Consumer Credit and Impulse Shopping

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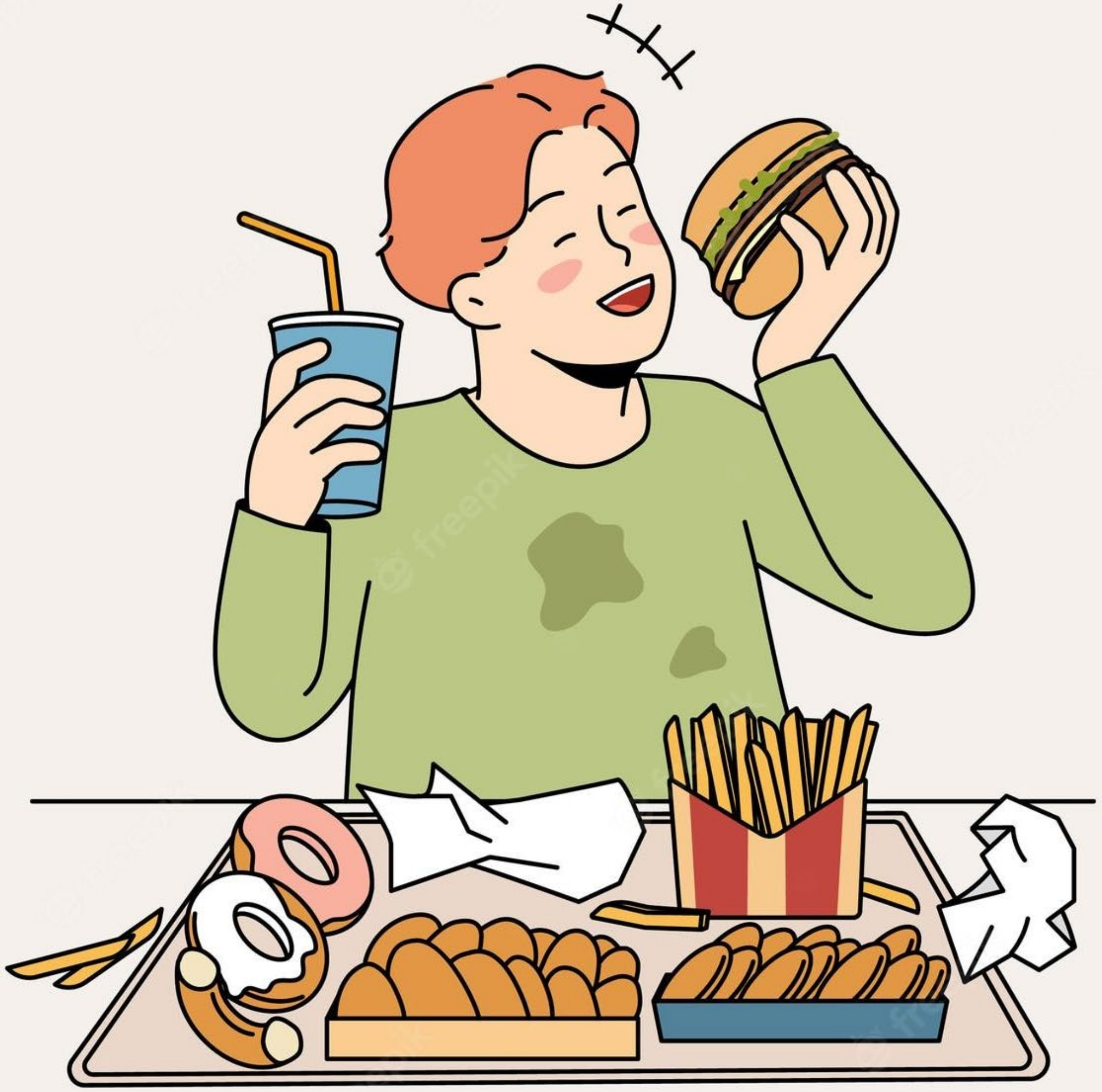

This paper

- Consumers’ additional credit access and consumption decision-making
- A German E-commerce merchant, selling furniture online
- Buy Now, Pay Later (BNPL) loans, random offer
  - A new Fintech credit allowing consumers to make purchases and pay at a later date
  - The E-commerce company randomly offers in-house BNPL loans allowing for a one-month payment deferral (on average 70 days zero interest loan)
  - Payment delays carry fees and payment defaults are reported to credit agencies
- RQ

Do BNPL loans amplify impulse shopping?

This paper

- What is impulsiveness?

Impulsive vs Planned

- Impulsiveness Proxies

1) Ad Response (vs web search)

A response to an ad is a sign of vulnerability to seductive effort or an external stimulus

2) No prior Browsing

Whether browsed the website of the merchant at least one day before the first visit that lead to a check-out

3) Time to Conversion (min)

Time difference between the first arrival on the check-out website and the completion of the first conversion

4) Female

Whether customer selects “Ms.” as form of address

This paper

Key Findings

1. (ex-ante impulsiveness) Customers more likely to be impulsive are more responsive to BNPL loan offers than customers less likely to be impulsive
2. (ex-post impulsiveness) After a BNPL loan is offered, a given customer becomes more impulsive

Other findings

- Customers likely to be impulsive tend to have lower credit scores and higher default probabilities

Why important?

- The rapid rise of buy now, pay later
    - Growth rates of Fintech lending are particularly high in the buy-now-pay-later (BNPL) market, while marketplace consumer lending was important early on, but has not displayed much growth in recent years (Berg et al., 2021)
    - A quarter of people in Europe are now using BNPL

BNPL vs standard credit cards

- Financial inclusion. Easier lending terms, with no or limited credit checks. Popular among lower incomes, unemployed and young.
- Not a revolving line of credit, are loans.
- Offered through retailers and are tied to the purchase of a particular product.

1. Who and why care?
Overall aim of this paper

- BNPL and individual customer responsiveness of one merchant
- Management/marketing: a large literature on impulsive buying behavior (see Muruganantham and Bhakat, 2013)
- Economics
  - Consumption
  - Financial stability
  - Behavioral
    - Present-focused preferences, addiction, deviation from commitment

2. What impulsiveness?

- Impulsiveness Proxies?

  1) Ad Response
  2) No prior Browsing
  3) Time to Conversion (min)
  4) Female

  Ex-ante impulsiveness and Ex-post impulsiveness

  Alternative explanations: e.g., reduce search frictions

  Ref: Females face a greater degree of search frictions than males (Webber 2016)

  Related: How do customers repay (cash or digital?)

- Rational vs Behavioral?
  - e.g., same income group, compare furniture costs

- Good or bad?

3. Are the results generalizable?

- Broader user-level expenditure behavior?
  - Furniture: durable goods
    - Often discontinuous and relatively large
    - This sample: Nov 2021 to March 2022. Unusual demand for furniture because of Covid
  - Reallocation
  - Links user activity across bank, debit card, and credit card accounts
- Representative households?
- BNPL vs No BNPL: 88,406 customers vs 1,582 customers (1.79% of treated)
- BNPL design
  - Down payment, credit report
  - Defaulted are forwarded to a debt collection agency

Overall

- Interesting research question
- Clear and innovative results from a random experiment
- Promising work!