

The Buy Now Pay Later Divide

Merchant Heterogeneity and Market Structure

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Summary

- Question: who benefits from BNPL on the merchant side?
- Data: daily merchant transactions + payment mix + credit outcomes
- Identification: shift-share IV using pre-BNPL UPI growth × BNPL launch
- Main result: adopters grow; small / constrained / cash-heavy merchants benefit more
- Proposed mechanism: verifiable digital records → better credit access / allocation
- Market structure: gains among adopters, but overall concentration may rise

What I like

A merchant-side perspective on embedded credit

- Most BNPL / BigTech credit work: consumer spending, debt, delinquency
- This paper: firm outcomes — revenues, credit access, default, market structure
- Important shift in policy lens: not only consumer protection, also small-firm inclusion
- Rich setting: payment adoption, formalization, lending, and merchant growth in one ecosystem

Strongest contribution

- Potential real expansion effect + promising information-cost channel

Reading the contribution

Novel idea

- BNPL may generate real expansion for constrained merchants
- Promising channel: opaque cash activity → verifiable digital records → better credit access

Main suggestion

- Align conceptual framing, empirical organization, and mechanism tests around these strengths
- “Divide” / market-structure claim is interesting, but needs more evidence on adoption barriers and non-adopter outcomes

The key conceptual tension

Not simply: small vs. large merchants

- Large merchants: already digital, more visible to lenders, customers have more payment options
- BNPL may mostly shift payment method or reallocate demand across merchants
- Harder to argue large effects from relaxing constraints

Real tension

- Can BNPL materially expand lending and activity for constrained small merchants?
- Is the effect driven by new economic activity, or by payment substitution / demand diversion?
- This is where the paper is most interesting
- More aligned with the presentation of the empirical results

Develop the conceptual argument

- If consumers / merchants are unconstrained:
 - BNPL convenience or implicit discount; more substitution than expansion
 - prediction: effects mainly payment-mix changes; weaker credit-access effects
- If merchants are opaque / cash-heavy / credit constrained:
 - BNPL digitizes transactions and reveals cash flows
 - prediction: stronger credit access, first formal loans, lower default
- If customers are liquidity constrained:
 - BNPL enables purchases that otherwise would not occur
 - prediction: more transactions, not only larger baskets

Extensive margin

New business formation / activation

- Natural implication of real expansion, not unique to one mechanism
 - demand channel: higher expected traffic / conversion / purchase frequency
 - information channel: verifiable records make young / opaque firms lendable
 - financing channel: easier working capital lowers operating frictions
- Feasible outcomes if platform data allow
 - new merchant onboarding, first active month, activation rates
 - survival / persistence after entry

How it helps the paper

- Speaks directly to market expansion, beyond sales reallocation among incumbents

Mechanism: performance or information?

Current evidence points to constrained merchants

- Larger effects for small, low-score, cash-heavy merchants
- Larger effects in less affluent areas and relevant merchant categories
- Credit access expands and default / overdue outcomes improve

But the same patterns can reflect more than one channel

- Performance channel
 - BNPL brings more customers / transactions / revenue
 - stronger cash flow and borrower quality
 - more credit access and lower default
- Information channel
 - cash transactions become verifiable digital records
 - lower screening / monitoring costs for lenders
 - more credit access and better allocation

Both channels are interesting; the paper needs to separate “better business” from “better information.”

How to distinguish the channels

Key empirical challenge

- Separate improvement in borrower fundamentals from improvement in observability
- Current heterogeneity results are suggestive, but not yet distinctive

Food for thought

- Condition on realized performance when explaining credit access
 - recent revenue growth, transaction growth, average ticket growth
 - if BNPL still predicts loans → stronger evidence for information channel
- Compare digital-record creation holding growth roughly fixed
 - within growth bins: larger cash-to-digital shift → more credit / lower default?

Interpretation

- Credit effects survive growth controls → information channel more convincing
- Credit mainly follows revenue growth → performance channel more central

Identification

Main concern: historical UPI growth may proxy for evolving local trends

- High-UPI-growth areas may differ in digital adoption, consumer demand, merchant sophistication
- Controlling for current UPI share helps, but does not fully address differential trends
- Shift-share IV needs evidence that the “shift” affects outcomes only through BNPL adoption
- Event studies are helpful; need sharper placebo and falsification tests

Goal

- Show the instrument predicts BNPL adoption, not a broader post-2021 digital-commerce boom

Identification tests

Placebo tests

- Pre-BNPL pseudo launch: apply same IV before 2021; should not predict revenue / credit trends
- Outcomes less likely affected by BNPL: categories or periods with minimal BNPL relevance
- Payment methods not mechanically linked to BNPL: check for broad digital-trend effects

Robustness and interpretation

- Allow richer local trends: pincodes × time trends, local economic controls, category × location trends
- Exclude areas with rapid platform penetration to rule out simultaneous supply-side rollout effects

Market structure: implication or headline?

The “divide” claim could be developed further

- Strongest evidence so far: adopter-level real expansion
 - small / constrained / cash-heavy merchants gain more after adoption
- Market-structure result is interesting, but needs additional info
 - within adopters: concentration falls; all merchants: concentration rises
 - the natural follow-up question is who adopts, who is left out, and why

Further develop the divide consequence or downplay the tone

Bottom line

A promising and important paper

- Moves BNPL research from consumer borrowing to merchant outcomes
- Strongest insight: embedded credit may create real activity through lower information costs

To sharpen the contribution

- Develop conceptual comparative statics more explicitly
- Distinguish performance vs. information channels empirically
- Add extensive-margin evidence on business formation / activation
- Strengthen IV validity with placebo and trend tests
- Treat market-structure consequences as important, but needing more development