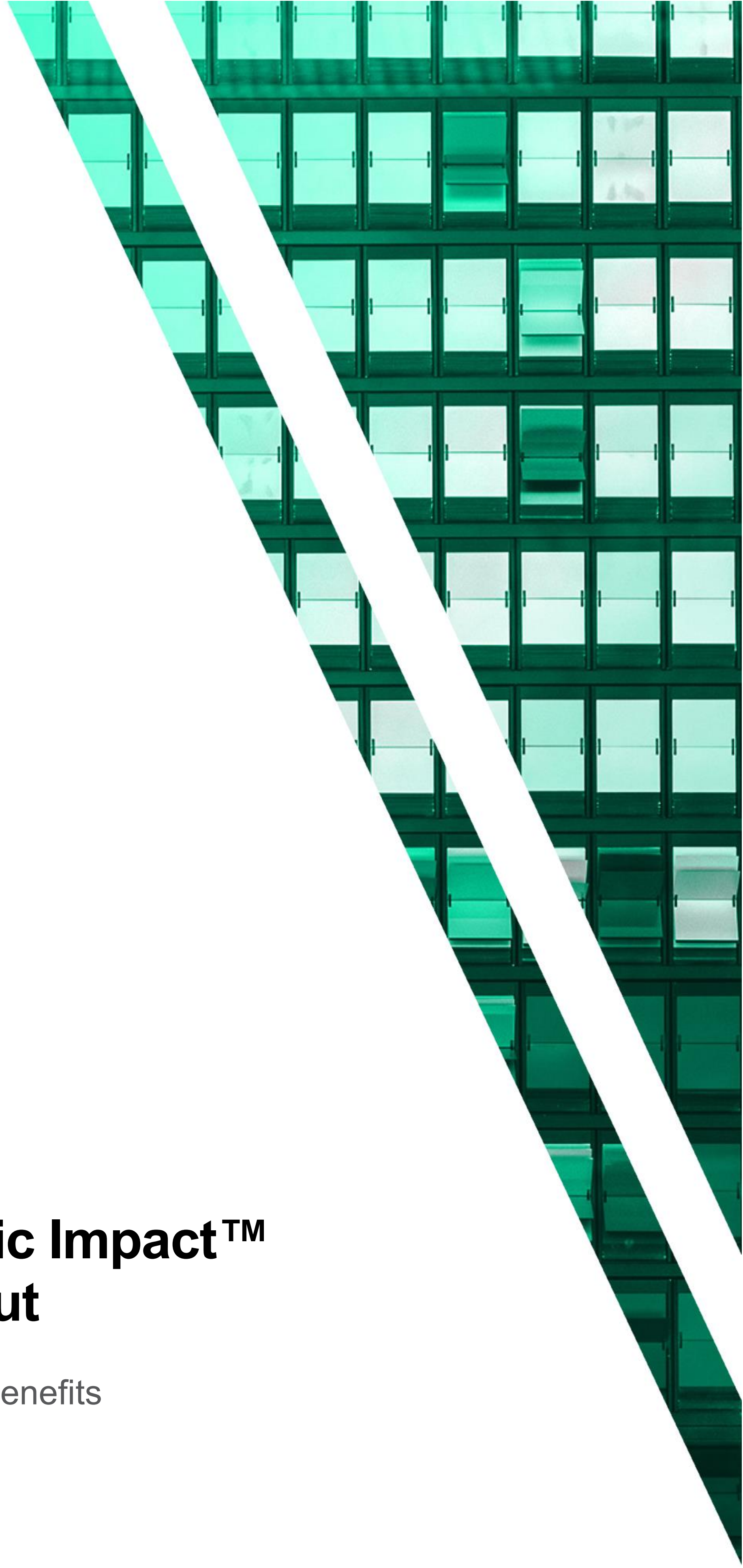

FORRESTER®

# The Total Economic Impact™ Of PayPal Checkout

Cost Savings And Business Benefits Enabled By PayPal Checkout

**DECEMBER 2023**

A FORRESTER TOTAL ECONOMIC IMPACT™ STUDY COMMISSIONED BY PAYPAL

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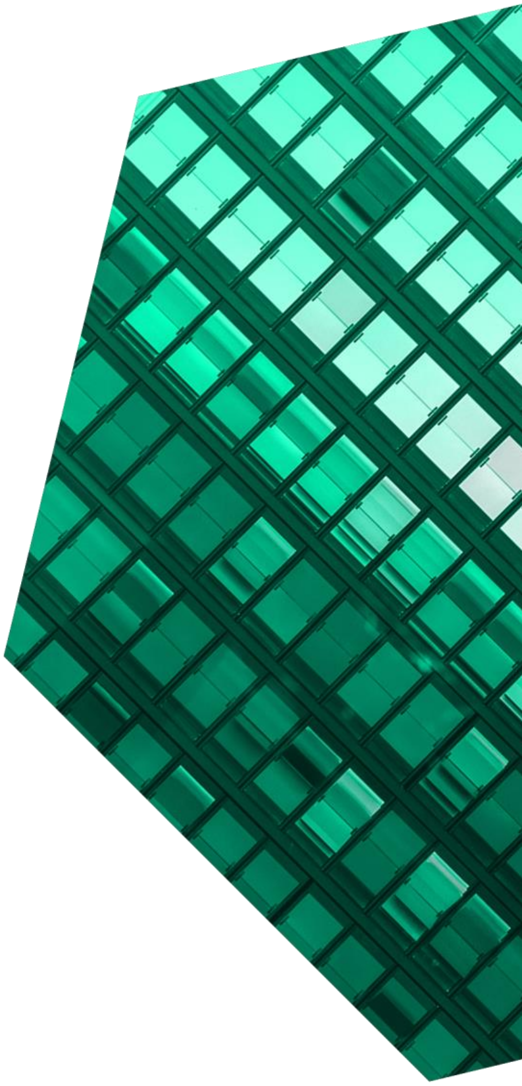


**ABOUT FORRESTER CONSULTING**

Forrester provides independent and objective research-based consulting to help leaders deliver key outcomes. Fueled by our customer-obsessed research, Forrester's seasoned consultants partner with leaders to execute their specific priorities using a unique engagement model that ensures lasting impact. For more information, visit forrester.com/consulting.

## Executive Summary

The merchant payment provider market is complicated, filled with an ever-evolving mix of old and new technologies, strict regulations, and a revolving door of new mandates, players, and operating models. To keep up with this dynamic environment, merchants rely on their payment providers to stay ahead of the pace of change.[1] Merchants require a payment provider that can build customer loyalty and trust, offer seamless checkout experiences, provide "buy now, pay later" options, and support global markets.

PayPal is a well-established and trusted brand in the payment provider market, which helps customers feel more secure and confident when making purchases. PayPal Checkout is a secure and convenient online payment solution that allows customers to make purchases using their PayPal account or guest checkout, providing a seamless and trusted payment experience across various merchants. PayPal Pay Later is a suite of financing options provided by PayPal that allows customers to make purchases and pay for them over time, offering flexibility and convenience with deferred payments and installment plans.

PayPal commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study and examine the potential return on investment (ROI) enterprises may realize by deploying PayPal Checkout and PayPal Pay Later.[2] The purpose of this study is to provide readers with a framework to evaluate the potential financial impact of PayPal Checkout on their organizations.

Incremental profit from increased PayPal Checkout average order value

**10%**

**KEY STATISTICS**

Return on investment (ROI)
**136%**

Net present value (NPV)
**$43.33M**

To better understand the benefits, costs, and risks associated with this investment, Forrester interviewed four representatives within merchant organizations with experience using PayPal Checkout. For the purposes of this study, Forrester aggregated the interviewees' experiences and combined the results into a single composite organization, which is a North American based retail organization with $5 billion in annual revenue.

Prior to using PayPal Checkout, interviewees noted their organizations had limited payment options, relying primarily on credit and debit cards for online checkout. These traditional payment solutions had inherent checkout friction, such as manual data entry, payment declines, declines due to incorrectly transposed credit card numbers, incorrect autofill information from browsers, and other issues that led to less consumer trust and more cart abandonment. Interviewees lacked support from traditional payment processors in several global markets and faced higher chargeback costs with traditional payment options.

