

# *An Analysis of the PayPal's Corporate Strategy for Success*

Shengyi Lu<sup>1,a,\*</sup>

<sup>1</sup>*Tongxiang FengMing High School, Jiaxing City, Zhejiang Province, China, 314500*  
*a.19814772856@163.com*

*\*corresponding author*

**Abstract:** As a popular international trade payment tool, PayPal is loved by the masses around the world, utilizing its advanced technology, risk management and control, and customer service capabilities in the field of e-commerce payments. This paper gives information about PayPal and its current development. On the basis of the existing literature and data, the main purpose of the essay is to summarize the advantages of PayPal's corporate strategy by analyzing its specific profit model and to explore the secrets of PayPal's success. The analysis of PayPal's success can strengthen its competitiveness in the field of online payment platforms and it also provides a better reference for other companies of the same type. Through specific theories and data from PayPal, this paper was able to conclude that PayPal's greatest corporate strategic advantage is its combination of data insights, the Internet and technology, using SSL as a security system and expanding user base, gaining consumer trust and thus targeting consumer and merchant needs to create its own maximum profitability while having a sustainable competitive advantage.

**Keywords:** PayPal, e-commerce, strategy, online payment system, SSL

## **1. Introduction**

PayPal is a payment tool that is nearing technological maturity and has a large customer base from all over the world. It has evolved from its early days of paying by email to eBay payments and then to independence. After going public, PayPal refined its products and expanded its business through mergers and acquisitions. Many people would like to know how PayPal was able to break through the difficulties and emerge as an emerging payment platform in the face of the likes of Visa and Master Card and others. To get a clear and intuitive picture of how PayPal has evolved over the years, and to get a picture of how PayPal might develop in the future, many articles have analyzed PayPal's customer statistics over the years, but few have really explored the reasons why PayPal has flourished as an emerging company. This paper will examine how PayPal has combined the Internet and technology to achieve strategic success and what its greatest strategic strengths are. Through PayPal's data and specific theoretical analysis, it can help more online payment platforms adjust their corporate strategies, enhance their corporate dynamics, and accelerate the globalization of online payments. It can also provide multiple options for PayPal's future growth and deeper business development, so as to further expand the scale of users. This paper will be divided into three parts to describe PayPal's background information, its successful corporate strategy, including the security system it uses, and ways to scale up its user base. Finally, it discusses how it uses the combination of the Internet and

technology to create advantageous conditions over other similar platforms, and ultimately, through comparisons and data, what lessons it brings to similar companies, and whether it also draws lessons from similar companies.

## **2. Background of PayPal**

PayPal is a global online payment platform, and as a successful enterprise in online payment, it has strategic advantages over other payment platforms. To use PayPal, you must first have a PayPal account. Upon receipt of the mail, the recipient must open an account; in this case, the money is taken from the sender's bank account or credit card and deposited in a new PayPal account, acting almost as a viral payment system and explaining the amazing growth of PayPal as a viable method of online payment [1]. After receiving the payment, people can make a withdrawal. Its special feature is that it allows the transfer of funds between users who use e-mail to identify themselves, avoiding the traditional methods of sending checks or money transfers. PayPal charges a fee for the transfer of funds using this payment method, which is made through both C2B and P2P, and includes many derivative services. Derivative services include credit, investment and consumer tools for consumers and business loans, inventory management and marketing tools for merchants. These two means become the main way of profit for PayPal.

PayPal operates by placing a small charge on each online transaction. For customer accounts, the average amount charged for transactions under \$15 USD is \$0.30. For premier and business accounts, the fees vary according to the volume of transactions [2]. PayPal also offers several products for merchants and consumers — PayPal Working Capital and PayPal Business Loan, as well as Simility, Honey, and Happy Returns. By providing security solutions that reduce the risk of fraud across major payment types and payment channels, PayPal remains committed to protecting against fraudulent activity before it occurs through reform innovation and aggressive investment in industry technology. It is because of PayPal's constant adjustments to corporate strategy and convenience for consumers that it has been able to progress and become the most successful online payment system.

