A Research on Buy Now Pay Later Model of Amazon

Swetha Shankar

UG- B.com E-Commerce, PSG College of Arts and Science, Coimbatore, TamilNadu, India

ABSTRACT

Buy Now Pay Later is a short term credit facility extended by banks directly or retailers (through their tie-ups with banks and NBFCs that allow consumers to defer payment on their purchases for 15 to 365 days. The concept of purchasing an individual item in multiple installments is not new. Large department stores have offered this for decades in what is called layaway. Layaway is essentially —a purchasing agreement by which a retailer agrees to hold merchandise secured by a deposit until the price is paid in full by the customer‖. The notion of Buy Now Pay Later (BNPL) is similar; the only difference is that the merchant releases merchandise at first deposit, with intention to receive multiple installments paid thereafter. This project aims at getting an overview of the BNPL solutions available in the market. Online searching is used to determine a representative sample of BNPL offering worldwide.

Keywords: Buy Now Pay Later, e-Commerce, Amazon, Credit, customers.

1. Introduction

BNPL products show a high affinity with online POS due to its convenience, easy implementation and intuitive use while customers are shifting to digital spending mainly behind COVID-19 Pandemics, and this is expected to have a lasting impact on e-Commerce. Due to these factors, BNPL is showing an increasing relevance in the payment industry worldwide and especially in mature e-Commerce markets.

Each BNPL solution is studied into depth highlighting their main characteristics and benchmarking it with the rest of solutions. The objective is to come out with the main business models that operate in the BNPL market and describe them. The way consumers interact with BNPL products is mostly done online and so does remain with it comes to acquiring. In fact, out of the 74 products scouted 72 offered an online POS. Transaction fees and late fees are the most common ways to charge the parties. The most widely used are interests on the purchase but fixed settlement or service fees per transaction are also exploited.

Usually, a short financing time will mean moving the customers 'costs of financing to other actors such as merchants or card issuers. Instead, a longer financing time makes impossible for other parties to absorb all the risks related to the customer and in consequence it would be impossible to grant the customer and interest-free plan. Other sources of classification for the products are the nature of the industry, the credit limit and the revenue model.

Based on these criteria the following models were determined:

☐☐Short-term merchant subsidized credit: Products that are entirely or mostly subsidized from merchants that assume the costs that otherwise the customer will pay. These products usually have weekly, biweekly or monthly payment plans of up to six installments. Categories using these products are mainly consumer goods and providers pay a lot of attention to the promotion of the merchants they cover.

☐☐Industry-specialized BNPL products: Usually high-ticket size purchases entering in very specific categories mainly related to professional services or luxury, non-disposable items work under this kind of products. The number of installments and time of financing is carefully studied to fit the industry in which operates. It usually involves long-term relationships between the merchant and the customers.

☐☐BNPL Marketplaces: Products that instead of integrating their payment method in a merchant checkout opt for including a list of products form different merchants on their website. This way, the

profit comes from a mark-up they put on the products they sell and may also include some customer fees. This model is not widely used.

☐☐Merchant-managed BNPL solutions: Solutions designed for customers that do not want to get involved another brand in their purchase process. These products are unlabelled, and the merchant gets complete ownership on the Branding. The merchant usually gets more participation on the term definition, but these models could have huge differences on the revenue streams, value proposition, strategic partners and cost structure but they share the fact that the product does not claim ownership.

