Finance Mutual

How To Set Up and Offer Financing to Customers?

Part 1

09
months
06
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12
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03
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18
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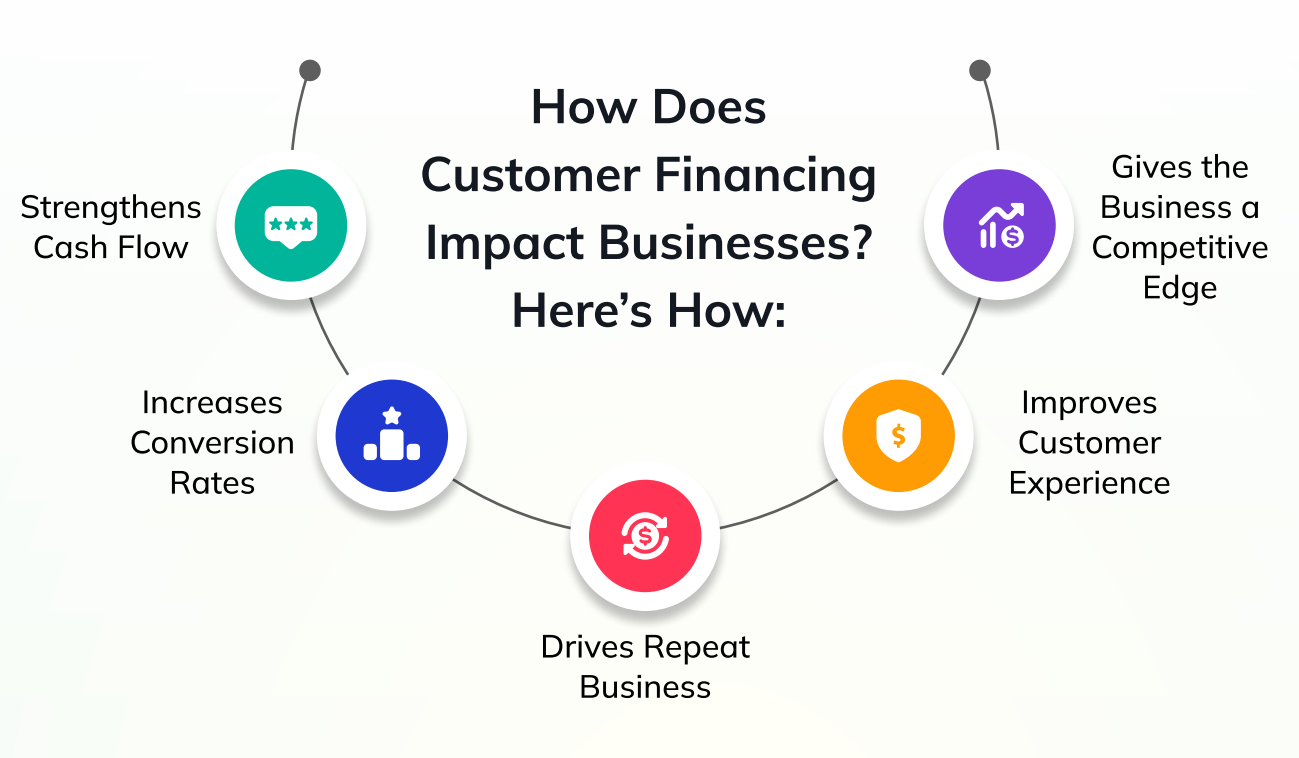
Introduction

Businesses that offer flexible financing demonstrate 20-30% increase in conversion rates on average!

In today's competitive marketplace, it has become essential for businesses to offer financing to customers. Flexible financing and payment options enhance customer satisfaction and drive revenue.

> Suppose a customer finds their desired product available with two different merchants. Merchant A wants them to pay the entire amount upfront, while Merchant B offers to finance their purchase. With merchant B, they can buy the product at one-fourth the cost and pay the remaining balance later. Which merchant will they choose?

The answer lies in the concept of Customer Financing and its significance in the customer journey.



How Does Customer Financing Impact Businesses? Here's How:

Strengthens Cash Flow
Increases Conversion Rates
Drives Repeat Business
Improves Customer Experience
Gives the Business a Competitive Edge

A Deep Dive Into Customer Financing

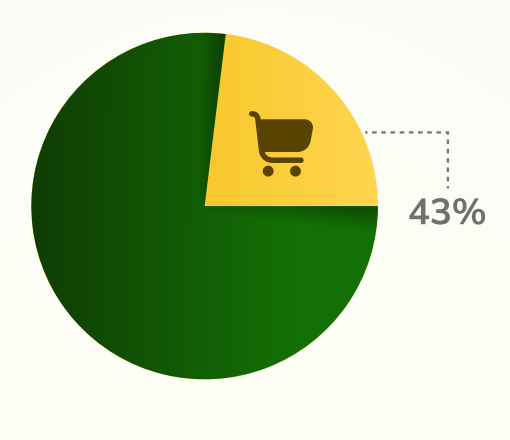
Customer financing is a solution that businesses offer to customers to allow them to pay for products or services over time rather than in a lump sum. Customer financing options aim to make purchases more accessible through payment flexibility.

