WTF is BNPL for Business

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Introduction (or, First, WTF is BNPL?)

The payments landscape is rapidly evolving. The past decade saw a heap of new players joining the space, indefinitely redefining how payments are done.

According to a recent IDC report, by 2030, 74% of global consumer payments will be facilitated via non-traditional financial providers – fintechs, DeFi players, and nonfinancial brands. And 95% of the non-fiat payments will be done via contactless solutions and BNPL.

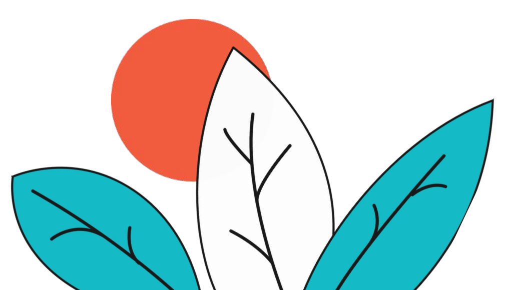
The term BNPL – Buy Now, Pay Later – lives at the intersection of technology and finance today. In the B2C space, it took the traditional Point of Sale financing model and gave it a new look and feel – appealing to Millennials, Gen Zers, and financially underserved communities, thanks to its easy-to-understand rates, customer-centric apps, and seamless digital experiences. And retailers are winning too, with BNPL increasing conversion rates by 20% to 30%, and the average ticket size by 30% to 40%.

BNPL has made a significant impact in the consumer world – totalling an estimated $226 billion in transactions in 2021. While originally used for online purchases, it has since found its way to in-store shopping and is today highly popular among consumers. BNPL leaders like Affirm, Afterpay, Klarna, Zip, and PayPal have gradually been introducing BNPL options across consumer markets, from electronics and fashion to furniture, travel, and healthcare.

In that, BNPL poses a threat to major banks, who are losing to fintechs up to $10 billion in annual revenue, and an opportunity to serve significant customer segments – about 60% of consumers say they will likely utilize a BNPL service over the next year. Still, BNPL is still quite early in its evolution. While its share of the payments space grew by 78% last year, its total share is just 0.53%.

However, BNPL doesn't stop with consumers. The B2B market still presents BNPL with a massive untapped opportunity in the payments space.

In this WTF Guide, we break down everything you need to know about BNPL for Business.



What's in this

WTF Guide?

I. So, WTF is BNPL for Business?

BNPL for Business is the application of the Buy Now, Pay Later model to B2B: purchases made by businesses, in other businesses. Businesses of all sizes are regular participants in the payments space, from materials and production to shipping and the many other goods and services that go into a product cycle.

For SMBs, who typically have limited working capital, funds for necessary purchases can all too often be out of reach at the moment of need.

At this moment, BNPL serves as a tool to make purchases possible and affordable for both ends of the transaction.

By providing the funds at the point of purchase, a BNPL provider essentially serves as a cash flow manager, allowing a business to buy and receive the goods or service needed, then pay for it over time in installments.

Buying now and paying later is a game changer – not only for the business making the purchase, but for the business making the sale as well. When offering the flexible payment terms of BNPL to cash-strapped customers, the merchant can close sales they otherwise might not have, speed up the sales cycle, drive up revenues, and get paid up front.

> These B2B small businesses have some of the same challenges as everybody else: they have to hire people and acquire customers. But in addition, they invoice their clients, and then wait to get paid. If you were to add up all those unpaid invoices that are due to a small business – typically a B2B small business – that's about a trillion dollars in the US alone.
>
> **Prashant Fuloria**, CEO, Fundbox

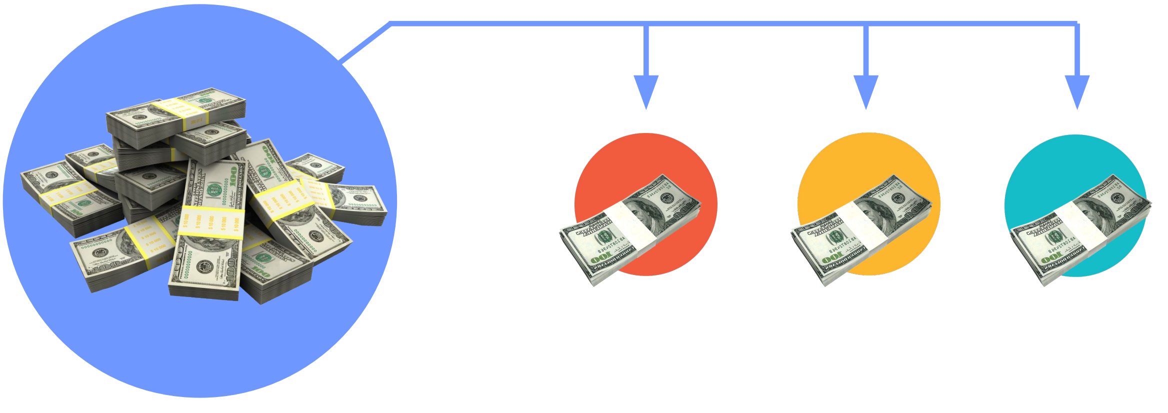
II. How does BNPL for Business work?

