Finding the Right Balance
A report on the future of consumer credit lending

Research by Duologi
In today’s business landscape, the question of consumer spending power is of particular importance. From retail stores to education providers and travel companies, competition is fierce, and even longstanding household names are feeling the pressure to keep pace. Recent store closures across the UK high street are just one such example of this.

It’s therefore more vital than ever that brands set their business apart from competitors and keep up with today’s savvy consumers. Innovative technology tools are helping to achieve this; streamlining processes that allow merchants to provide the best possible experience for their customers.

The intent of this report is to comprehensively explore the consumer credit market, and help merchants of all types to understand the opportunities that exist to boost sales by creating a point-of-difference amongst their customer base and beyond.
Backed by global investment firm, Oaktree Capital, Duologi offers merchants the chance to increase their sales, boost customer satisfaction and grow profitability through the delivery of tailored point-of-sale finance options.

Unlike many other similar businesses currently in the market, Duologi does not offer a ‘one size fits all’ model; aiming instead to work with each partner on an individual basis to ensure a bespoke service is created for each. The platform is powered by ground-breaking technology, built from scratch in London, allowing retailers to quickly and simply start offering finance to their customers.

Duologi is led by co-CEOs, John Taylor and Gary Little, who between them count more than 50 years’ consumer lending experience at institutions such as Barclays and Close Brothers. Since launching in September 2017 as a two-man start-up, the business has already secured £100m in annual rolling commitments, with ambitions to have a seven-figure lending book within five years.
Introduction

The UK consumer credit market has been buoyant in recent years, seeing a period of sustained growth and reaching a peak of over £1.8 billion at the time of writing. Point-of-sale (POS) finance or credit is already helping millions of households purchase items and access services that may otherwise have been unavailable to them.

What’s more, offering this type of credit holds significant benefits for merchants; increasing sales and conversion rates, growing basket size and boosting brand loyalty.

Whilst a number of high street and online brands do already offer in-store credit to cover big-ticket items, such as furniture and household goods, the benefits of POS finance should not just be limited to retailers. Payment plans for products and services in all consumer-facing sectors – from education to travel and healthcare – are a desirable option for customers, and can help businesses to easily differentiate themselves from the competition.

But what is POS finance, and where does it sit against a backdrop of plummeting trust in traditional banking institutions and amongst today’s digitally-savvy, ‘always on’ consumer?

In this report, we will examine the current state of the credit market and shine a light on the most common issues that consumers face when trying to access funds. We will look at their attitudes towards traditional banks and what they think of the current solutions already out there.

We will investigate consumer attitudes towards POS finance; what they are calling out for, what they would be willing to spend and what it could mean for UK merchants – both in terms of profitability and brand perception – looking specifically at how merchants stand to benefit from offering a range of flexible credit options.

Lastly, we will provide advice on how best to implement consumer credit within a business, with some examples of merchants that are already reaping the rewards.
When it comes to credit, consumers feel that current offerings are falling short. When applying for credit, consumer frustrations are high – and this is leading to basket abandonment.

- 56% of people have experienced high APR rates
- 24% of consumers think the credit application process is too slow
- 20% think the decision took too long to make
- 28% experienced hidden charges
- 26% of people experienced confusing jargon which made the process difficult

POS finance options have low awareness levels.

- 94% of people wouldn’t think to ask the retailer if they offered POS finance

The vast majority of consumers would consider using POS finance in future.

- 78% people said they would consider purchasing a product or service in this way
- £620 The average amount that these people would be looking to borrow is £620
- £25bn This means that a lack of finance options is costing the UK over £25bn in lost revenues

POS finance options can be a key point of difference for merchants, and one which helps them convert sales.

- Almost a third (27%) of people have never used credit to buy anything

20% of people would not trust in a loan from a bank.
There is a huge opportunity for merchants that offer a range of finance solutions.

- More customers: 34% of people said they would be more likely to spend with an organisation that offers POS finance options.
- A key factor in deciding where to shop: 20% of people said that if a company didn’t offer finance, they would be more likely to shop elsewhere.
- Increasing brand loyalty: 28% of people said they would be more likely to return to a brand that offered POS finance options.
- Attracting the impulse spend: 26% of people would be more likely to spend more than originally planned if they found out they could access a good amount of credit from an organisation / retailer.

A poor credit offering means that merchants could lose up to 40% of their sales.

0% finance is the biggest selling point for consumers when buying on credit.

- 75% of people said this is an important consideration if they were to buy on credit.
  This goes up to 81% of people who earn more than £40k.
- 40% of people said a quick and easy process would be top of their desirables.

Flexibility / multichannel spending is vital.

- 46% of people think POS finance should be available both online and instore.
- Reassuring those who might have been turned down previously:
  - 13% of people doubt they will be accepted for a loan.

