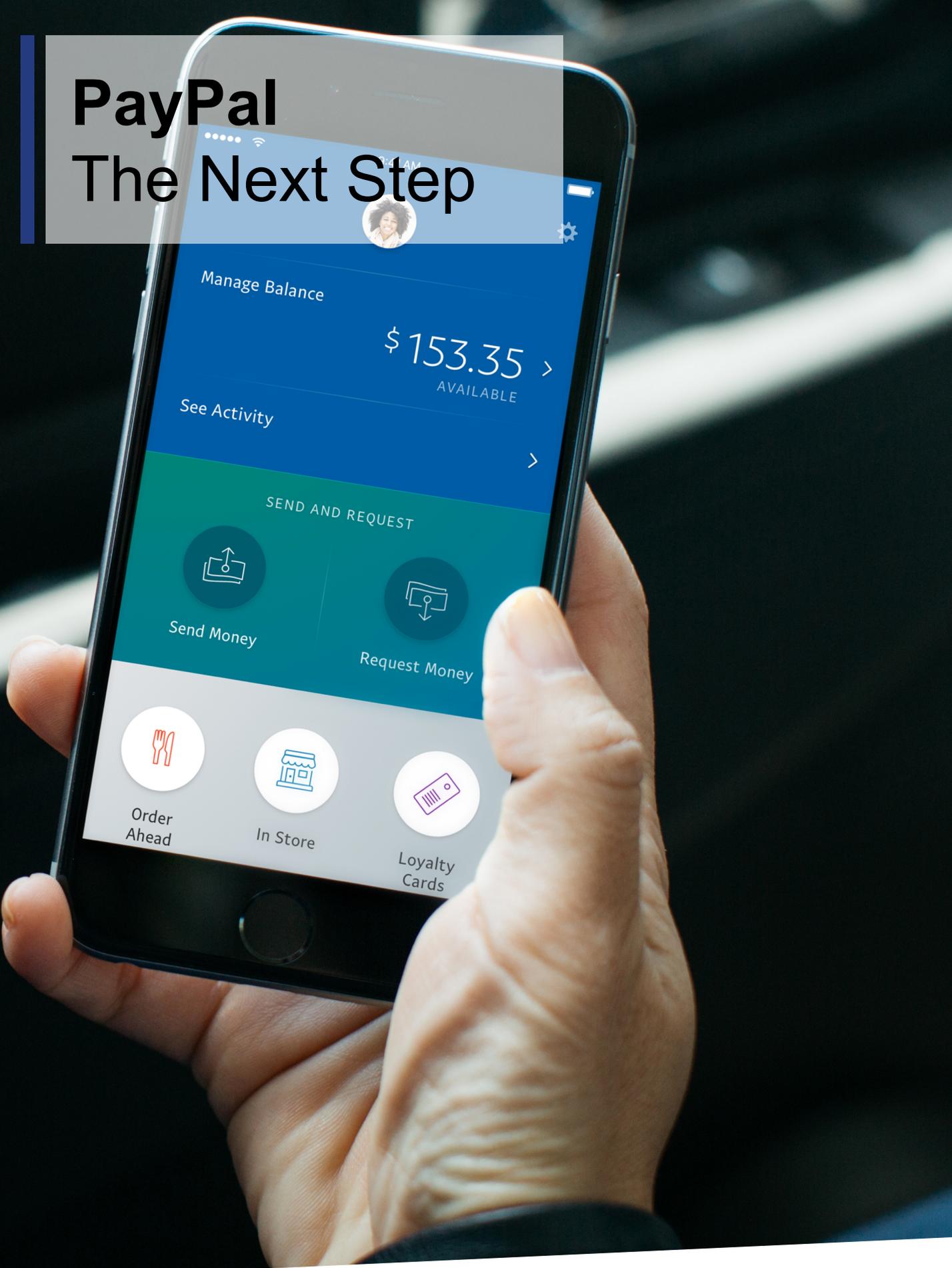


# PayPal

## The Next Step



This case is prepared solely for use in the **Australian Undergraduate Business Case Competition 2018**.

The Australian Undergraduate Business Case Competition is run jointly by QUT and the UNSW Business School.

