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[00:00:00] Welcome back to Behavioral Science for Brands, a podcast where Richard and I go deep on behavioral science and look for ways to take the academics behind behavioral science and apply it for marketers today. Uh, our mission is to make marketing more effective by understanding some of the motivators of human behavior that we can rely on, count on, and bring into our work today.

So today we're gonna talk about online shopping, craft beer, and the power of reframing. Uh, the technology is called Buy now, pay later. My name's Michael Aaron Flicker. And I'm Richard Shotten. Let's get into it. So Richard, this idea of buy now pay later, it was originally invented by a company named Klarna in Stockholm Sweden.

They come up with the concept back in 2005 when online shopping was very new and really the concern back in 2005, for those of us that are old enough to have remembered that [00:01:00] that moment was that you didn't know what you were gonna get. You give your credit card online to a store you may not know and what comes in the mail or doesn't come in the mail.

Uh, there was still apprehension, so Klarna comes up with the idea. Buy it now online and pay when you receive it. So it was technically buy now, pay later, but it had a different proposition. It was about having confidence in what you'd receive in the mail. Uh, so they create this technology and it becomes the number one way to pay for online goods in Sweden, which gives it a jumping-off point to spread throughout Europe.

And eventually into the U.S. Today, Klarna has 150 million active users in 45 countries. They process 2 million transactions a day, and they do over 50 billion in sales a year. So now Klarna is a massive company. In the us Klarna has over 30 million users and over 400,000 merchants, so this is big [00:02:00] business today, and today.

Klarna is not the only one doing buy now, pay later, but buy now, pay later changes its benefit. As it becomes, uh, as e-commerce develops, as people have more familiarity with buying online. And so today, the most common proposition in a buy now pay later is almost immediate financing. You buy today and you have six weeks to pay interest-free, so it breaks up your payments from whatever that number is on the e-commerce website into smaller interest-free payments.

Now that. Starts to give consumers a real exciting opportunity and it unlocks the behavioral science bias we wanna talk about. Yeah. The, the key thing that's happening there is that people react fundamentally differently to a price that's a hundred pounds to four payments of twenty-five pounds. We tend to pay too much [00:03:00] emphasis to the, the headline number.

25 pounds, not the four. The fact we have to repay it four times. So the original studies that support that, uh, supposition are from Goreville. So back in 1998, he did a study with some charities where they sometimes asked people to make a \$350 donation once a year, other times to pay a dollar a day.

Mm-Hmm. And what he found was that people were about. 50 fifty-five percent more likely to give money if it was a dollar a day, even though that ladders up to 65. Well, more three sixty-five not, not three 50. That's what I would call temporal framing. He called it the pennies-a-day effect. It's essentially the argument that if you sell a service that is time-based, don't ask people.

Or don't tell people about the monthly cost, split it down into smaller increments. Tell 'em about the weekly cost, the [00:04:00] daily cost. It will feel less consequential. That is very much related to what Klarna do, but they're splitting it up into kind of four chunks, as it were, and exactly the same principle holds.

So, uh, we did a study, uh, took, uh. 282 people and we showed them an image of Sierra, no Nevada. Parallel cost 1899 for 12 bottles. And when people saw that, 13% of them thought it was good value. Next group of people, we showed them exactly the same brand, exactly the same price, but we added on. Four, five extra words.

We said that's the same as \$1.58 a bottle. Now in that setting, you get a more than doubling of people think it's good or great value. We're up to 27%. So from 13% to twenty-seven percent, you've told people exactly the same price. [00:05:00] But by drawing attention to the, the units, the sub-elements of that price, they think it's better value.

That to me is at the very, very heart of what Klarna is doing. I think that's a big reason why it's so successful. Yeah, and I, and I think it's a such an interesting case study of a technology that was invented for one reason, scales and, and thrives. For another reason. And that doesn't mean it was wrong, it just meant that it, uh, tapped into something I think maybe they didn't even anticipate.

