

A STUDY ON THE IMPACT OF BUY-NOW, PAY-LATER PAYMENT MODELS ON CONSUMER SPENDING BEHAVIOUR

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ABSTRACT

Buy-now-pay-later, a rapidly growing payment mode facilitates short-term deferral of payment by several installments without interest or fees. Although consumers and payment providers claim that buy-now-pay-later influences spending, existing research does not fully explain how or why. Purchase transaction data and a series of experiments demonstrate greater consumer spending with buy-now-pay-later compared to other payment modes. This research contributes an underlying process that explains how and why buy-now-pay-later increases consumer spending. The presentation of installment prices (i.e., the amount paid per installment) with buy-now-pay-later lowers consumers' perception of purchase expensiveness, which increases spending. However, presenting installment prices does not affect spending with other payment modes. Furthermore, the number of installments, the magnitude of the first installment, and the presence of the installment price moderate the effect of buy-now-pay-later, demonstrating how installment prices affect consumer spending. Taken together, the findings provide opportunities for retailers to increase consumers' spending and actionable insights for policymakers to protect consumers.

Keywords: Payment Models, Consumer Spending Behavior

1. INTRODUCTION

A rapidly growing payment mode, buy-now-pay-later, allows consumers to receive their purchase immediately and pay for their purchase in several installments without any interest or fees. Major buy-now-pay-later providers, Afterpay and Klarna, have expanded their businesses globally (Afterpay, 2021; Klarna, 2021).

Despite claims that buy-now-pay-later encourage consumers to spend more, the existing payment mode literature does not fully explain how or why buy-now-pay-later influences consumer spending compared to other payment modes. Although Schomburgk and Hoffmann (2023) find that mindfulness reduces buy-now-pay-later usage, no research has examined whether buy-now-pay-later increases spending. Furthermore, prospect theory (Kahneman & Tversky, 1979; Tversky & Kahneman, 1991, 1992) and mental accounting (Thaler, 1985, 1999) imply that segregating a single payment into multiple payments would be perceived as a greater loss than making a single payment due to the convex nature of the value function for losses. Hence, prospect theory suggests that multiple payments with buy-now-pay-later would reduce spending compared to a single payment by credit card, not increase it. Subsequently, this research aims to explain how and why buy-now-pay-later impacts consumer spending compared to other payment modes. This research shows greater spending with buy-now-pay-later than other payment modes in both purchase transaction data and a series of experiments. In addition, this research reveals the underlying process that explains the effect of buy-now-pay-later to increase spending. This research also demonstrates several theoretically driven moderators, each of which weakens the impact of buy-now-pay-later on consumer spending: decreasing the number of installments, increasing the amount of the first installment payment, and not presenting the installment price.

Subsequently, we do not know the underlying mechanisms that predict and explain how the new buy-now-pay-later payment mode influences consumer spending. Buy-now-pay-later is a new deferred payment mode that allows consumers to receive the benefits of ownership and consumption prior to full payment by interest-free instalments. The new buy-now-pay-later payment mode, therefore, is perceived to influence consumer spending behaviour to buy more expensive products, spend more, and make purchase decisions faster (ASIC, 2018a). However, we do not know if the self-reported consumer perceived effects actually do impact spending. Subsequently, this research aims to investigate empirically if buy-now-pay-later influences spending behaviour.

The payment mode literature reveals that the payment mode impacts how likely consumers are to buy (Soman, 2001), what products they buy (Bagchi & Block, 2011; Thomas, Desai, & Seenivasan, 2011), and how much they spend (Feinberg, 1986). Research has shown that compared to cash, credit cards tend to lead to similar outcomes (Feinberg, 1986) to those documented for buy-now-pay-later (ASIC, 2018a). Although credit cards also defer payment, this research argues that credit cards vary substantially in terms of potential financial costs, the flexibility of payment timing and amounts, the salience of payment, and the way in which price is presented as the total price as opposed to instalments. However, there is an absence of academic research on the effects of the new buy-now-pay-later payment mode as well as the processes underpinning them, and given the identified differences, research on other similar payment modes may not generalise to buy-now-pay-later. Furthermore, research has not investigated the impact of instalment payments on consumer behaviour. This research examines the gaps in understanding of the underlying payment mode mechanisms which explain the influence of the new buy-now-pay-later payment mode on spending.