BNPL helps both ends of the B2B exchange: the selling party gets paid in full at the point of sale and increases its gross merchandise value, since it is able to make a sale it might not have been able to otherwise; and the buying party gets immediate access to goods or services it might not have been able to otherwise, and still has the time it needs to achieve ROI.

When a buyer needs to make a purchase but lacks the immediate capital, the BNPL provider delivers the funds needed to pay for the goods or services upfront, after which the buyer pays back the BNPL provider in a predetermined installment model. This way, the buyer is able to walk away with the goods or services at the moment of need, and the seller is able to walk away with the full payment — less of any transaction fees — at the moment of purchase.

A BNPL for Business solution could present itself in two ways:

- **In-purchase**
  Similar to current offerings on consumer transactions, there will be a BNPL checkout button on the merchant website or on the electronic invoice.
- **Pre-purchase**
  Using a physical or virtual BNPL card, the buyer can go through a regular checkout process, with the flexibility to pay in installments according to a prior agreement.



III. Where does BNPL for Business fit in the market and how is it different from other business solutions?

BNPL products are packaged in new and digitally seamless ways, but fundamentally, the concept of installment payments has existed for decades – in layaway and credit cards.

Similarly to BNPL, layaway gives both buyers and sellers the opportunity to participate in a sale that would otherwise not be possible – without the seller taking on risk, and without the buyer taking on debt. With layaway, the seller agrees to reserve a big ticket item for a buyer, which the buyer can access once they've completed their predetermined installment payments and paid for the item in full. This means that businesses have to wait for the goods they need until they've been able to completely pay off the purchase.

While still available, layaway plans have been offered less commonly since the 1980s, outcompeted by credit cards. Unlike layaway, credit cards allow the buyer to purchase and receive goods or services immediately, and pay off the cost on a monthly basis.

Credit cards are similar to BNPL in that both mediate a debt between a buyer and seller, and both consider the creditworthiness of a borrower. However, BNPL makes it easier for businesses to receive the loans they need for two key reasons. First, the underwriting is per transaction, meaning it is not dependent on the borrower's revolving line of credit. Second, the loan amount is typically smaller, so not as large as the typical 30-day worth credit card limit.

Specifically in B2B, the key difference between BNPL and credit or loans is the movement of money; with a line of credit, the buyer receives the primary holds of funds which they wield at sale, whereas with BNPL the loan is transaction-based, so the funds go directly to the specific seller. Since the seller is paid in full, they can choose to partially or fully subsidize the cost of financing, leaving the buyer with increased affordability and a decreased upfront cash outflow.

Additionally, since the financing decision is based upon each purchase and not the overall creditworthiness of the buyer, the approval is quicker, faster, and generally safer.

IV. How will BNPL for Business be different from BNPL for Consumers?

While trade credit has existed for some time in the B2B space, creating a modernized BNPL offering for businesses will require a heavier lift, and will look significantly different than traditional consumer offerings.

To a large degree, BNPL for Consumers was adopted quickly because of merchant-funded, impulse-driven purchases. High margin, discretionary items like exercise equipment and clothing were offered via installment plans with no interest, catalyzing consumer motivation. However, B2B spending is based on an individual business' needs, which won't be driven to purchase more inventory or construction material than needed simply because of competitive pricing. Given the tighter economics of this scenario, merchants will be less likely to fully fund the finance cost of these purchases.

Access to credit is also less complex for lower ticket size items, which carry a smaller degree of risk for the merchant. Last year, the average order value of Afterpay users was $115, and $402 for those that use Affirm, which offers longer term loans.

A BNPL for Business offering will require more sophisticated underwriting models, given the high price point of business purchases – for example, a $15,000 piece of equipment, or $100,000 of building materials. Additionally, B2B sellers traditionally work with far fewer buyers and are therefore protective of their buyers' experience, so any potential BNPL company needs to ensure it can offer high approval rates, provided limits and collection processes.

