

Business Administration 457: Final Paper
A Comprehensive Analysis of Paypal (PYPL)
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Introduction

In order to analyze the profit potential of a company, it is vital to understand both the external and internal conditions in which the firm is operating. The purpose of this paper is to conduct a comprehensive analysis of Papal Holdings, Inc. (PYPL) and generate key insights and recommendations that would be useful to Paypal as well as the company's investors. Throughout this paper, we will use a variety of methodologies to analyze Paypal's business model, industry, macroeconomic environment, value generation process, and competitive positioning. More specifically, we will focus on conducting a general overview of Paypal and their business model and strategy. This will provide a better understanding of the company's history, positioning, and structure. We will then transition to more in-depth analyses of the company's external and internal environment. In order to provide greater insight into the environment in which PYPL is operating, we will conduct a STEEP macroeconomic analysis, an industry analysis following Porter's Five Forces model, and a strategic peer group analysis. Finally, in the internal analysis portion of this paper, VRIO and Value Chain Analyses will be used to provide a better understanding of Paypal's potential and sources of competitive advantage.

Overview

Background

Paypal Holdings, Inc. (PYPL) was founded in 1998, and their technology platform helps both businesses and consumers by providing access to digital payment methods. This allows Paypal customers to make and receive payments both online and in-person via electronic devices. Paypal operates across 200 markets and serves to connect approximately 426 million account holders.¹ PYPL hosts a variety of brands including Venmo, Xoom, Braintree, Hyperwallet, and Paidy—just to name a few.¹ Their current CEO is Alex Chriss—who has held the position since September 27, 2023.¹ Some of the key things that have drawn us to Paypal is their brand strength and recognition—especially with the emerging Venmo platform—and their loyal customer base.² Another key strength of PYPL is their position in the current market space. Digital payment platforms have become increasingly popular in recent years, and Paypal has a strong position and market share within this industry.

PayPal (PYPL) Stock Price Performance



Business Strategy

Objective: The key to PayPal's overall business strategy is enhancing the customer experience by maximizing security, usability, and convenience across the board.³ By continuously improving their user interface, providing abundant security to buyers and sellers, and integrating frictionlessly with merchant platforms PayPal has been able to enhance their overall customer experience in a way that sets them apart from their competitors.

Scope: A key component of PayPal's strategy is expansive reach and strong international presence. As of now, PYPL is present in 200 countries across the globe.¹ PayPal has also based their business strategy on the concept of maximizing merchant acceptance. Their primary ways of doing this are actively pursuing partnerships and developing strong brand recognition and loyalty.³ PayPal has been able to expand their scope and reach by partnering with marketplaces, e-commerce platforms, and payment processors.

Advantage: PayPal has been able to differentiate from competitors through two key strategic advantages: creating strong partnerships and brands and emphasizing the adoption of digital wallets.³ PYPL has been able to keep up with competitors like Zelle and Cash App through their strong emphasis on digital wallets as well as their use of strategic partnerships and acquisitions. For example, PayPal was able to expand their arsenal of brands when they acquired Venmo in 2013; this acquisition served as a huge revenue driver for the PYPL as they were able to expand their customer base.⁴ Moreover, the use of digital wallet services is one of PayPal's key growth and differentiation initiatives. They have been able to use the One Touch digital wallet feature to improve their customer experience.³

Business Model

Key Partners: - Banks -Payment Processors (BigCommerce, Shopify, WooCommerce) -Software Developers	Key Activities: -Fraud Protection -Facilitating Payments Key Resources: -Global technology platform -Employees -Bank financing	Value Propositions: -Highly trusted/secure platform to send and receive money -Quick Transactions -Buy now, pay later option -Debit & credit cards available -Accept worldwide payments -Cryptocurrency inclusion	Customer Relationships: -Customer Service messaging/help -Protection programs for buyers and sellers Channels: -Paypal mobile app -Website/online checkout -Subsidiaries (venmo, etc.)	Customer Segments: -Consumers that use Paypal to pay businesses and send/receive money -Merchants (small businesses & enterprises)
Cost Structure: - Transaction expenses - Marketing and Sales expenses - Platform development and maintenance costs - Headquarters/general operations expenses			Revenue Streams: - Fees from transactions, withdraws, etc. - Subscriptions for businesses/payflow - Interest from credit card/loans - Affiliate commissions on commerce platforms	

Paypal's key value proposition includes being a trusted and secure avenue for businesses and individuals to exchange money. Their most important activities surround ensuring the safety of their consumers in their financial dealings. Paypal has an extensive amount of partnerships with e-commerce and other businesses to provide meaningful benefits for their customers. They offer not only safe ways for entities to deal with their financials but also provide opportunities for businesses to grow.⁵ With the ability to conduct business worldwide, many online retailers enjoy the global advantages Paypal involves. For individuals, Paypal extends credit to some, while others can use the platform to conduct their own dealings.⁶ It is a platform/app that allows consumers to use in the way that fits their priorities and specific needs. Their costs mostly surround the platform/software itself which corresponds to where their revenue arises.

Going forward, Paypal should continue to focus their efforts on reinforcing their secure and advantageous platform that they have already been very successful with. A majority of their revenue comes from transaction fees, so prioritizing their consumers' satisfaction with this part of their business should be at the forefront of their strategy.⁷ The company should allow the growth of their brands such as Venmo to flourish in their use by the individual consumers while also ensuring their resources for the merchant customer segment is well-known, so that they can expand their business consumer base.

Moving Forward

Having established a foundational understanding of PayPal's operations and strategic direction, next we will be examining the external environment in which PayPal competes. This will include a STEEP analysis and a competitive assessment using Porter's Five Forces Model. These analysis methodologies will highlight the macroeconomic trends and industry dynamics that are currently impacting Paypal. Additionally, a strategic group analysis will be used in order to provide a better understanding of Paypal's competitive dynamics as well as the peer group in which they are operating. Their current strategy involves continuously improving their offerings for their consumers while ensuring the trusted platform they have curated continues to perform optimally. These efforts should continue to be at the forefront of the company's decision making going forward.

External Analysis

STEEP Macro Environment Analysis

Social	1. Lifestyle trends Trends in society can have a big impact on Paypal and its users' successes. Paypal's Newsroom discussed how changes in consumer behaviors, whether it is by choice or because of something like the pandemic we saw a few years ago, can have a big impact on the businesses that use Paypal¹. This big shift to e-commerce and availability online has had a great lasting effect for the company itself considering they received the fees and incentives for hosting this expanded form of business. In addition, other trends and items that gain massive popularity can mean a great boom in business for Paypal considering they facilitate many of these payments, even worldwide. This could either present a great opportunity for Paypal to flourish, or a threat if the ball is dropped in this area, which could allow competitors to take over the market if trends are followed. 2. Demographic/age distribution Millennials are the largest demographic group that uses Paypal and this was posted by the Paypal Business Resource Center itself². Gen X represents about 30-35% of their users and Gen Z seemingly is the third largest group. Gen Z was more likely to adopt their "buy now, pay later" opportunity rather than the larger consumer base of Gen X. The conclusion of this article surrounded Gen Z and Millennials being a lot more likely and willing to accept changes in PayPal's business model. This writing was meant to serve the businesses that use PayPal for their payments in order to grow their knowledge on the consumer base available to them's preferences. This knowledge can allow Paypal to position their different offerings towards differing generations, or could be a threat if efforts seem to favor the wrong generations. 3. Media views and influence In an article by The Drum, a somewhat unbiased news company, they discuss PayPal's unwillingness to work with accounts that use speech unapproved by the company³. They say it was due to hate speech and revoked the party's availability to use the platform for their financial endeavors. While this seems like a very reasonable result for the situation described, The Drum laid the story out with doubts that the banning was not politically/disagreement based. The news company discusses how the banned parties reacted saying that Paypal was trying to infringe on their free speech. This was not given any additional attention by Paypal but was something to note as the media spreading this message may influence other consumers who put heavy value on their free speech or disagree with the situation discussed. This interaction and others with the media could be a threat to the business if consumers listened to the hasty remarks made by some, or an opportunity if the public does not believe The Drum and stands behind Paypal's stance on speech used.
Technological	1. Technology developments Last year, Paypal made a ton of new improvements to the technology of the platform using new developments made in the space. The first of which being the creation of Fastlane, their new swift and seamless checkout powered by newer technology⁴. This offering allowed their business accounts to create easier/more meaningful checkout experiences for the end consumer as well as potentially increase their conversion rate. The company also incorporated AI, which has been a

