TurnKey Lender

# HOW TO WIN & KEEP CUSTOMERS WITH RETAIL FINANCING

www.turnkey-lender.com

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# RETAIL FINANCING: OVERVIEW OF THE OPPORTUNITY

In a late 2018 study, Citizens Financial Group found that 76% of consumers surveyed were more likely to make a retail purchase if a payment plan backed by a "simple and seamless point-of-sale experience" was available. Now, with the forced mass adoption of socially-distant digital solutions, easily accessible financing options becomes an even more important contributor to customer retention and business growth.

Inhouse financing is making a statement in the market with FinTech solutions allowing for easy automation of every step of the crediting process from intuitive SaaS interfaces.

**In-house financing comes in many names these days:**

POS (point of sale) Finance

Embedded Lending

Consumer or Customer Finance

Retail Finance

But regardless of the name, they all allow for simply an agreement for a buyer to pay off a purchase in installments.

**Businesses can choose from a variety of business models available:**

- In-house retail financing
- Leasing
- Rent-to-Own
- Lease-to-Own
- Dealerships
- e-Commerce
- Service providers (such as: dental, plastic surgery, educational, etc.)

# Service That Address The Customer’s Demand

Statistics say that in-house financing is especially attractive to younger consumers. Millennials — with harrowing recollections of their parents’ experiences in the Financial Crisis of 2008, and a pronounced (and apparently growing) fear of compounding their student-loans and other debt — aren’t as likely to own or use credit cards as their elders. As a means of obtaining unsecured financing, Millennials and their Gen Z juniors view credit cards as murky, restrictive, and unduly usurous, according to the online publication PaymentsSource.

Meanwhile, these young consumers have become big fans of POS installment loans, which come with a hint of the homespun nostalgia that appeals to this demographic. In outline, consumer installment loans harken back to the store-credit and “layaway” plans that householders commonly used to fund big and not-so-big purchases in the 1950s and 1960s, a period widely viewed as a Golden Age for the middle class, especially in the US.

Taken together, Millennials (40.6%) and members of Gen Z (35.1%), account for more than three-quarters of consumer installment borrowers in Australia, says market-research firm Roy Morgan. At the same time, financing is also catching on with older consumers worldwide. In this light, providing this credit option for consumers looks like an obvious choice for retailers that plan to stay in business for a while.

To sprinkle some more statistics on how big a market digital in-house lending is, by 2022 in the US alone it will account for $162 billion, McKinsey & Company says. Whatever the pandemic may do to upset this prediction, the forecast marks a sharp climb from 2015, when US retail purchases under POS arrangements amounted to $49 billion, according to McKinsey.

And with global digitization efforts skyrocketing to meet the new socially distant reality’s needs, the online consumer finance trend is likely to keep on growing at an increasing pace. So the question is not whether or not consumers will require affordable and easy-to-use credit from their providers, it’s who will provide it to them.

From a business standpoint, consumer financing means that you collect loan applications, process them to understand the risks, come up with the optimal conditions, offer a payment plan to buy your goods or services, and then automatically collect the money, with interest on the financing you provided. And while it may sound hard to implement, every step of the lending process can now be automated.

*"We know how to make lending cloud-based and accessible to businesses and borrowers anywhere. We've been doing it for years. TurnKey Lender is pioneering the development of intelligent lending technology that enables fully contactless crediting for any type of business. Our solution can be launched within a day and from there, our intuitive SaaS solution powered by AI takes care of financing your customers or providing other credit products. This and the expert integration and configuration services are just some of the things TurnKey Lender has to offer."*

**Dmitry Voronenko**
CEO and Co-Founder of TurnKey Lender

## How In-House Financing Helps Retailers Win Business

Retailers eyeing in-house financing stand to benefit in several key business areas, including:

- **Sales and order value:**
  By giving your consumers more time to pay, financing effectively increases their buying power, leading to higher sales (32% higher, according to Forrester) for you. You may also expect higher average order value as customers can opt for higher-end products and services.
- **Cash flow:**
  Whether you opt for turnkey software to run your POS program, or turn to an outsourcer, a swift, accurate, and flexible credit-decision engine means less time between closing a sale and getting paid.
- **Fees:**
  The greatest fee advantage in in-house financing is reserved for businesses that use lending technology rather than an outsourced solution.
- **Customer base:**
  Having consumer financing — especially when it lets your business set its own criteria — means you can attract buyers who might either struggle to qualify for personal loans, or feel disinclined to commit to a lengthy wait period for approval.