It is as simple as offering debt for everyday essential goods and services. Customer financing has become imperative for businesses, as it allows customers to purchase things they otherwise would not, due to budget constraints or to achieve better financial management.

Data-Driven Insights into Customer Financing Trends

According to Research by PYMNTS, 43% of customers choose retailers based on preferred customer financing options.

The Financing Gap:
Why Customers Walk Away



FinanceMutual, for example, is a smart, AI-based customer financing SaaS platform that tailors payment plans to fit the financial reality of the customers. It uses the AI approach to enable intelligent, dynamic, and data-driven solutions to businesses. As the demand for seamless financial services increases, the adoption of financing solutions will continue to take over various sectors - e-commerce, retail, healthcare, education, hospitality, and more.

> According to the Finance & Leasing Association (FLA), consumer financing adoption increased by 13% in March 2025 compared to the same month in 2024.

This indicates that customers are actively using credit to bridge the gap between desire and affordability. Customer financing is becoming popular and mainstream. Since customers are increasingly expecting flexible payment plans, businesses can stay competitive and meet demand by adopting customer financing solutions.

Why It Pays To Offer Financing to Customers

Offering customer financing options is not merely about adding another payment method. It helps businesses fundamentally reshape the buying journey and unlock new growth levers in the following ways:

Combat Sticker Shock
Breaking down a large upfront amount into easy, manageable payment plans makes buying a product or service more manageable.

Enable Larger Purchases
When customers know they can pay over time, they are more likely to upgrade or purchase complementary products or services. This boosts the average order value and transaction size.

Improve Cash Flow
With the right financing partner, businesses can offer customers time to pay while receiving consistent funds, keeping cash flow steady, and operations running smoothly.

Differentiate the Brand
Flexibility in payment can be a key differentiator in competitive markets. Businesses offering flexible payments position themselves as customer-centric and forward-thinking brands.

Build Customer Loyalty
Positive financing experiences lead to better customer loyalty and net promoter scores (NPS). Secondly, having an ongoing payment relationship with customers fosters continued engagement.

The remarkable benefits of customer financing make business owners wonder,

"How Do I Start Offering Financing to My Customers?"

Offering customer financing options is a wise and thoughtful decision to achieve better business results. It may seem like a complex task, but with the right financing platform and structured approach, financing is achievable for any business. Here, we break down the process of implementing customer financing into easy steps:

- **Step 1:** Defining Financial Goals
- **Step 2:** Choosing a Model To Offer Financing to Customers
- **Step 3:** Selecting a Customer Financing Solution
- **Step 4:** Setting Up Terms To Offer Financing to Customers
- **Step 5:** Integrating Financing Into the Workflow
- **Step 6:** Launching And Monitoring Performance

The 1st edition of this white paper thoroughly discusses the first two steps, highlighting the various kinds of customer financing, ways to figure out the most important financing goals, the different customer financing models, and the key deciding factors behind setting this up.

Step 1: Defining Financing Goals

This is not simply a technical decision, it is a strategic one. Before deciding on the technical aspects of financing, such as platforms, terms, or APIs, a business should evaluate why it wants to offer customer financing options in the first place. Aligning the financial strategy with specific business goals can guide and impact the most important decisions. For example, a small business customer financing would differ from that of a mid-sized or large business.

Financing That Works for Everyone—Including You

The following are the most common strategic goals businesses aim to achieve when they decide to offer financing to customers, and how financing impacts each.

Increase Conversion Rates

Customer financing options remove the friction of upfront payments, especially for price-sensitive customers. The ability to "buy now, pay later" (BNPL) or pay in timely installments boosts conversion rates and prompts the customer to purchase.

Tactic: When a business offers monthly payment options, it helps reduce sticker shock and makes services feel more affordable, for example, "Complete your home remodel for just $189/month with financing."

Improve Customer Experience And Accessibility

Customer financing helps in selling more and selling better. It makes essential services accessible to customers who might otherwise delay or not make the purchase due to high costs. Industries like education, healthcare, and home services utilize this advantage to enhance customer experience and provide accessibility.

Tactic: Pairing financing with transparent terms and conditions with no hidden costs to improve trust.

Accelerate Payment Reliability And Cash Flow

Delayed payments are a major strain in B2B industries. The decision to offer financing to customers allows businesses to receive consistent monthly payments (if working with a third-party lender) while the customer pays over time. This streamlines cash flow and reduces accounts receivable risks.

Tactic: Offering customers the option to pay monthly while the business receives consistent monthly payments from a financing partner like FinanceMutual.

Strengthen Customer Loyalty And Repeat Purchases

Customers with positive purchase experiences are more likely to return and make repeat purchases, strengthening customer loyalty.

Tactic: Creating email campaigns with personalized financing options for previous customers to encourage repeat purchases.

