



Assessment: Management Report

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Executive Summary

For businesses, accomplishing the road map towards long-term success is possible only if the strategy management incorporated in their business structure is good enough to withstand the arising market complications and challenges without withering away their presence in the market they operate in.

A business strategy that entails the definition of clear objectives along with a strategic plan to turn that very strategy into a meaningful business gain, both in terms of finance and growth for the business itself is what every business requires to make real the purpose behind its mission and vision.

Considering the key role that the business strategy plays in managing the business at its heart, this report has been compiled to analyze and critically reflect on the business strategy of one of the leading banking companies in the world; **PayPal**.

The payments giant company; PayPal's business strategy has been successful enough to make its brand name a commonly used term in every household which is one of the clear indicators of its successful strategy management. From the company's mission and vision statement; to its successful strategic plan of working towards the fulfillment of objectives underlying the business strategy, this report intends to reflect on critical parts of the organization's strategic management that contributed to the overall business success for the company.

Table of Contents

1. Introduction	4
1.1. The Mission & Vision Statements	4
2. SWOT Analysis	5
2.1. Strengths	5
2.2. Weaknesses	6
2.3. Opportunities	7
Threats	7
3. Long-term Objectives and Business Strategy	9
4. Organization Structure, Company Culture & Workforce Analysis	11
4.1. Organization Structure	11
4.2. Talent at PayPal (Employees and their Capabilities)	11
4.3. Corporate Culture Issues	12
5. Recommendations	13
6. Conclusion	14
7. References	15
8. Appendix A	20
8.1. (Key Elements of PayPal's Business Model)	20

Introduction

Founded in 1998, to deliver unprecedented customer value, the company PayPal was introduced to the market with the strategy of value innovation by reducing the costs incurred in conducting online transactions through the establishment of customer-centric services [Hoffmeyer](#) (2016). Back then, the real intent behind PayPal's business strategy was a relatively new concept in the market; the company quickly entered its blue ocean [Investopedia](#) (2022) and gained a first movers advantage in the market. Being the first of its kind in establishing a digital payments platform, PayPal set out a standard technology of easing online transactions through an all-in-one online payment solution entailing both merchant accounts and a payments gateway under a single platform [BigCommerce](#) (2022). The first movers' advantage made the company comfortable in outmaneuvering the few competitors it had back then [Hoffmeyer](#) (2016).

Acquisition of PayPal by eBay back at the beginning of the 21st century [Kimball](#) (2016) had either companies strengthen their strategies by collaborating on their allied competitive advantages [Hoffmeyer](#) (2016) by combating fraud risks through resource alignment techniques [Gonzalez](#) (2003) and acquisitions. Once the company had its reputation built in the local market while working side by side with eBay, PayPal extended its services to customers in the international market, thus broadening its leading economies of scale. After making it to the international market, PayPal parted ways with eBay [Slade](#) (2022) with the intent of exploring new attractive markets and giving new directions to the strengthening of its business strategy.

I. The Mission & Vision Statements

Reimagining value of money, PayPal set out on a mission of providing democratic ease to financial services such that conducting online transactions was made the right of every citizen rather than the affluent communities of the society alone.

In their pursuit of making available the financial services of digital payments a right to all citizens rather than a privilege for a few, the company aligned its business strategy with a central vision statement which reads out as:

"...making the movement and management of money as simple, secure, and affordable as possible" [Paypal](#) (2022).

PayPal's business strategy is aligned to make the participation of every person in a global economy on priority; a part of their basic right. Perhaps it is the part of PayPal's strategy of **putting its customers first** that has helped its strategy to be a success in the long term as happier customers are the company's biggest assets in deriving its bottom line [McKinsey&Company](#) (2018).

SWOT Analysis

To derive the implications of PayPal's successful strategy management, following section of the report discusses SWOT analysis of the company.

I. Strengths

Being the leading digital payments giant in the industry, PayPal has gained a huge impact factor with its meaningful value propositions. Operating in international market, PayPal has had its brand name become its biggest strength. This contributed to PayPal's recognition thereby adding to customer loyalty [Chun, Park, Eisingerich, et al.](#) (2015). With an established brand name, following factors have added to company's strengths:

A. International level presence and wider loyal customer base

Powered by the core belief of opportunity creation in the lives of people by making available financial services to over 200 countries worldwide in 25 different currency formats [PayPal](#) (2022), the international presence of the company has provided PayPal with a competitive advantage in the digital payments industry. This has also won the company a humongous customer base comprising over 429 million loyal customers as of 2022(Q1) [Statista](#) (2022) and the number continues to grow exponentially every year.