- **Customer experience:**
  Don't underestimate the marketing value of providing an effective POS program. People talk, and they talk a lot about their good and bad retail experiences. A smart, customizable financing program helps create customer loyalty and long-term relationships.

Having invented e-commerce, and transformed banking and investing, financial technology is rapidly altering the lending landscape, making POS financing more prevalent, more attractive to customers, and easier for sales and support staff to use.

In the US, demand for in-house lending is growing at a much faster clip than traditional financing vehicles such as credit cards. More precisely, POS financing grew from $49 billion in 2015 to $94 billion in 2018 (inclusive), for a compound annual growth rate of 24%, says the consulting firm McKinsey. By 2022, McKinsey sees the US POS lending market accounting for $162 billion for a further CAGR of about 20%. Globally, this market may already have topped $400 billion, according to other industry sources.

## Increase Retail Sales Through In-House Financing:

**So what's fueling this impressive growth? At root, two things:**

1. The advent of cloud and mobile functionality focused on retail financing. Technology has changed the game for brick-and-mortar retailers of all sizes. Smart, user-friendly technologies backed by advanced underwriting methodologies help traditional retailers compete effectively with e-commerce giants.

2. Mounting distrust of credit cards, especially among consumers under 40, who are likely to see them as a path to long-term indebtedness. Credit cards saw 7% CAGR in the years 2015 to 2018, and 6% CAGR in the years 2019 to 2021, and store-branded credit cards grew at a compound yearly rate of 5% in 2015-2018 and 3% in 2019-2021, says McKinsey.

# Appealing to Consumers with Technology for Better Retention:

**For consumers, tech-assisted in-house financing has several advantages, such as:**

- **It's fast and easy:**
  In-store loan applications are processed quickly, at any point of sale, before a purchase occurs — ditto for online purchases.
- **It's getting popular:**
  Thanks mainly to retail giants like Amazon and Walmart, which offer POS-financing options for online checkout, shoppers and sellers are more aware than ever before of POS-financing options, especially for bigger-ticket items.
- **It's dynamic and up-to-date:**
  Lending-software firms like TurnKey have automated administrative functionality and they've improved credit origination and processing with artificial intelligence and customizable scoring models.
- **It's not a credit card:**
  Millennial and gen-Z consumers, many of them anticipating or already struggling to meet student-loan obligations, are warier of credit-card debt than boomers.
- **It's a positive step:**
  Rolling lockdowns enacted to slow the spread of the coronavirus have also slowed global supply chains and commerce. Fighting back, some retailers are providing new financing options against an economic backdrop of a sharp recession and record unemployment.