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Views are those of the author only, and are not warranted by any other party, included PayPal, QUT or UNSW Business School.

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# Company overview

PayPal is a US-based digital payments platform which allows users to pay for products online, and offers a convenient and secure payment experience.

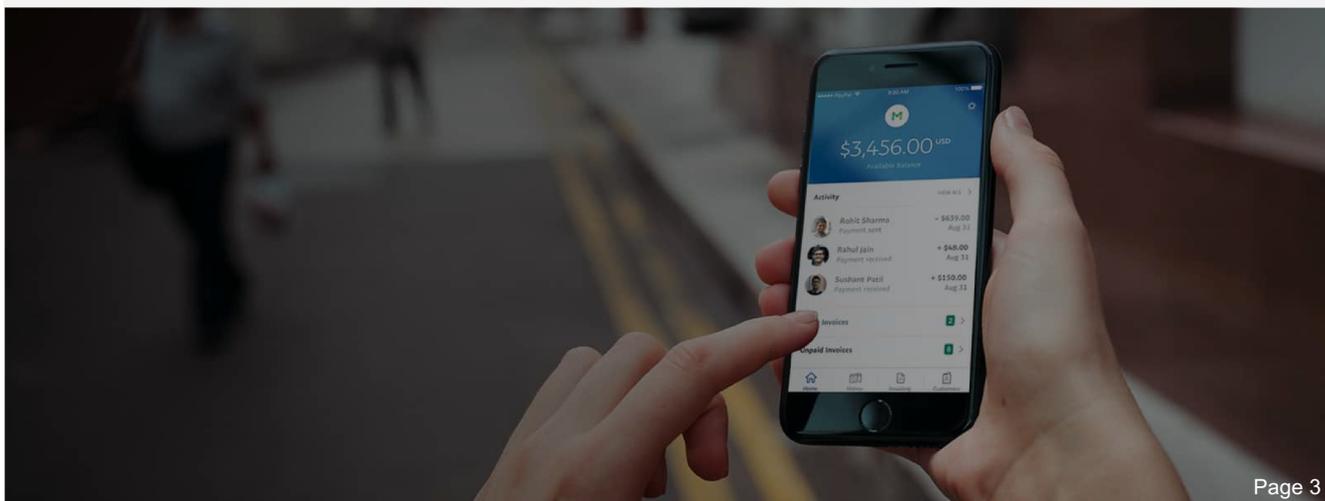
PayPal was founded in 1998. Since then, it listed in 2002, then was acquired by eBay, before becoming an independent company again in 2015. PayPal employs ~20,000 staff, has global revenues of over US\$13B , a market capitalisation of \$75B+, and over 250m active users. Over the last 5 years, PayPal's number of users has grown at 13% year on year.