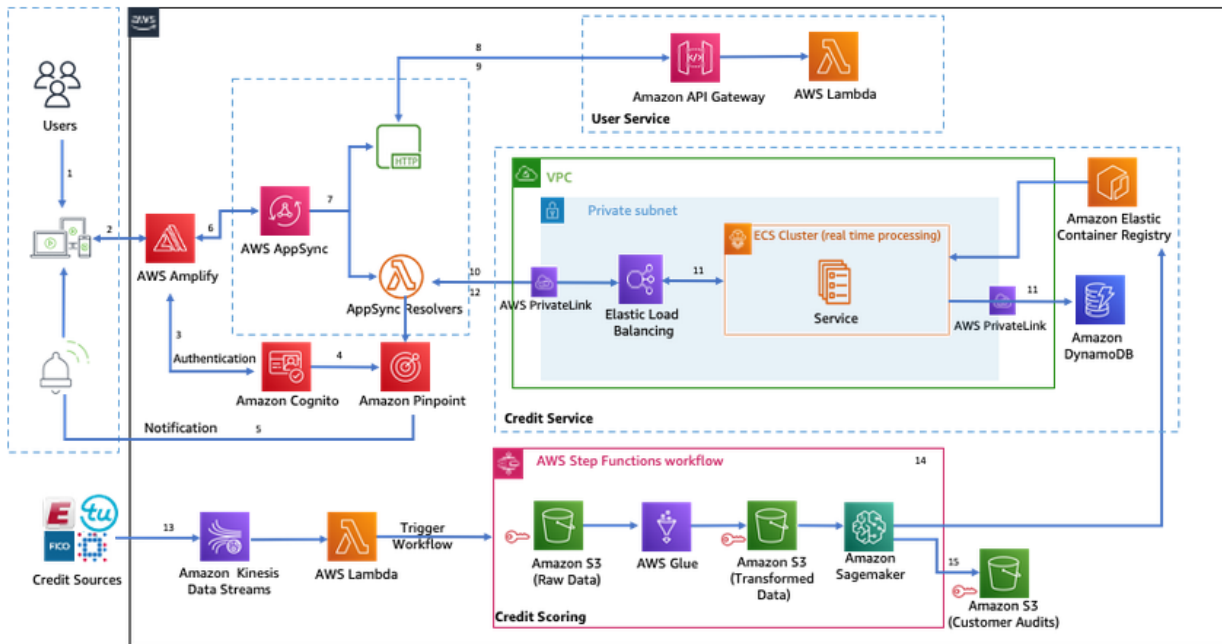## 2. Reference Architecture of BNPL of Amazon

Fig.1 The flow of consumer's interaction with the system.

The following BNPL solution architecture diagram demonstrates the flow of consumer's interaction with the system.

User Service: User service gathers user attributes such as name, phone number, and email address that manage logged-in or registered user functionality.

☐☐Customer selects an item(s) for purchase and prepares to check out. At the check-out process, they are then presented with available BNPL options.

☐☐The request is routed to a separate page which takes the user through the BNPL flow.

☐☐Amazon Cognito integrates with your client code, aids in authentication and authorization workflows.

☐☐Amazon Cognito User Pools are integrated with Amazon Pinpoint that provides multi-factor authentication notifications.

☐☐Authenticated clients make API calls to AppSync using valid JWT tokens generated by Cognito.

☐☐AppSync uses Resolvers to make direct calls to different microservices. HTTP Resolvers connect to REST endpoints of the User service. A Lambda Resolver directs calls to the Credit Service in a VPC.

PYMNTS.com, Paypal (2021) Buy now, pay later solutions BNPL) are defined as a financial instrument to allow consumers to finance purchases with specific terms at the point of sale. The point of sale is often considered online, and the terms vary according to the service provider policies. Kaleido Intelligence Limited BNPL offers a fast access to credit, frequently part of the checkout experience, and typically

offers zero-interest rates allowing to split a transaction in installments over a short timeframe. Willson (2014).BNPL firms can also assist the merchant by directly marketing the merchant's offers to consumers.