## MAKING IT AS EASY AS POSSIBLE

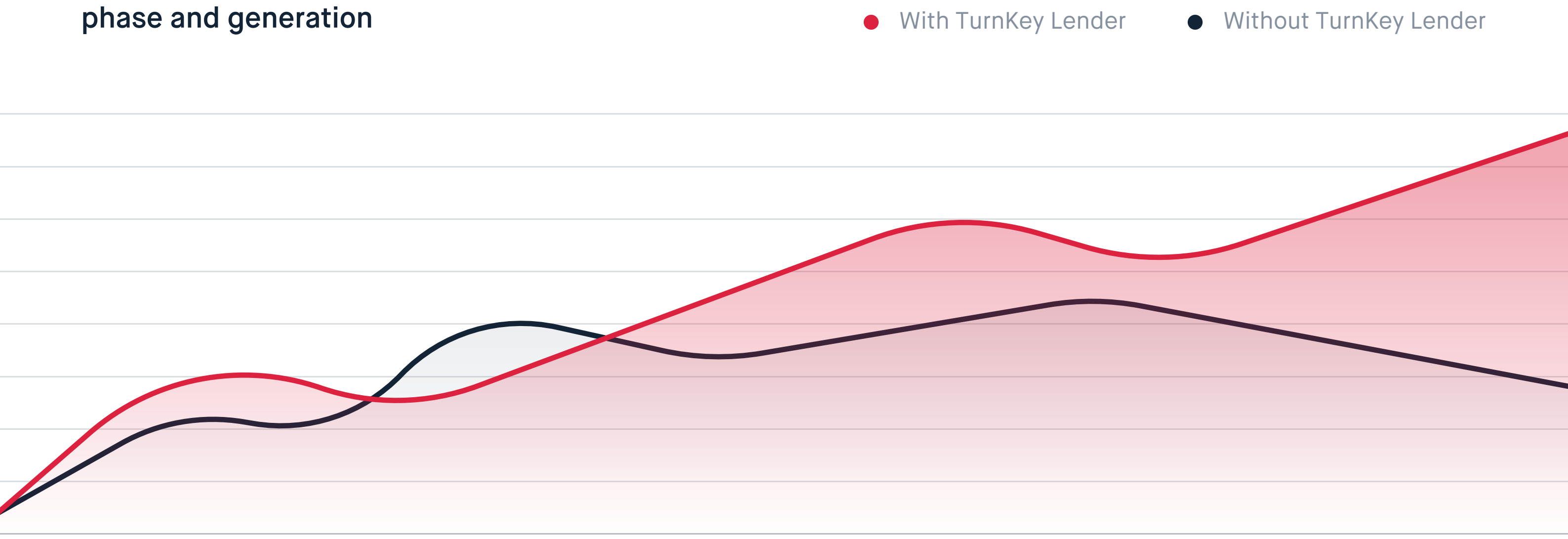
Convenience also contributes to the rise of POS financing. More than three-quarters of consumers surveyed by Citizens Financial Group in 2018 said access to a "simple and seamless point-of-sale experience" would increase the likelihood of their funding purchases through payment plans — overtly in preference to whipping out a credit card.

"Consumers want a simple and straightforward experience" when making financed purchases, Citizens says in its survey. This finding supports the bank's view that retailers should "modernize their payment model" by soft-pedaling credit cards and favoring POS installment financing.

Again, it may come as no surprise that younger consumers are leading the migration to POS financing with, says market-research firm Roy Morgan, those under age 40 accounting for three-quarters of such activity in Australia.

## TurnKey Lender Retail solution allows anyone to provide instant credit to their clients with an intuitive user interface and a proprietary AI-powered Decision Engine that ensures the lowest possible credit risks with the biggest potential growth spread.

**Channel preference by loan phase and generation**




## FINANCE RESEARCH INSTITUTE ON THE GENERAL STATE OF POS FINANCE

# $391B

According to
**The Financial Brand Research**

# HOW CONSUMER FINANCING WORKS FOR YOUR RETAIL BUSINESS

Usually, consumer financing is a credit that gets paid out in a matter of months in equal installments. You charge the down payment and collect the payments with interest every month. The reason why for decades most businesses outsourced financing to banks, credit unions, or alternative lenders was that evaluating credit risks accurately used to require analytical capabilities of an underwriting department.

Nonetheless running your own financing program becomes more and more popular with automation taking care of risk evaluation, credit decisioning, origination, servicing, collection, and reporting. That said, there are two fundamental approaches to consumer financing – in-house financing or involving a middleman in the form of a third-party that will finance the clients for you.

The same way launching an e-commerce store became available to anyone, bank-grade lending automation isn't only accessible to large-scale traditional financial institutions anymore, with advanced SaaS providers, like TurnKey Lender, offering intelligent end-to-end automation of lending to businesses in all verticals. Ready-made solutions which are as easy to deploy and operate and don't put a strain on the operational cost thanks to advanced AI doing all the heavy lifting behind the scenes.

## Retail Financing: In-House vs Outsourcing

Outsourcing financing to traditional and alternative lenders has been the only viable way to offer financing at scale and not dedicate an entire department to managing loans. Using a third-party means involving a middleman that, at best, keeps just a part of the interest. In that scenario the client doesn't have a relationship with you past the sale, it's with the bank.

And for some businesses that's the right way, because administering the loans yourself means that you remain in control of the entire operation and take on all of the risks yourself. After all, that's the reason why up until recently only a large financial institution would be able to run all the checks and accurately evaluate the credit risks of each application.

It's evident though, that in the digital age, crediting is becoming embedded into the operations of any business rather than a service from a third-party. As lending technology becomes developed enough to provide the market with intelligent easy-to-use SaaS solutions, business owners can finance their clients directly, originating the loans, servicing, and collecting payments on autopilot. While involving a third-party lender in this process may result in delays, loss of data, and reduced repeat sales.

