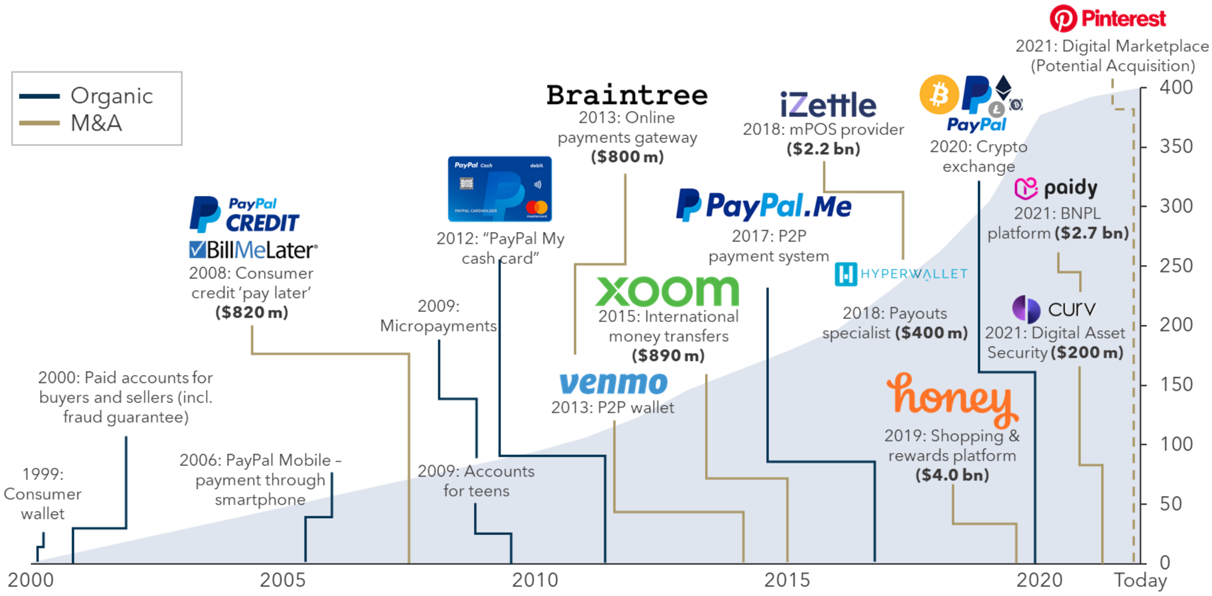
by Rom Mascetti and Scott DeHaven, 22 October 2021

PayPal's + Pinterest a High Profile Example of Payments & Commerce Convergence

Almost 20 years ago, eBay acquired PayPal for $1.5 billion. PayPal was subsequently spun-off from eBay while growing into the leading global e-commerce payment service provider ("PSP"), worth more than $300 billion. On Wednesday, October 20th, PayPal signaled a potential acquisition of Pinterest, a $40 billion digital marketplace and visual discovery engine. Where eBay and PayPal saw brighter futures as separate companies (and subsequently split in 2015), PayPal's strategy six years later appears to have come full circle.

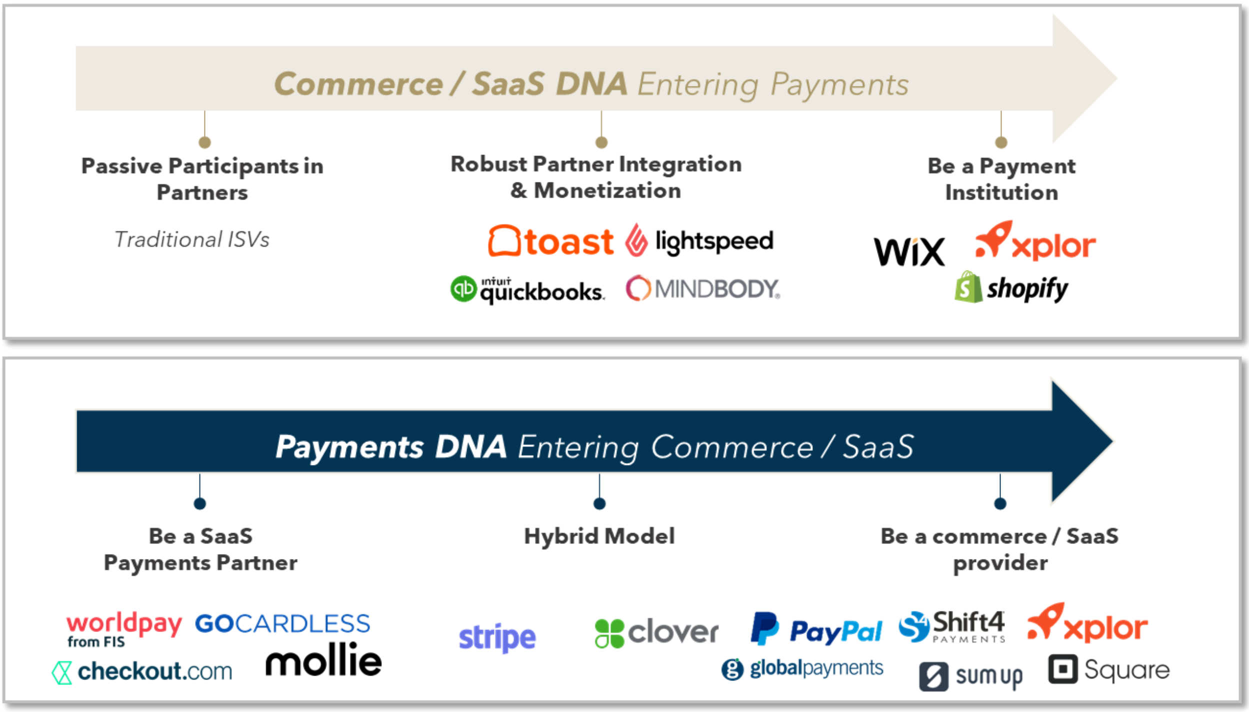
FIGURE 1: PayPal Product Expansion (selected examples; graphic = active user accounts in millions)



