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

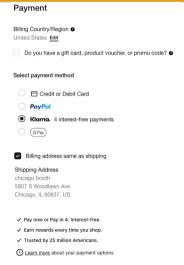
Benedict Guttman-Kenney (Chicago Booth → Rice Jones)

Midwest Finance Association (MFA), 9 March 2024

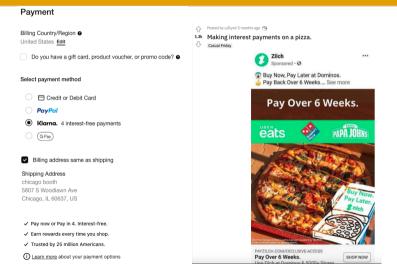
Buy Now, Pay Later (BNPL)

Economics & Psychology of

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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

Psychological Attraction of BNPL

Decouple "pain of payment"

from pleasure of purchasing

(Prelec & Loewenstein, 98 MS; Soman, 01 JCR)

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
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- Plan to spend \$100 today
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- 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.
- Retailer tests offering BNPL option to pay in 30 days (14 days post-delivery.)

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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 (β < 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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- 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 choose more!
- 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.

Assorted Points

- 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.

Thank you!



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