Retailers are left with the mission-critical choice of how to go about providing this dynamic financing alternative. Essentially, they have to decide whether to hire an outsourcer or do it themselves.

**The first option — outsourcing — is great for retailers eager to avoid:**

- Having to wait for the money. For businesses that use POS-financing outsourcers, loan settlements are between the outsourcer and the customer. The retailer gets paid in whole quickly.
- The intricacies of underwriting. With an outsourcer on deck, risk assessment and "decisioning" is built in.
- Complicated financing. Outsourcers are great for "no frills" POS financing; less so for retailers who want to probe alternative credit scoring, offer specials and other incentives in POS-lending programs to reach customers who — though not risky — might not qualify for financing using traditional underwriting rules.

Among POS outsourcers are Affirm, Bread, Lightspeed and, most famously perhaps, Square. The go-it-alone option sounds daunting until you realize fintech companies like TurnKey Lender and nCino cater to this growing market with advanced, cloud-based lending functionality for POS financing — and in TurnKey Lender's case, this proposition extends to small and midsize retailers of all types, not just the big guys.

Backed by best-practice workflows along with advanced credit-scoring and decision analytics, Turnkey Lender offers a number of advantages over other POS solutions, including:

- Improved portfolio yield from technology that lets retailers optimize portfolio yield by working only with the most profitable customers along with predictive models to pinpoint optimal rates and terms.

- Increased operational efficiency that's supported by artificial intelligence to enable fast and smart decisions.
- 24/7 IT support and customer service to answer your questions in real-time.
- Mobile-lending capabilities via secure web app for on-the-spot customer service whether you're at a cash register or at the far end of a vast showroom.
- Affordability due to its modular structure. With TurnKey Lender, you can start small and add functionality as needed.
- Scalability that lets your POS-financing program grow along with your business.

Another reason many retailers prefer fintech providers like TurnKey Lender over outsourcers is flexibility. Sign up with an outsourcer and in most cases, they make the rules around loan durations, financing types — loans, leases, or lines of credit — and interest rates. That makes it harder for retailers to tie purchasing incentives such as lower rates, grace periods, and promotions to their financing programs.

Last but by no means least, there is of course money to be made from lending. Retailers that choose outsourcers as their partners in POS financing share the fees borrowers pay with these providers. Those that opt for a technology provider typically pay a subscription for the software-and-service package but keep the fees for themselves.

The in-house approach doesn't just give retailers a "say" in what fees their customers will pay, it gives them total control over them.

In business, losing control means losing money. So if you're thinking about providing point-of-sale, or POS, financing to increase your retail sales, you need to understand how taking control of fees can benefit your business by making financed purchasing more efficient, boosting customer loyalty and securing customers' private information.

## Tech-enabled, In-House Options Offer Full Control Over the Financing Options:

But more and more retailers are choosing cloud-based lending technology for POS financing over outsourced solutions. This offers several advantages, including:

- **Enhanced data integrity and security.**
  All client data is held strictly between your business and its customers so you can cater to clients who demand complete confidentiality. You also run no risk of customers getting lured away by competitors introduced to them on the loan-servicing web pages of third-party lenders.
- **Less checkout dropoff.**
  A simple checkout process that doesn't call for submitting additional applications to third parties increases the chance of the customer deciding to back out of the transaction.
- **Sensitive underwriting rules.**
  The retailer sets its own criteria for credit decisions and controls which customers they want to approve while ensuring that your interest rates are both profitable and adequate through risk-based pricing.

Another important factor is the ability to use customers' transaction records for more accurate credit decisions which may result in:

- Operational efficiency supported by artificial intelligence to enable fast and smart decisions.
- Optimized portfolio yield with technology that helps retailers identify the most profitable customers on the most favorable terms.
- No transaction fees payable to third-party lenders — which can be as high as 15%.
- Encrypted apps to ensure secure functionality at any location there's wifi or mobile data.

An in-house approach to POS financing can also enhance brand loyalty. Using fully supported white-label technology, you don't have to worry about customers getting confused by third-party documentation. In this model, touch points between the retailer and its customers can be opportunities for upselling and cross-selling, as well as enrollment in loyalty programs.