After the investment in PayPal Checkout inclusive of PayPal Pay Later, the interviewees' organizations saw increased conversion rate, increased average order value (AOV) for both PayPal Checkout and PayPal Pay Later purchases, increased customer retention, and reduced credit card processing fees.

### KEY FINDINGS

**Quantified benefits.** Three-year, risk-adjusted present value (PV) quantified benefits for the composite organization include:

- **Incremental profit from increased conversion rate of 1 percentage point worth $28.2 million in profit.** PayPal Checkout increases payment trust and security, provides a convenient and often improved checkout experience, and expands reach by catering to an international consumer base. As a result, PayPal drives a higher conversion rate for the composite organization than traditional payment options like credit cards. Over three years, the increase in conversion rate is worth $28.2 million to the composite organization.

- **Incremental profit from increased PayPal Checkout AOV of 10%.** PayPal is a well-established and trusted brand, which helps the composite organization's customers feel more secure and confident when making purchases. PayPal Checkout offers an enhanced checkout convenience and speed, allowing customers to pay with a few clicks and without the need to enter credit card details or shipping information repeatedly. The increased trust and user-friendly checkout experience contribute to higher average order values for the composite organization. Over three years, the increased PayPal Checkout average order value is worth $8.5 million.

- **Incremental profit from PayPal Pay Later and increased AOV of 35%.** For the composite organization, PayPal Pay Later drives a larger average order value than both traditional payments and PayPal Checkout. Pay Later gives customers increased purchasing power by allowing them to spread out their payments over time, making higher-priced cart values more accessible. This leads to the composite's customers being more willing to make larger purchases. Over three years, the increased profit from PayPal Pay Later is worth $13.2 million.

- **Incremental profit from customer retention lift.** Customers purchase more frequently with PayPal Checkout compared to traditional methods. By improving customer trust and loyalty, reducing payment friction, and offering enhanced security and payment protection, customers were more likely to purchase from the composite organization more frequently. The increased customer retention is worth $1.3 million over three years.

- **Reduced cost of payment acceptance.** The composite reduces the cost of payment acceptance for all payment volume that goes to PayPal Checkout. This offsets the PayPal rate. Avoided credit card processing fees are worth over $24.1 million over three years.

**Unquantified benefits.** Benefits that provide value for the composite organization but are not quantified in this study include:

- **Improved global reach.**
- **Reduced fraud.**
- **Strong vendor partnership and support.**
- **Reduced risk of downtime.**

**Costs.** Three-year, risk-adjusted PV costs for the composite organization include:

- **PayPal rate.** The composite organization pays a rate calculated against the total payment volume that is processed through PayPal.

- **Implementation and ongoing costs**. Management and implementation costs depend on the size and scope of deployment for the composite organization. It dedicates internal labor for ongoing maintenance, enhancements, upgrades, and vendor management.

The representative interviews and financial analysis found that a composite organization experiences benefits of $75.2 million over three years versus costs of $31.9 million, adding up to a net present value (NPV) of $43.3 million and an ROI of 136%.

