Afterpay Business Model

Idea In Short

Afterpay built its business by letting shoppers split purchases into four interest-free installments while charging merchants a fee for every transaction, a model that turned buy now pay later into a mainstream checkout option across Australia, the United States, Canada, the United Kingdom and New Zealand. Founded in 2014 by Nick Molnar and Anthony Eisen, the company grew quickly by targeting younger shoppers without credit cards, then merged with payments technology supplier Touchcorp before Block, the payments company formerly known as Square, acquired it for roughly $29 billion in 2022. Since then, Afterpay has been folded into Block's Cash App under a new Cash App Afterpay brand. This article traces Afterpay's founding, its acquisition by Block, how it earns revenue from merchants and consumers, and its full business model canvas.

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From Innovative Payments to a Retail Staple

Nick Molnar and Anthony Eisen, who met as neighbors in Sydney, launched a venture called Innovative Payments in 2014 that became the foundation for Afterpay. Molnar had been buying and reselling goods since he was 14, and he pitched Eisen, an experienced finance executive, on a payment structure that let shoppers split purchases into four installments without paying interest. The company signed its first retail partner, the fashion label Princess Polly, in 2015, a deal that helped validate the model with younger shoppers who often lacked traditional credit cards.1

Retailers that adopted Afterpay reported measurable gains in both order volume and basket size, which helped the company raise its first $8 million within four months of signing its debut retail partner. That early traction let Afterpay expand quickly from Australia into Canada, the United States, the United Kingdom and New Zealand over the following years.

Merging With Touchcorp and Scaling Internationally

Afterpay merged with Touchcorp, one of its technology suppliers, in June 2017, forming the Afterpay Touch Group and consolidating the payments infrastructure that powered its installment system. The combined company later reverted to the name Afterpay Limited in November 2019 as the business simplified its corporate structure ahead of further international expansion.2

The company's UK operations run under the Clearpay brand, a naming choice made to avoid confusion with unrelated businesses already using the Afterpay name in that market. By the time Afterpay reached its acquisition talks with Square, it had positioned itself as one of the more recognized buy now pay later brands across several English-speaking markets, competing directly with Klarna and a fast-growing field of installment lenders.

Block's $29 Billion Acquisition

Square, the American payments company founded by Jack Dorsey, announced its acquisition of Afterpay in an all-stock deal valued at roughly $29 billion, a price equal to about 42 times Afterpay's revenue and the largest merger ever announced involving an Australian company at the time. The deal closed in early 2022, shortly after which Square renamed itself Block, Inc. to reflect a broader ambition spanning Square's merchant business, Cash App and the newly acquired Afterpay.3

Founders Molnar and Eisen held stakes of roughly 6.9% and 6.7% respectively at the time of the sale and were paid out largely in Block stock, then joined the combined company in senior roles. The acquisition gave Block a consumer lending product to pair with its existing merchant payment tools and Cash App's peer-to-peer transfer business, a combination the company argued would expand access to flexible financial products for both sellers and shoppers.

How Afterpay Makes Money

Afterpay's revenue comes primarily from merchant fees, charged as a flat 30 cents plus a variable percentage, typically 4% to 6%, of each transaction's value. Merchants that process higher transaction volumes or sell higher-priced goods generally negotiate lower variable rates, while smaller or lower-volume merchants pay closer to the top of that range. Afterpay has argued that offering installment payments increases conversion rates and can lift average order value by as much as 20%, a pitch it uses to justify fees that run well above

standard card processing rates.

Late payment fees from consumers make up a smaller secondary revenue stream. Afterpay charges an initial late fee of $10, with an additional $7 possible if a payment remains outstanding seven days past its due date, though fees are capped at 25% of the order value or $68, whichever is lower, and orders under $40 cannot incur more than the initial $10 fee.

Cash App Afterpay: A New Chapter Inside Block

Block rebranded Afterpay as Cash App Afterpay in 2025, integrating the installment product directly into Cash App rather than operating it as a standalone service. Cash App's tens of millions of monthly users gained the ability to use Afterpay's pay-in-four installment plans at partner merchants directly through the app, and Block later extended Afterpay functionality to the Cash App Card, letting cardholders split eligible purchases into biweekly payments after the fact.4

The integration reflects Block's strategy of using Afterpay as a growth lever for Cash App rather than preserving it as an independent brand, a shift that has expanded Afterpay's merchant categories beyond fashion into groceries, eyewear and other everyday purchases. For Block, the combination ties a consumer lending product directly to a payments app with a large existing user base, reducing the customer acquisition cost that Afterpay previously bore as a standalone company.

Regulatory Scrutiny of Buy Now Pay Later

Buy now pay later products, including Afterpay, have drawn increasing regulatory attention as the sector has grown large enough to affect consumer debt patterns broadly. Regulators in multiple markets have examined whether installment products like Afterpay's should be subject to the same disclosure and affordability-check requirements as traditional credit, given that missed payments can compound into meaningful fees for lower-income users.5

Afterpay has generally positioned its product as distinct from traditional credit, emphasizing that it charges no interest and caps late fees, but that framing has not fully insulated the company from calls for tighter oversight. How regulation evolves in Afterpay's largest markets will influence both its fee structure and its ability to expand into new purchase categories.