In-house lending can also bring artificial intelligence to bear on credit decisions. This can, in turn, provide more scope to approve loans in low-credit-risk retail sectors, such as healthcare. Third-party lenders can cost their clients on this front, rejecting applications with a historically strong likelihood of tipping into default.
This consideration highlights the fact that, along with points in favor, there are cons endemic to both approaches.

Using a third-party lender can mean depending on that company's underwriting criteria with no control over such decisions. It can also compromise brand loyalty, lead to higher drop-off rates in reaction to onerous and time-consuming applications and hamper a retailer's ability to use data derived from many transactions to improve customer experiences.
Using an in-house lending solution means carving out an in-house credit department. And instead of collecting the purchase amount immediately, payment in full is deferred until the loan is retired.

## How to Choose the Technology to Run Your Retail Financing Program:

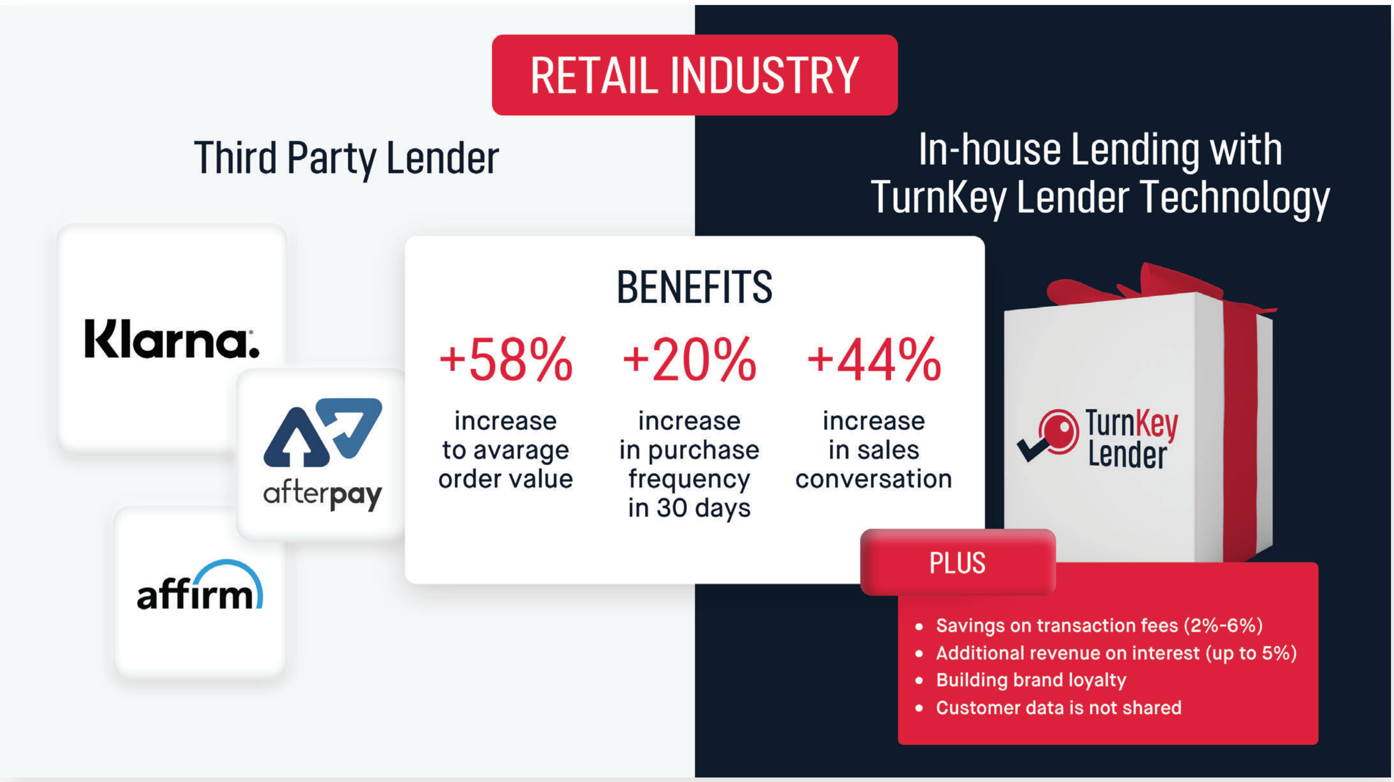
Launching a customer financing program shouldn't be a massive technological undertaking anymore. And the process for the client should be painless, so they want to come back.
Enrolling for a payment plan, getting approved, and receiving your purchase should all be done from an intuitive interface of a modern SaaS, not in Excel tables or on paper. The reliability, usability, and intelligence of your operation all depend on the system you end up using to automate lending. Look for a solution with:

