Exploring the potential of the subprime furniture retail market

An in-depth look at how consumers with credit challenges shop and pay for furniture

snap finance

Closing the gap for furniture shoppers with credit challenges

It's likely an everyday occurrence at your store. A couple spends the better part of an afternoon shopping for the perfect sofa, only to find nothing that fits their budget or have their application for financing denied. For furniture retailers and the more than 1 in 3 consumers with low or subprime credit scores,[1] it's an all too familiar scenario.

Snap Finance wanted to learn more about this important customer segment, including its impact on the furniture market. Specifically, how does having credit challenges affect how people shop and pay for major furniture purchases?

We surveyed two consumer groups – those with and those without credit scores below 670 – to learn how they get the furniture they want and need – and to help furniture retailers like you better understand and reach this often-overlooked segment.

Highlights

1. **The subprime furniture market and your business**
2. **How consumers with credit challenges shop for furniture**
3. **How credit scores affect financing options and access**
4. **How the tertiary financing opportunity can open doors to new customers**
5. **Takeaways for furniture retailers**

1

The subprime furniture market and your business

More than 47 million Americans are considered subprime borrowers – up 1.2 million in the last year.[2] That's an increasingly significant number of customers who are shopping in your store and may be leaving empty-handed.

What lenders consider subprime varies, but a FICO® score below 670 can be a roadblock to securing traditional financing.[3] And according to Experian, more than a third of consumers fall in this category.[1]

35% of consumers have a FICO score below 670[1]

People have low credit scores for a variety of reasons, often involving financial mismanagement, unexpected life events, or a lack of understanding about how credit works. Some reasons, such as medical debt or a thin credit file, may be somewhat out of their control.

The impact of low credit or no credit

Having a subprime credit score is considered a relatively high credit risk for traditional lenders, which is why many consumers with credit issues struggle to secure new loans, credit cards, and/or other financing.

43% of consumers say their low credit score has negatively impacted them[4]

It can take years for a credit score to recover from late or missed payments, bankruptcy, or other negative items on a credit report. In the meantime, consumers with less-than-perfect credit still need to furnish their homes and want to shop their first-choice brands and stores.

Getting what they need

Inflation and a rising cost of living have likely led many consumers to rethink making big-ticket purchases, including furniture. However, Snap Finance found consumers of all financial backgrounds are shopping for furniture at similar rates.

24% of those with lower credit scores purchased furniture in the past six months – the same percentage as shoppers with higher credit scores[5]

Key demographics of furniture shoppers with lower credit scores

43% are millennials

56% are renters

53% work full-time

50% have an income below $50K

Source: Snap Finance 2024[6]

2

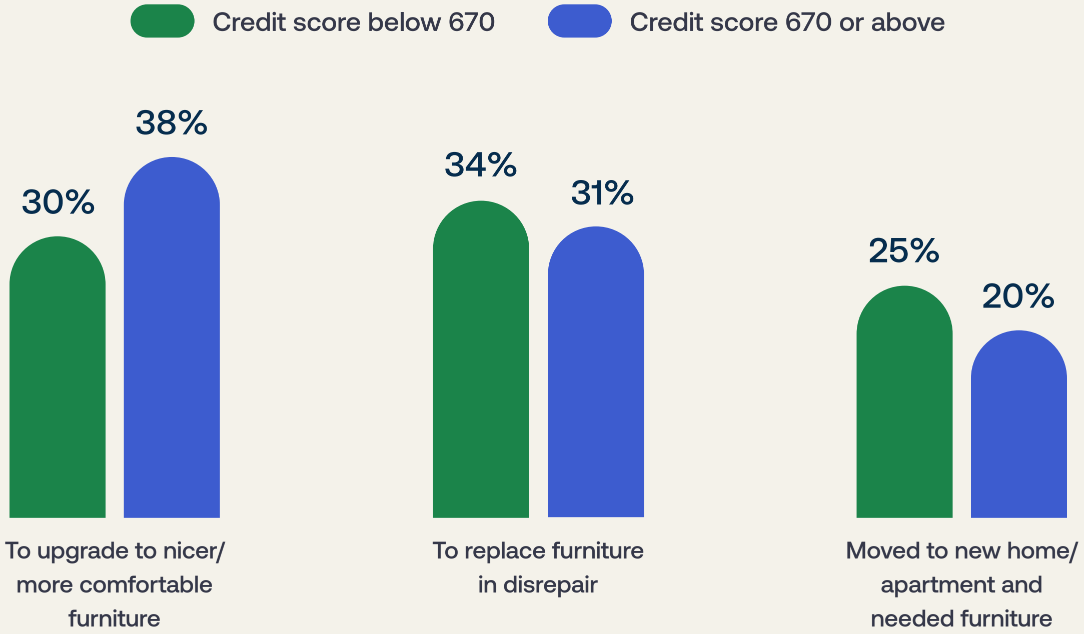
How consumers with credit challenges shop for furniture