	large part of the developments being made in technology in recent years. They used the AI to enhance security and convenience while also analyzing immense amounts of data to add further value to the customer experience. This came through predicting consumer behaviors and wants as well as optimizing the checkout experience. They can create a lot of value if this expansion in technology continues, but could fall behind with competition and create a threat to the business if not. 2. Pace of technological change These days, technology is improving and changing rapidly. Especially with AI as mentioned previously, the machines created by humans can now create and do new things which adds to a compound effect of technology improving at the speed of light. Since Paypal's value proposition and business model truly surrounds the platform created to facilitate the payments and make their profit, the improvements being made in technology are constantly relevant to Paypal. The fast pace of change allows Paypal to create opportunities to see a lot more change but also provide a threat of making a rushed misstep or falling behind on the race to develop better features. 3. Licensing and patent norms/regulations Paypal has important software and technology that they must protect with licenses when working with other businesses. When allowing these entities to use their Application Programming Interface and other offerings, the other party must sign a lengthy agreement in order to ensure their use of Paypal's systems will not be in any way then of mutual benefit. This specific example is part of their licence program⁵ in which the agreement makes sure the company understands the platform cannot be transferred, over-shared, or misused in any way. Providing this type of licensing as well as other opportunities for their business partners allows Paypal to acquire another form of income as well as benefit when the businesses using their technology offerings receive more transactions and therefore provide Paypal with more fees than usual. This gives a great opportunity to find new sources of revenue but also faces the threat of legal issues if misused.
Environmental	1. Consumer sustainability preferences and demands Customer pressure for companies to adhere to sustainability guidelines as well as show an interest in preserving our ecosystem is important as ever. These preferences can be a determining factor in where people choose to spend their money. Therefore Paypal has felt the pressure, in addition to the social/political pressures to voice an opinion, to prove to the people that they are conscious of their impact on the environment. In this, they have made pretty ambitious goals such as using 100% renewable energy sources for their data centers, a 25% reduction in their greenhouse gas production, and 75% of their suppliers by spend to adopt science-based targets⁶. These goals have been deemed as medium-term goals with 2040 being the estimated year of completion⁷. They feel that the company has had hiccups with their sustainability efforts in the past, however, are using that to make it a prime effort of their operations in the coming years. The failure to adhere to these consumer wants for sustainable efforts could be a big threat to their profit but incorporating the wants of consumers could lend the company to see a lot more support from these eco-conscious consumers. 2. Industry laws and regulations Paypal has made a number of agreements within their operations in order to hold themselves and their partners accountable for the effect they have on the environment. In 2021 they had signed on to the "America Is All In" movement with

	thousands of other companies in order to meet the Paris Climate Agreement. They have made it known about their climate initiatives and also joined the Business Ambition for 1.5C to align their targets with the shared goal of ensuring the global temperature doesn't rise by 1.5 degrees Celcius⁷. While these regulations are not being imposed upon the company, they have created the responsibility and metrics to follow for themselves which has been received well by a majority of their consumers. This incorporation of industry regulations without the need to should present an opportunity for them to raise public opinions on the company, but future regulations that do obtain to them could present a threat if not followed. 3. Sustainable Resources/Practices Paypal is a mostly virtual operation as their main value proposition previously established is their platform. In this, they do not need to acquire many resources for the direct business model, however, they have made many efforts in ensuring sustainability within their partners sourcing and operations. They launched a vendor ESG (environmental, social and governance) engagement initiative and joined CDP Supply Chain to further their vendor climate efforts⁷. They also sponsor projects to aim to minimize their greenhouse gas emissions as the elimination of this production is one of their main goals in sustainability. Specifically, one of their projects involved sponsoring the building of fuel-efficient cook stoves in Mexico and many other notable endeavors to give back to the environment. Using sustainable resources and practices gives any company in the industry an opportunity to impress their consumers with their care for the environment, but could pose as a threat if their endeavors do not seem worthwhile/advantageous to the public.
Economic	1. Employment levels Since Paypal involves financial exchanges and transactions, employment levels will directly affect their successes. When more people are employed the amount of transactions between person to person rises when people have the means to spend more money on activities that involve transacting with one another. This rate also affects the transactions the business accounts on Paypal will see as their consumer pool could grow or have more disposable income to spend on their offerings. This in turn allows Paypal to collect more fees from these transactions and business subscriptions when the economy is doing well. The company also has direct effects when it comes to the employment of the different businesses, as the Washington Post discusses how small and medium-sized businesses generate more than 40% of the worldwide GDP and employ over half of the workers⁸. High employment levels could present a great opportunity to incorporate more vendors and people in Paypal's services, however a low employment rate could pose as a massive threat to the amount of transactions being made in a company's platform. 2. Currency exchange rates Since Paypal facilitates payments worldwide, currency exchanges are a piece of their business they cannot bypass. They also enact these exchanges for the consumer so that extra effort is not needed on the customers behalf when making these international payments. This means the exchange rate fluctuations can cause their platforms to need to keep up with these at any moment to ensure the transactions are correct. They also enact an extra percentage at some points to ensure the conversion is covered which can be controversial among their consumers⁹. This is why the clarity of these exchanges as well as keeping constant track of the conversion rate fluctuations is a very impactful part of their

	environment. High conversion rates could lower the company's margins or make the consumer prices higher resulting in the threat of less transactions, however an advantageous exchange rate could skyrocket international business and could be seen as a great opportunity. 3. Interest rates Paypal offers loan options through their credit lending and therefore must keep sight of the interest rates being offered by competition¹⁰. When ensuring that their lending offers are a true choice by consumers they look at the fluctuations in the economy across the globe and how theirs move in turn. There is some discourse about Paypals offerings and they have extensive marketing to offer this to their consumers. The fluctuations in the economy in all of their operating countries as well as how the competitors move directly affects the proportion of consumers that are willing to receive credit and endure their interest rates. A higher average interest rate could be an opportunity to this and other companies as they can also increase their margins, however lower average rates could cause the company to have to decrease their rates to remain competitive and pose a threat to the business.
Political	1. Political party policies/power distribution Since last year was an election year and we have seen a change of leadership in the United States in 2025, policies must be constantly monitored. The power distribution is changing as the president makes edits to the administration and their efforts. This affects not only how the economy will do but also a lot of the finances that Paypal must keep at the top of their mind. The political efforts of Paypal have placed an emphasis on small business empowerment, cross-border trade, and modernization of financial endeavors¹¹. In this, tariffs and other trade barriers could be costly for them and this is a big talking point with the current administration. Paypal has proven to be on the more progressive side and therefore may have some issues with the current administration, so continued monitoring of the political climate is necessary. Current administrative efforts such as the tariffs could cause a lot of threats in the international dealings Paypal and competitors conduct. There also could be some opportunities if the administration implements more impactful economic policies that increase spending. 2. Voting rates and trends Again, with the election last year we saw a lot of data on how the voters of the United States decided their preference. This can be helpful in deciphering what consumers of Paypal may be looking for in their financial offerings as well as how they will respond to any changes made in the Paypal business model. The exit poll from the election showed that 31% of voters placed the value of their vote on their economic ideologies¹² and therefore heavily value this part of Paypal's business. This and other information from the voting trends gives Paypal insight into the preferences of the consumer and therefore should be examined. Continuing to look into these data points is a big opportunity for companies to find out more about what voters value and therefore tailor the business to these needs. There could also be a threat in failing to incorporate this information or finding conclusions that are not aligned with the platform/business model Paypal and other companies have configured. 3. Power of regulatory agencies The president has made many changes to the agencies of our nation in the past few months, starting with the creation of the DOGE. This agency has begun cutting funding for many entities of the government and therefore is a threat to other