3. Results and Discussion
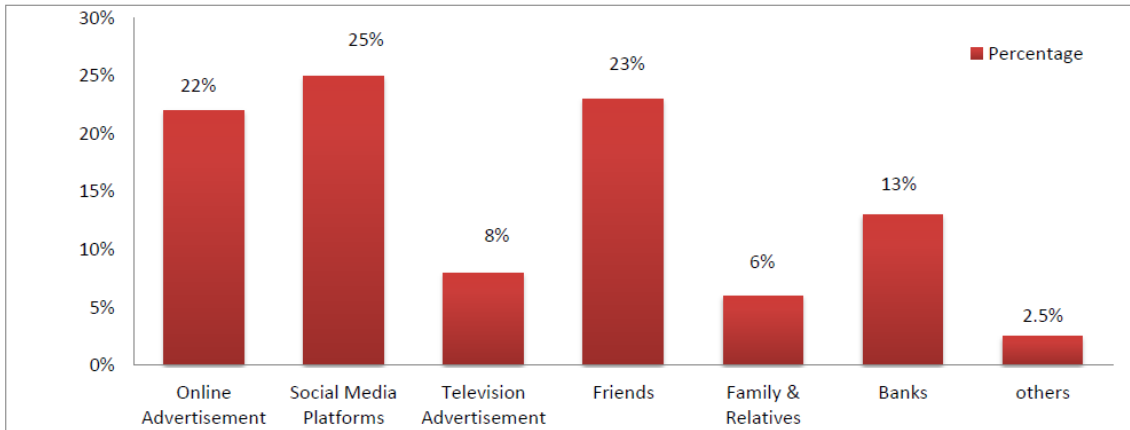## 3.1 SOURCE OF AWARENESS ABOUT BNPL

Fig.2 Source of Awareness of about BNPL

It is evident from the above Fig.2 that 25% of the respondent are aware of BNPL through Social media platforms, 23% of the respondent are aware of BNPL through Friends, 22% of the respondent are aware of BNPL through Online Advertisement, 13% of the respondent are aware of BNPL because of the popularity, 8% of the respondent are aware of BNPL through television advertisement and 2.5% of the respondent are aware of BNPL through other factors. It is concluded that most (25%) of the respondents are aware of BNPL through Social Media.

3.2 SPECIAL OFFERS PROVIDED BY AMAZON BNPL

The below Fig.3 result it is found that 30% of the respondents use 12 month 9k Buy Now, Pay in EMIs, 22.5% of the respondents use 6 month 6k-60k Buy Now, Pay in EMIs, 21% of the respondents use 9 month 9k Buy Now, Pay in EMIs, 19.5% of the respondents use 3 month 3k-30k Buy Now, Pay in EMIs, 7% of the respondents use 1 month Buy Now,
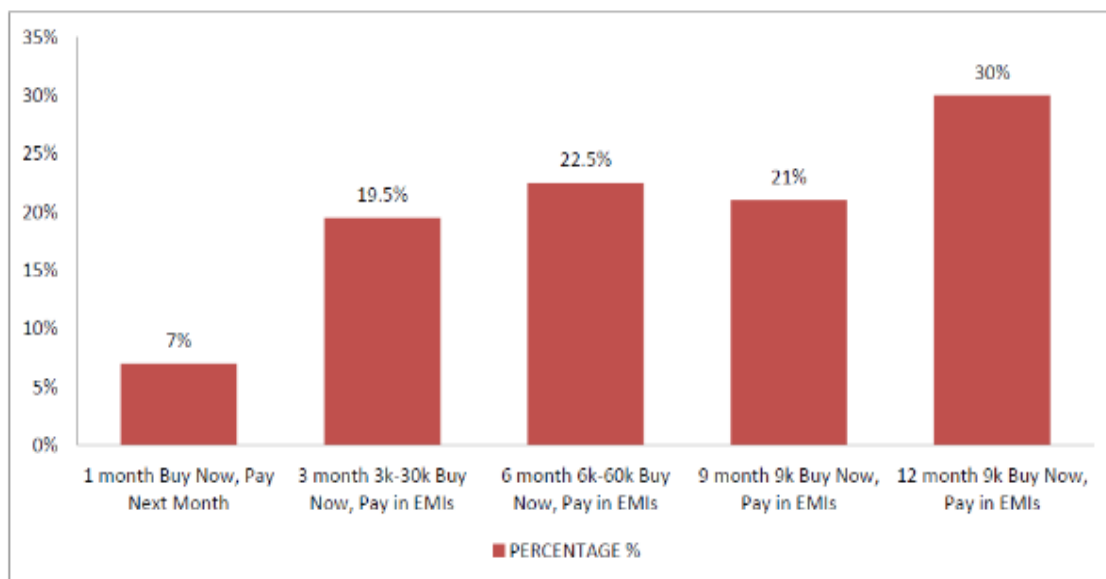Pay Next Month.
It is