B. Variety of solutions for both merchants and sellers

PayPal helps both merchants and sellers from different industries by providing a variety of solutions for businesses and everyday transactions of both sellers and merchants. This is the very reason why the company has received more consumer focus [Healy](#) (2021) than its peers. This is a plus point for the company's business strategy as it helps PayPal keep its fintech technology up-to-date whilst well-positioning the company's reserve stocks to continue driving long-term profit gains.

C. Firewall-protected security mechanisms

One of the biggest concerns of consumers looking for digital payments platform is the security firewall protection meant for safe and reliable transactions over the internet while neither becoming a victim of hackers who constantly look for vulnerabilities in the purchasing or online transactions activity of consumers nor losing their important credentials both personal and financial to non-trusted sources [Casalo, Flavian, and Guinaliu](#) (2007). Being aware of this concern, PayPal has its fintech technology up-to-date with TLS (Transport Layer Security), OTP (One Time Pin), secure HTTPS only along with email payment confirmations, data encryption, and fraud monitoring and prevention [PayPal](#) (no date). As a company that provides an advanced fintech technology geared with multilevel security firewalls, consumers have a blind trust in the brand such that without any doubt, the thought of conducting online transactions naturally hones down the brand name: **PayPal**.

D. Convenient, handy, easily accessible user interface and design of the application

The user-friendly interface that PayPal offers its customers through its application programs helps consumers easily sign up for their account and have transactions made within a few taps. This is much easier compared to the old banking system account creation and transactions which required days to set up and were costly in terms of transaction fees [Princy](#) (2020).

II. Weaknesses

A. Service Fees charged is comparatively higher

PayPal's position in the sector allows it to charge a few extra cents compared to its rivals [Sun](#) (2021). This has provided critics the opportunity to criticize the company's action of transacting at high service fees. Even though many customers are willing to pay the high charges, still a lot many have made a shift to other relatively low-charging companies which has resulted in PayPal losing some of its potential clients to its rivals [Zen](#) (2020). If the company continues to overhaul its rates in the favor of inflation [Malik](#) (2022), it may backfire on the company's business strategy.

B. Funds withholding and related account controversies

PayPal does not refund the transaction fees for canceled or returned purchases on online marketplaces which raises customer concerns especially when the charged service fee per transaction is high. This situation is potentially a devastating one for merchants as it affects their businesses. Additionally, the company has faced several lawsuit cases recently [Schneider](#) (2022) for freezing some users' accounts without notice. This could result in the spoilage of brand image and loss of potential customers if the company continues to not provide notice prior to or return a response via an email over the received comment of concern from users.

C. Successful transactions over internet access only

PayPal's entire transaction system operates over a reliable internet connection [Grabianowski, Pollette, and Crawford](#) (2022) meaning; no connection, no transactions. This appears as a weakness to the company's business strategy when consumers residing in areas of poor internet connection locality (especially the rural population) could not utilize PayPal services to their best.

D. Frauds and cyber attacks

Online activity always come with a risk of cyber attacks, hackers hacking through connected devices, etc, and when it is about digital payments, fraudulent activities by cybercriminals become even more notorious for users online [Trautman](#) (2013). From stealing the private data credentials of users, PayPal reported a data breach in the year 2017 which led to cybercriminals stealing and making misuse of users' important credentials [TrendMicro](#) (2017). Although the company, up till today, has taken measures to safeguard its system against cyber fraud and attacks, still the risk of cybercrimes persists because it's not PayPal's fintech systems that get an upgrade alone, the hackers have their systems and techniques of cybercrime evolve as

well. Viewed as a weakness, it spurs the roots of brand distrust and reputational damage in consumer minds [UNODC](#) (2013).

E. Limited to no access to services in select countries

PayPal does not provide its services in some underdeveloped countries like Pakistan and Sri Lanka which appears as a weakness for the company as it has failed to capture the potential market in these regions.