2. REVIEW OF LITERATURE

(Ashby, 2025) The objective of this research is to explain how and why buy-now pay-later payment models increases consumer spending, demonstrating how installment prices affect consumer spending. This study examines the effect of buy-now-pay-later on spending compared to other common payment modes using behavioral data of online purchase transactions. Specifically, using a large secondary data set of online purchases identified by payment mode, this study aims to verify the external validity of the prediction that buy-now-pay-later increases spending. This research tests these hypotheses using secondary data from purchase transactions and five experiments. A pilot study analyzes consumer behavior using a large purchase transaction dataset to test whether consumers spend more with buy-now-pay-later compared to other payment modes, including cash, debit cards, prepaid vouchers, and credit cards. Study 1 tests the effect of buy-now-pay-later versus credit cards on purchase intentions. Study 2 tests the effect of buy-now-pay-later versus credit cards when choosing between a cheap and an expensive option and the proposed underlying process. Study 3 tests the moderating effect of the number of installments and provides further support for the main effect of buy-now-pay-later on consumer spending, as well as the underlying process. Study 3 varies only the number of

installments to control for any other potential differences between payment modes. Study 4 varies the magnitude of the first installment price to test whether a larger magnitude first installment price has a greater impact on spending than larger magnitude subsequent installment prices. Finally, Study 5 tests whether the absence of installment prices attenuates the effect of buy-now-pay-later to increase spending. The result of this study indicates that higher spending may influence the choice of buy-now pay-later. The finding aligns with claims from payment providers, consumer data, and regulations.

(Waliszewski, 2024) The objective of this study was to identify how various aspects of consumer behavior, particularly attitudes towards money management and socio-demographics, influence the use of buy-now pay-later services. The dataset used was a 2022 survey of 1,200 poles, 200 of whom were LendTech customers. Among them, 473 BNPL users and 727 non-users were initially sampled, but to address the unbalanced data, 473 non-users were randomly selected, resulting in a final sample size of 946. Logistic regression was applied to model the likelihood of BNPL usage, considering the influence of various predictor variables. The result of this study indicates that the higher education levels and greater household income increases the likelihood of using BNPL. Users of LendTech are three times more likely to use BNPL.

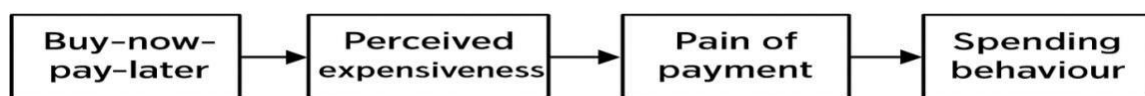
(Nuraisyah, 2022) The objective of this study is to investigate the factors that influence the consumer to make impulsive purchase decision using buy-now pay-later mechanism. This research used a few variables from Technology Acceptance Model (TAM), and Theory of Planned Behavior (TPB) as to analyze the buy-now pay-later intention towards impulsive purchase decision. The result of this study indicates as BNPL options become more prevalent alongside traditional payment methods like debit and credit cards, it has led to a rise in impulsive purchasing decisions.

(Madiha Khan, 2020) The objective of this study is to investigate the role of the buy-now pay-later mechanism in increasing impulsive buying behaviour, and to examine its impact on consumer's standard of living, savings, and economy, while also recommending policy measures for its implementation. To examine the impulse purchase decision of consumer's due to BNPL mechanism using primary data collected by dividing the entire city into

clusters. The study is quantitative in nature. In this study, primary data have been collected through conducting cross-sectional survey. A structured questionnaire consisting of closed-ended, open-ended, numerical questions as well as some non-numerical questions have been used in interviewing the respondents. As a result, the consumer often reveals impulse purchase decision when they have the scope to make the payment at a later date.

The conceptual model is presented in the Fig.1.

Fig.1. Conceptual model



Hypothesis of the study

H1: Buy-now-pay-later will increase spending behavior compared to other payment modes.