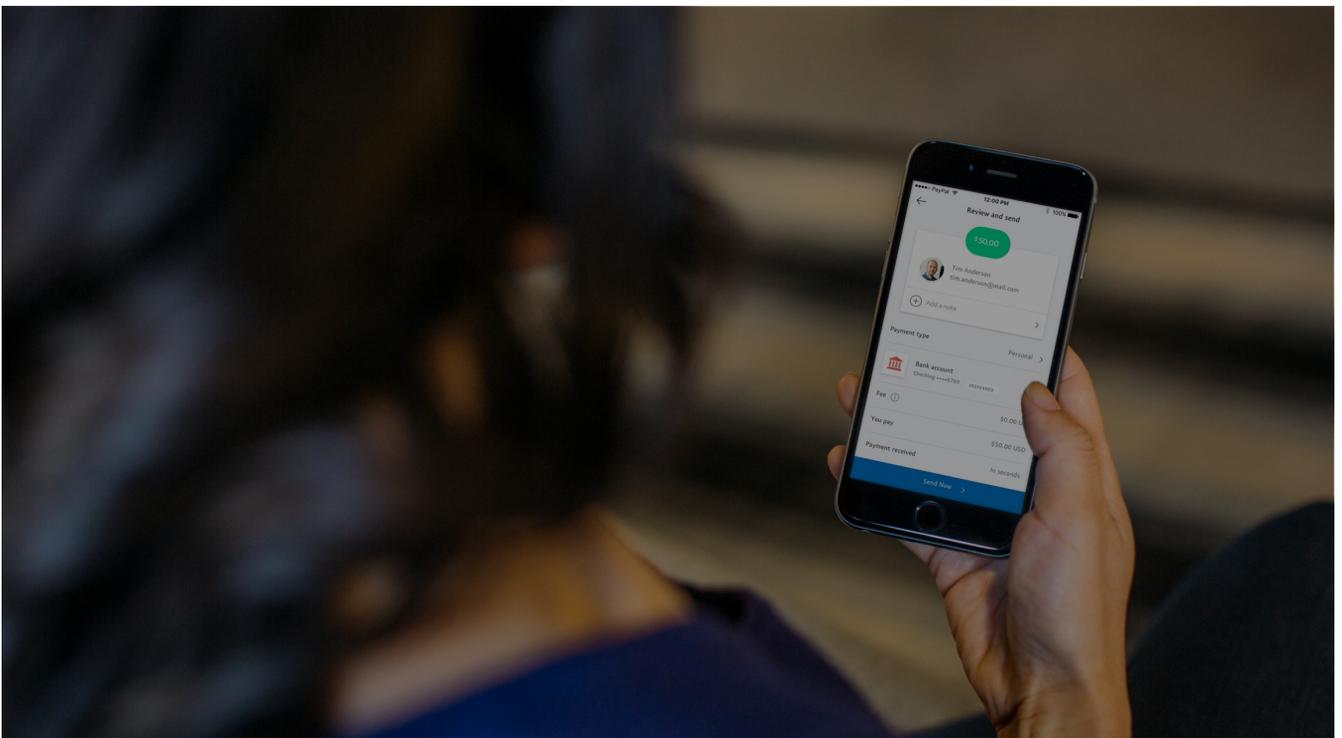
PayPal can be thought of as a 'digital wallet'. A digital wallet is a service that allows a user to make electronic transactions. With the rise of digital payments, digital wallets have become an increasingly important service for consumers.

The company's business model relies upon two key drivers. Firstly, vendors must be willing to accept PayPal as a payment method for their digital transactions. PayPal is currently accepted by 17M merchants worldwide, including Woolworths, Uber, Airbnb and Spotify.<sup>1</sup> Secondly, customers must be willing to use PayPal as their method of payment. PayPal offers customers convenience and security, and is used for 7.1B transactions annually. In exchange for providing a payment platform, PayPal charges a transaction fee for merchants (businesses that accept PayPal).

When PayPal first entered the digital wallet space, it benefited from a first-mover advantage. However, in recent years, the space has become crowded. New entrants to the market include leading technology companies, traditional financial institutions, and FinTech start-ups. Given this, PayPal must continue to innovate and evolve in order to maintain market leadership into the future.

[1] Further list (for Australia): <https://www.paypal.com/au/webapps/mpp/where-to-shop-with-paypal>





## Key Question

What actions should PayPal take over the next 3 years to be the leading digital wallet?

## Specified considerations

Your proposed strategies must:

- ▶ Consider the interests of merchants that use PayPal to accept payments with the aim of increasing the number of merchants that use PayPal.
- ▶ Consider the interests of consumers who use PayPal to make payments
- ▶ Clearly outline how PayPal can develop and implement your proposed solution (e.g. if software development is required, how can PayPal achieve this in practical terms).

**Note:** your proposed strategies should address each of these

## Constraints

- ▶ You are **advising the Australian PayPal team**. Your recommendations can either be Australian-specific or global (including Australia). However, if your recommendations are global (e.g. a new product to be rolled out worldwide), you **must focus your analysis on the Australian market**. (The impact of your strategy will be judged with reference to your chosen market, so teams that propose a global strategy over an Australian-only strategy are not at an advantage.)
- ▶ Solutions may include any action that PayPal is able to implement, including changes to product, branding, customer engagement and company initiatives.
- ▶ However, you should **not propose a geographic expansion** (i.e. PayPal entering a new market).
- ▶ You may assume that PayPal is willing to make significant investments in worthwhile initiatives.

# PayPal's history – 20 years of growth

## 1998 – Confinity



PayPal began as a software company based in Silicon Valley, founded in December 1988 by Max Levchin, Peter Thiel and Luke Nosek. Confinity launched its milestone product, PayPal, in late 1999.