III. Opportunities

A. Making available the access of services in currently non-available services regions (Market expansions)

By reaching out its services in the markets of unsupported countries, PayPal can further capture a much broader customer base from within the potential market and this ultimately means a shout out to the strength for its business strategy.

B. Crypto

With the digital currency introduced to the world and the world rapidly adopting it, it makes for a good opportunity for PayPal to offer its services that help consumers carry out transactions using their crypto assets. The company has already considered the move [Fonda](#) (2022) of penetrating its services into the digital currency market; allowing users to buy and sell a few digital tokens like Ethereum, Bitcoin, etc. Today PayPal has a whole division dedicated specifically to crypto [Macheel](#) (2021) and the company has now become a major player in the crypto payments space [Leech](#) (2021).

C. Rise of eCommerce businesses

Over the past decade, the industry of eCommerce has observed exponential growth with many users setting up their home-based dropshipping and affiliate marketing businesses. This has created an ample opportunity for payments giants like PayPal whom the consumers are headed to; to carry out their transactions whenever they purchase items off the eCommerce website. Tending to the opportunity, as of 2021 stats, PayPal has marked a 22% [Hinchliffe](#) (2021) rise in its business following the growth in the eCommerce industry.

IV. Threats

A. Government's strict policies and political tensions

Operating in the international market, PayPal's business operations slightly vary especially in countries that have set strict rules of operation policy [Florescia and Herley](#) (2010) and functioning regulations [Dai](#) (2020). This paves a threat to the business strategy as sudden and uncalculated changes in government policies for its operation can force the company to disembark its operations in the country imposing a loss of potential customers to PayPal in that market.

B. Growing number of rivals

Even though the company enjoyed the privilege of ‘first movers advantage’ at its launch, however today, as the world is already midway through the digital age, the company bears the threat of new entrants in the industry of online payments. With the number of rivals growing, the competition in the market has become intense which imposes a threat to PayPal’s business strategy.

C. Inflation

Inflation in today’s economies has proven to be a headwind for PayPal’s business especially because it has affected the company’s cost structures owing to consumers shifting from in-store to online purchasing as of the pandemic recently [Patel](#) (2022).

Long-term Objectives and Business Strategy

Intending to become a global standard for online digital payments, PayPal has set an alluring strategy for its business as it aims to expand beyond the game of checkouts and into the world of investments, acquisitions, and partnerships. PayPal's strategy management initially was focused on maximizing the two major metrics [Ballard](#) (2017):

- a) **Customer Adoption:** Increasing an active number of customer accounts determined by Net New Actives (NNAs)
- b) **Enhancing Customer Engagement:** Increasing the transactions conducted per customer account

Slight Shift in strategy Towards the middle of 2021, PayPal made a slight change in its strategy when it shifted its focus away from NNAs and wholly on deriving engagement alone. As a consequence of which the Q4(2021) share price value of the company observed a dip of 28.3% [SeekingAlpha](#) (2022). By doing so, the company's target of attaining 750 million active accounts by 2025 was abandoned; however, since the targeted values for revenue and cash flows were confirmed, investors in the company remained unnerved about PayPal's decision of strategy focus shift [SeekingAlpha](#) (2022). The reason behind the shift in strategy was that ever since the pandemic, most of the NNAs led to account creation by customers that ended up causing scant returns due to less engagement and inflated retention costs.

Generating most of its profits from processed transactions, about 2.9% per transaction, the company continuously adds new features [Fitzgerald](#) (2022) to its platform to accomplish the first metric which naturally aids the second metric above. PayPal is left with a transaction margin of about 58.7% once the transaction's expenses and costs are covered which is a significant margin for it to generate a revenue stream while covering other expenses of marketing, customer support, new features development, etc.

While the company aspires to multiply its free cash flows, economic conditions like inflation and disruptions in the supply chain have affected the company's transaction margins [Drury](#) (2022). However, the management of the company has good control over the operating costs of the company and as long as the management is fit enough to handle the company's business strategy the way it continues to do, the free cash flow of PayPal will continue to take care of itself in the long run.

