

RETAIL

China's online shopping thrives thanks to "Buy Now, Pay Later"

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Current installment plans provide Chinese shoppers and retailers with a new way to pay that offers them immediate gratification. Image credit: Shutterstock

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This November, China's online shoppers came up with the term "ghost of poverty," a self-deprecating name referring to those who still have to pay the balances on purchased items come November.

The slang is related to recent memes celebrating "ghosts" (laborers) whose sole focus in life is making money. Before Halloween this year, some consumers joked that they were "the ghost of poverty" due to the debt they still owed Alibaba and its third-party vendors.

It is no secret that Chinese consumers love [online shopping](#). The pandemic has only accelerated this trend, exemplified by the \$74 billion in sales achieved by Alibaba over the 2020 Singles' Day shopping festival. But the pandemic continues to rage on. And as shoppers become increasingly comfortable with online shopping, they are also growing more concerned about their financial situations.

The China New Economic Research Institute and Alipay jointly issued their first "Post-90s Savings Report" in July of 2019. The report shows that 92 percent of people born between 1990 and 1999 have a surplus with their salary each month, and 80 percent of those consumers manage that surplus.

As a result, today's Chinese shoppers are seeking flexible and responsible ways to pay when they shop, especially when it comes to [luxury](#) items.

In the United States, brands have been advertising partnerships with payment startups such as Klarna, Affirm and Afterpay to acquire more customers. Major [ecommerce](#) and online payment platforms in China also have options for deferred payment. But unlike in the U.S., most of China's retail giants have chosen to develop their own payment installment systems.

According to a recent report by 58 Finance in June, the credit arms of the major online ecommerce players in China [Alipay](#) Huabei, [JD](#) Baitiao, and [Suning](#) Renyifu had the highest penetration (79 percent) with Chinese payment installment consumers during the first half of 2020.

Installment payment plans are not a new concept in China, but the flavor of today's installment plans are quite different than they were in the past.

Instead of waiting to take a purchase home the way shoppers did with layaway plans, today's installment plans (also known as "Buy Now, Pay Later" plans) provide shoppers and retailers with a new way to pay that offers them immediate gratification.

Launched in April 2015, Alipay-related Huabei is a consumer credit product started by Ant Financial (another [Alibaba](#) affiliated company) that allows a consumption quota ranging from \$760 to \$76,000 (500 to 50,000 yuan).

Huabei serves as a virtual credit card so users can enjoy the post-payment shopping experience. Ant Huabei was primarily adopted by [Tmall](#) and [Taobao](#) users for online shopping. Its main customers are millennials and [Gen Zers](#), who account for about 80 percent of all users.

Back in 2014, JD Finance launched an internet credit product called Baitiao, which also offers users the option to "Buy Now, Pay Later."

During Singles' Day 2015, the number of customers that used Baitiao increased by 800 percent compared to that date from the previous year. This year, someone named Li from Guangdong bought a country house for his parents via [JD.com](#) online, with installments worth over two million RMB (approximately \$30,000). He was named the "craziest shopper this Singles' Day" by Chinese media.

As the world's largest social media and mobile payment app, [WeChat](#) launched a "Buy Now, Pay Later" [credit feature](#) in April, allowing the platform's one billion-plus member community to defer full advance payment. These microloans, which come with added unfixed interest rates, can be repaid at any time, making them different from other installment offerings in China.

Although many shoppers have credit cards, most card-based credit does not always deliver the flexibility that shoppers want.

For those who do not have a high enough spending limit or enough credit available to make big-ticket purchases, "Buy Now, Pay Later" offers consumers the ability to budget for more expensive items with a designated period of payments that fits their budgets.

For [retailers](#), "Buy Now, Pay Later" provides a wide range of benefits, including less cart abandonment.

On average, around two-thirds of online shopping carts are abandoned, which adds up to a lot of lost sales for ecommerce brands. But brands that add "Buy Now, Pay Later" options at the checkout are seeing a sharp drop in their cart abandonment rates, which has led to a boost in their profits without any significant cost increases.

Additionally, deferred payment options offer merchants a higher average-order-value, and it helps increase customer loyalty by creating a positive shopping experience.

As the deferred payment space continues to expand, shoppers are left to decide which installment payment plan best meets their needs. In many cases, the decision boils down to simplicity, trustworthiness and the quality of the overall shopping experience.

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