Having a low credit score can significantly influence how people shop and pay for furniture, affecting everything from the quality and selection of furniture they can afford and the stores they shop to their available financing options. Shopping with low credit or no credit can also cause significant emotional stress and embarrassment. The anxiety of being turned down for financing or not being able to get the furniture you need for your family can be overwhelming.

Snap Finance looked at the shopping and purchasing behaviors of furniture shoppers and found several differences (and some similarities) in how consumers with credit scores above and below 670 shop for the furniture they need.

A key difference? **Most furniture purchases made by those with lower credit scores were driven by necessity, with 34% making their purchase to replace pieces in disrepair.** Most shoppers with higher scores were looking to upgrade to nicer or more comfortable furniture.

Why consumers purchase new furniture



snap finance

Findings based on proprietary research. Snap Finance, 2024.

Regardless of finances, the central living spaces of a home are a priority for most shoppers. Among all furniture shoppers, nearly 3 in 4 purchases were made for living or family room spaces. Bedroom furniture (46%) and dining room furniture (22%) were also popular purchases for those with lower credit scores.

Where they shop

When looking for furniture, here's where most consumers with lower credit scores shopped:

61% shopped retailer websites

56% visited physical stores

48% used a search engine

Consumers of all credit types comparison shop across several businesses before deciding where to buy their furniture. They may be searching for better deals, affordability, and/or financing options. Among online shoppers with lower credit scores, 91% visited more than one site, and 85% of in-store shoppers with lower credit scores visited more than one store.

About half (54%) of those with lower credit scores did extensive research about the product they were shopping for, compared to 71% of those with better credit.

The urgency of needs-based purchases may contribute to shorter shopping periods for credit-challenged consumers – 28% shop for up to three days compared to just 15% of those with higher credit scores. No matter their credit score, nearly four in 10 furniture shoppers shop three to 14 days for major furniture purchases.