## 2000 – X.com merger, IPO



In March 2000, Cofinity merged with X.com, one of the world's first online banks (founded by Elon Musk). The merged company became known as X.com and after a corporate restructuring in 2001 was renamed PayPal. In 2002, PayPal's IPO listed at \$13 per share.

## 2002 – Acquired eBay



Shortly after PayPal's IPO, the company was acquired by eBay in July 2002 for \$1.5 billion. PayPal became the default payment method used by eBay users.

## 2002-14 – Expansion



While operating as a subsidiary of eBay, PayPal continued to grow its business through a series of acquisitions, including of VeriSign in 2005, Fraud Sciences in 2008 and Bill Me Later later that year.

In 2013, PayPal acquired Braintree, the owner of Venmo. (Venmo now has had a total transaction volume (TPV ) of over US\$50b annually.)

## 2015-now – Independent company



In July 2015, PayPal was spun off to become a separate publicly traded company. In 2018, PayPal acquired iZettle in May and Hyperwallet and Simility in June.

# PayPal's mission

**We believe** that now is the time to reimagine money, to democratize financial services, so that managing and moving money is a right for all citizens, not just the affluent.

We believe every person has the right to participate fully in the global economy. We have an obligation to empower people to exercise this right and improve financial health.

As a leader in Financial Technology, we believe in providing simple, affordable, secure and reliable financial services and digital payments that enable the hopes, dreams and ambitions of millions of people around the world.

It is our duty and privilege to be Customer Champions. We have a fundamental commitment to put our customers at the center of everything we do. We must be bold and innovative and execute flawlessly against our immediate goals, with our eyes always on the future.



# PayPal's culture

## PayPal's One Team Behaviours

### Innovation

*Creating Amazing Customer Experiences*

- ▶ Solve with empathy for the customer
- ▶ Think big but start small
- ▶ Fail fast to learn
- ▶ Be data-driven and outcome-focused
- ▶ Persevere but know when to change course

### Collaboration

*Execute and Win as One Team*

- ▶ Think end-to-end beyond silos
- ▶ Assume best intentions
- ▶ Be transparent and accountable
- ▶ Support each other
- ▶ Find common ground
- ▶ Put company first, group second, individual last

### Inclusion

*Respect and Value Uniqueness*

- ▶ Actively listen and seek diversity of thought
- ▶ Be the voice of fairness and respect
- ▶ Stand up for the potential of people
- ▶ Balance action with empathy

### Wellness

*Care for Yourself and Each Other*

- ▶ Know what recharges you and make time
- ▶ Create the space you need to do your best work
- ▶ Treat each other with kindness

## Examples of PayPal's diversity and inclusion initiatives

### Pride

A group that celebrates and promotes inclusion and support for PayPal's LGBTQ+ employees.



### Unity

Focused on gender equality and balance, and creating more opportunities for women at PayPal.



### Opportunity

Committed to assisting those who are specially-abled or disadvantaged in some way, including socioeconomic status



