Discussion of "Buy Now, Pay Later and Impulse Shopping" by Valentin Burg & Jan Keil

Benedict Guttman-Kenney (Chicago Booth → Rice Jones)

Economics & Psychology of Buy Now, Pay Later (BNPL)

Buy Now, Pay Later (BNPL) is FinTech credit product enabling deferring payment into $1+$ interest-free installments

Payment

Billing Country/Region ❓
United States **Edit**

☐ Do you have a gift card, product voucher, or promo code? ❓

Select payment method

○ 🎫 Credit or Debit Card

○ **PayPal**

◉ **Klarna.** 4 interest-free payments

○ (G Pay)

☑ Billing address same as shipping

Shipping Address
chicago booth
5807 S Woodlawn Ave
Chicago, IL 60637, US

✓ Pay now or Pay in 4. Interest-free.

✓ Earn rewards every time you shop.

✓ Trusted by 25 million Americans.

ⓘ Learn more about your payment options

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Posted by u/Dynd 3 months ago

1.3k Making interest payments on a pizza.

Casual Friday

Zilch
Sponsored · ⊙

🧑 Buy Now, Pay Later at Dominos.
👆 Pay Back Over 6 Weeks.... See more

Pay Over 6 Weeks.

UBER eats   Domino's   PAPA JOHNS

Buy Now, Pay Later zilch

PAYZILCH.COM/EXCLUSIVE-ACCESS

Pay Over 6 Weeks.   [SHOP NOW]

Use Zilch at Dominos & 5000+ Stores

Bad?

FINANCIAL TIMES

US COMPANIES TECH MARKETS CLIMATE OPINION WORK & CAREERS LIFE & ARTS HOW TO SPEN

Cost of living crisis (+ Add to myFT)

UK households resort to 'buy now pay later' loans to cover energy bills

Consumer groups say use of finance schemes points to deepening of cost of living crisis

Debt and energy advice groups say consumers should approach their energy supplier to negotiate repayments
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Nathalie Thomas in Edinburgh MAY 8 2022

UK households struggling with surging energy costs are being

Bad?

Good?

- Large, temporary, unexpected negative shock
- Smoothing out shock may prevent financial distress

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INCREASE COMPETITION

- Threat to high profit incumbent non-BNPL lenders & networks

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- Plan to spend $100 today

- Only pay $25 today, spend $\uparrow$

4

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When buy now pay later informs you that it's later & the money's due for all those fall dresses

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- Plan to spend $100 today

- Only pay $25 today, spend ↑

- BNPL ↑ basket sizes
(Berg, Burg, Keil, & Puri, 23 WP;
Di Maggio, Katz, & Williams, 23 WP)

Other factors: present bias,

mental accounts, self-control…

My Comments

Jan's Papers are at Forefront of Understanding BNPL Market

Limited academic literature on BNPL & large policy scrutiny.

The authors:

- Study German online retailer selling furniture & home decor.

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Burg & Keil (24 WP) uses this RCT (+ 2 earlier periods) + RDD (2016–2017) to show:

- Offering BNPL makes purchases appear more impulsive.

- Offering BNPL makes impulsive consumers +13% likely to purchase.

#1. Present Bias: Be clear on criteria for evaluating consumer choices

Present bias ($\beta < 1$) can explain why consumers make decisions at t inconsistent with $t + 1$:

$$u_t(c_t) + \beta \sum_{s=t+1}^{T} \delta^{s-t} u_s(c_s)$$

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a. "Long-Run Criterion"

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a. "Long-Run Criterion"

- Assume $\beta = 1$ is consumer's optimal consumption is their long-run choice.

b. "Naïvete"

- Over-/under-consumption from naivete: mis-predicting future behavior ($E[\beta] > \beta$.)

I think you are taking approach a? If b, not clear (i) defaults or (ii) returns are mis-predictions.

Harder to convince for BNPL (0% interest rate, small purchases, simple product)
than expensive, complex financial products (e.g., credit cards.)

Bernheim & Taubinksy (18) and Allcott, Kim, Taubinsky, & Zinman (22)

#2. Is "impulsivity" actually reflecting improved consumer outcomes?

Are these overconsumption? Aren't these improved experiences?

3 ex-post outcome measures of impulsivity:

1. Ex-post shopping cart modifications - time saved!

2. Time to purchase decision - time saved!

3. Returned item - larger choice set to optimize at home! returns $\neq$ regrets (H2)

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Consumers are re-optimizing when payoffs change:

- Budget constraint expanded (afford to purchase more.)

- Costs of return lowered (purchase quicker, return item before even paid for.)

Results consistent with **liquidity-constraints**. **Consumer defaults** $\uparrow$
(unobservable component e.g., liquid cash, income and expenditure mismatches, life events.)

Desai & Jindal (24 QME); Mullainathan & Shafir (13); Martinez-Marquina & Shi (24 AER)

#2. Is "impulsivity" actually reflecting improved consumer outcomes?

Suggestion: Examine basket contents to learn about consumer search behavior.

- Are people adding different styles of same product? Seeing what 'fits' best and returning.

- Present biased consumption e.g., chocolate at check-out unrelated to main shopping trip?

- Complementary goods? Or unnecessary add-ons?

- How do shopping behaviors within-person change over time with/without BNPL? Learning?

Welfare losses only large if repeated over-consumption.

#3. Is ex-ante heterogeneity measuring impulsivity or tastes/experiences?

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2. Ad response

- If I see an ad for a product I like, I click.

- Without BNPL, I may not purchase because lack funds and/or not sure I want product.
- With BNPL, I can purchase now and decide later if I really want product.

- I gain more information by trying product and, if do not like, I can return without cost.

- Firms targeting scare marketing resource to customers with highest expected profit (latent preference for product). Are these impulsive? Are these overconsuming? Efficient matches?

Two suggestions:

A. Examine other websites consumer visits. E.g., gambling (but may be risk seeking.)

B. Use more neutral language to interpret results.

1. Turn some tables into figures. Make it easy for reader to see your main finding!

2. Show effects using RCT as instrument for BNPL take-up.

- RCT BNPL offerred $\rightarrow$ BNPL take-up $\rightarrow$ Outcomes

3. RCT vs. RDD is rare comparison. Show estimates together!

4. Initial cart balance may be a endogenous control. Impossible to see BNPL before this stage? Results could be larger if I have expectation of BNPL being offered and revise when offered.

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