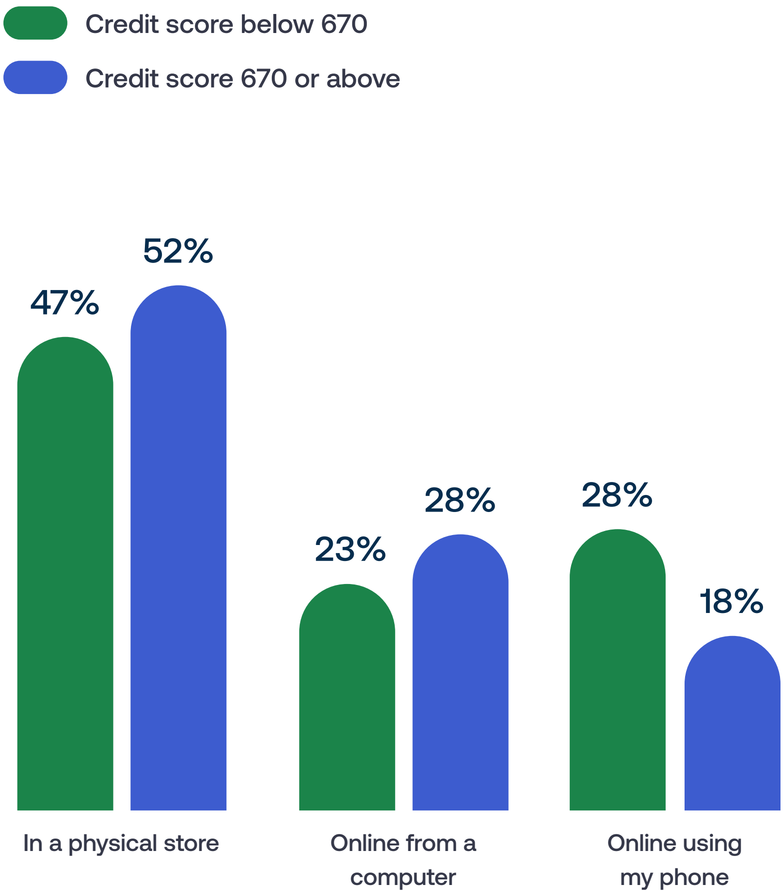
Making their furniture purchase

Having a lower credit score can significantly influence how shoppers approach their furniture purchase. One of the first questions shoppers of all credit types ask is: Where will I buy?

Online versus in-store shopping

Approximately half of all respondents made their recent furniture purchase from a physical store. Shoppers with lower credit scores showed a preference for purchasing online, most often from a smartphone (28%) rather than a desktop computer (23%).

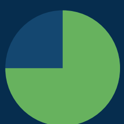
Online versus in-store furniture purchases



For credit-challenged consumers who prefer to shop in a physical store, 35% cited the desire to take home their furniture that day, compared to just 16% of those with better credit. Importantly, 22% of those with lower scores said wanting to talk to someone about financing options was a reason to shop in-store.

Top reasons for purchasing in a physical store

(Among those with lower credit scores)



75% Check out the product in-person before buying

35% Get questions answered in-store

35% Ability to take home purchase that day

23% Get better prices or deals

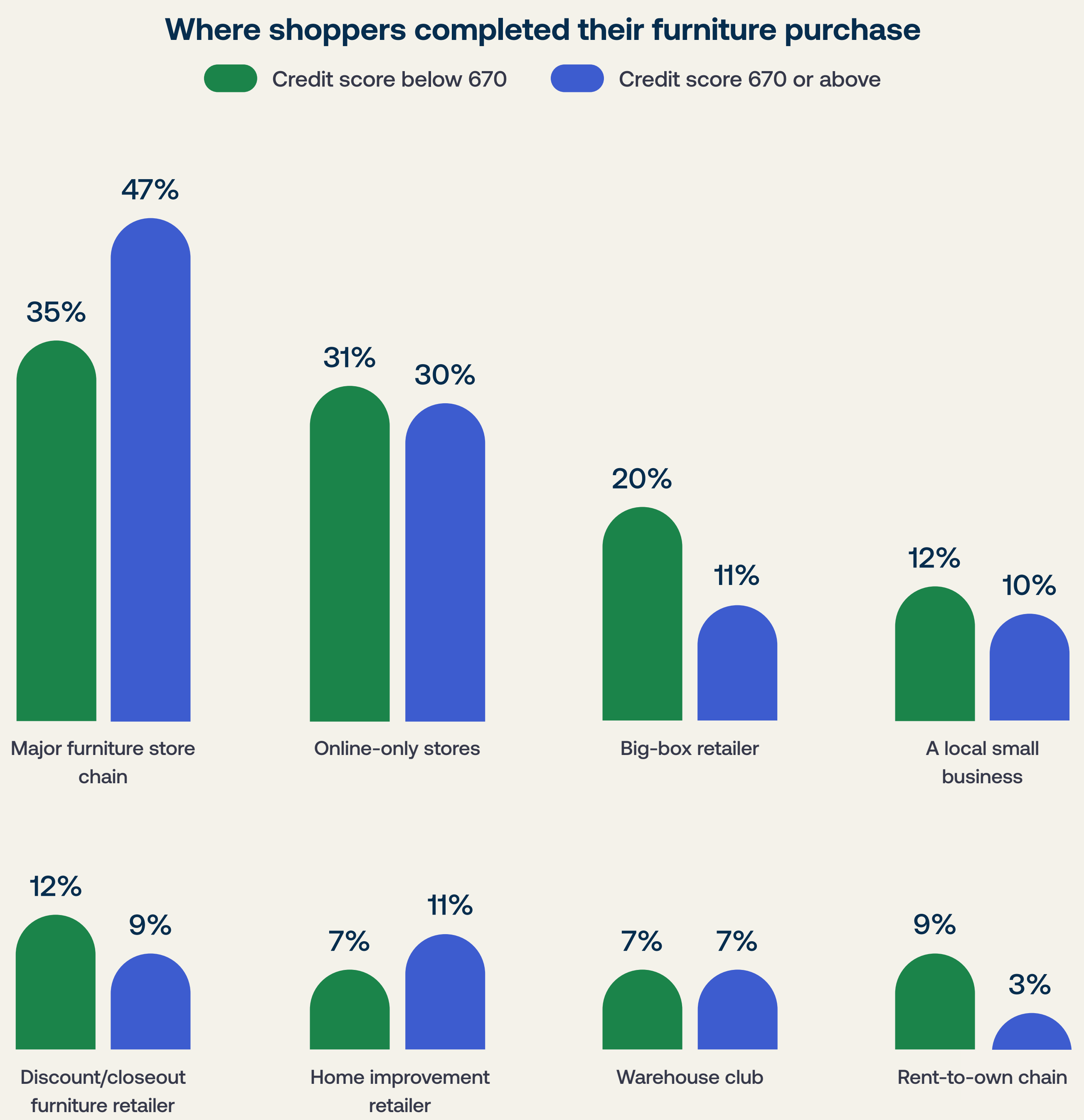
22% Talk to someone about financing options