H2: Less numerous buy-now-pay-later installment prices (compared to more numerous prices) will lower perceived expensiveness, which in turn will lower the pain of payment, and ultimately increase spending behaviour.

3. RESEARCH METHODOLOGY

3.1 Research Design

This study adopts a quantitative research design to examine the impact of Buy-Now, Pay-Later (BNPL) payment models on consumer spending behavior in Mangalore City.

3.2 Sampling Technique

A stratified random sampling method is used to ensure a diverse and representative sample. The sample will be drawn from consumers of different age groups, income levels, and

spending categories across selected urban and semi-urban regions. This approach helps in capturing variations in BNPL usage and its impact across demographics.

3.3 Target Population

The target population comprises consumers (age group of 18 to 55 years and above) who are using BNPL residing in Mangalore city.

3.4 Sample Size

A sample size of 165 consumers is considered adequate. This range is expected to provide enough data for meaningful statistical analysis while being feasible within the project's scope.

3.5 Data Collection Instruments

The primary data collection instrument will be a structured questionnaire designed to gather quantitative data on consumer's demographics, spending behavior on BNPL.

3.6 Measurement Scale

The 5-point Likert scales to assess consumer attitudes, preferences, and levels of agreement regarding BNPL services. (e.g., strongly agree to strongly disagree)

4. DATA ANALYSIS AND RESULTS

4.1 Demographic Information

The sample comprised 165 individuals. In terms of gender 51.3% of the sample were women. The sample had a lower population of men than women which is 48.7%. Regarding their age 59.1% are between age 18-25, 33% are between age 26-35, 6.1% are between age 36-45, and 1.7% are between age 46-55. We established five groups by the level of education: high school level 7.8%, diploma level 19.1%, undergraduate degree level 31.3%, postgraduate degree level 30.4%, and others 11.3%. In terms of employment status: employed are 58.3%, unemployed are 7%, students are 26.1%, retired are 3.5%, and others are 5.2%. In terms of average monthly income: 20.9% are less than 10,000,

34.8% are 10,001-20,000, 23.5% are 20,001-30,000, 13% are 30,001-40,000, and 7.8% are more than 40,001.

4.2 Measurement Model

To analyze the data, the study applied the partial least squares (PLS) – structured equation modeling (SEM) analysis technique using SMARTPLS (Ringle et al., 2015). Apart from PLS-SEM, average variance extracted, factor loadings and composite reliability were measured, to regulate the reliability and convergent validity. To assess the reliability and validity, the measurement model was used, and to test the hypothesized relationship, the structural model was applied (Hair et al., 2014).

Table 1: Result Summary for Reflective Measurement Models

Latent Variable	Indicator	Loading	Internal Consistency	CR	AVE
Test Criterion		≥ 0.70	≥ 0.70	≥ 0.70	≥ 0.50
Buy-now-pay-later	BP	0.697	0.796	0.756	0.526
Pain of payment	PP	0.745	0.611	0.615	0.584
Perceived expensiveness	PE	0.708	0.688	0.752	0.507
Spending behaviour	SB	0.786	0.790	0.847	0.580

Note: AVE = average variance extracted, CR = composite reliability.

The measurement model was assessed using factor loadings, composite reliability (CR), and average variance extracted (AVE) to ensure reliability and convergent validity. Following Hair et al. (2019), a factor loading threshold of 0.70 was adopted, along with $CR \geq 0.70$ and $AVE \geq 0.50$ as acceptable benchmarks.

The measurement model was evaluated for reliability and convergent validity. As shown in Table 1, all constructs exhibited acceptable factor loadings (≥ 0.70), with minor exceptions (e.g., BP = 0.697), which are permissible in exploratory studies (Hair et al., 2019). Composite reliability (CR) values ranged from 0.615 to 0.847, indicating satisfactory internal consistency. Although *Pain of Payment* (PP) had a CR of 0.615, its AVE (0.584) supports its retention. All constructs achieved AVE values above the 0.50 threshold, confirming convergent validity. Overall, the constructs demonstrated adequate measurement reliability and validity for further structural analysis.