	agencies that may directly affect Paypal. An article by News Week discusses the cutting of over 200,000 government credit cards ¹³ which directly affects Paypal as they offer credit. This could mean more availability for credit as well as the potential for DOGE to cut agencies that directly affect the operations of Paypal. The elimination of different aspects of the government could be a big threat to Paypal and companies like it as they may lose some customers or vendor relations if the economy is negatively impacted by these cuts. There could be an opportunity if competitors are affected by regulatory agencies but, this company is not.
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The STEEP analysis is an instrumental part of a businesses assessment of the environment in which they operate. Examining the different elements of the macro-environment is important in understanding the potential effects Paypal will see in the coming quarters/years as well as potential opportunities for the business to take advantage of. The analysis encapsulates all of the major impacts of the company's surroundings and provides insight that can be easily used to draw conclusions about the business and its potential issues/changes in the future.

The analysis was created by researching the industry itself that sees the effects of these different elements as well as efforts Paypal has been making in recent times to change alongside them. The examination into these different subjects showed the amount of information that is out there about the company and how it competes in the space it has created for their consumers.

The macro-environment is ever changing and very important for Paypal to analyze at all times. With it being a financial company, the most important factors come into play with the economic and political impacts as these can immensely change the profit margins Paypal will see. The economic performance of their consumers can drastically affect the well-being of the business accounts Paypal works with as well as the quantity of individual consumers that use the platform to exchange currency with one another. Social effects of the macro-environment also encapsulate the consumer base that use the company's offerings and how they can differ depending on different factors. The STEEP analysis was important in showing that Paypal has immense potential to continue developing their technological offerings for their consumers. This will be beneficial for the company in the long run as they have already shown great promise using these emerging technologies to improve their past operations.

Five Forces Industry Analysis

Intensity of Rivalry (High)	<i>Low levels of industry concentration:</i> The online payment services market is extremely fragmented with many competitors, such as Stripe, Apple Pay, Google Pay, Square, and more. This leads to heightened competition and rivalry within the industry.¹ <i>Low industry growth:</i> Due to the technological nature of the online payment services industry, there are high levels of industry growth and innovation. There is constant demand for financial and payment services, and companies in this space are constantly competing to keep up in this highly innovative and newly developing space.² <i>High fixed costs to operate:</i> Due to the high levels of regulatory and compliance measures within the financial services and online payment services industries, there are numerous fixed costs associated with operating in this market.³ There are also high levels of fixed costs associated with developing the business partnerships required to thrive in this industry.² However, there is less demand for more typical fixed costs like real estate, inventory, etc. due to the technological nature of this
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	market. <i>High exit barriers in the industry:</i> Due to strict regulation and compliance needs within the online payment services industry, there are high barriers to exit. Companies like Paypal possess private customer information which must be handled with great care and attention. There are also strict anti-fraud and money laundering policies governing this industry which make it difficult to exit.³ <i>Overcapacity in the industry:</i> As Paypal must compete with banks like Visa, Mastercard, and American Express as well as other online payment services like Stripe and Square, there is a certain amount of overcapacity within their industry. These competitors are often able to provide similar services at similar costs to customers. Therefore, this is a strong source of competition within the industry online payment services industry.¹ <i>Low product differences:</i> Although all companies in the online payment services industry are offering similar baskets of services, there is still some room for differentiation.¹ Developing technologies like new APIs can make transactions more speedy and secure. Other emerging trends like Buy Now Pay Later (BNPL) options are also a way for companies in this space to differentiate. <i>Low switching costs for buyers:</i> Due to the variety of options and flexibility for consumers within this market, there are extremely low switching costs for buyers of online payments services. This provides increased levels of competitive rivalry within this market.³
Power of Substitutes (Moderate)	<i>Low switching costs:</i> As there is a large number of providers within the online payment services industry and low costs associated with these services, customers have low switching costs within this market. This increases the risk and competition level associated with substitute products in this industry.³ <i>High buyer inclination to substitute:</i> Although users are inclined to seek out platforms with easier user interfaces, lower fees, and newer features, there is also a certain level of loyalty associated with online payment services platforms. For example, many customers are loyal to Paypal due to their high perceived security and low exposure to fraud and theft. Online payment platforms possess sensitive consumer information. As such, buyers can be hesitant with switching between these platforms at times. <i>Low price-performance tradeoff:</i> There are many cheap substitutes within this space. Although Paypal is already a cheap service for customers, options like ACH and bank transfers can often be even cheaper or free. Therefore, this is a source of risk and competition within the industry. <i>Easy ability to substitute:</i> As it takes low levels of effort to switch online payment services providers, it is very easy for buyers to find and switch to substitutes within this market. Paypal has a large number of competitors like Stripe, Square, Klarna,

	and more which are very easy for customers to switch between. Most of the time, all it takes is a new account and a couple steps to input your financial information.¹
Bargaining Power of Suppliers (Moderate to High)	<i>High supplier concentration:</i> Due to the limited number of technology providers needed for payment processing, suppliers often have high bargaining power. Online payment services platforms are also reliant upon partnerships with card providers and other financial services institutions which are limited and can greatly impact profit potential.³ <i>High differentiation of inputs:</i> Some inputs required for online payment services platforms can be highly specialized. For example, secure processing gateways and fraud protection technologies are vital inputs within this industry.³ These are also highly specialized technologies with few substitutes for companies operating in this space. <i>High switching costs to different suppliers:</i> Due to the fact that many technology and security providers are highly intertwined with the operations of online payment services platforms, it can be extremely difficult and costly to switch suppliers in this industry. Not only can disrupt the flow of transactions, it can also threaten the security of customer data—a product feature which is vital within this market.¹ <i>Lack of substitute inputs:</i> Due to the limited number of technological providers and the lack of availability of substitutes for inputs like card networks and compliance systems, online payment services providers often have a limited number of options in terms of suppliers. This is a large source of risk and competition within the industry.¹ <i>High threats of forward integration by suppliers:</i> There is a high level of competition within the online payment services industry which is being fueled by certain levels of forward integration by suppliers. Companies like Apple and Google are now offering payment solutions for customers buying their products and services. It is now possible to buy an iPhone with Apple Pay or Chrome extensions with Google Pay. Therefore, we are witnessing a certain level of vertical integration within the industry.
Bargaining Power of Buyers (High)	<i>High buyer volumes:</i> Companies in the online payment services industry are juggling large numbers of buyers. This results in extremely high transaction volumes and extremely low rates or margins. Paypal only charges a 2.9% service fee plus \$0.30 due to this phenomenon.¹ <i>Low buyer switching costs:</i> Due to the nature of the online payment services industry, there are often low costs for buyers to switch suppliers. This largely has to do with the variety of options for consumers within this market. Paypal has to compete with other companies like Apple Pay, Google Pay, Stripe, and more as well as traditional banks and providers like Visa and Mastercard. This environment makes it possible for customers to switch providers at low costs with little inconvenience.³ <i>Increased information available to buyers:</i> As buyers can easily access pricing information, details about features and services provided, and product reviews for

