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Major Retailers Scrapping Layaway: Good News for Retail?

Oct 06, 2021 by **Nell McPherson**

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Whether on a tight budget or just budget-minded, many shoppers have long taken advantage of the layaway programs at major retailers to make bigger-ticket purchases more manageable. It's been an easy, interest-free way to gradually pay off an item before finally taking it home.

Layaway has been an especially popular option for holiday gift buying. Shoppers could start getting everything crossed off their lists a little (or a lot) early, depending on how much time they needed or wanted to pay everything off. And the perfect gift seemed much more attainable when splitting the total up into several payments.

But now, some major retailers have been busy crossing layaway off *their* lists. Let's explore why that is, what they're offering instead, and what the investor impact might be.

The alternative

An increasing number of consumers have been taking advantage of buy now, pay later (BNPL) programs in lieu of putting things on layaway. These apps work a lot like a credit card, letting buyers take home items now and make payments later, and purchases are often interest-free. Biweekly payment cycles are common to coincide with how most people are paid. And as you might expect with anything tech, younger shoppers in particular prefer these apps over using a credit card.

Meanwhile, the tech elves at **Walmart** (NYSE: WMT) have been busy quietly taking all traces of layaway down from its website. Instead, customers will now find links to and a video about BNPL service Affirm. Customers can use Affirm to purchase online or install the app on their phones and scan items in store to buy in person. Similarly, **Macy's** (NYSE: M) rolled out BNPL provider Klarna on its website last year and now also accepts the payment method in stores.

A happy holiday for retailers -- and investors

From clogged supply chains to labor shortages, retailers have a few concerns about how this year's holiday shopping season will play out. They need every advantage they can get right now. And as it turns out, accepting these BNPL arrangements is a huge advantage.

Global investment bank RBC Capital Markets estimates that participating retailers see conversion rate increases of 20% to 30%. That means that when allowed to use these financing apps, 20% to 30% more window shoppers become purchasers.

And it gets better. The firm also estimates that the average shopping cart total for customers buying with these programs is a whopping 30% to 50% higher than it would be without them.

It's becoming clearer now why retailers were in such a hurry to make layaway go away and redirect customer attention toward these apps.

The Millionacres bottom line

On its surface, getting rid of layaway altogether sounds like a terrible idea. But because changing consumer habits are the primary driver behind this move, it makes sense. Unlike holiday gifts, the other big-ticket items customers put on layaway were generally things they really wanted right away but simply couldn't afford to pay for on the spot. These apps solve that problem.

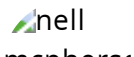
Toss in the impressive numbers retailers taking advantage of this option are seeing, and it seems unlikely that BNPL is a passing trend. And that should make retail investors feel a bit cozier this holiday season.

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