Table 2. Discriminant Validity Assessment (Fornell-Larcker Criterion)

Predictors	BP	PP	PE
PP	0.864	-	-
PE	0.971	0.908	-
SB	0.684	0.377	0.596

Discriminant validity using Fornell-Larcker Criterion was performed to check if the square root values of the average variance derived from all the constructs exceeds the interconstruct correlations. The research model therefore represented the strong validity and reliability of the construct. The reliability and validity results for the measurements obtained through the evaluation of the reflective measurement obtained through the evaluation of the reflective measurement models are shown in Table 2.

4.3 Structural Model

The primary evaluation criteria are the R^2 measures and the level and significance of the path coefficients (Lohmöller, 1989). The level of R^2 should be high for the key target constructs (Lohmöller, 1989). The R^2 values for the pain of payment, perceived expensiveness, and spending behaviour were 0.317, 0.431, and 0.068, respectively, which met the suggested criteria.

Table 3. Evaluation

Hypothesis	T-Statistics	p-value	Decision
BP -> PE	15.450	0.000	Supported
PP -> SB	0.896	0.370	Not Supported
PE -> PP	5.541	0.000	Supported
*p < 0.1, **p < 0.05, ***p < 0.01			

The structural model was evaluated using path coefficients, t-statistics, and p-values. As presented in Table 3, the path from *Buy-now-pay-later* (BP) to *Perceived Expensiveness* (PE) was significant ($t = 15.450$, $p < 0.01$), supporting the hypothesis. Similarly, *Perceived Expensiveness* (PE) significantly influenced *Pain of Payment* (PP) ($t = 5.541$, $p < 0.01$). However, the path from *Pain of Payment* (PP) to *Spending Behaviour* (SB) was not significant ($t = 0.896$, $p = 0.370$), and thus the hypothesis was not supported. These results suggest that

while BP and PE significantly shape perceptions and emotional responses, PP does not directly influence spending behaviour in the proposed model.

5. MANAGERIAL IMPLICATIONS/ RECOMMENDATION

The study on the impact of Buy Now, Pay Later (BNPL) payment models on consumer spending behaviour reveals significant managerial implications. First, the findings suggest that BNPL encourages consumers to spend more by lowering the perceived pain of payment and presenting purchases as affordable instalments. This behaviour presents an opportunity for retailers to strategically integrate BNPL options at checkout to boost conversion rates, especially for higher-priced items. Managers should consider partnerships with BNPL providers to enhance customer convenience and improve sales without compromising immediate liquidity. However, it is also crucial to maintain ethical responsibility by transparently communicating the terms and potential financial risks to consumers. Additionally, marketing strategies can be tailored to target impulsive buyers or budget-conscious segments by highlighting the flexibility of BNPL. From a customer relationship perspective, businesses should monitor repayment patterns to identify potential financial distress among users and offer support or alternatives accordingly. Furthermore, the data generated from BNPL usage can be leveraged for behavioural analytics, helping firms better understand purchasing patterns and refine personalized marketing. Overall, while BNPL offers growth potential, managers must balance profitability with consumer protection, ensuring responsible lending practices and regulatory compliance to build long-term trust and brand loyalty.

6. LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

This study on the impact of Buy Now Pay Later (BNPL) payment models on consumer spending behaviour presents valuable insights, yet it is not without limitations. Firstly, the study may rely heavily on self-reported data, which is subject to biases such as social desirability and recall inaccuracies. The sample size and demographic scope might also be limited, potentially affecting the generalizability of the findings across different income

groups, age segments, and geographic regions. Additionally, the study may not fully account for external variables such as inflation, marketing influences, or changing credit regulations, which could independently affect spending behaviour. The dynamic nature of fintech also means consumer habits may evolve rapidly, rendering some findings time-sensitive.

Future research should consider longitudinal studies to observe changes in consumer behaviour over time as BNPL services become more embedded in the financial ecosystem. Expanding the sample to include diverse socioeconomic backgrounds and international markets can enhance the study's applicability. Moreover, integrating behavioural data (e.g., actual transaction records) alongside self-reports can improve the accuracy of insights. Further investigation into psychological mechanisms—such as risk perception, impulsivity, and financial literacy—can also enrich understanding of how and why BNPL influences consumer decisions, offering more targeted insights for policymakers and financial service providers.

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