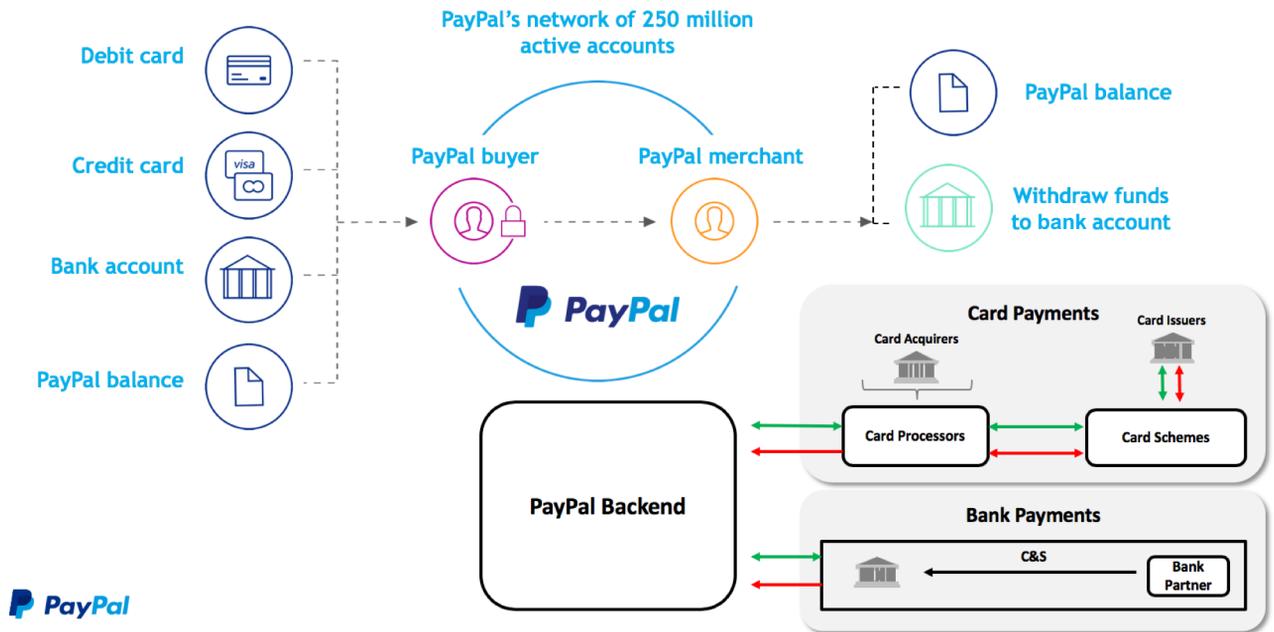
### Amplify

Aims to enhance the recruitment, selection and advancement of Black employees at PayPal.



# PayPal's product

## How PayPal's wallet works



## PayPal's value proposition for customers

### Protection

PayPal's Global Buyer Protection protects consumers from checkout to delivery.

- ▶ **Refunds:** If an order doesn't arrive, or is significantly different to the seller's description, consumers have 180 days to file a dispute. PayPal can protect consumers for the full purchase price plus shipping costs, up to \$20,000 per item.
- ▶ **Privacy:** PayPal never reveals consumers' financial information to sellers. Consumer financial details stay encrypted and protected.
- ▶ **Anti-fraud:** PayPal never closes, monitoring transactions 24/7 with the latest anti-fraud technology. Every transaction is monitored and heavily guarded behind our advanced encryption to help prevent fraud and identity theft. And we're leaders in risk management, constantly updating our systems to help block external threats so consumers can buy with confidence
- ▶ **Refunded returns:** Whether it's the wrong thing, the wrong size, the wrong colour or you simply changed your mind, we can refund the return shipping costs on eligible PayPal purchases with Refunded Returns\*

### Ease of use

PayPal is a simple solution for its customers.

- ▶ **Send money safely:** With PayPal consumers can easily transfer money to friends and family or businesses more securely
- ▶ **Payment method selection:** consumers can pay instantly online with their choice of linked card or bank account.
- ▶ **Track your purchases:** PayPal sends email confirmation after every purchase and customers can log in and check their payment history at any time.
- ▶ **Easy mobile payments:** with PayPal, mobile payments are made easy. No fumbling for credit cards and having to enter a long string of numbers. Simply log into your PayPal account and if you have 'One Touch' enabled, you can pay on your mobile with your thumbprint.

# PayPal – more than a button

PayPal's product offerings position it as a **valuable partner**, providing **merchants access to a suite of tools and integrations** beyond the PayPal button