Yeah. The Uncertainty that you had in 2005 isn't around now, and what good businesses have to do is evolve as the Competitor set changes or their challenges change. You know, you can't step in the same river twice as they they they used to say. So, um, I think you're right. Klarna is a great example of that adaptation.

Before we get into the next bias that Klarna is using, let's go to a quick break and when we come back we'll unpack more of how buy now, pay later, uh, affects people. Behavioral science for brands is brought to you by function, growth, ad age's, newcomer Agency of the year. Function growth uses behavioral science to supercharge growth for direct-to-consumer brands delivering a wide spectrum of services.

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Welcome back to Behavioral Science for Brands, where today we're talking about Buy Now, pay later, which is a very specific offer originally developed by Klarna, but now offered by many, and it's a very common thing to see on e-commerce websites all over the internet. Anywhere you buy on the internet, you can generally find this option.

Available. So we talked about one of the [00:07:00] behavioral science insights, which is this reducing of the, of the amount that you pay, which makes people focus on the smaller amount. Yeah. And there's a second insight here. Yeah. The, the, the second reason the K client is so popular, I think is. It's harnessing of what would be called present preference bias, or just simply present bias.

And it's the argument the we care deeply about pleasure or pain in the present moment. We are far less motivated by theoretical pleasure or pain in the future. So one study that looked into that was by Liam Delaney. Mm-Hmm. It was the University of Stirling, and he recruits a group of people. And he says them things like, okay, you can either pay me 13 pounds now or you can pay me 16 pounds in a month's time.

60% of people pick the pay 16 pounds in a month's time. That is [00:08:00] a, in a monthly interest rate of twenty-three percent, or an annual interest rate of 1000 ninety-nine percent. It is an eye wateringly, eye-gouging interest rate, yet the majority of people pick it. That's present preference, bias in action. If there's a cost now, it influences us lots.

If there's a price rise or a payment in the future, it motivates us or affects us far less. Mm-Hmm. And that's at the heart of what Klarna and all these other brands are doing. They're pushing the majority of the payment into the future. It feels attenuated and it doesn't affect us. So we, we will be prepared to spend more money.

Yeah. It, it also makes me think about how you view the retailer that's offering it to you. I wonder how you, how a consumer feels when they're given more options and different ways to pay. Uh, I wonder how that reflects on the, on the brand or on the retailer that's selling it. [00:09:00] Yeah. I think there's a lot of positive benefits potentially.

There is one downside, though. There is an idea called the paradox of choice or choice paralysis. Yes. And essentially it's the argument that maybe in some circumstances, uh, extra choices are beneficial. However, you cannot extrapolate

that point indefinitely. Some stage for most product categories. If you keep on increasing the amount of choice, you will have a backfire effect, right?

So the argument is, if you have so much choice, that picking becomes onerous rather than the customer appreciating the variety. They tend to find the act of picking stressful, and they respond to that by, you know, avoiding the situation entirely. Walk away from the website. So I, I, I think you're right.

Offering additional ways to pay is great, but just because it's great to begin with doesn't mean that you can keep on offering more and more ways [00:10:00] to pay and expect that improvement. To continue in another episode, we had Owen service on. The podcast and he spoke about how they branded the Buy Now, pay later, and he did a number of experiments with his company COGCO, to really ask, does the branding of the buy now pay later affect the uptick and of tech affect?

Do they understand what they're actually opting into? And it was occurring to me, you know, so much brand value in Visa, MasterCard, American Express. To then bring in Klarna another payment method. It really needs to have some brand, it has to have some, some space on the page or some punch. Otherwise, why would you choose it over something, you know, and trust Apple Pay, Google Pay, Amex, Visa, MasterCard.

But I wonder how giving it that extra space, giving it a colored logo on the page, helps, uh, influence the choice of using it. Yeah. I, I, I, I think some of the.

