Could PayPal’s Latest Fee Boost Make It the Merchant Lobby’s Next Target?

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The yin and yang of political, and ferociously commercial, PayPal was vividly on display with its announcement last month of a **massive price hike**.

The e-commerce phenom attaches itself to an array of woke causes but remains a wonderfully hard-nosed commercial enterprise, keen to be fully compensated for the enormous value it delivers. If its powerful brand conveys one thing, it’s the promise of low-friction electronic and mobile commerce. In the first quarter, the e-commerce titan’s payment volume, transactions, revenue, and active users, increased year-over-year a sizzling 50%, 34%, 31%, and 21%, respectively.

But, while chief executive Dan Schulman should be applauded for this growth, management takes for granted the freedom to charge what the market will bear. It shouldn’t. The U.S. payments market is the world’s most competitive.

PayPal’s boosting fees was a shot across the bow of globally preeminent Mastercard and Visa. And it testifies to Schulman’s belief that, online in the United States, PayPal is now the alpha payment network. To be sure, it’s in the mix. Visa, Mastercard, and PayPal, with market valuations of $520 billion, $371 billion, and $344 billion, respectively, are the Big Three.

Historically, PayPal has priced in the slipstream of Mastercard and Visa. As a weaker network, it had to. So, its price hike is a watershed moment. Merchant-acceptance fees for PayPal Checkout, Pay with Venmo, PayPal Credit, Pay in 4, PayPal with Rewards, and Checkout with crypto, will all increase to a rich 3.49% and 49 cents per transaction (4.3% on a $60 purchase) from an already healthy 2.9% plus 30 cents per transaction.

Clearly, PayPal no longer sees itself as a weaker network, and believes merchants will pay more because it delivers incremental sales.

Money-transfer fees for PayPal's Venmo, too, are going up. To incent use, this service has been fee-free. But, starting Tuesday of this week, users had to pay 1.9% plus 10 cents when receiving money for goods or services.

Where PayPal is the payment processor but not the network, it was more cautious. It changed merchant-acceptance rack rates online for competing networks such as Mastercard and Visa to 2.59% plus 49 cents per transaction, which, as it highlighted, is more price-competitive with high-flying Stripe for payments greater than $60.

Still, while PayPal is jockeying to be the apex payment system online, in-person it's still barely relevant.

At physical shops, traditional "card" networks are ubiquitous, low friction, a matter of habit, and often come with rich rewards. PayPal's in-person acceptance is limited and users have no expectation, let alone habit, of paying with PayPal—yet. Acknowledging its weaker position, PayPal set acceptance fees of 1.9% and a dime per transaction for its recently launched QR-keyed-POS payments for SMBs—lower than American Express, Discover, Mastercard, and Visa.

Back in 2012, PayPal's first attempt to compete at the physical point-of-sale failed. Its prospects now may be better. It's bigger, has a richer suite of payments, enjoys greater user engagement, can better leverage mobile phones, and owns Square-copycat **iZettle**.
The e-commerce colossus has built and acquired a portfolio of retail, peer-to-peer, buy now, pay later, retail-credit-installment, card-processing, bill-pay, crypto-management, and payout platforms. At its heart, PayPal is mutually reinforcing payment networks. The whole is greater than the sum of the parts.

It's a two-sided payments market(s) with 361 million consumers and 31 million merchants. More consumers beget more merchant value. More merchants beget more consumer value.

Payors and retail payees, however, have very different price elasticities of demand. Buyers don’t want to pay fees to pay for goods and services. Merchants, however, are willing to pay for payments for sales, particularly those they might otherwise not have gotten. Asymmetric pricing, charging merchants but not consumers, maximizes holistic value.

Unlike Mastercard, Visa, and card-issuing giants like BofA, Chase, and Wells Fargo, PayPal thus far hasn’t been targeted by regulators, politicians, activists, or the merchant lobby over its rich payment-acceptance fees. However, the same fundamental beef—that merchants must pay to accept payments and are generally price takers—applies in spades to PayPal. Its woke posturing of late on matters such as race and climate change won’t keep it out of the merchant lobby’s crosshairs. There’s too much money at stake.

In 2010, Sen. Dick Durbin included debit card price controls in Dodd-Frank. In 2020, the restaurant lobby unsuccessfully sought caps on credit card acceptance fees as part of Covid-19 relief legislation. Illinois’s crafty senior senator is looking for an opening. Given its prominence and rich fees, PayPal’s a likely target.

Increased payments regulation threatens PayPal, its competitors, and the value hundreds of millions of consumers take for granted. Making an affirmative case in Washington and in the public arena to consumers (voters) for the freedom to set prices in a lightly regulated market is one area where PayPal’s chief executive should, on behalf of shareholders, be more politically engaged.

Meanwhile, PayPal can do the most good by being a fierce and innovative payments competitor, better serving consumers and businesses, and, thereby maximizing long-term shareholder value.

stems is not to commit to central planning.