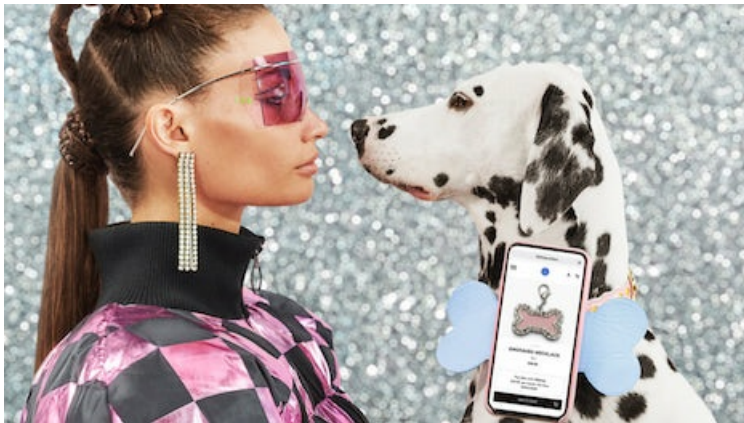


FINANCIAL SERVICES

How Klarna is helping the aspirational consumer buy into luxury

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Klarna specializes in buy now, pay later transactions. Image credit: Klarna

By SARAH JONES

NEW YORK Installment payment provider Klarna is helping to convince younger shoppers to buy into luxury by splitting up entry-level purchases into smaller, more attractive amounts.

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During a fireside chat at Luxury FirstLook, an executive from the company explained that there has been a significant shift from credit cards to debit cards, particularly among a younger generation. Without the ability to finance through the traditional credit format, Klarna aims to fill that gap by offering the option of buy now, pay later purchases.

"Young people are very skeptical of traditional finance, and they should be," said David Sykes, head of Klarna U.S. "And it's actually just harder to get a credit card now.

"So what we know for a fact is your propensity to spend with a credit card is much higher than your propensity to spend with a debit card," he said. "The consumer we're catering for is a young person who actually might be affluent if you're buying a \$1,000 handbag with Klarna, you still have some cash but the unifying characteristic is they don't have a credit card."

Luxury FirstLook 2020 was produced by Luxury Daily, with venue sponsor UBS

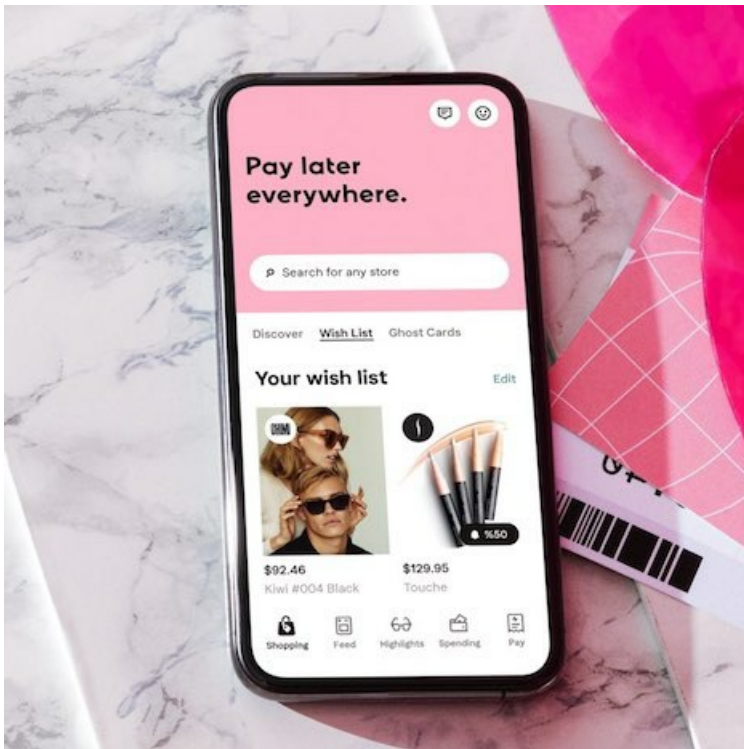
Credit alternative

About two-thirds of millennials do not own a credit card, preferring instead to use their bankcards. Debit cards now account for about two-thirds to three-quarters of all transactions.

Part of this shift is tied to a skepticism about traditional financing methods following the recession of 2008.

Compared to credit cards that charge interest after a month, Klarna splits the cost of merchandise into four even payments without interest. A widget included on the participating product page shows what the payment amounts will be.

Consumers get the product immediately, and then pay off the remaining balance.



Klarna's app. Image credit: Klarna

For Klarna partners, the addition of an installment platform on their ecommerce sites can boost average order value between 20 and 60 percent. Conversion rates can also rise by about 130 percent.

According to Mr. Sykes, the sweet spot for Klarna is more entry-level luxury goods such as sunglasses or beauty products.

Klarna costs slightly more than other payment methods for retailers to process, but it takes on the risk of defaults. Mr. Sykes said that the average default rate for Klarna is lower than for other payment methods because the penalty for failing to pay is not being able to use the platform again.

Typically, the amount owed by the consumer is also lower than it would be on a credit card with a limit of thousands of dollars.

In addition to being a payment provider, Klarna has worked to become a brand itself, and it now serves as an affiliate pointing customers towards its partners, including luxury brands such as Givenchy, Marchesa, Lyst and Burberry.

As part of its branding push and to differentiate itself from other financial options, Klarna's marketing is centered on a bright pink hue. The company has also worked with personalities ranging from drag queens to Celeste Barber on campaigns.

Celeste Barber for Klarna

Snoop Dogg, who became an investor in Klarna last year, temporarily transformed into "Smooth Dogg" to communicate the ease of using the payment method.

"What we're evolving to is not just being another payment type," Mr. Sykes said. "We actually now actively drive our consumers to our partners, so we've become almost another affiliate avenue to create excitement about [a line drop]. We're a lifestyle brand and we try to trade on that to drive value to our partners."

Buy now, pay later

While millennials and Generation Z consumers make more online clothing purchases than other age groups, they are still seeking flexibility from ecommerce platforms.

More than a third of Gen Z consumers are interested in installment plans as they desire upscale clothing outside of their budgets, according to a shopping behavior report from Klarna. Shoppers also continue to turn to bricks-and-mortar locations when making expensive purchases so they can try on items, but they are receptive to "try-now, pay-later" options ([see story](#)).

Ecommerce giant Amazon put pressure on fashion retail with the nationwide rollout of its Prime Wardrobe service. Available to those who are signed up for Amazon's Prime membership, Prime Wardrobe allows consumers to pick fashion items out and try them on at home before paying. While many shoppers have stuck with in-store shopping as a means to test out styles before making a purchase, this service may be a disruptor to the apparel buying experience ([see story](#)).

"[Adding installments] sounds like a super basic change to make to a product page, but it actually links to a profound change in consumer purchasing behavior," Mr. Sykes said.

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