[00:11:00] Experimentation that that Owen had done suggests that. You just mere presence alone is not enough. You are competing on that page for people's attention.

And it was in their study, the, the distinctiveness, the bright colors, the, the size of the, um, the button button that had a huge effect on, on, on uptake. So you. To me, the issue there is you cannot assume people are gonna notice you. That's actually the primary issue for most commercial communications, uh, that you've got to go into great lengths to get people's attention.

And if you don't achieve that. Everything else is academic. As a brand, I don't have any difference really if you choose Visa, MasterCard or Apple Pay, but I do have an interest in you choosing Klarna because it makes the, the chance that you purchase much higher, since it's a smaller amount you pay over time.

Yeah. So to me, [00:12:00] there's a reason why the brands and the retailers. Like to promote this buy now, pay later, and it's based on the behavioral science topics we're talking about today. Yeah, I think the two biases we've talked about, unit reframing or temporary framing and then present bias, both combine to reduce price sensitivity and the beneficiary of that will be the retailer.

So I'm sure that is one of the reasons they're prepared to pay. Uh, a, a fee to Corona. Yeah. And whether or not the retailers and the brands knew that going in or saw the success of the button with the, with the smaller payments. And that led them to continue to promote it. Either way, it got them to featuring, uh, buy now, pay later as a, as a real option on their websites.

Yes. Yeah. But it is worth mentioning, we're very much focused on. These biases being used to increase commercial benefits. The same principle I'm talking about, the [00:13:00] present bias here again, has been applied by charities as well.

Mm-Hmm. So there is a Swedish charity called Diakonia and Anna. Brehman, or Brennan, sorry, I dunno the name of, uh, she ran a study where.

They tested president's preference bias on trying to encourage regular donors to give more. So sometimes they rang donors up and said, you give, let's say dollars, you give \$10. Mm-Hmm. At the moment per month, would you give \$15? Other people they ring up and have the same basic request. You were giving \$10, can you now give 15?

But the twist is they don't ask that money now. They ask the increase to happen in six months time, and she found that that was a far more successful approach. Because think about it from the donor's perspective. If you get the warm glow of feeling generous, but the pain of actually donating, well, that's chucked into the six months, uh, time that doesn't, it is completely [00:14:00] minimized.

So yes, you can encourage people to buy more with these biases, but you can also encourage them to, uh, pay more into the pensions, uh, to to save more money, to donate more money. All of these. Organizations that were linked by working with human nature rather than sticking your hand head in the sand and ignoring some of these biases.

Right. Trying to fight again. Yeah. Yeah. Yeah. I, and I think that's a, a theme that you and I have developed over all these podcasts, which is how can we use these lessons from certain industries to be applied more widely across many industries? How can you lose, use this insight from a charity? To help, you know, sell more commercially or how can you use something that we learned in Klarna to help a non-profit?

I think that's a very good point. It it's the application that matters. So if you are a retailer. Using a buy now pay later. A split payment provider has big benefits, but if you're not in that situation, you can still apply principles like present [00:15:00] preference bias, for example. If you have to tell people you're gonna charge them more, the argument would be don't give them a week or two's notice.

Give them two months notice about your increases. Those increases will not feel quite so painful and people more likely to accept them. Or if you are a brand, now we're going back to that unit reframing experiment. Stop just communicating your total price. Emphasize the price of the individual units of your product.

It will feel smaller. People are more like to buy it. Yeah. It's lots of applications. Very, very helpful. Yeah. And, and, and like we've discovered in other conversations, sometimes the people that use this and do this the best are the small businesses that are interacting with the customers every day. Gyms.

How much do you pay per day to use the gym? Even if you don't go to the gym every day? They reframe the cost of the gym membership in a per day or mattresses. They reframe it and how much it would cost per night to sleep on this mattress over the cost of a year. And by [00:16:00] Shrinking it down, they reframe the unit to something that feels so small.