Fig.3. special offers provided by amazon BNPL

concluded that most (30%) of the respondents 12 month 9k Buy Now, Pay in EMIs.
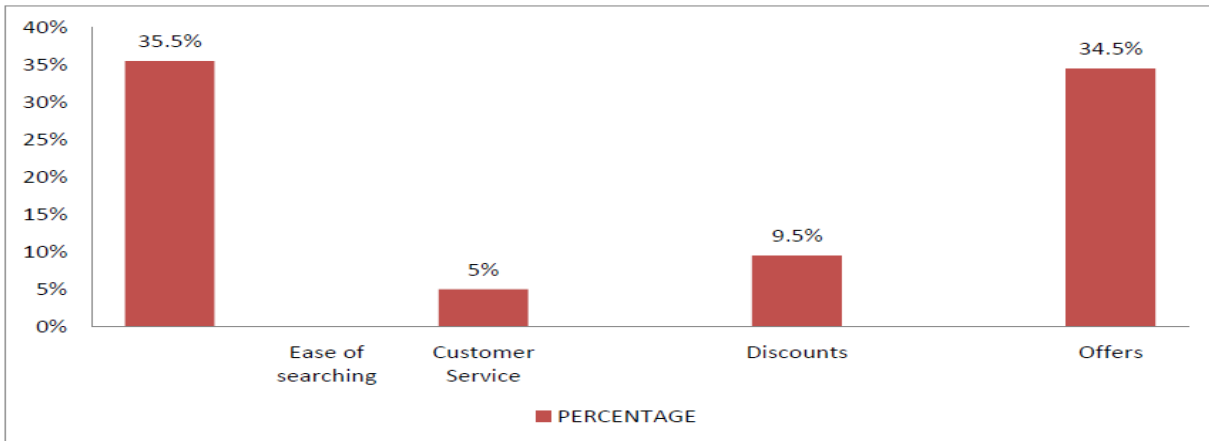
3.4 REASON FOR USING AMAZON BNPL SERVICE

Fig.4. reason for using amazon BNPL service

It is evident from the above Fig.4 that 35.5% of the respondents like the Ease of Searching feature , 34.5% of the respondents likes the offers provided during Online shopping,

9.5% of the respondents likes the Discounts given during online shopping, 5% of the respondents likes the customer service Feature.

It is concluded that most (35.5%) of the respondents likes the Ease of searching feature.

3.4 FACTORS INFLUENCING CUSTOMERS TO USE AMAZON BNPL SERVICE

The below Table.1 result it is found that Convenience ranks 1, To improve credit score ranks 2,

Table.1. factors influencing customers to use amazon BNPL service

Factors	1	2	3	4	5	Total	WA	RANK
Convenience	88	44	22	44	2	200		
	440	176	66	88	2	772	51.4	1
No upfront payment	55	14	83	33	15	200		
	275	56	249	66	15	661	44	3
Late fees/ interest	44	33	62	43	18	200		5
	220	132	186	86	18	642	42.8	
To improve credit score	44	66	77	11	2	200	49.2	
	220	264	231	22	2	739		2
Guard personal data	33	34	96	32	5	200		4
	165	136	288	64	5	658	43.8	

No upfront payment 3, Guard personal data Ranks 4, Late fees/ interest ranks 5. So customers search BNPL feature for convenience rather other factors.