## **3. Analysis of the Success of Corporate Strategy**

### **3.1. Security System**

After its launch, PayPal's main business is to provide users with various payment types or payment channels, such as online, offline or mobile payment methods, to effectively address the risk of fraud and ensure the safety of funds. The company minimizes the risk by implementing technological innovations and investing more money to protect against fraudulent activities before they occur. To maintain account security, comprehensive information protection is implemented. PayPal makes reasonable use of anti-fraud technology, combined with 24-hour account monitoring, to ensure account security. In the process of applying for PayPal payments, personal information as well as financial information is encrypted with security measures to protect funds and maintain information security. Protection is put in place through real-time fraud protection, and monitoring is implemented for all funds received for transactions. Fraud issues are addressed by authentication services. This process involves knowledge of passwords that only the account owner knows. The repudiation problem is resolved by the authorization of the payment. As additional security parameter, the customer receives a notification with the payment details by email [3]. The fraud risk models run by PayPal and the various analytical tools employed are tailored and targeted to the characteristics of different businesses and therefore work very well.

A few different protocols are in use for online security nowadays. The most common one, also used by PayPal, is SSL (Secure Socket Layer). SSL is intended to provide a method that allows two parties to communicate securely. Nevertheless, one of the party must have a certificate that the other

trusts to help hold back malicious intrusions. In the first phase, the client sends a signal to the server, which recognizes the signal by returning it to the client when it receives it. In addition, the server sends a request to the client for a certificate. The client transmits its certificate and covertly exchanges messages and certificate check messages. The client and server both send a change password specification message and then send a finished message. Through this SSL system, PayPal is able to store users' information well and keep it from being read or leaked by websites. When users pay with PayPal, they only need to use their personal information when registering, which means they don't need to worry about their personal information being leaked when purchasing online.

According to the PayPal website, PayPal encrypts information sent to their website using SSL. The encryption key used is 128 bits long, which is currently the most secure level in use today. Before proceeding, the server checks whether or not the user's browser uses SSL 3.0 or higher [4]. One of the outside attacks that it may face is cut-and-paste attack. SSL 3.0 prevents cut-and-paste attacks. Part of the way to prevent a cut-and-paste attack is to use a separate session key for each distinct part. This prevents cutting and pasting between different connection directions. SSL has used a separate key for each direction of each connection. The most comprehensive defense against cut-and-paste attacks is to use strong authentication on all encrypted packets to prevent enemy modification of the cipher text data [5]. Thus, the SSL used by PayPal has these two major advantages and they prevent a range of outside attacks that may be encountered. The SSL system can provide application developers with guidelines for the level of security their applications require. Not all security systems provide the same security features, and not all developers have their own security best practices. But apparently, SSL did it almost perfectly.

### 3.2. Expanded User Base

PayPal took payment as the entrance to a huge user base. In the early days, PayPal gradually accomplished a massive expansion of users through various means of customer fission. At that time, PayPal gave each referrer a \$5 reward to encourage them to invite their friends to sign up for wallet accounts, and the referee could also get a \$5 reward. By relying on such means, Paypal was able to maintain an exponential growth rate of over 2% per day in the early stage of its business. In 2016, PayPal hosted 197 million customer accounts, a figure that includes 15 million accounts held by merchants [6]. The initial period had opened the market with an aggressive user recommendation program and later relied on the eBay scene to expand the scale of users, and the transaction volume successfully exceeded trillion dollars in 2021. PayPal has built a financial ecosystem by adopting a payment network plus derivative services. It provides unique solutions to the core demands of consumers and merchants. By continuing to grow its user base, PayPal combines data insights with technology to deliver a sustainable competitive advantage. About 392 million consumers and 34 million merchants are the foundation of user insights. Payment authorization rates continue to improve, and fraud risk is effectively reduced through machine learning.