Check out with **PayPal**



Mobile



In-Store



Customer  
Acquisition



One Touch



Loyalty



CBT



Online



Invoicing



Reduction in Cart  
Abandonment



Contextual  
Commerce



Offers



Credit

# PayPal's position in the market

**250M**

GLOBAL  
CUSTOMER  
ACCOUNTS  
31  
transactions/acct  
on avg

**17M**

MERCHANTS  
WORLDWIDE

**7.1B**

ANNUAL PAYPAL  
TRANSACTIONS  
Nearly 30% on  
Mobile

**87.5%**

ONLINE  
CONVERSION  
RATE\*

## PayPal

### Key offerings



#### CONVENIENCE

Streamlined checkout  
across devices

One Touch™ for fast,  
easy payments; fewer  
clicks helps drive  
conversion



#### SECURITY

Tokenized  
transactions to keep  
financials secure

Advanced fraud  
protection &  
risk modeling



#### FLEXIBILITY

Consumer choice  
in payments

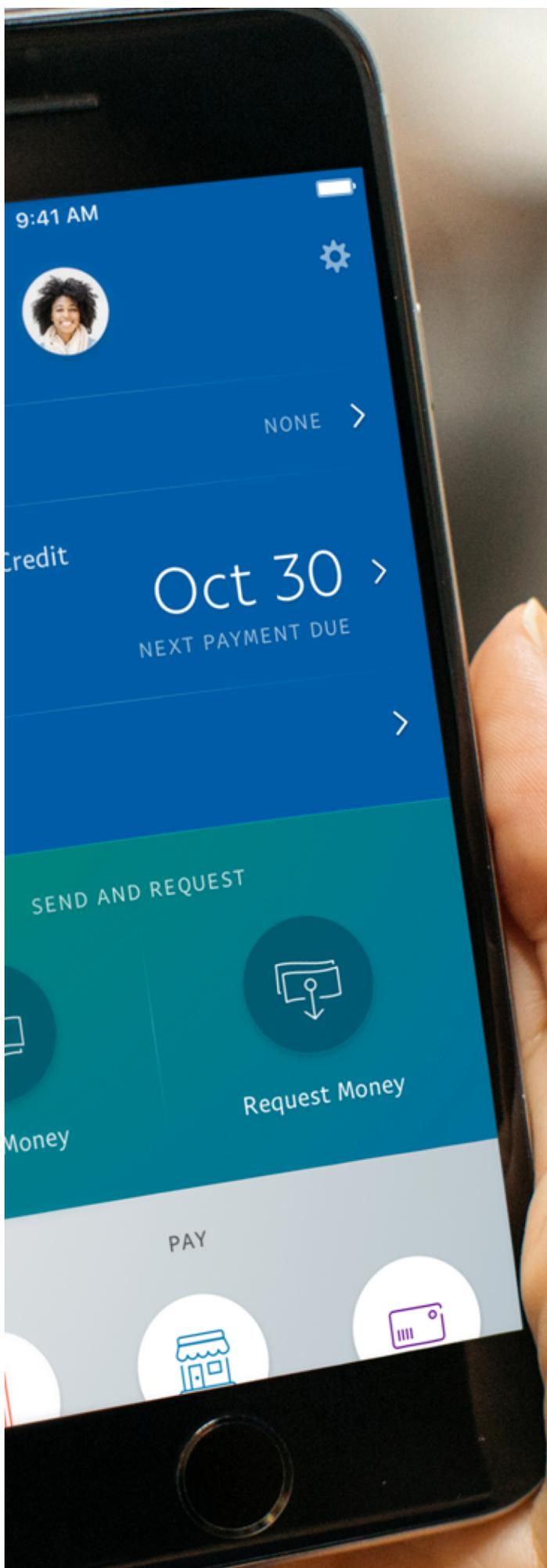
Merchant choice in  
platforms and products

**7.1M**

Australian Consumer Accounts

**0.5M**

Australian Merchant Accounts



## Customer acquisition

When PayPal launched, a \$20 activation gift and \$20 referral code per user cost the company US\$60m+, but allowed PayPal to acquire 100k users in its first month

# PayPal's competitive landscape

## PayPal's competitors (non-exhaustive list)



1

- ▶ Launched in 2014 in conjunction with the iPhone 6
- ▶ Supported in 31 countries, with 250M+ users (30%+ of iPhone users)
- ▶ Supported by the Apple Wallet app
- ▶ Considered one of Apple's most successful product launches in recent years



2

- ▶ AfterPay allows users to purchase on goods online by instalments. Customers pay 25% of price upfront, and then the rest of the price by 3 payments over each of the next 3 fortnights.
- ▶ Now has 2m+ users
- ▶ AfterPay was founded in Sydney, Australia, and has since expanded into New Zealand and the United States.



