

The Second-Chance Consumer: How Buy Now, Pay Later Payments Create New Merchant Opportunities, a PYMNTS and Sezzle collaboration, uses data from a survey of 7,024 American consumers who are statistically representative of the adult population. PYMNTS surveyed consumers regarding their most recent shopping habits, retail preferences and payment choices between April 16 and May 10.



The Second-Chance Consumer:

How Buy Now, Pay Later Payments Create New Merchant Opportunities

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The Second-Chance Consumer: How Buy Now, Pay Later Payments Create New Merchant Opportunities was produced in collaboration with Sezzle, and PYMNTS is grateful for the company’s support and insight. [PYMNTS.com](#) retains full editorial control over the following findings, methodology and data analysis.

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Introduction

It was inevitable that consumers who were struggling to make ends meet at the start of 2020 cut back on non-essentials when the health crisis ground much of the economy to a halt that spring.¹ As stores and schools are reopening, some consumers again are spending and adding to their credit card debt load.² Millions of Americans, however, still are being left out of the rush to spend. Though many consumers have recovered financially, these individuals retained blemished credit reports due to late or missed payments in 2020. Some credit bureaus have been lenient with collections during the pandemic, yet a history of late payments still can scar a consumer's credit report alongside a

note indicating that they may have been impacted by a natural disaster.³

That means these consumers may find it more difficult and expensive to use credit for important purchases such as laptops for their children at the start of the school year, or they even could find it harder to rent an apartment. PYMNTS' research reveals that as many as 23 percent of American adults may need a "second chance" to gain access to the kind of low, affordable payments that a higher credit score would provide. Many of these consumers pay more for access to subprime credit options, which can mean borrowing through "payday" lenders or using pawn shops to purchase necessities.

The retail industry also suffers when second-chance consumers are left out of the credit economy. Retailers miss "big ticket" sales opportunities at the busiest times of the year to nearly a quarter of their audience who otherwise might be able to purchase if they had access to credit. Our data shows that 59 percent of second-chance consumers are "very" or "extremely" interested in taking steps to improve their credit. An innovative option available at checkout and in many stores called buy now, pay later (BNPL) is offering consumers the opportunity to pay for items in installments based on what they actually can afford, rather than on a strict FICO-score standard. Second-chance consumers have become some of the most enthusiastic adopters of the innovative BNPL payment option, as many of them struggle to secure access to traditional credit.

The Second-Chance Consumer: How Buy Now, Pay Later Payments Create New Merchant Opportunities will examine second-chance consumers' appetite for flexible payment options and offer merchants a roadmap for engaging consumers who are often left out of credit-building opportunities.



¹ Fulford, S; Rush, M. Credit card debt fell even for consumers who were having financial difficulties before the pandemic. The Consumer Finance Protection Bureau. 2020. <https://www.consumerfinance.gov/about-us/blog/credit-card-debt-fell-even-consumers-having-financial-difficulties-before-pandemic/>. Accessed August 2021.

² Ibid.

³ Author unknown. Credit Reporting in the U.S. During the COVID-19 Pandemic. FICO. 2020. <https://www.fico.com/en/covid-19-credit-reporting-impact-US>. Accessed August 2021.

The second-chance consumer:

Why alternatives to traditional credit can create new opportunities for merchants

Most major retailers spend considerable resources to extend their marketing to new audiences, but many overlook a large, motivated consumer base: second-chance consumers. PYMNTS’ research shows that second-chance consumers are eager to build their credit scores and use access to credit to purchase necessities. Most second-chance consumers (57 percent) who have used a BNPL option or said they would use one see it as a viable method of boosting their credit scores. That means merchants who offer BNPL as an option at checkout are more likely to gain the business of these highly motivated consumers.





Contrary to what the title might imply, a second-chance consumer is not necessarily a consumer who would be an unreliable or undesirable shopper. We found that 65 percent earn more than \$50,000 per year, with 30 percent earning above \$100,000. The average second-chance consumer is 44 years old and has a FICO score of 662 — just 38 points shy of what usually is seen as a “good” credit score. Members of Generation X (peers of the average second-chance consumer) have kept pace or

outspent other generations in retail purchasing.⁴ A 2020 PYMNTS study revealed that for Black Friday 2020, 42 percent of Gen X shoppers used BNPL for clothing purchases.⁵ Retailers who want to boost their profile among an often underserved demographic group that tends to feature enthusiastic and budget-conscious consumers may find new opportunities for consumer engagement by offering BNPL as an option at checkout.