Competing in a Crowded Buy Now Pay Later Market

Afterpay operates in a buy now pay later market crowded with well-funded competitors, including Klarna, which requires an initial payment at checkout followed by installments at two-week intervals, and Affirm, which offers longer and more flexible repayment terms than Afterpay's standard four-installment structure. Sezzle, a smaller rival, has attracted customers by skipping hard credit checks and allowing a free late-payment reschedule, positioning itself as a more forgiving alternative to Afterpay's fee structure.6

Merchant relationships remain the central competitive battleground, since retailers typically choose one or two installment providers to feature prominently at checkout rather than offering several simultaneously. Afterpay's integration into Cash App gives it a distribution advantage many competitors lack, but it also means the brand's growth now depends heavily on Block's broader product strategy rather than Afterpay operating as an independent decision-maker in its own market.

Key Partners

Afterpay's key partners include the retailers and merchants that offer installment payments at checkout, ranging from small independent shops to large national chains across fashion, beauty and general retail. Investors that backed Afterpay before its acquisition, including Tencent, Coatue and Mitsubishi, supplied the capital that funded its international expansion. Since 2022, Block functions as both parent company and strategic partner, connecting Afterpay to Cash App's user base and Square's merchant network.

Key Activities

Afterpay's core activities include underwriting each transaction in real time to approve or decline installment purchases, a process it must complete instantly to avoid disrupting checkout. Customer support handles consumer questions about payment schedules, refunds and account issues, while merchant support helps retailers integrate Afterpay into their checkout systems. Risk management, including monitoring default rates and adjusting merchant fees accordingly, remains a continuous activity central to the company's profitability.

Key Resources

Afterpay's most valuable resource is its network of merchant partnerships across multiple countries, which gives consumers a reason to choose the platform over competitors. Its brand recognition, built over roughly a decade, continues to support consumer trust in a category that faces regulatory skepticism. Since 2022, integration with Block's technology stack, including Cash App and Square, has become a resource in its own right, providing distribution that Afterpay could not have built independently.

Value Propositions

For consumers, Afterpay offers interest-free installment payments split across four cycles, giving shoppers more purchasing flexibility without traditional credit costs. The platform supports multiple currencies and integrates directly into merchant checkout flows, minimizing friction for users. For merchants, Afterpay's installment option can increase conversion rates and average order value, giving retailers a tool to compete for price-sensitive or credit-constrained shoppers without extending credit themselves.

Customer Relationships

Afterpay maintains consumer relationships primarily through free account registration and a streamlined onboarding process that requires no upfront fees. Customer support handles payment disputes, refunds and account questions, while the platform's transparent fee structure, including capped late fees, is positioned as a trust-building feature. For merchants, Afterpay maintains relationships through account management support and reporting tools that track transaction volume and fee impact.

Channels

Afterpay's website functions as the primary channel through which consumers manage accounts and view payment schedules. Merchant checkout integration, both online and increasingly in physical stores, serves as the main channel through which transactions actually occur. Social media platforms and Cash App, following the 2025 rebrand, have become growing channels for reaching new users and cross-selling Afterpay to Block's existing customer base.

Customer Segments

Merchants and retailers make up one core customer segment, spanning small businesses to large national chains that pay Afterpay to offer installment checkout. Consumers, particularly younger shoppers without established credit histories, form the other core segment, using Afterpay to spread out payments on both everyday and discretionary purchases. Cash App's existing user base, now able to access Afterpay directly through the app, represents a newer segment shaped by Block's integration strategy.

Cost Structure

Afterpay's cost structure centers on the risk of consumer defaults, which the company manages through underwriting and by adjusting merchant fees for higher-risk transactions. Technology and platform maintenance costs support the real-time approval systems needed at checkout. Since the Block acquisition, integration costs tied to combining Afterpay's systems with Cash App and Square add a further layer to the company's overall spending.

Revenue Streams

Merchant fees, a flat 30 cents plus a variable percentage typically between 4% and 6% of transaction value, generate the largest share of Afterpay's revenue. Late payment fees from consumers who miss scheduled installments contribute a smaller, secondary stream, capped to limit how much any individual order can generate in penalties.

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Summary

Afterpay's rise from a small Sydney startup to a globally recognized buy now pay later brand shows how a simple installment structure, four payments and no interest for consumers, can reshape checkout behavior across retail categories. Its acquisition by Block folded the

business into a larger payments ecosystem built around Cash App and Square, giving Afterpay distribution it could not have built alone while subordinating its brand identity to Block's broader strategy. Regulatory attention on buy now pay later products has increased as the sector has matured, and Afterpay's merchant fees, among the highest in the industry, remain both its main revenue driver and a point of competitive vulnerability. Competition from Klarna, Affirm and Sezzle continues to pressure Afterpay's merchant relationships, making Block's integration efforts central to the brand's next phase of growth.