Step 2: Choosing a Model To Offer Financing to Customers

The right type of financing for a business depends on many factors - industry, cash flow, customer needs, etc. Each type has its benefits, trade-offs, and best-use scenarios.

→ In-House Financing

In-house financing means the business itself provides credit to its customers. Here, the business manages all aspects of the financing process, from application and approval to repayment and collections.

With in-house financing, the financing process becomes quicker and more affordable as there is no additional fee. The business needs to carry out suitable credit checks to offer financing to customers since it carries the entire risk of non-payment.

Best For:
Businesses with sufficient infrastructure and capital to manage financial risk. Examples include automobile, HVAC services, medical and dental services, education and training, etc.

Advantages:

- Complete control over the financing process, repayment terms, and interest rates.
- A chance to increase revenue through interest amounts.
- Enhanced customer relationships.

Disadvantages:

- High risk if customers default.
- Requirement of robust internal infrastructure.
- Complex regulatory requirements.

→ Third-Party Financing

Unlike in-house financing, third-party financing involves a financing company or fintech provider. A business partners with this financing provider, who undertakes the credit risks and handles the financing process on behalf of the business.

Third-party financing services are integrated into a merchant's app or website to offer financing to customers. The lender makes the credit checks on customers and approves the loan or financing option.

The customer pays the third-party lender, who further manages the repayment schedule. This way, the business receives the payment while the lender handles the complexities of the financing process.

Best For:
Businesses that do not want to take on financial risks.

Advantages:

- Improved cash flow as the business receives upfront payments.
- Low or no financial risk for the business.
- Easy integration with existing platforms.

Disadvantages:

- Third-party providers charge a fee or acquire a percentage of the transaction.
- Reduced control over customer experience and approval decisions.

→ Buy Now, Pay Later (BNPL)

Buy now, pay later is a short-term credit option that lets customers pay for a product or service in installments spread over a certain period. BNPL credit is typically interest-free if customers pay on time, making it suitable for customers who have smaller budgets.

The BNPL provider manages the installments and ensures the merchant receives the payment upfront. It often integrates with payment gateways and presents BNPL options to offer financing to customers.

The BNPL provider conducts credit checks on customers, determines their eligibility, and charges the merchant a fee per transaction.

Best For:
E-commerce and retail businesses catering to budget-conscious consumers.

Advantages:

- Increased conversion rates and average order value (AOV).
- Fast approval process.
- Easy for customers to use and understand.

Disadvantages:

- A significant percentage is charged per transaction.
- Not ideal for high-ticket purchases.
- May present integration and implementation challenges.
- May cause customer debts and potential payment defaults.

→ Credit Card Partnerships

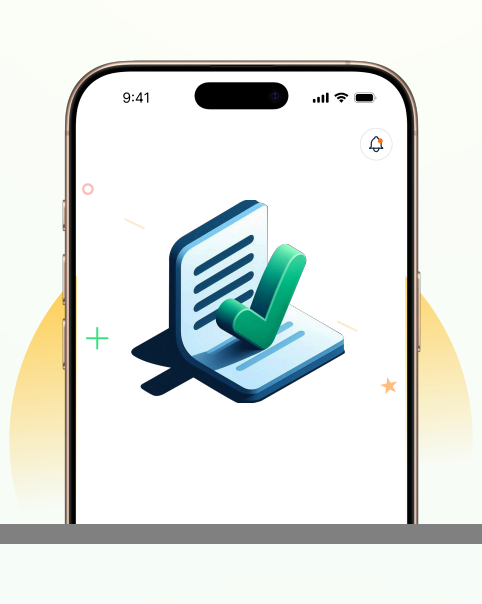
In credit card partnerships, businesses partner with credit card providers or banks to launch co-branded cards and offer financing to customers. These cards offer promotional financing offers and incentives, increasing customer loyalty.

Some co-branded cards offer redeemable points, which can be used to buy other rewarding services or complementary benefits. This drives better customer acquisition and loyalty.

Best For:
Large businesses or retailers that have repeat purchase potential

Advantages:

- Increased customer loyalty.
- Valuable data insights about purchase behaviors and preferences.
- An additional source of income from shared revenue.
- Extended customer reach through the card provider's network.
- Enhanced reputation leading to more trust from customers.



Disadvantages:

- Customers may not be approved based on their credit history.
- Negative customer experiences can reflect on the business.
- High dependency on the card issuer.
- There is a risk of financial risk if the card provider does not perform well in the market.

Key Deciding Factors: Final Thoughts

A business's customer financing model is not set in stone. A business may opt for an in-house financing model to exercise complete control over financing, or choose a third-party solution to begin financing quickly. The most important thing is to select a model that aligns with the resources and risk appetite of the business model.

> Watch this space to read Part 2 of this whitepaper for the next steps in the customer financing journey. Part 2 will explain how to select an appropriate technology partner, the best customer financing options in 2025, ways to set up the terms and conditions of financing, embedding it in the workflow, and launching and monitoring a successful customer financing model.