TABLE 1:

Consumers’ attractions to BNPL

Share of consumers who use or would use BNPL options who agree with select statements about BNPL options, by level of financial inclusion

					
	TOTAL	No worries	Second chances	On the edge	Shut out
Ability to purchase without overspending	65.4%	61.8%	70.3%	51.7%	77.0%
More likely to shop at stores that offer BNPL	65.2%	58.8%	72.6%	59.3%	71.6%
Ability to purchase more frequently	63.5%	54.8%	73.0%	54.7%	76.7%
Help managing personal spending	62.8%	57.3%	67.8%	64.3%	70.1%
Help improving credit score	50.6%	42.8%	56.8%	51.4%	68.6%
More trustworthy than banks/credit card issuers	48.1%	42.1%	53.6%	52.5%	52.6%

Source: PYMNTS | Sezzle The Second-Chance Consumer

⁴ Author unknown. Four fault lines show a fracturing among global consumers. PwC. 2021. <https://www.pwc.com/gx/en/consumer-markets/consumer-insights-survey/2021/gcis-2021.pdf>. Accessed August 2021.

⁵ PYMNTS.com. DATA: Millennials, Gen X Liked BNPL For Black Friday Clothing Purchases. 2020. <https://www.pymnts.com/buy-now-pay-later/2020/data-millennials-gen-x-liked-bnpl-for-black-friday-clothing-purchases/>. Accessed August 2021.

The open market:





Consumers see BNPL as a way to make shopping more budget-friendly

PYMNTS’ research shows that many consumers see BNPL as a way to stretch their budgets. This perception gives merchants that offer BNPL payment options a powerful appeal to consumers who have endured financial challenges in the past 18 months. A second reason that BNPL is a popular option among second-chance consumers exists: such consumers are hesitant to add to their debt burden, even if credit is available. PYMNTS’ research shows that 42 percent of second-chance consumers who do not have a credit card do not want one even if offered one because they believe it encourages spending.

TABLE 2:

Reasons consumers avoid credit cards

Share of consumers who do not have a credit card citing select reasons to not have one, by level of financial inclusion

					
	TOTAL	No worries	Second chances	On the edge	Shut out
Encourage overspending	37.8%	40.5%	42.3%	33.0%	22.1%
High interest rates	33.8%	35.3%	36.8%	26.3%	29.1%
High annual fees	26.0%	25.0%	28.2%	26.9%	25.5%
Low credit score or personal ID/bank problems	14.6%	0.0%	0.0%	34.9%	89.2%
Do not trust credit card issuers	15.1%	15.6%	17.5%	12.5%	11.0%
Other	13.6%	16.8%	12.0%	12.3%	2.4%

Source: PYMNTS | Sezzle The Second-Chance Consumer

BNPL, unlike traditional credit offerings, allows consumers to shop and simply break up a single payment into more affordable installments rather than extending a traditional credit line. According to recent PYMNTS research, 70 percent of second-chance consumers who have used BNPL or are interested in using it view it as an option that improves their ability to buy things they want without overspending. BNPL helps consumers stay within budget while empowering them to make purchases without the added burden of revolving credit. PYMNTS’ findings reveal that 31 percent of second-chance consumers who used BNPL options to make purchases say they did so because they could not have afforded them otherwise.

Why BNPL is just getting started:

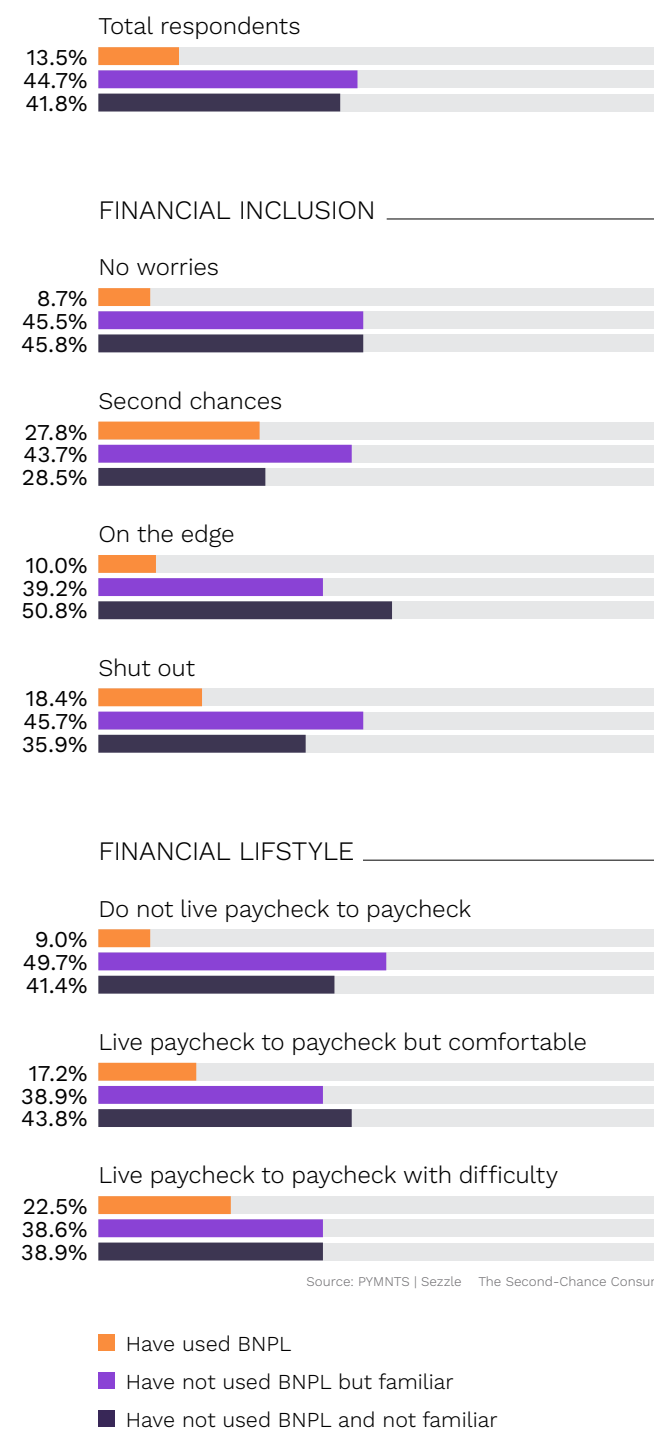
BNPL's popularity with its users shows its potential