A range of industries stand to benefit from offering POS finance options.

- 42% of consumers think the retail industry could do more to offer POS finance options.
- 24% think the health industry could.
- 32% think the education sector could.
- 32% think the travel industry could.
- 32% think the property industry could.
Section one
The current market
Consumers are more willing and able to borrow funds than ever before, with credit card spending the most popular option - followed closely by other loans – and as such, are demanding increasingly competitive credit options from lenders.

Credit offers convenience; effectively letting consumers buy now and ‘save up later’ for items or services that they may otherwise not have had access to. This may mean getting hold of a vital piece of kitchen equipment, being able to afford to run a car, the luxury of an annual holiday or the chance to undergo expensive medical treatments.

However, this growth in unsecured lending – loans that are backed only by the borrower’s creditworthiness, rather than by any concrete assets - has led to warnings from the Bank of England of an “unsustainable” market, with issues around household debt grabbing headlines as people struggle to keep up with their repayments.

Concerned by this, banks – the traditional stalwarts of the lending market – have started cutting back on unsecured lending; becoming wary of the amount of credit that consumers are borrowing and tightening their lending criteria as a result.

Consumers have consequently had to find different ways to access the finance they need. In some cases, this has taken the form of payday loans, doorstep loans or ‘rent-to-buy’ schemes. These schemes have given the credit market a bad reputation; sometimes charging APR rates upwards of 1,400% and plunging many vulnerable households into even deeper financial turmoil.

The Financial Conduct Authority (FCA) has recently stepped in to more heavily regulate such practices – but a gap in the market still remains for those customers who cannot borrow from banks but still need to access the products they cannot afford upfront.

At the same time, consumer trust in banks is dipping. The banking crisis of 2008 – caused by widespread unsecured, sub-prime lending, which threw the global economy into complete disarray – led many people to question their bank for the first time, and whether it was actually providing them with a fully transparent offering.
The notion that traditional financial institutions do not work in the interest of their customers, but purely in their own, has continued to proliferate and this is reflected in the fact that one in five (20%) of people would no longer trust in a loan from a bank. Such scepticism is especially prevalent amongst the millennial generation – with the figure rising to 24% amongst 25-34 year olds.

The issue has been highlighted by TSB’s recent handling of an IT meltdown that affected millions of customer accounts. Senior MPs and the financial watchdog criticised the bank for its failure to be “open and transparent” in its communications, leading to even further mistrust in the sector as a whole.

Simultaneously, advances in technology have driven digital transformation in the banking sector. Following the lead of disruptive service providers, such as Uber and AirBnB – which allow consumers to manage aspects of daily activity through their smartphone – an array of digitally-focused challenger brands have begun to take market share in the financial services sector.

Based solely on technology and free of the deep-rooted shackles of ‘the old guard’, these start-ups are seen by many as a more open and agile way of doing business.

The consumer credit market is therefore seeing a step change. A situation has arisen in which banks are increasingly cautious about how much they lend, and to whom, whilst many consumers don’t even trust banks to provide them with funds, but still want to access goods through regular repayment plans, rather than upfront costs.
POS finance – also called retail finance or store credit – allows merchants to offer their customers a loan, backed by a financial lender, to purchase a product or service. The loan is then repaid in fixed monthly installments to the merchant. It’s a relatively new option for consumers, but the market has seen rapid growth in recent years, currently worth £5 billion in the UK with huge opportunities for merchants to grow their business.

For many years, POS finance has been backed by major banks and financial lenders. However, as these institutions are increasingly unwilling to provide the flexibility or transparency demanded by today’s digitally-savvy consumer, a range of new providers are stepping in to take their place.

24% of 25-34 year olds would not trust in a loan from a bank.
Section two

Current credit offerings – are they up to scratch?
Borrowing on credit is often purported as a simple way to access funds, but many lenders are still getting the process wrong, leading to consumer frustration and revenue loss as a result.

Over half (56%) of people have experienced high interest (APR) rates when applying for credit, whilst 28% of consumers have not been provided with full transparency when it comes to their loan; experiencing hidden or unexpected charges during application or at repayment stage.

Many lenders are also falling short in terms of user experience, as 24% people believe that their credit application process was too slow. One in five (20%) also stated that the lending decision took too long and a further 26% were unable to decipher their application as it was full of confusing financial jargon.
56% of people have experienced high APR rates

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20% think the decision took too long to make

28% experienced hidden charges

26% of people experienced confusing jargon which made the application process difficult

Crucially, these consumer frustrations are causing a high degree of shopping cart abandonment. If encountering any of the issues highlighted above, a huge 40% of people would abandon their purchase. This increases to 49% amongst the 25-34 millennial age bracket, which now comprises more than a quarter of the UK’s population, bringing with it considerable spending power.