Among consumers with lower credit scores, those who made their furniture purchase online said they did so because it was easier (72%) and they felt they could get a better deal (52%). But a significant difference emerges when an item isn't available in-store: just 27% of those with lower credit scores turned to online shopping to make their furniture purchase, compared to 37% of those with higher scores. This highlights the importance of in-store availability, as well as the potential barriers to online financing faced by those with credit challenges.

Findings based on proprietary research. Snap Finance, 2024.

Where shoppers buy their furniture

Although buying from a major furniture store is the most popular with both groups, those with lower credit scores are less likely to make their purchase in that type of store. They also show a stronger preference for big-box retailers, discount retailers, and rent-to-own chains compared to those with better credit.



Price remains a critical factor driving these choices, particularly for those with credit challenges. In addition to affordability, these consumers often seek out stores that offer convenience, selection, flexible financing options, and immediate availability.

46% of those with lower credit scores cited financing availability as an important purchasing factor

Top factors in choosing a retailer

(Among those with lower credit scores)

1. **91%** Ease of making a purchase
2. **87%** Total purchase price
3. **82%** Ability to get furniture right away
4. **76%** Wide selection of products and brands
5. **75%** Free delivery or shipping
6. **70%** Good online business reviews
7. **65%** Positive previous experience with the business
8. **65%** Informative website or product details
9. **60%** Warranty or purchase protection offer
10. **56%** Knowledgeable store employees

3

How credit scores affect financing options and access

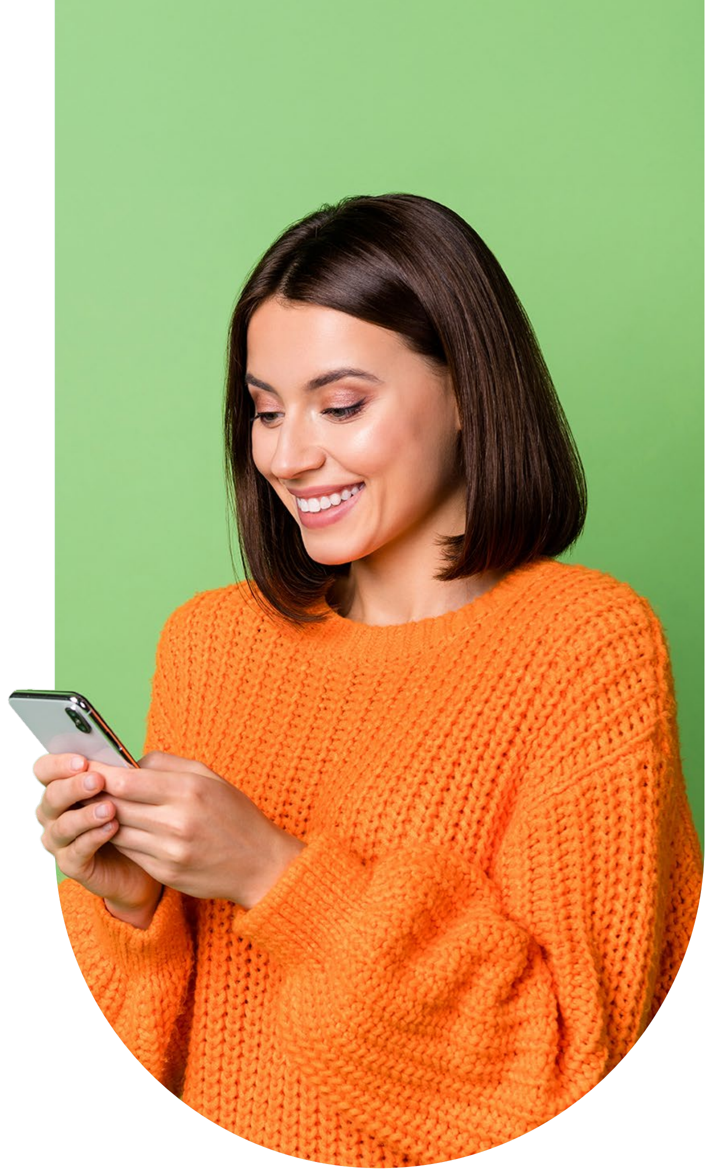
The average price for a piece of furniture is in the U.S. is $779 and rising with inflation.[7] Yet only 37% of adults said they could cover a $400 expense using cash or its equivalent.[8]

