

BNPL Case Study: The Rise of Buy Now, Pay Later (BNPL)

1. Introduction

Buy Now, Pay Later (BNPL) services have rapidly gained traction in the fintech sector, particularly in e-commerce. BNPL allows consumers to make purchases and split payments into interest-free installments. The BNPL model has transformed consumer behavior, impacted businesses, and introduced new challenges related to credit risk and regulatory scrutiny. This case study explores the rise of BNPL services, their impact on consumer spending, and the associated risks, with a focus on subjective research and the key themes outlined.

2. The Buy Now, Pay Later Business Model

BNPL is a short-term financing option that enables consumers to purchase goods and pay over time. Unlike credit cards, BNPL typically does not charge interest if payments are made on time, and the revenue model primarily revolves around merchant fees rather than interest from consumers. BNPL providers such as Klarna, Afterpay, and Affirm act as intermediaries between merchants and consumers, absorbing the risk of payment defaults while offering a seamless purchasing experience.

The key financial flow of a BNPL transaction includes upfront payment to merchants by the provider and installment-based repayment by the customer. Merchants benefit from reduced cart abandonment and increased order sizes, while consumers appreciate the simplicity and flexibility.

3. Growth and Consumer Behavior Analysis

BNPL has seen substantial growth in recent years, especially during periods of economic uncertainty. In 2023, BNPL accounted for approximately 5% of global e-commerce spending, with consumers spending 6.42% more when adopting BNPL compared to traditional payment methods.

Several factors contribute to BNPL's growth:

- **Simplicity:** Consumers appreciate the ease of installment payments at checkout.
- **Flexibility:** BNPL allows consumers to spread payments without incurring interest if they meet deadlines.
- **Affordability Perception:** BNPL taps into psychological biases like hyperbolic discounting, making consumers focus on the smaller, immediate payment rather than the total amount owed.

BNPL is particularly popular among younger and low-income consumers, as it offers access to goods without the need for traditional credit checks.

4. Impact on Businesses and E-commerce

BNPL has reshaped the retail and e-commerce landscape by boosting conversion rates and average order sizes. The frictionless checkout experience BNPL provides can lead to higher sales, especially for low-ticket items. For instance, low-ticket purchases see greater benefits from BNPL adoption compared to high-ticket items. This has made BNPL an attractive option for businesses looking to reduce cart abandonment and increase sales during economic downturns.

BNPL's success has also resulted in increased competition for credit card companies and commercial banks, which rely on traditional revolving credit models. Some banks are responding by partnering with BNPL providers or developing their own solutions.

5. Comparative Analysis: Indian vs. Global BNPL Providers

Globally, BNPL services have matured in regions like North America and Europe. Indian BNPL providers, such as Simpl and ZestMoney, have focused on penetrating the digital payment ecosystem, leveraging the country's e-commerce boom and a large unbanked population. Indian providers face unique challenges related to regulatory scrutiny and credit risk, with the Reserve Bank of India tightening rules to protect consumers.

In contrast, global BNPL giants like Klarna and Affirm have a more diversified international presence but are also facing regulatory pressures in mature markets such as the US and Europe. These pressures include increased scrutiny over consumer credit risk and the introduction of new regulations to ensure financial stability.

6. Advantages and Disadvantages of BNPL

BNPL offers several advantages for both consumers and businesses:

- **For Consumers:**
 - Flexible and interest-free payment options if deadlines are met.
 - Increased purchasing power without the need for a credit card.
- **For Businesses:**
 - Higher conversion rates and average order sizes.
 - Lower cart abandonment.

However, there are notable disadvantages:

- **For Consumers:**
 - Potential for overconsumption and debt accumulation, especially among low-income consumers..
 - Lack of traditional credit score evaluations, increasing default risks.
- **For Businesses:**
 - Merchant fees can be high, and the risk of defaults remains a concern, particularly in markets with high delinquency rates.

7. Conclusion and Insights

BNPL services have revolutionized the way consumers interact with e-commerce, driving higher spending and improving the shopping experience. However, the growing reliance on

BNPL services poses risks to both consumers and businesses, particularly in terms of credit risk and financial stability. As regulatory frameworks evolve, BNPL providers must balance growth with responsible lending practices to ensure long-term sustainability.

References

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