- **Built-in decision engine** – the platform needs to have a flexible decisioning flow that can be adjusted to your business logic and to filter out potential defaulters early on.
- **Scalable infrastructure** to process as many loan applications as needed without skipping a bit.
- **Affordable pricing** – TurnKey Lender offers lending as a service platform where you pay a subscription fee based on the number of loans you successfully process.
- **Simple learning curve** – both borrowers and employees are used to Amazon-level customer experience, modern lending platforms are built in accordance with the latest design best practices.
- **Integrated solution** – to streamline the business operation, a single platform should be the central hub of all intel and analysis. Get a platform that combines multiple functions and allows for simple API integrations with different data sources, tools, services.
- **Available from the cloud** – look for a platform that you can deploy on the cloud to be accessible to your staff and clients from anywhere and on any device.

- **End-to-end lending automation** – find a solution that allows for automation of the specific parts of the lending process as well as its entirety.
- **Proven track record** – make sure that the provider has proven previous experience with similar projects and recognition from the industry.
- **Regulator-ready software** – make sure to talk to a local regulations expert to see how selling your products in installments is regulated where you operate. For example, in the US, there's no need for FCA approval if you operate a business-to-business service and you offer financing services only to other incorporated businesses (not sole traders or small partnerships). Once you know the rules, make sure the system can suit that.

