



PayPal: Mainstream or 'Alternative?'

At what point does something stop being considered 'Alternative' and start being mainstream?

Certainly in other spheres alternative means niche, often small; alternative music, alternative films – something that appeals and is used by a minority and not the majority. We all know the story of PayPal and how it became what it is today through its purchase by eBay. So what defines mainstream, has PayPal now become a banking solution, can it still be seen as it was by many in the beginning as an 'alternative' payments provider?

I ask this question as PayPal recently announced that it has 213 million customers and in the last quarter of 2011 was adding customers at the rate of 1 million a month. If we look at some of the world's largest global banks HSBC has xxx, Standard Chartered has yyyy.

Thus by the simple measurement of size we would have to argue that PayPal is mainstream. Okay maybe not as big as the biggest banks in all its 190+ countries of operation, but certainly in many of them it is bigger than many of the national banks.

PayPal has also moved out of its monoline online business of just supporting eBay payments. It could be argued that its transition in recent years to break out from this straight jacket that has moved it much closer to being a far more mainstream payment solution.

The most recent move has even removed the word 'eCommerce' from that description. This being the trailing of direct POS PayPal payments in Home Depot in the USA and the stated aim to roll out to 20 more retailers in 2012.

Though we have seen in several countries that PayPal has linked open loop prepaid cards to the wallet – in effect delivering debit card functionality to the card—they have dramatically increased the eCommerce merchant acceptance base, not only among small retailers, but also with the large high-street brands. With their simple one click checkout they have been competing with Google and other wallet solutions, but also driving usage of the overall PayPal solution into an everyday payment method.

But can a payment vehicle be considered mainstream when it needs another financial payment body/institution to fund it? As long as PayPal only takes digital funds it can never really be mainstream as, in effect, it is adding a 'space layer' on the world of mainstream banking. It has been reported that 85% of U.S. credit cardholders have a PayPal account, thus credit card holders are seeing it as an add on/addition to their existing payment solutions.

One could question if any of PayPal's customers have bank accounts. Could any of their customers live only with cash and PayPal or do they need other payment functions?

Perhaps the key question though is what do consumers think? Research consistently shows that PayPal is right up there as being trusted by consumers.

Trust in Payments

Who would you trust with mobile payments?" (O&M, USA base: 500 online consumers 2011):

- Visa - 39.6%
- MasterCard - 35.9%
- American Express - 35.8%
- PayPal - 34.3%

In a survey of nine major markets around the world by analyst GfK, PayPal even finished ahead of the payment networks as the brand most likely to be trusted with personal financial data by consumers. A similar First Data Corp. and Market Strategies survey found that

47% of consumers would trust PayPal compared to the 32% who would trust the financial institution that issued their card to keep their data secure in a mobile wallet. Is this 'trust' just a matter of having no other choice?

I would thus argue that whatever one's definition of 'mainstream' may be, consumers perceive PayPal to be a mainstream payments solution and no longer just an alternative niche player. With their increased functionality through mobile, POS and cards, PayPal has moved out of that eBay/eCommerce niche.

So what of the future, how big can PayPal grow? A key challenge of the PayPal model is the model itself. If we look at the other global payment solutions/networks they all work on a local bank partner basis. Even American Express has markets where it is a JV player (Saudi Arabia) or others where they have 'sold off' the franchise to a local partner. What this gives the payment solution is the ability to grow faster, and into more markets, without necessarily funding all the growth themselves. As PayPal's current model requires it to fund all its growth, it will never become truly a global mainstream payment solution until it finds a way to partner with existing financial institutions that can help deliver its increased reach, penetration and usage in new markets. ■