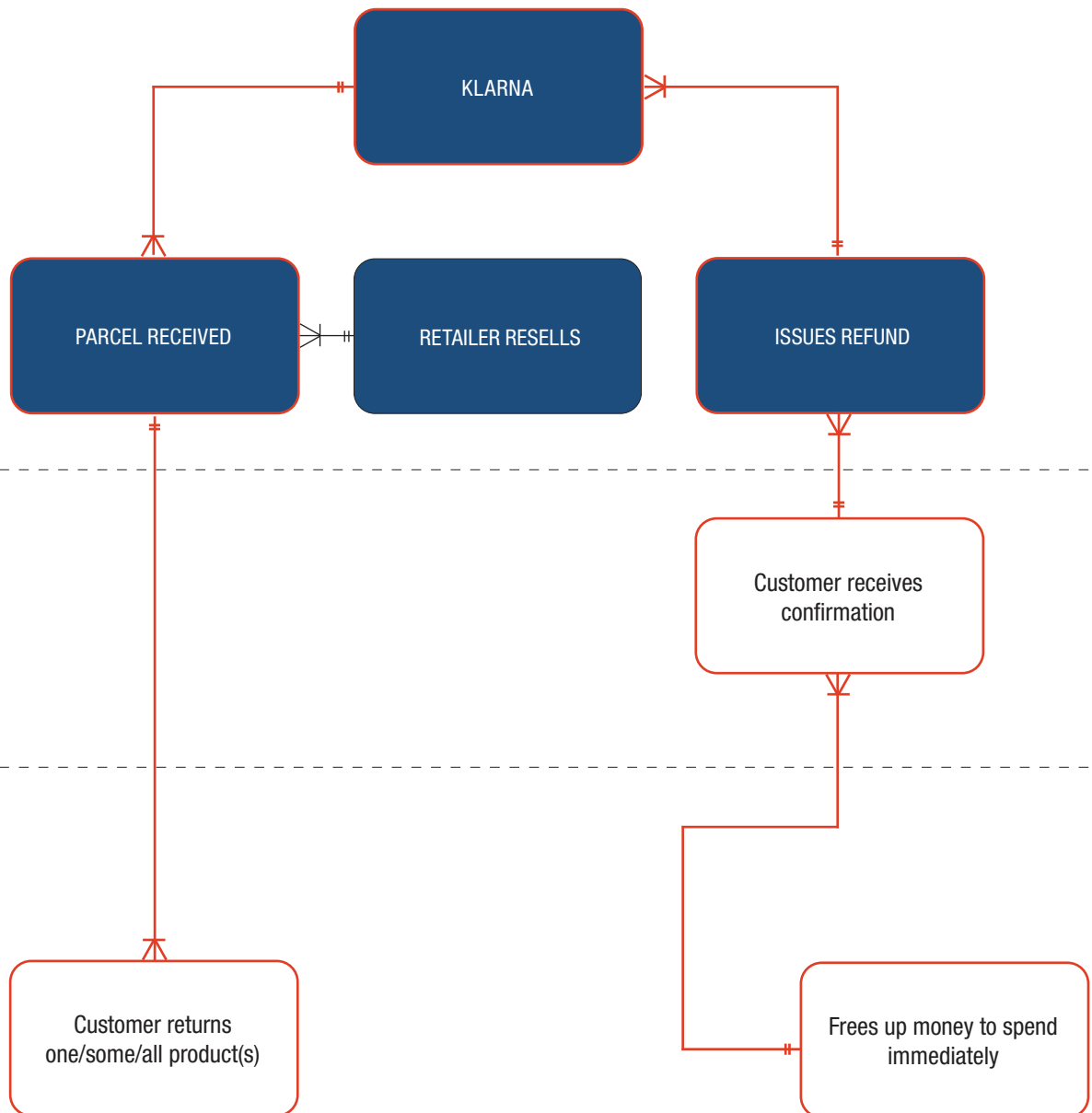
GLOSSARY

Plug-in: Software containing pre-programmed functions which can be added to an ecommerce website.

API: Application programming interfaces (APIs) allow applications to communicate with and collect information with other systems.







SCHUH

CASE STUDY

ABOUT

Schuh is a UK-based footwear retailer, which opened its first store in Edinburgh in 1981. The typical Schuh customer is under 40, brand-aware and fashion-conscious.

THE BUSINESS CASE

For online this means a mobile-oriented experience organised around convenience, choice of services and choice of product.

“We certainly differentiate on the nature of the environment customers visit and the combination of things we offer in that environment,” says Sean McKee, director of ecommerce and CX at Schuh. “Some of what we offer is available elsewhere so the visit needs to be more memorable and more convenient than normal.”

Schuh wanted to offer a frictionless experience, with the rationale that complex processes deter shoppers and lead to basket abandonment. The company also wanted to cater to security-conscious customers by limiting the amount of consumer data they had to input.

THE DECISION

The retailer had previously been using Klarna’s checkout product. Schuh chose Klarna when it launched its deferred payment solution in the UK because it:

- ◇ Offered convenience to its youthful and fashion-conscious target market
- ◇ Was easy to integrate with its existing IT systems
- ◇ Does not require customers to take out a formal loan

RESULTS

While McKee cannot share exact details on figures, the company set very clear success metrics for minimum performance before implementing the solution. Klarna bills per transaction so basket sizes need to justify the fees. This is not simply a subsidy for the customer but has to actually improve performance. McKee says these KPIs are being met.

Overall, McKee says using Klarna has shown that there is “clearly a relationship between enhancing convenience



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for consumers through later and part payments and the amount the consumer is prepared to spend in direct consequence of that convenience.”

He adds that participation in the services has been rising exponentially.

LEARNINGS AND WHAT’S NEXT

The experience provided valuable insight into how to use website messaging and banner space consumers more aware of a new service on the site.

McKee says that the next stage is to reinforce the elements of Klarna which are driving performance, including rolling out Klarna in the company’s store network.

“The key is we don’t over-egg it. With customers who visit on mobile it is a small it is a small screen, so the service has to be intelligible quickly.” ■

Conclusion

Klarna processes one million transactions per day 170,000 merchants, with 60 million end customers. Allowing customers to defer payments:

- ◇ Increases basket sizes
- ◇ Enhances the overall customer experience of an ecommerce site
- ◇ Removes the need to concentrate promotions at the end of the month to take advantage of pay day liquidity
- ◇ Gives customers greater control over their finances
- ◇ Increases orders by allowing customers to try products before they buy them

The solution excels where retailers have a mobile-first, millennial customer base. ■

NEXT STEPS

Visit Klarna to find out more: www.klarna.com/uk

The site contains descriptions of the different products as well as more detailed notes for developers on integration.

Listen to Sean McKee in conversation on the InternetRetailing podcast: <https://podcasts.apple.com/us/podcast/retailcraft/id1418542382?mt=2>

www.klarna.com/uk/business/#get-started



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