In light of the headwinds of economic growth, PayPal's strategy today is set to achieve the two aspired objective metrics by focusing on small things like [Ballard](#) (2017):

- a) Extending partnerships with diverse network companies to reach more potential customers
- b) Rolling out new small features and add-on services regularly to enhance customer engagement on platform
- c) Making new enhancements and investing in new on-trend industries to become a ubiquitous brand

Today, the company is working on innovations like Buy-Now, Pay-Later, integrated online and in-store purchasing, etc [SeekingAlpha](#) (2022). PayPal is attracting the attention of its customers by partnering with

Venmo (a digital wallet) and locking its customer base into Venmo's growing platform [Sun](#) (2022) that allows peer-to-peer payment services across the US.

Organization Structure, Company Culture & Workforce Analysis

I. Organization Structure

The organizational structure of PayPal entails the crucial elements (see [Appendix A](#)) that form the overall business model of PayPal, helping the company derive its core objectives [Pereira](#) (2022). The organizational structure has been designed to envisage an ESG (Environmental, Social, and Governance) strategy which has significantly contributed to the company's overall business growth. Through ESG, investors in PayPal look to invest in non-financial factors like society, and the economy; considering them a crucial part of the analysis process in identifying material risks and growth opportunities [CFAInstitute](#) (2022). Focus on ESG has proven to have a strongly positive impact on business growth [McKinsy&Company](#) (2019) for PayPal.

Here's what the ESG strategy of PayPal looks like [Cuofano](#) (2022):



Figure I PayPal's ESG Strategy

II. Talent at PayPal (Employees and their Capabilities)

Considering its employees as the most important asset of the company, PayPal functions to put its employees first and foremost. PayPal has set up a company culture that tends to retain, attract and foster

diverse talent that nourishes a strong culture of customers [PayPal](#) (2022). Former employees have reviewed the company culture at PayPal to be very inclusive and innovation oriented [Indeed](#) (2022). Since the company operates at an international level, it has a diverse workforce culture with employees belonging to different ethnic backgrounds. Employee workforce entailing people that belong to distinct ethnic backgrounds make up a plus point for the company's strategic management as such workforce provides better customer services. Diversity also helps the company to react frugally to market trends [McKinsey&Company](#) (2015).

To retain its talent, PayPal offers the following luxuries to its employees [PayPal](#) (2022):

- a) Launching initiatives for employees to participate in their learning and development through online platforms like LinkedIn or Udemy, etc
- b) Committing to employee wellness by offering them global wellness days, helping them retain their mental and emotional health
- c) Encouraging volunteerism to empower employee giving
- d) Company winning multiple accolades that give employees the plus point of workplace recognition

The C-suite leaders at PayPal have reported that the recent exponential success of PayPal can all be attributed to the company's investment in its employees [Balogh](#) (2021).

III. Corporate Culture Issues

PayPal has set up an inclusive and cooperative workforce culture wherein every employee shares their thoughts openly and friendly. Lately, however, one of the biggest corporate culture issues the company has faced was the growing racism in corporate culture due to written policies and unwritten norms practiced at PayPal [Maiden](#) (2021). Racism blocks the creativity of employees (hindering a culture of innovation) [Mukherjee and Nath](#) (2003), making them feel emotionally disturbed, and maltreated, and nurturing a sense of absenteeism from work [Sethi, Vito, and Ongbanouekeni](#) (2021).

Similarly, in 2016, when the official authorities of North Carolina state passed a controversial statement regarding the termination of discrimination protection for LGBT nationals, PayPal immediately nixed its plans of expanding its operations in the state which would otherwise have generated over 400 vacancies [Fiegerman](#) (2016). As a company that follows an ESG strategy for its growth, this act of pulling expansion from the state deprived it of vacancies that could have provided the opportunity of growth to the economy of the state and the culture of the company.

Recommendations

Given the excellent strategy management of PayPal, it's evident that the company has already positioned

itself in a business world that will derive it a long term success.