For businesses, whose sale of products and services rests on the ability of consumers to access their desired cash, this is a huge problem. The retail industry in particular has seen its fair share of turmoil in recent months, with store closures and falling profits hitting the headlines on a near-daily basis. In these challenging times, it’s more important than ever that merchants find ways to offer flexible, transparent and easily-accessible funds to customers.
What are people buying on credit?

Consumers are using credit to purchase and access a huge range of products – but with a clear inclination towards certain sectors.

Almost a third (30%) of people have used credit of some kind to buy a holiday, with the same amount of consumers funding items of furniture in this way. One in four (25%) have used credit – whether a credit card, loan or finance - to complete a home renovation project.

Perhaps surprisingly – given the ‘big-ticket’ nature of the sector – just 9% have bought a piece of jewellery using borrowed funds. Only 4% of people have used credit to fund a health procedure.

More than a quarter (27%) of people have never used credit to purchase anything, suggesting there is a huge opportunity for merchants to grow their sales if they offer the right type of credit products.
However, although 28% of people state that they would happily make a purchase on credit card or via a bank loan, only 6% of people would ask a merchant if they offered finance options. That means nine in 10 people wouldn’t even ask the question.

More than one in 10 (13%) of people said they didn’t think they would be accepted for credit, and a further 14% didn’t realise they could apply for POS finance for products or services online - not just in store.

Evidently, despite a general willingness to spend on credit, consumer awareness levels are very low with regards to the availability of finance. Not only does this suggest that merchants of all kinds can benefit from offering finance options, but also that they should work hard to promote them as a key point of difference.

If they couldn’t afford to buy something, 94% of people wouldn’t even think to ask the merchant if they offered POS finance

13% of people didn’t think that they would be accepted for credit

14% of people didn’t realise they could apply for credit online

28% of people would happily purchase on credit through a card or bank loan – so are likely to be persuaded to purchase via POS finance
Section three
The POS finance opportunity
If merchants are able to break the awareness barrier which currently exists around POS finance, they are set to take advantage of a sales opportunity that could drastically boost bottom lines.

More than three quarters (78%) of consumers say that they would consider purchasing through POS finance in the future.

The average amount that consumers would look to borrow is £620, meaning that offering finance options represents a £25 billion sales opportunity for UK merchants - and one which many may not even realise they are missing out on.

Almost a third (29%) of people would be willing and able to borrow between £1,000 - £5,000, with 27% of people stating that they would be most likely to need around £500 - £1,000 in credit to make a purchase.

A further 18% of consumers would be keen to borrow between £100 - £500, whilst – at the other end of spectrum – 11% of people would be willing and able to borrow £5,000 - £10,000 and 4% would want to access over £10,000 in credit.

How much POS finance would you be wanting (and able) to borrow from a retailer/merchant/organisation?

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<td>4%</td>
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<tr>
<td>£50,001 or more</td>
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78% people said they would consider using POS finance in the future.

A lack of finance options could be costing the UK over £25bn in lost revenue.
Consumer spending behaviour is also likely to favour merchants that offer POS finance options – helping to boost sales and reputation in a number of key ways. Over a third (34%) of people said they would be more likely to spend with a business that offers POS finance options. With fierce competition throughout every sector as the UK economy fluctuates in confidence, this potential to boost traffic (both online and in-store) could be critical to a brand’s survival.

Customers also stated that POS finance options would be a key factor in deciding where to shop; 20% of people said that if a company didn’t offer flexible finance options, they would be more likely to go elsewhere.

Finance options can also help to boost brand loyalty, with more than a quarter (28%) of people saying they would be more likely to return to a merchant that allowed them to borrow funds in this way. A further 26% of people would be likely to spend more than originally planned if they found they could access a good amount of credit from a merchant – an important way to attract the impulse shopper.

However, not all finance is created equal. Given the prevalence of consumer frustrations around many credit experiences, merchants should take care to offer a range of flexible options that put customers at the heart of their lending; rather than the other way around.

34% of people said they would be more likely to spend with an organisation that offers POS finance options

20% of people said that if a company didn’t offer finance, they would be more likely to shop elsewhere.

28% of people said they would be more likely to return to a brand that offered POS finance options.

26% of people would be more likely to spend more than originally planned if they found out they could access a good amount of credit from an organisation / retailer.

46% of people think POS finance should be available both online and instore.
What do consumers want from POS finance?

Consumers are calling out for a number of key benefits when it comes to POS finance.

Three quarters (75%) of consumers said that the option of 0% interest would be an important consideration when buying on credit. Interestingly, this figure increases to 81% of people who earn more than £40,000 – highlighting that credit options are not just a way to cater for low earners.