Finally, while the majority of consumer commerce experiences follow a streamlined workflow (shopping cart followed by checkout) and are controlled by a single individual, B2B commerce presents more variability and complexity. Business buyers involve more stakeholders throughout the process – such as sourcing teams, budget owners, end users and accounting departments. Based on this added complexity experiences will need to be adapted accordingly; for example, approvals may be needed at the point of order instead of at the point of invoice or point of payment.

V. Why does BNPL for Business matter?

The reason BNPL for Business makes sense is simply because the B2B space is yet to treat SMBs with the convenient payments experience they deserve – considering the important role they play.

In the US alone, there are over 30 million SMBs, 20 million of which are B2B. On the buying end, most SMBs have limited access to working capital to make the purchases they need, and BNPL is an important tool to support them. On the merchant end, SMBs with high operating margins have limited access to their revenue, due to outstanding receivables.

B2B businesses usually have to wait an average of 40.3 days to get paid, and often have their cash flow tied up in receivables, inventory, payroll, or growth investments. The SMB Receivables Gap Playbook found late-paying customers among the main challenge for businesses; these high margin businesses tend to be more generous with their customer payments terms, since 55.3% of them believe that extending credit is beneficial to acquiring customers. As a result, these businesses end up with late payments from 38.3% of their customers.

By solving the cash flow constraints of both ends of a B2B transaction, BNPL bridges that gap and helps SMBs to thrive and grow.

> "Growing businesses incur expenses up front, and get paid later. That actually hurts you more when you're growing. So ironically, the businesses that are doing well, because they're acquiring customers and serving them well, are the ones that need working capital solutions the most.
>
> **Prashant Fuloria**, CEO, Fundbox

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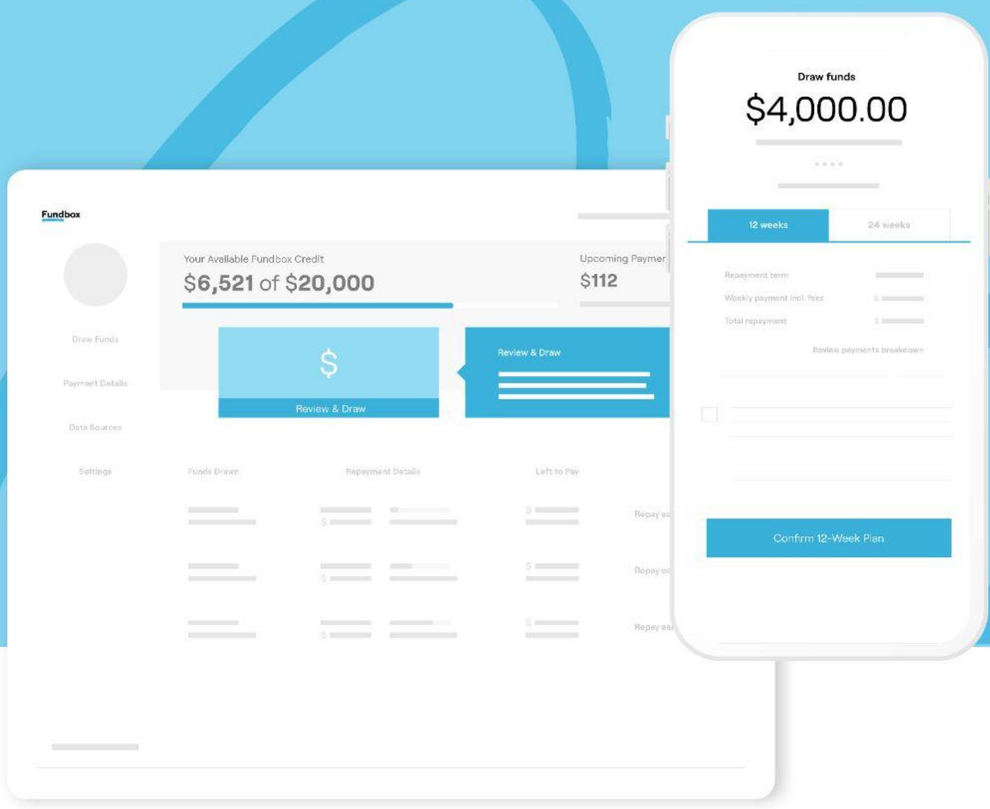

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