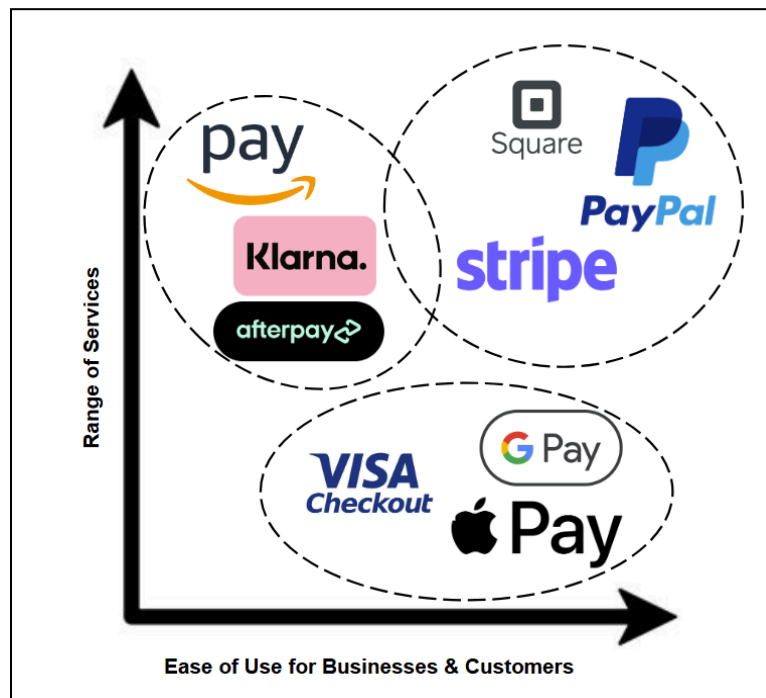
	online payment services platforms, they have high access to information. This visibility serves as a source of additional competition within the industry <i>High seller dependence on buyers:</i> Due to the high volume, low margin nature of the online payment services industry sellers in this space do not need to worry about high levels of dependence on a select few customers or clients.¹ This means that there is not a limited pool of buyers for sellers to compete for. <i>High threat of backward integration by buyers:</i> Integration is a clear threat and source of risk within the online payment services industry. We are beginning to witness platforms like Amazon, Google, Apple, and more developing their own payment services systems. This integration is gradually becoming a source of risk and competition within the industry. <i>Low levels of product differentiation:</i> There is low stickiness with buyers in this industry due to the similarity in product offerings. Although companies can differentiate themselves with things like advanced security features, API advancements, BNPL services, and more, there is still a limited amount of ways for sellers in this space to differentiate. This serves as a source of competition within the market.¹ <i>Substitute products available to buyers:</i> There is a high level of competition associated with substitutes in this industry.³ Emerging substitutes like online wallets and cryptocurrency are serving to shake up the online payment services industry and their traditional basket of options. Moreover, buyers always have the option to switch to electronic bank transfers and ACH—options which may even be cheaper for them.
Threat of New Entrants (Low)	<i>Low economies of scale within the industry:</i> There are high barriers to entry within the online payment services industry due to new entrants' lack of cost advantages with necessary infrastructure related to fraud prevention and regulatory compliance. This makes it difficult for emerging companies to succeed in this market and compete with existing companies on a cost level.⁴ <i>Low product differentiation and/or brand equity:</i> Due to the existing competition and saturation within the online payment services industry as well as the strong existing levels of brand recognition and reliability, it can be difficult for new market entrants to compete.¹ Companies like Paypal in the online payment services are already seen as reliable and trustworthy to consumers. Therefore, it can be highly difficult for new companies to enter this market due to existing bonds of loyalty and trust. Another challenge related to this is the presence of existing partnerships within the industry. As these business partnerships are extremely pivotal for the success of new companies, it can make it difficult for emerging competitors to succeed in the market due to loyalty between existing market participants.⁵ <i>Low capital requirements:</i> Although the initial investment for companies in this industry are low—around \$5,000 to \$50,000—the scale needed to succeed in this industry can be costly to build up.¹ Security and trustworthiness is a huge necessity within the online payment services industry.⁶ It can be costly for new companies to build this level of security and brand reliability.

	<i>Low switching costs for buyers:</i> Low switching costs for buyers can make it easier for new entrants to infiltrate the market. There is a wide variety of options for buyers—making it easier and cheaper to switch providers. However, this also serves to reduce the margins for companies operating in this industry.¹ These low margins can make it difficult for startups with low initial demand to succeed. <i>Easy access to distribution channels:</i> It is very easy for emerging companies in the online payment services industry to reach distribution channels, such as app stores and search engines. However, it can be extremely difficult to gain notoriety, traction, and brand recognition. This makes things difficult for new entrants despite the strong access to distribution channels. <i>No government policy restricting industry:</i> High levels of regulatory and compliance measures within the online payment services industry make it extremely difficult for new market entrants to get a foothold.³ Fraud prevention and anti-money laundering policies increase the level of infrastructure and regulatory compliance required for new companies in this industry. <i>Easy access to necessary inputs:</i> Although it is relatively easy to access the technological inputs needed for companies to succeed in the online payment services industry, there are not many options for technological providers for necessary inputs like APIs and security. This can make it costly for new and existing companies in the industry to acquire these inputs.³ <i>Limited learning curve benefits for incumbents:</i> Although new market entrants have ready access to market knowledge, they do not necessarily have this type of ready access to the business relationships which are vital in the online payment services space. As such, there is a benefit or advantage for incumbents in the industry.¹ <i>Limited expected retaliation from incumbents:</i> There is no evidence to indicate that incumbents will have a noticeable retaliation against incumbents. However, they may have a more substantial reaction to larger threats. An important consideration here is the existing network of business relationships and partnerships within this industry. Oftentimes, incumbents can make operations more difficult for new market entrants by leveraging existing relationships with business partners. <i>Limited patent and trademark protection:</i> It is difficult for companies existing in the online payment services industry to patent or trademark technologies. This is why we see a largely homogenous basket of service offerings within the industry. As such, patents and trademark protection are not huge threats to new market entrants.
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Porter's Five Forces can be used to analyze a company's competitive environment through a thorough examination of their industry as a whole. By taking a deep dive into rivalry intensity, substitute power, supplier and buyer bargaining power, and new entry threats within the online payment services industry, we can gain insight into the competitive landscape Paypal is operating in. This table serves to break down each of the Five Forces within the online payment services industry. Rather than being specific to Paypal, this information provides an overview of the industry as a whole.

Based on our analysis of Porter's Five Forces within the online payment services industry, we can conclude that Paypal is operating in a moderately to highly competitive industry environment with medium profit potential. The only force which serves to help Paypal is the high level of barriers to entry within the online payment services industry. This makes it more difficult for new entrants who could serve to threaten Paypal's market share to become profitable. Despite this upside, Paypal faces a high level of competition due to the strong availability of substitutes and the high intensity of rivalry within their industry. Paypal has to keep up with emerging technology and trends in order to mitigate the risk associated with substitutes. They also need to keep up with innovation in order to keep pace with the intense industry rivalry. This creates a high level of competition for them. On top of this, Paypal's industry has a moderate to high level of supplier and buyer bargaining power. This means that Paypal may have less than ideal control over their pricing and input costs. Despite these setbacks, Paypal's strategic initiatives have made it possible for the company to operate and succeed in this highly competitive market. For example, Paypal's acquisition of Venmo has allowed them to keep up with trends and innovation within the industry and create a new revenue stream to boost profits.⁷ Moreover, Paypal's strategic use of partnerships and acquisitions has allowed them to crush the threat of new market entrants. Paypal is also working to keep up with industry trends and new technology through their continuously expanding variety of offerings.⁷ Therefore, based on our Five Forces analysis, we can conclude that although Paypal is operating in a highly competitive industry, it is possible for the company to remain profitable by taking on successful strategic initiatives. This phenomenon, however, may not be as apparent for new market entrants struggling with high barriers to entry for a highly competitive environment. As such, we can conclude that the online payment services industry has solid profit potential for existing competitors and low profit potential for new market entrants.