Source: PayPal filings, GlobalData, Flagship market observations

In recent years, PayPal demonstrated increasingly willingness to expand into commerce services including its $4 billion acquisition of Honey in 2019 (as illustrated in Figure 1). Shareholders are less enthusiastic; PayPal's stock price dropped more than 10% on the news of the potential acquisition of Pinterest. It appears that the market is drawing parallels between PayPal's past with eBay and views the potential acquisition of Pinterest as a reversal of that decision. We see PayPal's potential acquisition of Pinterest as a high-profile example of the broader trend toward convergence of commerce and payment services. In Figure 2 we illustrate this convergence by depicting the vertical integration of select platform providers into payments and payments providers into platform services.

FIGURE 2: Vertical Integration of Payments and Commerce Specialists



Source: Flagship market observations

As PayPal – eBay case study illustrates, integrating payments services and commerce platform services can be challenging. Payments companies are fundamentally financial services operators while commerce platforms are built on software and digital marketing foundations. Combining these different DNAs and cultures is not easy, although PSPs themselves (e.g., Square, SumUp, Stripe) are also increasingly tech-centric and marketing-centric, which acts as a common thread. Merging commerce services into a payments franchise can also create channel conflict as PSPs increasingly rely on software/platform partners for distribution. PSPs must carefully prioritize their partnership strategies vs. the option to expand into commerce. In Figure 3 we list some of these challenges along with examples of synergies when merging payment services providers and commerce marketplaces and platforms.

FIGURE 3: Synergies and Challenges of Owning In-House e-Commerce Marketplace or ISV Capabilities

Synergies	A full-embedded payments + platform solution makes for **easier distribution and usability** than integrations of propositions of multiple parties
	Expanded customer lifetime value on a single customer acquisitions cost
	As a single provider, payments + commerce platforms can **gather and monetize a robust set of data**
	Through a packaged product, PSPs unlock **commercial flexibility** to create unique pricing bundles and value propositions for clients
Challenges	PSPs create **channel conflict** and potentially restrict the ability to partner with other platform providers
	Success requires maintaining a relevant and competitive product set across a broad range of services; **weakness in any one service line dilutes the positive synergies**
	Dual cultures (payments DNA vs. platform DNA) can be challenging to harmonize
	Talent development and retention is critical to creating internal knowledge capital and making the right investment decisions over the long-term

Source: Flagship market observations

PayPal's potential acquisition of Pinterest is another high-profile example of the convergence of payment services and commerce platforms (and SaaS). There is no doubt that payments services and commerce services are converging at product level globally. But this does not mean that all PSPs should own commerce platforms, as partnership (and conflict avoidance) can be the higher priority. Both strategies (partnership-based and in-house owned commerce services) are successful strategies as long PSPs dedicate the right level of resources to maintain partner relationships and learn to successfully market a broad services bundle.

Flagship Advisory Partners has extensive experience working with global PSPs in developing their software/commerce channel and M&A strategies. Please do not hesitate to contact Rom Mascetti at Rom@FlagshipAP.com or Scott DeHaven at Scott@FlagshipAP.com with comments or questions.