So what happens when consumers need a new sofa, table, bed, or other furniture – and money is tight? Financing often bridges the gap.

35% of those with credit challenges couldn't have paid for a recent furniture purchase without financing

Financing enables consumers of all credit types to spread out the cost of furniture and avoid paying for it all upfront. This may enable shoppers to purchase better quality or higher-priced items. Financing also helps furniture retailers' bottom line as shoppers often purchase more with financing.

Findings based on proprietary research. Snap Finance, 2024.

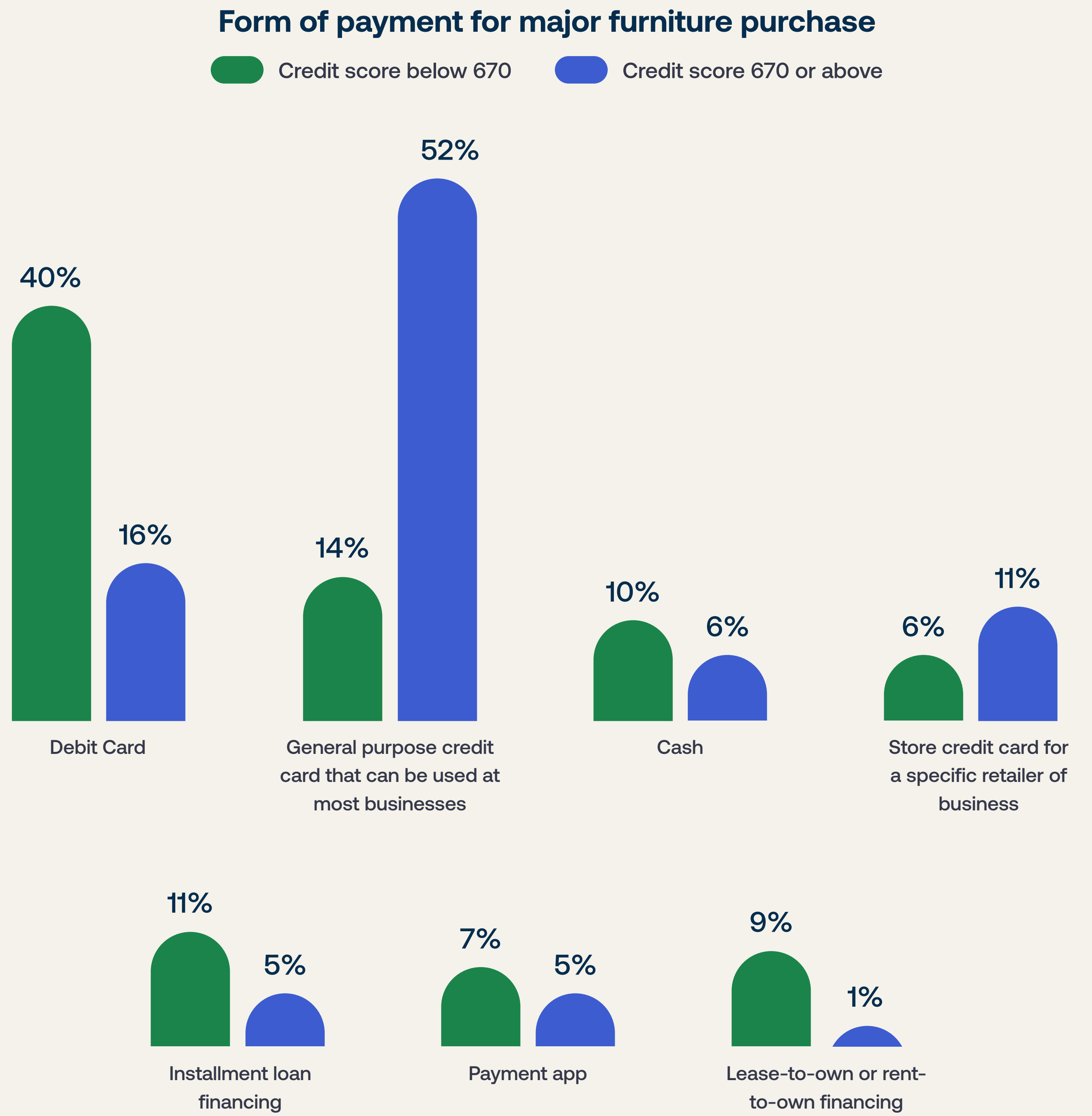


51%

of credit-challenge consumers who used installment loans or lease-to-own financing for a recent furniture purchase spent more because financing was available

Access to financing changes how people pay for furniture

Credit challenges lead to stark differences in how people pay for purchase furniture. Those with better credit most often pay with a general purchase credit card, while those with lower credit scores most often use a debit card.



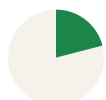
Among furniture shoppers with lower credit scores, 39% learned about financing options from a business's website, 27% from a store employee, and 12% from in-store advertising. Unfortunately, **21% did not realize they could finance their furniture purchase.**

Exploring lease-to-own and loan options