How could you not choose? Yeah, the incumbent often gets. Caught up in thinking the way that our products has always been sold is the only way to sell it. Sometimes it takes a complete new player to enter the market and shake things up, and that's what Klarna have done. Yeah. Yeah. Wonderful. As we like to do, we come to the end of the episode.

We like to summarize the big takeaways from today's, uh, episode. So we had a few different takeaways. I think the first was around this idea of, um, unit reframing. Stop giving people the total price. Yes. Stop only giving people the total price. Make sure you break that price down into smaller subunits.

When you give someone a price, they will not slice it and dice it in all sorts of different ways. They'll just respond to, uh, how you've presented it. You need to break it down for them rather than rely on their mathematics. The [00:17:00] second thing we talked about was present bias, and that was the idea that we are more affected by pleasure or pain in the present moment than pleasure or pain in the future moment.

And what we mean by that is if. I'm told that I'm gonna have to pay five pounds a day. It's highly irritating. If I'm told I have to pay five pounds in a month's time, it barely affects me. Or even seven pounds in a month. Yeah, yeah, yeah, yeah. That's a problem for, for future me. Yeah. And that doesn't really bother me.

Right. And then maybe, I don't know, the, the third principle we've discussed, I think is a theme that we've come back to again and again, which is, you know, I think as a brand you need to be fleet afoot. The situation you find yourself in is constantly evolving. Just because something worked when you launched, it doesn't necessarily mean it's the right thing for the present environment.

Your competitors change the cultural landscape changes. Make sure you're attuned to that and adapt accordingly. And for [00:18:00] brand leaders or for category captains, maybe the extra messages. Either disrupt or be disrupted. Yeah. If somebody is going to come into your category with something that's really wildly different and uh, just because it has worked in the past does not mean it can do as much as thinking differently or innovating in your space.

Can do. As we come to a close, Richard, we always like to ask a fun question. Uh, your favorite online purchase of the year, something that you bought that you said, I would've never found this at my local retailer, but, uh, I really love it and I can't, can't live without it. Is there a thing, uh, favorite purchase?

I can't remember if I've got something. I'm, I'm, I'm, I'm, I'm, I'm late to this by about five years, but chia seeds, say it again. Chia seeds. Chia seeds. We don't know what these are. Okay. There's is a seed that you put in milk and they kind of swell up a chia seed. Yeah. That's my [00:19:00] favorite purchase of the last couple of months.

That's my favorite revelation. In terms of a, of a purchase, do you have, are you familiar with a chia pet? Uh, no, no, no. Let me bring you to the, this side of the Atlantic Ocean. And chia pets were, um, were little sculptures. It could be of an animal, it could be of a person, and you put chia seeds on it and they sprout it and grew.

Oh, okay. And then you could cut your chia seed pet like its. Uh, but they are very healthy. I'm not doing that with my cheers, I promise you. But they're very healthy for you. And, uh, yeah, that's a, that's a you you would not find in a local grocer in the uk. Yeah. Yeah. You'd uk Yeah, yeah, yeah, yeah. You'd find, yeah, you can find, I mean, it's f how big the groceries, but yeah.

Yeah, yeah. They're not. What about you? So favorite purchase? Um, a cheer pet. You're gonna tell me? No, uh, it could have been, yeah. Uh. I do a lot of flying and, uh, after a lot of research, I have found the perfect eye mask [00:20:00] for wearing on the flights. It is called the Eye Bra, and it has little cups that your eyes can flutter in REM sleep.

Yeah, never would you find this at a local retailer. Uh, but it's been a game changer for sleeping on airplanes. Very nice. The Eye Bra as we come to a close today, Richard. We want to say thanks to all our listeners for joining us. Uh, as always, we're interested in what you have to ask, what you have to say.

Reach out to the Consumer Behavior Lab on LinkedIn or on our other social channels. And until next time, I'm Michael Aaron Flickr. And I'm Richard Shorten.