BNPL is a game-changer for many second-chance consumers. A large share of second-chance survey respondents who have chosen to use BNPL as a checkout option online said it allowed them to spread their payments over time (55 percent) and helped them manage their monthly expenses (43 percent). These two capabilities were second-chance consumers' most-cited benefits, yet notable shares of respondents also said it allowed them to avoid fees (25 percent) and held less chance of fraud than other payment methods (19 percent).

FIGURE 1:

Mapping BNPL Awareness

Share of consumers exhibiting BNPL awareness during the last 12 months, by financial lifestyle and level of financial inclusion



Merchants that offer BNPL can provide an appealing choice to second-chance consumers who already have used the option. We found that 73 percent of second-chance consumers who have used BNPL in the past or would use it in the future agree with the statement that seeing BNPL as an option “makes me more likely to shop at retailers that offer BNPL.” A similar share of second-chance consumers (73 percent) indicated that BNPL allowed them to purchase more frequently than they would otherwise.

73%

of second-chance consumers indicate that BNPL would allow them to make purchases more frequently than they could otherwise.



BNPL's popularity keeps growing.

Fourteen percent of online shoppers (more than 28 million American adults) have paid for purchases on the internet with BNPL options at least once during the last 12 months.

47 percent of respondents who had heard of BNPL programs would be interested in using them to pay for expensive, one-time retail purchases, and 29 percent would use BNPL programs to pay for medical bills.

Second-chance consumers shopping online were more likely to use BNPL (28 percent), as were consumers in financial distress shopping online (22 percent) in the last year.

Online shoppers who previously experienced collections issues were the most aware of BNPL options (72 percent of second-chance consumers reported being aware of the option), but financially secure consumers also have a high rate of awareness (54 percent).

Conclusion



BNPL is a powerful consumer engagement tool for retailers seeking to expand their audiences after a trying year. As consumers reevaluate their shopping priorities, many are turning to BNPL to help them stay within their budgets and avoid the fees (and temptation) that traditional credit cards can involve. Second-chance consumers are eager to rebuild their credit, but they also are aware of the risks of easy debt. Merchants seeking to tap into new audiences can leverage BNPL as a tool to make shopping more affordable and help millions of second-chance consumers manage their finances more easily and return to store aisles.

METHODOLOGY

The Second-Chance Consumer: How Buy Now, Pay Later Payments Create New Merchant Opportunities, a PYMNTS and Sezzle collaboration, presents insights from a survey of 7,024 consumers representative of the general adult population in the U.S. The survey collected 30,016 responses during two waves of data collection between April 16 and April 26, and between April 28 and May 10. Out of these responses, 64 percent were disqualified, leaving 7,024 complete responses. The survey took respondents 12 minutes and 36 seconds to complete and presented questions regarding respondents' incomes, credit scores and shopping behaviors online and in retail stores, in addition to demographic questions such as age and educational level.



The
Second-Chance
Consumer

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Sezzle is a payments company on a mission to financially empower the next generation. Sezzle’s payment platform increases purchasing power for millions of consumers by offering interest-free installment plans at online stores and in-store locations. When consumers apply, approval is instant, and their credit scores are not impacted, unless the consumer elects to opt in to Sezzle’s credit-building feature, Sezzle Up. This increase in purchasing power for consumers leads to increased sales and basket sizes for the more than 41,000 active merchants that offer Sezzle.

As the only B Corp in FinTech, Sezzle proves that all industries — even payments — can do their part to provide solutions and make a positive impact today and into the future. For more information visit [Sezzle.com](#).

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