Strategic Group Industry Analysis



We have used a strategic group map in order to analyze Paypal's peers and the competitive environment within the online payment services industry. Through our analysis of the industry, we found that there are two key differentiating factors for competitors: ease of use and range of services. Throughout the industry,

there is a wide variety of services that online payment platforms are able to offer. While some companies are more specialized with their offerings, others provide a wide variety of services. On top of this, there is a large spread with user friendliness in the industry. Based on these two factors, we were able to compare and group companies across the online payment services industry.

Through our analysis, we found that Paypal's key competitors are Square and Stripe. These two peers both provide a wide range of services as well as a strong level of ease of use for both businesses and customers; therefore, they are the most comparable competitors for Paypal.¹ While Square offers a wide variety of services from payroll and invoicing to online payment processing, Stripe focuses more on international payments, API's, custom online checkout, and fraud prevention.² Both payment processing companies, like Paypal, pride themselves on their user friendliness.² The next group of companies within the payment processing industry is located at the bottom of the map and consists primarily of digital wallet platforms like Apple Pay and Google Pay; however, we have also grouped Visa Checkout with these services.³ Like Apple Pay and Google Pay, Visa Checkout allows you to save your card information in order to make online and in-store purchases a more seamless process.⁴ Although this group of companies is known for their ease of use, they do not provide as wide of a range of services compared to their peers. The final group within the online payment processing industry consists of Klarna, Afterpay, and Amazon Pay. These companies are primarily known for their buy now pay later (BNPL) services.⁵ Klarna and Afterpay, however, are more closely grouped with each other than they are with Amazon Pay. While Amazon Pay does offer BNPL options, they have a broader range of offerings than the other two companies.⁶ Due to the nature of these companies' service offerings, they tend to be a little less user friendly. BNPL providers require soft credit checks and approvals as well as a certain level of commitment with continued future payment installations. As a result, these companies are less low maintenance than other competitors in online payment processing. Based on our analysis of these three peer groups, we have determined that Paypal has been successful in their strategic decisions. They have been able to dominate the online payment services market as well as their specific peer group by providing a wide range of services that are easy to use for both businesses and individuals. As such, they are well positioned at the top right corner of the group map.

Moving Forward

While the external analysis provides insights into the opportunities and threats PayPal faces, a comprehensive evaluation also requires an internal perspective. In the next section, we assess PayPal's internal resources and capabilities through VRIO and Value Chain analyses to evaluate the firm's sources of sustained competitive advantage.

Internal Analysis

VRIO Analysis

The VRIO analysis is an examination of a company's capabilities and the different factors that measure the competitive advantage achieved in each. This shows how differentiated the company's actions and offerings are from their competitor's abilities to counteract them. It analyzes the value, rarity, inimitability, and organization of these different company attributes in order to assess the advantages that follow.

Digital Payment Infrastructure:

Value: PayPal's payment platform and all payment infrastructure is highly valuable and the most vital part of their operations. It is used by over 434 million users worldwide¹ and is able to complete the needs of all of these consumers while maintaining a secure, confidential platform that is highly trusted.

Rarity: While there are other payment platforms out there, Paypal is the #1 payment option in the world through its vast reach in the market and therefore has a sustainable competitive advantage in the rarity of its infrastructure.

Inimitability: The systems Paypal has created and continued to improve can not be easily imitated. There are other systems out there that can facilitate payments in a similar way to Paypal, but not ones that are used as wide-spread and often as Paypal's.

Organization: The organization of all systems that make up Paypal's digital payment infrastructure is extensive, as they have had a lot of time to perfect the cohesion between them. Since they continue to improve the functionality of all platforms through technology and feedback, the systems have been organized in a way that allows the company to serve such a vast number of consumers at once.

Performance metrics: Paypal scored over \$1.68 Trillion in total payment volume in 2024, earned \$31.8 Billion in net revenue, and holds a 45% share of the global payment's market².

Global Availability/Use

Value: Paypal is used in over 200 countries and supports 25 different currencies³. This allows a wide variety of consumers to use the company's offerings and encourages global business with the ability to connect agencies of different locations. Merchants are able to grow with Paypal in the global advantages of the platform and the value is seen in both parties.

Rarity: Today's society is becoming more and more globalized as we develop. With the increase in communication and connection throughout the world, there are other ways and platforms to use when financially connecting entities in different countries. The rarity is not in the platform itself, as there are others a lot like it, but Paypal's rarity comes into play with the ability to serve so many consumers, the trust created by the brand, and being known more than their competitors. This is what sets them apart when looking at their global advantage, as there are other global competitors.

Inimitability: Other companies may not be able to enter the global space at the capacity Paypal has, since they are already established in so many areas. This means the act of being global itself can be imitated by others, but not in line with Paypal's expansion. There are the other companies that are in global spaces with their financial offerings, however, they cannot imitate the complete offerings of Paypal.

Organization: Paypal does a great job at aligning their efforts throughout the large distances they serve. They ensure cohesiveness throughout the different currencies used, languages written, and countries operated in. The ability to conduct international purchases through their platform is a big capability of theirs. In this, they have a sustained competitive advantage in their global organization

Performance metrics: Paypal is available in over 200 countries, throughout all continents except Antarctica³ due to the lack of merchant activities. They accept 25 currencies and PayPal's international revenues totaled \$13.53 billion in 2024, 42.6% of total revenue⁴.

Merchant Services

Value: Paypal offers not only the ability for merchants to make money from a variety of locations outside of their own, but also has a wide variety of other tools for their merchants to grow with them. This includes boosting sales by incorporating worldwide consumers, the ability to facilitate payments with and without a website, their large business resource center⁵, and many other offerings that are available to their business accounts. The value created in this array of possibilities is far superior to their competitors and therefore creates a sustained advantage in combination with the other factors.

Rarity: While the services they offer for their merchants can be replicated by competitors, none of their competitors have achieved the wide variety of offerings that Paypal has. In this, the rarity is simply the ability for their merchant accounts to take advantage of all of the opportunities within one platform. Other companies offer payments with and without a website, however, these examples do not have an extensive business resource center or amenities such as the optimizations and 3rd party integrations that Paypal offers.

Inimitability: As discussed, other companies do have the ability to replicate Paypal's merchant services. This can be done through research into the different offerings and then looking how to incorporate that into one's own company. However, competitors may not have the capital or technological capabilities to seamlessly integrate the pieces that make Paypal's merchant services different from the others on the market. While there is a competitive advantage in this realm, it may not be sustainable.

Organization: Since Paypal has such an extensive platform which they have been known for, the organization of all merchant services is done very well. Business accounts can access these through their website as well as the mobile platform, making it easier to do business in ways that best accommodate the merchant. The business resource center and other more spacious offerings that Paypal has, can easily be accessed through the website. This also comes into play when a company needs to look at their subscription with Paypal and potentially talk to a representative if needed.

Performance metrics: Over 36 million merchants use Paypal, more than 10 million websites offer Paypal as a payment option, and 97,322 of the top 1 million websites offer PayPal².

Brand Reputation/Trust

Value: Paypal is a globally known name and comes up as a very trusted platform when researching. They invest in cybersecurity and have great marketing to ensure the brand name and reputation are trustworthy. In this, their potential customers can look into a company that they usually already know about when looking to begin using the services. The reputation of Paypal also is important within their existing consumers, as people and businesses can choose to use other platforms for their financial dealings if trust has been broken. They have had issues in the past but have been able to build their consumers trust back and create sustainable advantage within their reputation.