A further 40% of people said a quick and easy process would be top of their list of desirables, while 37% of people said low monthly repayments would be the most important factor.

Almost half (46%) of people think that POS finance should be available both online and instore, and one in five (21%) said that this flexibility of channel would be an important consideration when buying on credit. A further 28% of people think that getting an immediate decision on whether they can borrow would be very important to them.

Interestingly, a third (33%) of people want to know their finance is coming from a reputable place, but are not concerned about whether this is a recognisable bank name.
Currently, POS finance is used most widely in retail but consumer appetite for credit options across a wide range of sectors is evident, and many think that these industries should be doing more to offer and promote POS finance.

Despite many large brands providing POS finance on purchases, 42% of shoppers believe that retailers could do more to offer POS finance options. Given the ongoing growth of e-commerce, the ability for these retailers to provide credit both on and offline could prove crucial in the future.

What’s more, a large proportion of retail brands only offer finance over a certain amount but, given that almost a fifth of shoppers would want to borrow from as little as £100, this policy may need to be revised.

The property industry, while mainly governed by mortgages, could also stand to benefit from POS finance, with 42% of people stating that they believe these options could be better utilised for payments such as estate agent fees, conveyancing costs or added expenses for mortgage advisory services.
A further 32% of people believe that the education and training sector could do more to offer POS finance. Whether e-learning, vocational courses, professional development or private schooling, this sector can often incur huge fees which some households will find difficult to scale.

Private healthcare procedures, varying from cosmetic surgery to dentistry – and even IVF treatment – are often very expensive and only accessible to the highest earners. However, POS finance provides the option for a wider range of people to access these services. Nearly a quarter (24%) of people think the health industry should work harder to offer these options.

Lastly, 32% of people stated that the travel industry’s POS finance offering could be improved. While splitting the cost of a holiday into manageable chunks is one way to offer finance in this sector, there are further expensive purchases such as rail season tickets - which often offer a better deal when paid upfront - that consumers may need help with and to which POS finance can provide a solution.

### Which industries do consumers think could do more to offer POS finance options?

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<th>Industry</th>
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<tr>
<td>Health industry</td>
<td>42%</td>
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<tr>
<td>Education industry</td>
<td>32%</td>
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<tr>
<td>Retail industry</td>
<td>32%</td>
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<tr>
<td>Travel industry</td>
<td>24%</td>
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<tr>
<td>Property industry</td>
<td>42%</td>
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Section five

Best practice
The benefits of providing POS finance to customers are clear, but how can merchants best implement this service into their business? Below are some top tips:

Customer needs will differ dependent on which products they are purchasing, when they purchase them, and their current financial situation. With this in mind, adopting a one-size-fits-all approach is certainly not the way forwards.

Instead, it’s important to offer customers a more bespoke solution. There are almost as many different consumer lending options as there are consumers, with 0% finance, interest-bearing finance, buy-now-pay-later and multi-tier options loans just a few key examples.

Given that 94% of people wouldn’t even think to think to ask if a merchant offered POS credit, it’s vitally important to promote the finance options available.

Simple tools such as pop-up banners near till points, posters in the waiting room or a clearly visible website header can alert potential customers to the benefits of finance solutions, providing a clear reason to purchase from that business in particular.
Never underestimate the power of 0% finance. Ensuring that finance costs the customer nothing more than the original cost of purchase is a crucial conversion tool.

What's more, as well as securing the sale, 0% finance can also foster brand loyalty among customers, and thus drive repeat business.

It's also critically important to consider the payment journey. A protracted, confusing and drawn-out payment process disengages potential customers and is a key reason behind abandoned shopping trolleys.

To avoid this, merchants should ensure that their finance platform of choice works quickly, easily and seamlessly across all online channels – including mobile, where more people now shop than ever – as well as in-store as a fully-integrated part of the payment process.

Ideally, a consumer applying for credit at the till should receive confirmation of eligibility in seconds; no longer than it takes to process a traditional card payment.

Overall, at a time when consumer confidence is at an all-time low due to factors such as Brexit and associated economic uncertainty, retailers and merchants both large and small must react to this step-change. POS finance solutions could be key to this.
Consumer mistrust following the banking crisis, the rise of technology-based industry disruptors and considerable demand for credit have all contributed to an environment in which POS finance can thrive.

Merchants that offer this service stand to grow their business profits, brand loyalty, widen their customer base and steal market share from rivals.

What does a good POS finance offering look like? Transparency is key, particularly as so many consumers have had bad experiences of credit in the past. Consumers are also calling out for a range of flexible options, the ability to access funds quickly and through varied channels.

However, awareness for POS finance is low, so organisations that commit time to promoting their offering can expect to see an impressive return on investment.

Contact Us
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