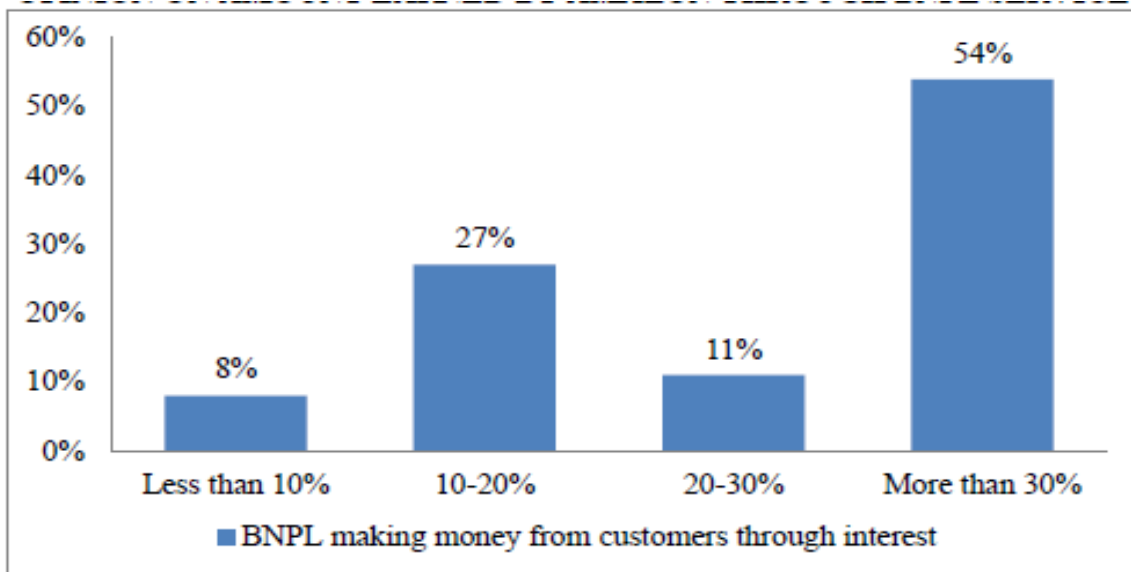## 3.5 OPINION ON AMOUNT EARNED BY AMAZON THROUGH BNPL SERVICE

Fig.5 opinion on amount earned by amazon through BNPL service

From the above Fig.5. It is found that 54% of the respondents think BNPL making money from customers through interest More than 30%, 27% of the respondents think BNPL making money from customers through interest 10-20%, 11% of the respondents think BNPL making money from customers through interest 20-30% and 8% of the respondents think BNPL making money from customers through interest Less than 10%.

It is concluded that Majority (54%) of the respondents think BNPL making money from customers through interest more than 30%.

CONCLUSION

Buy now, pay later apps allow you to make purchases online and pay them off over time in weekly, bi-weekly, or monthly installments. These apps sometimes charge interest, much like a credit card, but they may offer "interest-free" periods. If you pay off your balance before the period ends, you can avoid paying interest altogether. The regular interest rates on BNPL are typically very high. Popular BNPL apps like Amazon include

Bill Me Later/PayPal Credit, Afterpay, Affirm, Klarna, and FuturePay. You'll find them at the checkout pages of many online retailers. A typical BNPL interest-free offer might break a purchase into four equal installments, the first one paid at checkout and the other three paid every two weeks. Buy now, pay later (BNPL) apps are the hot new way to, well, buy things now and pay for them later. Amazon offers you a way to pay for your purchase over a series of monthly installments, often "interest-free." According to a recent BNPL study done by The Ascent, over one-third of U.S.

Consumers have used a BNPL service, a number that's risen significantly over the past couple of years. Unfortunately, the study also found that only about 1 in 5 of consumers who use these apps actually understands how they work. And this lack of understanding can lead to unexpected fees and damaged credit. decides the cyber hazard.

References
[1] PYNMTS.com and Paypal (2021) ‗Buy Now Pay Later - Millennials and the shifting dynamics of online credit', pp. 1–15.
[2] CAPCO (2021) ‗THE ERA OF BUY NOW PAY LATER'. Available at: https://assets.ey.com/content/dam/ey-sites/ey-com/en_in/topics/media-andentertainment/ ficci-ey-m-and-e-report-2019-era-of-consumer-art.pdf. Congressional Research Service (2019) ‗Rapidly Growing ―Buy Now, Pay Later‖\

[3] Eckler, Mike. (2018). ―External LinkWhat Merchants Should Know about ‗Buy Now, Pay Later'.‖ Practical Ecommerce, August 24.

[4]Outlook 2021).McKinsey & Company (2020) ‗The 2020 McKinsey Global Payments Report', (October), pp. 1–121).

[5]Willson, Amelia. (2014). ―External LinkIs (2021 the Year of BNPL? 6 Facts User Need to Know about This Payment Method.‖ Zip, July 10.

[6]Rossman, Ted. (2015). ―External LinkDo Young Adults Want Credit Cards?‖ Bankrate, February 1

[7] Kaleido Intelligence (2015) Digital Buy Now Pay Later and ePOS Finance: Market

[8]Sezzle. (2021). ―External LinkSezzle Expands Partnership with TransUnion.‖ October 14.