Rarity: Paypal's reputation is much larger than its competitors, as there are not too many other highly-known platforms that do the same thing as Paypal with a similar brand awareness. With great marketing and sound business decisions, it can be done quite easily. Thus, Paypal does have an advantage in the unique reputation and trust they have built with their consumers, however, it is not a sustainable rare advantage.

Inimitability: The specific brand image and reputation Paypal has created is inimitable due to the differentiation they have done in building themselves so large. Other companies can create somewhat of a similar image and trust among their consumers, but it will not be at the scale Paypal sees at this point. It would take a lot of effort and time for a competitor to imitate the successes of Paypal's

reputation, however it could be done and therefore it is simply a superior but not sustained competitive advantage⁷.

Organization: The company aligns its marketing and decisions quite seamlessly throughout all locations and endeavors. This in combination with security efforts to ensure the trust of their consumers, show a great organization when it comes to the brand's strength. This is something that could be done by competitors, but has not been done at the scale of Paypal and therefore points to a superior advantage.

Performance metrics: 64% of digital payment users in the United States use PayPal and of that percentage 92% of users say they would use Paypal again⁸.

Cybersecurity

Value: Paypal invests a lot into their cybersecurity efforts, as it is a vital part of the business. However, they have had issues in the past such as the leaking of social security numbers in 2022 after not adhering to new cybersecurity regulations⁹. They will be forced to pay over \$2 million in damages and have significantly hurt the value of their cybersecurity advantages so heavily invested in. While they have had their issues, they do continuously attempt to ensure security in their cybersecurity operations. Paypal does not have a sustainable competitive advantage in the realm of their cybersecurity that they may have once had.

Rarity: With the technological advances continuing to happen each day, there is more opportunity for cybersecurity, but also cyber threats. Their platform's cybersecurity is not too rare as the ability to create systems similar to theirs is widespread and at the hands of many people who have the tools for it. Cybersecurity is incorporated in many industries these days and therefore is not a rare sustainable advantage of Paypal's.

Inimitability: With the failure in 2022 that Paypal's cybersecurity allowed, their system can be imitated by competitors. The system may be somewhat different and more advanced as they do make it a priority, however, competitors can build similar infrastructure in this area and ensure all regulations are met to surpass Paypal's success (or lack thereof) in the cybersecurity area.

Organization: Once again, the social security numbers being leaked by their lack of cybersecurity efforts to follow regulations, pointed to a big problem in the company. There may be a great platform itself and systems in place, however, the organization of these efforts caused critical information to get leaked and therefore shows there are issues in following all protocols needed. Since the issue, they have incorporated new leadership and aim to continue spreading the message of secure and strong cybersecurity, but the organization of this does not have a sustainable competitive advantage yet.

Performance metrics: Security Rating of 856/950 based on external attack surface analysis¹⁰.

Mobile Payments/Subsidiaries

Value: Paypal consumers have the ability to pay via their mobile devices through the Paypal platform itself, but also through subsidiaries like Venmo. These days, many consumers walk around with their smartphones but may not keep all of their modes of payment with them. This creates value in offering the ability for consumers to incorporate their payments into their day without the need for anything besides their smartphone. This is also helpful for merchants who will use mobile devices for facilitating their payments with consumers. Since this can be done within a few other companies, the value created is not too different from others. However, the wide variety of places that accept Paypal as payment increases that value and aids in a sustainable competitive advantage.

Rarity: Since technology is always evolving, there are other ways to pay via mobile device and create ways to pay via mobile device. The software itself is not extremely rare, but the reliable platform created by Paypal is somewhat rare. The subsidiaries of Paypal are extensive and offer a lot more than the company's direct offerings as well, so there is some rarity in the complexity of Paypal's offerings. They seem to have somewhat of a competitive advantage with rarity, but not sustainable.

Inimitability: Mobile payments can be completed in other ways, however, Paypal and Venmo are highly used platforms that involve receiving payments from other users¹¹. In this, other companies cannot simply request payments on another platform without the payer having an account or set-up. In this, the inimitability of pre-existing users favoring their current mode of mobile payments does have a sustainable advantage. Pulling users away from what they know to incorporate a new company's offerings would be a lot harder than Paypal growing their mobile presence from its current standing.

Organization: Paypal has a great organization of mobile payment offerings. This is how they have grown to own the largest used platforms for consumers and merchants to send their money in this way. With such a large scale, the organization is not simple and therefore is highly valuable as it is so complexly done. They have a sustainable advantage in this sense.

Performance metrics: Venmo processed \$276 billion in total payment volume in 2023 which was about 18% of Paypal's total¹².

Incorporation of AI

Value: Paypal uses AI for fraud detection and to offer their merchants the ability to aid consumers on their purchasing journey¹³. They have used this machine learning to continue developing their offerings. This does create a large amount of value for their consumers without the need for more staff or research endeavors. The value created from their AI incorporation in fraud detection is a sustainable advantage.

Rarity: AI can be accessed by most anyone on the internet these days, and used in a company's specific agenda. The use of this is not rare and would need to be done in new ways to be a sustainable advantage. In this, the use of AI does not have a rarity that has separated Paypal from its competitors and created a sustainable competitive advantage.

Inimitability: As mentioned, other companies have the ability to recreate the uses of AI paypal is incorporating into their offerings. This is not a sustainable competitive advantage for the company.

Organization: Paypal has organized their use of AI well through the use of unsupervised machine learning which predicts certain actions that may indicate fraud. It is a newer technology, so cautious use is important in such confidential areas, however, Paypal has made sure to incorporate it simply in their fraud detection and therefore has a sustainable competitive advantage in the area.

Performance metrics: 2/3 of consumers would switch providers due to fraud¹⁴.

Marketing

Value: Paypal has decreased their marketing expenses within the past few years, but have continued to see an increase in their total payment volume year after year. They aim to market the brand as secure, convenient and cost-effective through their strategic marketing efforts¹⁵. Paypal is the largest platform of its market and therefore has used its large well-known brand to provide value in its consumer loyalty. Though the cohesive messages sent to consumers with their marketing, Paypal has a sustained advantage.

Rarity: The company does a lot of digital marketing as well as partnerships to attract new customers to the brand. Marketing strategies are not usually rare, as they can easily be done by other companies. The immediate recognition of the brand name does have some rarity within their messages that lesser known companies cannot experience easily, however, the marketing strategies themselves do not present a sustainable competitive advantage.

Inimitability: With Paypal's marketing campaigns being very similar to other companies as marketing efforts tend to have similar end goals in mind, this aspect is not inimitable. Competitors can look into what has been successful and of good reception by the public within Paypal's offerings and replicate in their own way. While the company does have that brand awareness to make their marketing efforts more worthwhile than smaller companies, they do not have a sustainable competitive advantage within the inimitability.

Organization: They aim to spread a cohesive message across their different channels of business of being the #1 secure and convenient payment option for their consumers and do this in a very organized fashion. Their different areas of advertisements and other marketing efforts match up with one another and show that the marketing side of their operations are done in a very organized way. In this, their organizations and assurance of a cohesive message is a sustainable competitive advantage.

Performance metrics: The marketing expenses allocated by Paypal decreased from \$2.2 billion in 2021 to \$1.8 billion in 2022, but did not affect the growth of their total payment volume¹⁶.

Innovation

Value: Paypal is consistently increasing their offerings through innovation. Some of these in more recent years include reinventing their app for more seamless use, the introduction of passkeys for better ease of logging in to the platform, as well as speeding up checkout times¹⁷. The leadership of Paypal is constantly looking to serve their consumers in more and better ways than before. This creates immense value and continues to separate Paypal from competitors. In this, they have created a sustainable competitive advantage as they are already the largest market share, but continuously look to better the company.

