



Buy Now Pay Later for Businesses – Too Good to be True?

As the latest funding trend of Buy Now Pay Later moves into SME business financing, don't be lured in by the headlines of no application fees, no monthly service fees, no early repayment fees and no interest fees.

Remember the old saying "If it sounds too good to be true, then it probably is"? In this case, in the majority it is.

But how can that be?

Well firstly let's look at how it works.

Zip Business is one of the largest players in the market offering business loans up to \$150,000¹.

There are two ways to use your Zip Business loan account:

1. At any of the 35,000 suppliers who accept Zip as a payment method
2. Settling your bills using BPay from your loan account, allowing you to utilise the loan with any supplier

Importantly, each transaction is treated as a separate loan within your account.

So, is it interest free?

Well sort of...

If you repay your transaction by the end of the following month you can 'skip the interest'.

This is like a traditional credit card that typically provides 55 days interest free.

How do they provide this free of charge? Well if they're not charging you, they're probably charging someone else. In this case they are charging the supplier a merchant fee for utilising the service. While merchant fees vary between suppliers, they are generally 2% to 3% of the transaction value.

This is how the 'cheaper for cash' concept was created. When a merchant service is utilised, such as a credit card or Zip payment, the supplier needs to recoup the additional cost to their business to make the same profit.

Here's the catch – and there are two

1. If you settle your accounts using the BPAY option, there is a one off merchant fee of 1.95% of the invoice value plus the BPay processing fee. The supplier does not receive the merchant fee.
2. If you cannot repay the loan by the end of the following month, you can automatically move to a repayment plan of 4 equal monthly instalments for a one-off extension fee of 3%.

What's the real cost?

Three percent – sounds cheap – but is it really?

Well 3% is the cost of repayments within a 4 month period, so initially you could think this equates to 9% per annum. However the actual average interest rate is 19% per annum! Now that's a credit card interest rate and it's not surprising because this loan is unsecured in a similar manner to a credit card.



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Worse still, if you're using their BPay option, when you add the 1.95% the average interest rate blows out to just over 30% per annum.

In this instance, it could be more affordable to use a credit card – or better still, we can help you with other business finance options.

Still sound cheap?

Managing your finance options

Ideally when acquiring assets or stock for your business you will always have the strongest purchasing power when you are paying upfront or with cash. We would all like to be in this position, however it may not always be achievable.

There could however be more appropriate financing options available for your business. While the nature of each business differs, alternative funding options such as a traditional line of credit could provide both a more affordable option with greater flexibility.

A line of credit typically comes with a lower interest rate. Security is generally provided therefore reducing the risk to the lender. Additionally, a line of credit will provide greater flexibility in repayment terms. Provided your line of credit remains below your approved limit, your repayment options become significantly greater and not limited to four equal repayments.

In addition, these funds are available instantaneously and afford you the purchasing power of upfront payment in a similar manner to cash by maximising your negotiation power when it comes to purchasing.

What are your funding alternatives?

Your most appropriate funding option is not necessarily always associated with the lowest interest rate. You should not jump into the first available option that sounds affordable – cheap – or as suggested above.

There are various funding options available for businesses. Contact us for our topic sheet Available Business Financing Options to learn more.

It is best to consider all funding options from a range of lenders to determine the financing option most appropriate for your business. Should you wish to explore these options, as your finance specialist, we will be able to help you to determine the range of options available and the benefits to assist you with the application and settlement of the loan.

Remember to contact us to read our topic sheet **'Available Business Financing Options'**



1. Zip Business - zip.co/au/business/ziptradeplus