Access to credit is the primary driver for most financing decisions. People with low credit scores or no credit often don't qualify for a general purpose credit card or in-store financing. That's why they often need and seek out alternative financing options, such as installment loans and lease-to-own financing, to complete their furniture purchase. And while 9% used lease-to-own financing for a recent furniture purchase, 28% said they are interested in using lease-to-own for a future furniture purchase.

Highlighting the need for alternative options, if lease-to-own financing wasn't available where they were shopping, those with credit challenges who used lease-to-own financing would have taken the following actions.

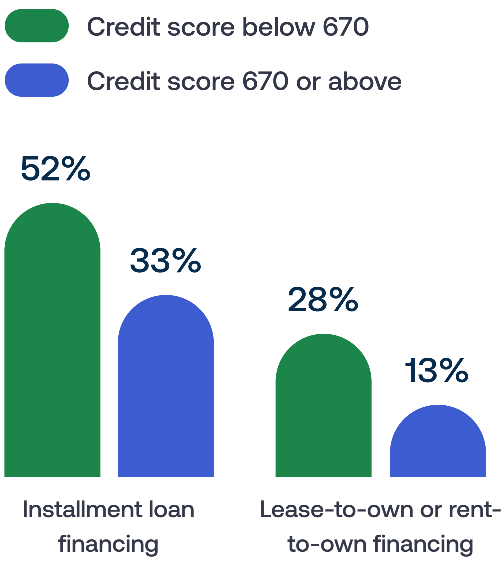
41% would have left a store without making a purchase



20% would have left a store with plans to save up for a later purchase

13% would have used another payment method and bought less

Interest in alternative financing solutions for future purchases



Top 5 factors for choosing a lease-to-own or installment loan company

(Among those with lower credit scores)

1. Total cost of financing plan
2. Ability to pay off financing early to avoid finance charges
3. Lowest money down at time of purchase
4. Lowest ongoing payment amount
5. Easy and quick application

Findings based on proprietary research.
Snap Finance, 2024.

4

How the tertiary financing opportunity can open doors to new customers

Customers who don't qualify for financing from a primary lender may be approved by a secondary lender under different terms. But what if they don't qualify for traditional financing? Subprime or tertiary financing, including loan options and lease-to-own financing solutions, can help more customers get the furniture they need.