However, there always exists room for improvement, and for tech-driven companies, improvement and innovation are crucial [Chen](#) (2018). It is, therefore, safe to say that, PayPal can further improve its strategy management by taking into consideration the following recommendations:

- a) **Investing and Scaling** into growing global markets takes time and is a complicated process, however, PayPal by considering expert support and proper consultation can speed up its process of investing and scaling up. Harnessing the growth opportunities by investing in trending markets at a shorter pace of time and with an expert opinion can give the company the confidence to expand into future markets rapidly.
- b) **Making Business Operations Streamlined** Rather than keeping an entire focus on transacting consumers' money, PayPal needs onboard payments experts who can help the company escape the issues of down costs and down stocks [Bary](#) (2022) situations in the market.
- c) **Agility Protected & Future Proof Payments Platform** PayPal's fintech needs to be built to weather uncertainty, especially in economic situations like inflation. For that, an agile and future-proof payments system can help provide the company with the option of activating and deactivating partnerships and functionalities as uncertainty demands.
- d) **Enhancing Security Measures** security being the paramount concern of its customers, by strengthening security against cybercrime, the company can win more loyal customers than it already retains.
- e) **Innovating Customer Service** The more the company tends to its customer's issues and conflicts, the better would be the customer response. This can also help the company unfold new upcoming trends and consumer demands that could open better growth opportunities for the company.

Conclusion

If it were not for the effective strategic management of PayPal the company would not have earned the fame and brand position it holds today. Through its effective business strategy, the company has succeeded in disrupting the world of fintech and will continue to do so in the long run until its gears are turned headed in the direction of innovation and growth.

The company's exponential growth over the past decade has rendered the PYPL stock to be the new, highly liked option for investors looking to bet on a big play of tech and invention. Despite the popularity of digital payment systems, the present-day infrastructure of transactions still primarily relies on banks and credit cards and so they appear to be the biggest rival for the company. The company is working its way through this rivalry to establish itself as a payment standard.

Although altering the psychology of the human mind due to security concerns in digital payments seems a bit difficult for now and some people still consider the old method of credit cards and banks the safe means of transacting, however, given the success and big recognition of PayPal along with the need of upgrading to thrive in the digital era, it's almost the time that the minority of people relying on old methods of transacting might consider a shift towards the digital payments giant; the PayPal.

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Appendix A

(Key Elements of PayPal's Business Model)

Element	Entails (Sub-elements)	Functionality
Key Partners	<ul style="list-style-type: none"> ❖ Banks ❖ Consumers ❖ Merchants ❖ Software Developers ❖ Payment Processors 	Helps provide the platform with a smooth transacting profile while keeping customer key credentials data safe and secure.
Key Activities	<ul style="list-style-type: none"> ❖ Platform Development ❖ Platform Maintenance ❖ Fraud Analysis ❖ Algorithm Development 	Helps with identifying issues and working to resolve them for platform management.
Key Resources	<ul style="list-style-type: none"> ❖ PayPal Global Tech Platform ❖ Bank Financing ❖ Human Resources 	Helps in setting up the value proposition for PayPal's customers, extend company reach into diverse markets, maintaining customer relations, and in business revenue generation.
Value Propositions	<ul style="list-style-type: none"> ❖ Convenience ❖ Security ❖ Brand Trust ❖ International Scale Operations 	Gives consumers a reason to consider PayPal over its competitors.
Customer Relationships	<ul style="list-style-type: none"> ❖ Self Service ❖ Buyer-Seller Protection programs 	Provides customer satisfaction for disputes and platform issues.
Channels	<ul style="list-style-type: none"> ❖ Company Website ❖ Company App ❖ Mobile Payment Subsidiaries like Venmo and Xoom. 	Consumers make most of their transactions on the company's website which is the main channel. Company App has presently become a new normal for consumers looking to make transactions via the PayPal platform. Mobile payment subsidiaries also serve the same purpose.
Customer Segments	<ul style="list-style-type: none"> ❖ Consumers ❖ Merchants 	Serves a purpose of dual-sided platform providing services to both merchants and sellers
Cost Structure	<ul style="list-style-type: none"> ❖ Transactions expenses ❖ General expenses of platform development & maintenance ❖ Sales & Marketing 	Working on a cost driven structure, the biggest cost that the company faces is the transaction expense. Other expenses account for business growth.

<p>Revenue Streams</p>	<ul style="list-style-type: none"> ❖ Transactions <ul style="list-style-type: none"> ➤ processing fee ➤ currency conversion ➤ bank withdrawals ❖ Subscription plans <ul style="list-style-type: none"> ➤ Business Accounts ➤ Payflows ❖ Others <ul style="list-style-type: none"> ➤ Interest fees ➤ working capitals ➤ loans ➤ affiliates 	<p>Helps generate cash flow streams for smooth business flow</p>
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