When Paypal was founded in 1998, it was first set to be a mobile encryption company with efficient encryption technology. But encryption technology alone, without scenarios or needs, remained unusable. So the founding team went through a transfer and shifted its direction to cryptocurrency. Another development relies on infrared for PalmPilot payments with the help of a smart assistant device (PDA). Unfortunately, the PalmPilot user network was not as strong at the time and remained a niche market. Unfortunately, the PalmPilot user network was not as strong at the time and remained a niche market. By the end of 1999, PayPal had eventually discovered the emerging trading market of eBay through user feedback, shifted its product development efforts to serve that market, and started PayPal on the road to user growth. When a large number of valuable merchants are gathered on PayPal, they can tier the operations of merchants through back-end transaction data and, at the same time, remind high-value merchants to upgrade their accounts and purchase a more

advanced account level. Value-added services such as support for bulk transfers and microcredit are also provided. By relying on upgrades from personal to corporate accounts, PayPal has gained a sustainable and profitable revenue model.

PayPal is constantly optimizing the payment experience in e-commerce scenarios. As a payment product, it plays the role of a platform to connect buyers and sellers while helping users open up the funding channels between it and banks. Its own role is to solve the problems of efficiency and customer trust in the transaction process. PayPal, from the beginning of the period through the mailbox payment, will later rely on eBay to continuously improve the payment method, which is constantly improving the user's payment experience, so as to better meet the needs of users. PayPal and its "shop without sharing" design were created to offer a secure alternative to traditional payment systems [7]. The confidentiality of user information through this system means that using PayPal to pay is safer than most other credit cards, which has allowed PayPal to accumulate a large number of loyal users. Consumers spend less time entering their information; merchants can set up a payment system quickly, with no upfront payment required [8]. Likewise, PayPal encourages the support of a platform that allows everyone to pay, regardless of their background, family status, and the right of everyone to consume the service for a minimal fee. PayPal's entire payment process can be considered free. Once upon a time, too many people had to pay a lot of extra fees that they didn't need in the daily payment process, so PayPal wanted to keep everything to a minimum and eliminate as many unnecessary fees as possible. Similar to this and other details, PayPal takes into account the user's sense of use, truly thinking from the user's perspective and continuously improving itself, which is truly in line with the needs of customers and merchants.

#### 4. Discussion

PayPal is not only making progress on its own but is also learning from other companies of the same type and progressing with them. In 2016, PayPal announced its first partnership — with Visa — and soon it partnered with Master card, Discover Financial, JP Morgan Chase, Citigroup, and more [9]. By partnering with Visa, not only is direct competition avoided, but it is a win-win situation. PayPal optimizes the Visa online experience and shares transaction data. Visa opens up its offline network and the implementation of payment capabilities to PayPal. In the current Internet era, PayPal can be called the leader of online payment platforms, but that does not mean that PayPal is without drawbacks. Due to PayPal's excessive protection of user information, it may very easily lead to the freezing of users' accounts. With the rise of more and more emerging payment platforms, PayPal will also face more competitive pressure. Only by insisting on the advantages of doing well now, and then constantly realizing new transformations and upgrades can it adapt to a wider range of fields.

#### 5. Conclusion

Based on the above analysis of PayPal's specific corporate strategy, this paper can clearly show that PayPal's strategic advantages lie in two aspects: first, using SSL3.0 as an advanced security system and maximizing confidentiality measures for customers' personal information to gain their trust. Customers can rest assured that their personal information will not be disclosed when they purchase something on the site, and sellers and merchants can rest assured that using PayPal will make the buying and selling process more secure. The second is to expand the scale of users by improving payment methods and enhancing users' sense of payment usage from the beginning, and then to cater to users' preferences to increase the number of high-quality customers. While other payment platforms, such as Amazon, Visa, and Mastercard, require a lot of extra fees, PayPal has taken the majority of the population into account and eliminated all unnecessary fees. Through this series of means, PayPal succeeded in slowly pulling away from other companies of the same type during the

start-up period to achieve a qualitative leap. This paper did not combine the data aspects of the analysis. Future research on PayPal may be more in-depth and focus on PayPal's marketing strategy or its financial management system.

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