Rarity: Innovation is a common goal of most companies that want to continue to improve, however, with Paypal's immense infrastructure they have the ability to innovate in a more rapid sense than competitors. While this part of their innovation has rarity, the attribute itself is not a rare sustainable advantage.

Inimitability: With innovation, competitors cannot imitate the changes Paypal makes at the same time if trying to replicate their successes. Since Paypal is constantly looking to the future and how to keep improving, it does have an inimitable sustainable advantage when consistently beating its competitors to these forward-thinking changes in their business model.

Organization: The leadership of Paypal is what drives the innovation they continue to embark on. This shows great organization with the interests of bettering the company each year at the forefront of their strategy.

Performance metrics: The guest checkout system, Fastlane, recognizes 70% of guests reducing verification time, and accelerated the check-out time by 40%¹⁷.

Partnerships and Acquisitions

Value: Paypal has an extensive list of partners and has acquired 27 businesses¹⁸. These are done very strategically and align with the company's offerings, as many are other financial entities. The incorporation of these other businesses has aided in Paypal's growth and increased the amount of offerings Paypal has for their consumers. The value in this extensive network is large and shows a sustainable competitive advantage.

Rarity: The large web of companies involved in Paypal is not easily done and is due to the large scale of operations they have grown to. Competitors would need a lot of resources and power to attain the network that Paypal has created. Therefore, they have a superior rare competitive advantage.

Inimitability: As mentioned, the large reach of Paypal's network is not easily attained and therefore very hard to replicate. Since Paypal already owns a majority of the most used payment processing platforms, there would need to be creation of more vital companies to acquire before a competitor would have the ability to imitate this success. In this, Paypal has a superior competitive advantage.

Organization: It takes great organization to oversee such a large number of companies and work with similar businesses. Paypal has over 27,000 employees in which a good proportion of these people work to continue growing the company's offerings and reach.

Performance metrics: Paypal has over 200 partnerships including e-commerce stores, banks, developers, and many other entities that help them improve their platform¹⁹.

This chart shows Paypal's most vital resources and the competitive advantage sustained in each area. Some capabilities of the company were less inimitable than others, as there are similar platforms available to consumers and merchants. However, there were many areas where the scale of offerings and capabilities surpassed the ability of their competitors when it came to the value created and immense organization of these endeavors.

The VRIO analysis showed that Paypal's main competitive advantages come from the platform itself and the brand strength aligned with the large, worldwide scale Paypal conducts business in. These provide value, are done in a different way than their competitors, are hard to recreate, and are organized well. While competitors can achieve similar offerings, they cannot replicate the success of such an established company easily and therefore do not see the same competitive advantages as Paypal. The company has a forward-looking leadership that aims to improve their operations and offerings as they continue business. The analysis showed the most valuable and inimitable resources of the company surrounding ensuring their trusted platform continues to grow in a reputable way. This in combination with their extensive partner and acquisition network, illustrates Paypal's large reach that encapsulates the capabilities that differentiate the company from others.

Value Chain Analysis (VCA)

Value Chain Analysis (VCA) is a framework for internal analysis of a company that was pioneered by Michael Porter. By analyzing a company's primary and secondary activities using the VCA framework, one can determine which business activities serve as a company's key value drivers or sources of competitive advantage and which business activities could be improved upon to reduce costs or improve product differentiation.¹

Primary Activities

Inbound Logistics

- **User Onboarding:** As Paypal is a digital payment processing platform and, therefore, does not sell physical goods, the majority of their inbound logistics processes consist of onboarding new users. Paypal prides themselves on making this a quick and simple process—especially for business customers who may have more complications associated with taking on new payment processing systems.²
- **Partnerships:** Partnerships are another key component to Paypal’s inbound logistics activities. Paypal has integrated with many eCommerce platforms, such as Shopify and BigCommerce as well as POS systems in order to allow for online payments to be processed.³ These partnerships are integral to the company’s success throughout the value chain.⁴
- **Date Feeds:** In order to collect transaction data and allow for the next step in the value chain—operations—to run smoothly, Paypal must integrate with banks, credit card networks, and payment gateways.³ This makes Paypal highly dependent upon partnerships and relationships with these types of financial institutions which allow them to collect payment data and form customer relationships.

Operations

- **Transaction Processing:** Payment or transaction processing is Paypal’s primary business focus. The digital payments platform allows customers to purchase or sell goods/services, send and receive online payments, exchange cash, and more.⁵ Paypal generates value by allowing customers to easily click “send” and make payments instantaneously.⁶ On top of this, reliability and convenience are huge value drivers for Paypal. As such, it is necessary for the company to have a strong operational focus on optimizing transaction processing. Paypal allows users to seamlessly authorize, verify, and settle payments in real-time.
- **Encryption and Fraud Monitoring:** Another key operational activity for Paypal is encryption and fraud detection/monitoring.⁶ Paypal uses AI-driven monitoring as well as CAPTCHA (Completely Automated Public Turing Test To Tell Computers and Humans Apart) tests in order to prevent fraudulent activity and transactions.⁵ Due to the risks associated with conducting online payments and transactions, fraud monitoring and prevention is a key operational focus for Paypal. Moreover, This process is a key value driver for Paypal due to customer demand for reliability and security within the online payments industry.

Outbound Logistics

- **APIs:** Application Programming Interfaces (APIs) are the primary driver for Paypal’s outbound logistics activities. APIs function as a set of protocols that allow small sets of code to be converted into reliable and advanced applications.⁷ Paypal’s primary API related to outbound logistics is Payouts API—formerly known as Mass Pay. Payouts API allows businesses to send mass payments to recipients with only a single transaction. These payments can even be sent in multiple currencies. Recipients must already have or create a Paypal account in order to retrieve funds sent using Payouts API. Although APIs aren’t Paypal’s only vehicle for sending and receiving payments, this feature easily allows users to automate billing, payout, and recurring charges.⁸
- **Partnerships:** Like with their inbound logistics and operations, Paypal leverages many partnerships in order to make outbound logistics run more smoothly. The company partners with many banks and other financial institutions in order to allow for a seamless flow of transactions.⁹
- **Receipts and Reporting:** Another key functional component of Paypal’s outbound logistics is digital reporting and receipts. After transactions are processed, the company automatically

emails receipts for confirmation to customers. However, users are also able to access and download statements and transaction histories through their account. Users are able to download these reports to multiple formats, such as PDF, CSV, TAB files, and Quickbooks. This feature is very useful for business customers.¹⁰

Marketing and Sales

- **Strategic Partnerships:** Paypal's partnership orientation in marketing and sales began when they were acquired by eBay for \$1.5 billion in 2002. The massive user base and success of eBay allowed Paypal to skyrocket in success, and the platform has been leveraging partnerships to push brand recognition, use, and reliability ever since.¹¹
- **Buy Now, Pay Later (BNPL):** BNPL solutions are a key component of Paypal's plans to bolster growth in their customer base. Paypal primarily offers two BNPL options: "Pay in 4" and "Pay Monthly." "Pay in 4" allows customers to break up purchases into four installments paid out over the course of six weeks. Alternatively, "Pay Monthly" allows customers to pay in monthly installments over longer periods of time. Both of these offerings have been key sales and marketing drivers for Paypal.¹²
- **Consumer and Merchant Marketing:** Paypal uses many mediums, such as billboard ads, display ads, social media, TV, and more to push consumer and merchant marketing initiatives.⁹ As reliability and brand recognition are very important within the online payment processing space, the main goal of these advertising campaigns is to bolster perceived security and convenience among merchants and consumers.¹¹