And for furniture retailers, tertiary financing can translate to new market opportunities, increased sales, and a competitive edge in the marketplace.

Technology-driven solutions

Innovative subprime or tertiary financing solutions consider more than credit scores from major credit bureaus to determine creditworthiness. Using advanced analytics, machine learning algorithms, and artificial intelligence, companies can now create risk profiles that allow them to offer credit to subprime consumers who might have been overlooked by traditional lenders.

Fintech solutions, such as Snap Finance, provide quick and transparent financing options, significantly enhancing the borrowing experience and automating the financing process makes it more efficient and less time-consuming. This benefits consumers of all credit types and furniture retailers, who can now seamlessly offer financing options at the point of sale, in-store and online.

A fresh approach to financing

A significant portion of your customers rely on financing to make major furniture purchases, and traditional financing is often not available to those with credit challenges. Offering additional options to pay for their furniture over time can be a lifeline for customers with lower credit scores.

Retailers can leverage advanced technology to streamline the financing experience for their customers, providing quick, efficient, and transparent financing options. And remember, businesses are paid by most financing companies when the customer receives their merchandise. The customer then makes regular payments to the financing provider with no hassles and no costs for you.

5

Takeaways for furniture retailers

Customers with credit challenges have distinct preferences, behaviors, and challenges when shopping and paying for furniture. By building in a few best practices, your business helps ensure more customers are able to comfortably furnish their homes while helping to expand your customer base, increase sales, and build brand loyalty.

Clear communication. Help alleviate any financing concerns by clearly communicating options to pay over time, including alternative financing, through point-of-purchase signage, web banners, and a knowledgeable sales team who knows the ins and outs of all financing options.

No judgement. Offer inclusive sales practices and a good selection in every price point. Remember, customers with lower credit scores may feel anxiety, embarrassment, and stress wondering if they'll be able to get the furniture they need because of their financial situation.

A robust online presence. Online shopping and purchasing capabilities, including user-friendly mobile experiences, are crucial for online shoppers, especially those who prefer the convenience of shopping with their smartphone.

Inclusive financing. Offering inclusive financing options, such as lease-to-own financing and installment loans, helps more customers get the furniture they need.

Helping more customers get the furniture they need now can be a significant win for your business. Open the door to new markets and new customers with alternative financing solutions.

About this survey

Snap Finance's proprietary research on furniture shoppers with and without credit challenges was conducted in April 2024 through Accelerant Research's Agora panel with 712 U.S. consumers who had made a furniture purchase of $300 or more in the previous six months. Respondents' answers were categorized by their self-identified credit scores above or below 670.

About Snap Finance

Snap Finance harnesses the power of data to empower consumers of all credit types to get what they need. Launched in 2012, Snap's technology brings together more than a decade of data, machine learning, and nontraditional risk variables to create a proprietary decisioning platform that looks at each customer through a more holistic, human lens. Snap's flexible lease-to-own and loan solutions are changing the face and pace of consumer retail finance.

For more information, visit snapfinance.com.

Snap-branded product offering includes retail installment contracts, bank installment loans, and lease-to-own financing. Talk with your local Snap sales representative for more details on which product qualifies at your store location. For more detailed information, please visit snapfinance.com/legal/financing-options.

Sources

1 "670 Credit Score: Is it Good or Bad?" Experian.

2 Hardy, Andy. "Credit Score Trouble: 1.2 Million More Americans Just Became Subprime Borrowers." Money, April 4, 2024.

3 DeNicola, Louis. "What Does Subprime Mean?" Experian, July 9, 2022.

4 El Issa, Erin. "Survey: 4 in 5 Americans Are Trying to Improve Their Credit." NerdWallet, November 14, 2023.

5 Proprietary research, "Tapping in to an Untapped Market." Conducted through Accelerant Research's Agora panel with 1,024 consumers. Snap Finance, July 2023.

6 Proprietary research, "Exploring the Potential of the Subprime Furniture Retail Market."

7 Tucker, Michael. "US Furniture Industry Trends: 2022 Market Share & Statistics." Traqline, June 9, 2023.

8 "Economic Well-Being of U.S. Households in 2023." Federal Reserve, May 2024.