3

- ▶ Supported in 10 countries with 30m+ users
- ▶ 50%+ of Amazon Pay users are also Amazon Prime members, demonstrating the user acquisition synergies that Amazon can access
- ▶ Amazon's platform accounts for 50%+ of e-commerce transactions in the United States



4

- ▶ Launched in 2015 as Android Pay, which followed Google Wallet.
- ▶ Now has 100M+ installs across 28 nations.
- ▶ Since May 2018, includes support for boarding passes and event tickets
- ▶ Benefits from native inclusion in Google's Android mobile operating system



5

- ▶ Alipay overtook PayPal as the world's largest digital payment company in 2013
- ▶ Alibaba has 50%+ share of the Chinese digital payment market, although WeChat Pay has become increasingly competitive
- ▶ Alipay owned by parent company Ant Financial (an affiliate of Ali Barber). Ant Financial is the most valuable FinTech in the world.



6

- ▶ Best-known for its hardware solutions that allow for vendors to accept payment from credit cards on miniature plastic receivers
- ▶ Has diversified their product offering range to include wallet services, gift cards, appointments, loyalty schemes and more



7

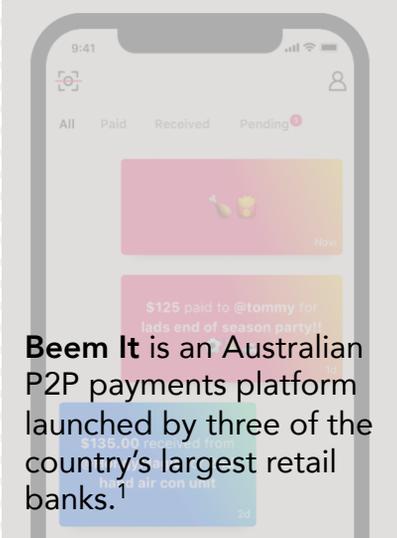
- ▶ Offers a digital payment system similar to PayPal
- ▶ Has developed their own reporting program, Sigma, which offers comprehensive business reporting functions (PayPal also offers reporting functions)
- ▶ Backed by a recent \$245m funding round

**Takeaway:** PayPal is threatened by the number of competitors in the market. They include well-supported FinTechs, and leading technology companies with a deep pool of users to draw upon

# Trends and factors in the Australian market

## Market growth

Digital Peer to Peer (P2P) and Wallet In-store are expected to grow significantly faster (x3) than digital commerce over the next 3 years.



**Beem** It is an Australian P2P payments platform launched by three of the country's largest retail banks.<sup>1</sup>

## Contactless payment

Australia has one of the highest uptake rates of contactless payment systems in the world (accounting for 90%+ of card payments, up from 82% a year ago).<sup>2</sup> This may demonstrate a willingness of Australian's to adopt new payments technology.

## Customer experience

A tipping point is approaching, where the digital wallet offers a more compelling experience (e.g. loyalty programs) than the ease of tap and go. One application includes transport cards.

## FinTech

Australia has a large community of Financial Technology (FinTech) companies, and one of the highest rates of consumer adoption (37% of digitally active users vs 33% for the US)<sup>3</sup>. Many local FinTech's are backed by government or major traditional companies.



**Airwallex** is an Australian FinTech that allows for users cheaply send currency overseas, including for global payments.<sup>4</sup>



**Alipay** could replicate its success in China in Western markets.<sup>5</sup>

## China

Major Chinese digital players (e.g. Alipay and We Chat Pay) are looking to expand into other markets. This includes retail payment offerings to capture Chinese tourist, student and migrant spend.

## Buy Now, Pay Later

Australian's are looking for new ways to pay, with products increasing market share in digital commerce and instore. Buy Now, Pay Later appeals to millennials and consumers averse to traditional credit options. AfterPay is the industry leader.

# Conclusion

20 years ago, PayPal was a first-mover into the digital payments space. Now, it faces a fiercely competitive market with a large number of new entrants. In Australia, PayPal currently holds a large share of the market, but is also facing local factors that suggest a high degree of potential disruption awaits.

Given this, PayPal's course of action over the next 3 years will determine if PayPal can continue to win its market, including within Australia.

## Further information

- ▶ [PayPal Annual Report 2017](#)
- ▶ [PayPal Investor Relations](#)



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