Service

- **Buyer/Seller Protection:** Paypal differentiates itself from competitors by offering support for buyer/seller disputes. The company fosters communication and mediation with payments disputes—primarily in regard to unauthorized payments and items not received.¹³ Paypal boosts seller buyer and seller loyalty by investigating claims and returning funds to the winner if no other resolution can be reached.¹⁴
- **Customer Support:** In addition to the payment disputes previously discussed, Paypal customer support helps with many other user issues, such as password and login errors, account setup and limitations, refunds, payment holds and declines, pending or unclaimed payments, fraud, and other general inquiries.¹⁵

Secondary Activities

Technology

- **Developer APIs:** Developer APIs, such as Payouts API have been huge technology initiatives for Paypal. APIs have allowed Paypal to gain recognition for their seamless and reliable payment processing services.⁸ The company is constantly investing in developing new APIs to improve the user experience.
- **AI Fraud Detection:** One key technological initiative for Paypal has been their use of AI fraud detection tools. While Paypal also utilizes CAPTCHA tests to verify that users are real, AI fraud detection has been their key driver for increased user security in recent times.⁵ Artificial intelligence and machine learning can be used to detect more complex frauds spanning across multiple mediums, accounts, devices, and locations by detecting different patterns and discrepancies.¹⁶
- **Continuous Innovation:** In a general sense, constant innovation has been a key value driver for Paypal. One example of this is Paypal's expansion into cryptocurrency. The platform allows users to buy, sell, and hold cryptocurrency.¹⁷ BNPL services are another example of Paypal's investment in innovation.¹² As an online payment services company, Paypal is highly in touch

with new technological developments and innovations. Due to the highly competitive nature of their industry, it is important that Paypal is able to differentiate itself from competitors through continuous research and innovation.

Human Resource Management

- **Hiring and Training Skilled Teams:** As Paypal is operating in a very high-tech industry, their success is intertwined with the ability of human resources to hire, train, and retain skilled and talented team members.⁹ Paypal HRM is able to retain employees by fostering a positive and innovative workplace culture.¹⁸
- **Culture of Innovation:** As previously mentioned, one key strategic HRM initiative of Paypal is to foster a positive and productive workplace culture.¹⁸ By hiring and fostering individuals with strong innovative mindsets, Paypal is able to create a technology and growth oriented work culture that also serves to push inclusion and equal opportunities.⁹ Creating a workplace that is centered around innovation and success has been a key value driver for Paypal. As a company operating in a highly technical space, it is important that Paypal has the skills and bandwidth needed to fuel growth and technological advancement.

Infrastructure

- **Legal and Risk Management Teams:** Paypal operates in a highly regulated environment due to the risks associated with online payment processing and transfers of money. As such, it has been vital for the company to have a robust legal team and infrastructure centered around risk management. Paypal's risk management team enables security and reliability—two of Paypal's key value drivers—by utilizing artificial intelligence and machine learning as well as other controls to prevent frauds and other risk drivers.^{16,19}
- **Financial Infrastructure:** Due to the company's position in online payment processing, Paypal has needed to develop a complex network of relationships with banks, financial institutions, credit card providers, and more in order to facilitate the seamless processing of payments. On top of this, Paypal's complex financial infrastructure has facilitated a need for high levels of payment and data storage.⁹
- **Scalable Cloud and Data Systems:** As Paypal needs to handle large quantities of transactions, it is important that they have strong tech infrastructure, such as cloud and data systems.⁹ By leveraging cloud computing and scalable data systems, Paypal is able to handle large transaction flows, such as those that occur on Black Friday and Cyber Monday. The company utilizes Google Cloud, SAP S/4HANA (a database used for storing transaction data), and Dataflow (a service used for 24/7 real-time analytics).²⁰ This data infrastructure has allowed Paypal to maintain seamless transactional flow—a process which is a key contributor to their reliability and customer loyalty.

In the visual above, the primary and secondary activities within Paypal's value chain have been outlined in order to provide insight into the company's key value generating activities and competitive advantages. By conducting an internal analysis of Paypal through a VCA framework, it is possible to identify which of the company's business activities should be emphasized and which should be outsourced or prioritized less in order to maximize value and customer satisfaction. Value Chain Analysis of primary business activities is somewhat uniform with the chronological structure of the supply chain. Inbound logistics, operations, outbound logistics, marketing and sales, and service are the primary activities outlined within this Value Chain Analysis. In addition to their primary activities, Paypal's secondary activities—technology, human resource management, and infrastructure—have also been outlined in the analysis. Based on a comprehensive analysis of all of these business activities and processes for Paypal, it

is possible to make some key conclusions about the company's value drivers and sources of competitive advantage.

Based on the Value Chain Analysis outlined in the table above, it is reasonable to conclude that operations and technology are key business activities for Paypal and serve as the company's primary sources of competitive advantage. Based on previous analyses of Paypal's business structure, we can conclude that the following factors are key value drivers for Paypal: secure and efficient transaction processing, buyer/seller protection and customer trust, seamless integration with online platforms, and innovative financial tools. Operations, which primarily consists of payment processing, is Paypal's key business function and their key source of competitive advantage. As competitors in the online payment processing industry are not competing on pricing but rather reliability and convenience, operations are a key value driver for Paypal. Smooth transaction processing and strong fraud prevention and security are the primary operational focuses for Paypal as well as the company's greatest advantage. Paypal is a well-known and reliable brand. As such, customers tend to choose them over industry competitors. On top of this, technology is another key source of competitive advantage for Paypal. Due to the company's highly competitive and technologically advanced industry, it is important to keep ahead of the most recent industry trends and innovations. Technology like scalable cloud computing and data systems as well as advanced APIs are key value drivers for Paypal's business. As such, in addition to operations, Paypal should continue to prioritize technology activities within their value chain. On the other hand, non-core activities like data hosting could be outsourced in order to reduce operational costs and waste. As a whole, we can see that Paypal has effectively utilized partnerships across their core business activities. This has served as a key driver for the company's success. In the future, Paypal should continue to leverage partnerships in order to maximize customer value and satisfaction.

Moving Forward

Having evaluated both the internal and external factors facing PayPal, we will now synthesize these findings to provide strategic recommendations. The concluding section summarizes key insights and outlines actionable next steps for PayPal and its stakeholders.

Conclusion

Through this immense analysis into Paypal's background, business model, areas of value, and both internal and external environments, we have drawn a number of conclusions. We learned that Paypal's platform that facilitates the payments that drive their profit is the most valuable aspect of their business. They offer not only this avenue to send and receive money but also a number of services for both their individual consumers as well as their merchant accounts. This includes but is not limited to credit cards, services to help increase business for their affiliated merchants, highly-rated cybersecurity efforts, and round-the-clock customer service. They are constantly looking for ways to improve their offerings and grow their clientele. Paypal has always depended on transaction fees for their main form of earnings, so this is what is most safeguarded in their expansion. While increasing their network and subsidiaries, they have maintained growth in all areas. With this increase in reach, ensuring the safety of the platform's users has always been kept at the forefront of their decisions due to their business model's orientation in reliability and customer security.

We recommend that Paypal continues to keep the platform's functionality and security as the number one priority in all of their decisions going forward. With the intense speed with which technology is advancing in today's society, the company should continue to increase its offerings while making sure to

stay secure and reliable. This is where they create value and earn their customers' trust. They have already incorporated artificial intelligence into some value-creating parts of their business such as optimizing payments and should cautiously continue to expand these efforts. Technology will continue to increase in importance and it is vital for the company to not fall behind its competitors. They should always strive to keep their consumers' trust while moving forward—as the brand itself and its widespread name is a powerful part of the business. Continuing with cohesive and positive mentions of the company's care for the consumers' safety and value will serve not only Paypal but also all of its investors well. A future focused on all of the focal points mentioned should be a successful and valuable one.

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Overview

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