What the rise of "buy now, pay later" means for consumers and retailers

Written by

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"Buy now, pay later" solutions have taken off as a more manageable way to pay for purchases. New research from Imperial Business School shows how this is affecting consumer behaviour – and what it means for retailers and policymakers.

Buy now, pay later (BNPL) schemes allow customers to pay in **instalments over a few weeks or months**, but, unlike traditional credit options, it is **typically interest-free**. So, instead of paying for £100 at 12 per cent APR on a credit card, a customer can use BNPL to spread payment into four interest-free instalments of £25 over six weeks.

These schemes have exploded in popularity over the past few years, with the total number of users reaching 380 million in 2024. Major retailers including Walmart, ASOS, Adidas and H&M have partnered with BNPL providers such as Afterpay and Klarna to offer the payment option, with further growth expected over the next few years.

Alongside this rising uptake, however, BNPL schemes also attract a share of criticism, particularly as their **unregulated nature** risks allowing financially vulnerable customers to take on unsustainable levels of debt. In response to these perceived issues, **new rules and regulations are on the horizon in the UK**, potentially including affordability checks and controls on how the schemes are marketed.

Effect of BNPL

In the context of retailers and consumers flocking to BNPL schemes in their droves, and policymakers moving closer to regulation, **it's important that we understand how and why they affect consumer choices**. Are they worth the investment in set-up costs and transaction fees for retailers? What makes them attractive to customers? And does their effect differ among different types of consumers?

We worked with a major US retailer to study real-world transaction data before and after the introduction of a BNPL scheme. Our research is the first to explore how BNPL schemes affect people's spending, budgeting, and perceived financial constraints.

> Those buying with credit cards (as opposed to debit cards) are impacted the most by BNPL schemes

First and foremost, we found that **BNPL options boost spending**. Specifically, making BNPL available as a payment option increases both the number of purchases and the average amount spent per purchase among adopters.

On average, after introducing a BNPL option, the probability of purchase increases by about nine percentage points and, when customers make a purchase, basket sizes are about 10 per cent larger. We also noted that this boost in spending is not just a short-term effect – it persists over time, lasting the entire 26 weeks in our study.

Root cause

So why does this happen? Our research shows that paying through **BNPL helps people feel less financially constrained** compared to lump sum payment – both upfront and delayed. This is important as, regardless of how much actual disposable income someone has, it is their perceived financial constraints that dictate their spending.

Digging deeper into this finding, we observed that the reduction in perceived financial constraint is a result of BNPL making payments appear less costly and giving people a greater sense of control over their personal budgets. Together, these effects translate into greater and more frequent spending.

Wider impact

These findings are important, as, in spite of the rising popularity and reach of BNPL options, **there remains relatively little understanding of the impact they have on consumer spending**.

By showing that BNPL options increase how much people buy and how often they make purchases, our research highlights the benefits they offer to retailers. This may go some way towards **justifying the initial costs and ongoing transaction fees that retailers encounter** in setting up and running a BNPL scheme.

Additionally, our findings show that those buying less and those buying with credit cards (as opposed to debit cards) are impacted the most by BNPL schemes. These are more likely to be customers at risk of financial difficulty, compared to those spending with debit cards and making bigger purchases.

> Our research is the first to explore how BNPL schemes affect people’s spending, budgeting, and perceived financial constraints

By exploring why this happens – for example, people feeling more in control of their budgets and less financially constrained – **our research can help policymakers target regulation** to ensure BNPL schemes do not have a disproportionately negative impact on those already struggling financially.

This is particularly relevant given the twin pressures of a household cost-of-living crisis and a poor medium-term outlook for the global economy, as balancing the needs of individuals with the needs of businesses will require robust data and a clear understanding of consumer behaviour. Our research provides useful evidence to support this, helping businesses and policymakers best provide for the needs of all stakeholders.

This article draws on findings from "Buy Now Pay Later: Impact of Instalment Payments on Customer Purchases" by Stijn Maesen (Imperial College London) and Dionysius Ang (University of Leeds).

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About Stijn Maesen

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Dr Stijn Maesen is Assistant Professor of Marketing at Imperial Business School. His current research focuses on issues related to health and sustainability in retailing.

He has worked with organisations on projects generating both scientific and practical insights. He studies how nutritional labelling programmes affect in-store purchase behaviour and examines how organic retailer store entry and organic product innovations impact the retail landscape.

Before moving into academia, Dr Maesen worked in marketing research for GfK.

Read Stijn's Imperial Profile for more information and publications.

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