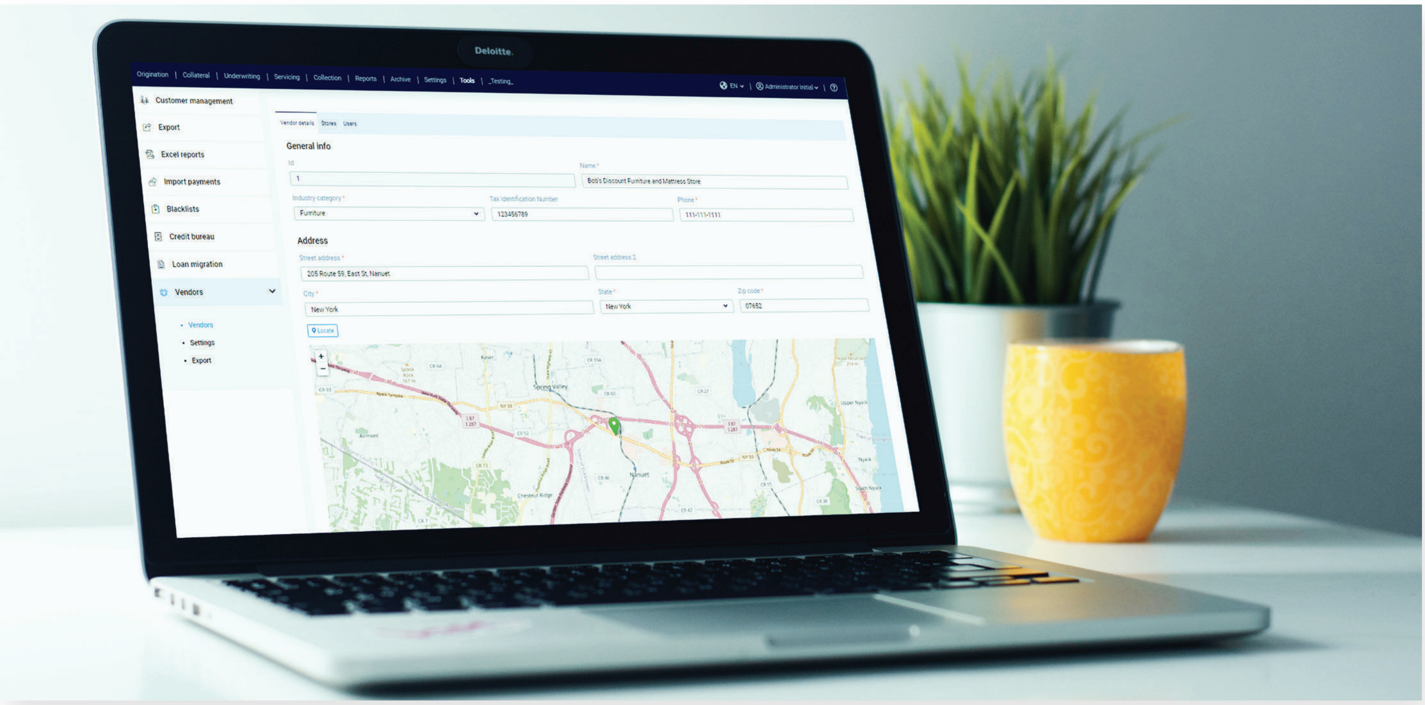
## RETAIL FINANCE WITH TURNKEY LENDER

TurnKey Lender Retail solution allows anyone to provide instant credit to their clients with an intuitive user interface and a proprietary AI-powered Decision Engine that ensures the lowest possible credit risks with the biggest potential growth spread.




The cloud-based platform incorporates retailers' order processing automation, business logic, and customer portal needs in a single, integrated solution. And since retailers aren't lending experts, we make sure the process is 100% automated.

# TURNKEY LENDER FOR RETAILERS PROVIDES:



- End-to-end lending processes automation that can be up and running within a day.
- A cloud-based SaaS platform accessible to borrowers and employees from anywhere and from any device.
- Comes with an AI-driven Decision Engine built-in. It includes proprietary scoring models and preconfigured integrations with major credit bureaus and bank statement providers. All this data processed by the machine learning algorithm allows for unmatched credit decisioning accuracy.
- Lending automation with zero coding required. All configuration is done in a matter of clicks through the built-in Turnkey Force tools.
- Advanced Vendor Management module for work with separate stores and merchants.
- Create an unlimited number of credit products with granular settings to meet the specific customer needs, product details, and taxation requirements.
- Different versions of the solution by business domains (retail, auto, medical) allow you to find the optimal fit for your operation. And if you need custom functionality or advanced adjustments, our team is there to tune the platform to your exact specifications.

- Intuitive workplaces for the employees and a Borrower portal. Every user of your TurnKey Lender platform will have a dedicated workplace with only the features they need available to them. And the borrowers will be able to track, repay, and apply for new loans in the Borrower portal.
- Unify all web products and services with simple API integrations. - Other than the 75+ pre-configured integrations, TurnKey Lender comes with an advanced API client that allows you to integrate with any third-party products or services in a matter of clicks.

TurnKey Lender is pre-configured for intelligent automation of different credit products and lending models from a single platform allowing a variety of business models from retail finance and leasing, to renting and selling your own services with installment plans.

## UNDERSTANDING THE RETAIL FINANCING PROCESS WITH TURNKEY LENDER

With TurnKey Lender, you can put customer financing on cruise control and focus on using it as a sales tool for business development. The entire consumer financing process can be as simple as that:

- Communicate the details of your consumer financing program to your clients.
- Convert leads through the configurable built-in application form.
- Make a credit decision based on the intel the platform gathered.
- Collect a down payment and approve the loan.
- Receive payments automatically with the periodicity you agreed upon with the client.

All the data is then stored in the platform and can be exported for reporting or analyzed internally with built-in tools.

# FINAL THOUGHTS ON GROWING YOUR BUSINESS WITH RETAIL FINANCING:

Retail financing already surpasses $100 billion a year. It's fueled by FinTech-enabled intelligent innovation, customer convenience, and the ever-growing acceptance of financing technology.

**Implementing a digital consumer financing program allows you to:**

- Reach wider audiences thanks to the financing program making your product more affordable.
- Add a new selling point for your products for marketing purposes.
- Move your business operations online, collecting all the data in one place and allowing for advanced analytics.
- Eliminate the middlemen in the form of a bank.
- Build lasting relationships with returning customers who you can target with special offers, upsell, and cross-sell opportunities.
- Increase profits by making it easier to buy more expensive things.
- Regular payments you'll receive from borrowers will build a stable income source that combats income seasonality.

Retail financing is a business opportunity that will grow your bottom dollar while allowing for a payment option that customers are now expecting. TurnKey Lender can make this process automated and easy to manage and scale. Reach out to our team today to see how this will work for your business.

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