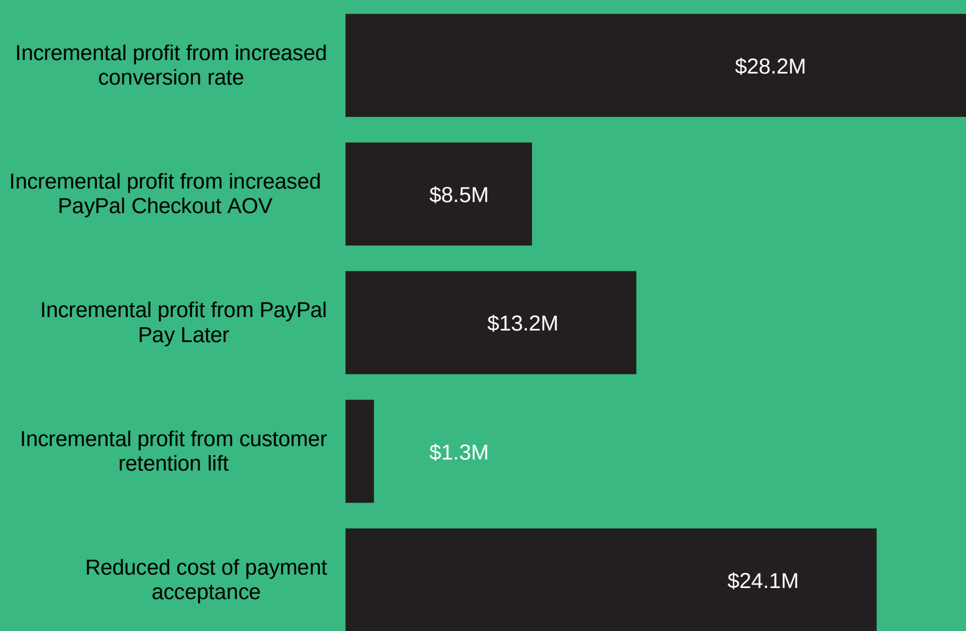
ROI
**136%**

BENEFITS PV
**$75.22M**

NPV
**$43.33M**

PAYBACK
**<6 months**

**Benefits (Three-Year)**




## “We saw a higher add-to-cart number, a lower cart abandonment, and a higher conversion number for products with [PayPal Checkout] enabled.”

— VP of e-commerce, retail

## TEI FRAMEWORK AND METHODOLOGY

From the information provided in the interviews, Forrester constructed a Total Economic Impact™ framework for those organizations considering an investment in PayPal Checkout.

The objective of the framework is to identify the cost, benefit, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the impact that PayPal Checkout can have on an organization.

**DUE DILIGENCE**
Interviewed PayPal stakeholders and Forrester analysts to gather data relative to PayPal Checkout.

**INTERVIEWS**
Interviewed four representatives at organizations using PayPal Checkout to obtain data with respect to costs, benefits, and risks.

**COMPOSITE ORGANIZATION**
Designed a composite organization based on characteristics of the interviewees' organizations.

**FINANCIAL MODEL FRAMEWORK**
Constructed a financial model representative of the interviews using the TEI methodology and risk-adjusted the financial model based on issues and concerns of the interviewees.

**CASE STUDY**
Employed four fundamental elements of TEI in modeling the investment impact: benefits, costs, flexibility, and risks. Given the increasing sophistication of ROI analyses related to IT investments, Forrester's TEI methodology provides a complete picture of the total economic impact of purchase decisions. Please see Appendix A for additional information on the TEI methodology.

### DISCLOSURES

Readers should be aware of the following:

This study is commissioned by PayPal and delivered by Forrester Consulting. It is not meant to be used as a competitive analysis.

Forrester makes no assumptions as to the potential ROI that other organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the study to determine the appropriateness of an investment in PayPal Checkout.

PayPal reviewed and provided feedback to Forrester, but Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester's findings or obscure the meaning of the study.

PayPal provided the customer names for the interviews but did not participate in the interviews.

# The PayPal Checkout Customer Journey

Drivers leading to the PayPal Checkout investment

**Interviews**

| Role | Industry | Geography | Revenue | PayPal TPV |
|---|---|---|---|---|
| Head of international business and partner management | Technology | Headquarters in China; global operations | $50B+ | Unknown |
| Digital payment manager | Supply chain | Headquarters in the US; global operations | $100B+ | $5B |
| Senior manager of alternative payments | Retail | Headquarters in the US; global operations | $10B+ | $800M |
| VP of e-commerce | Retail | Headquarters in the US | $5B+ | $250M |

### KEY CHALLENGES

Prior to their investment in PayPal Checkout, the interviewees' organizations relied on traditional checkout options like credit, debit, and company gift cards for their online sales transactions. Interviewees reported that that prior checkout environments limited payment options and created purchasing friction, security and trust concerns, and did not optimize for customer experience (CX). The interviewees noted how their organizations struggled with common challenges, including the following:

- **Traditional payment experiences had friction, which lead to less trust and greater cart abandonment.** During the checkout process, customers of the interviewee's organizations experienced issues that prevented them from completing the transaction, such as hesitation towards entering personal payment credentials or payment declines. The VP of e-commerce at a US-based retail organization said: "[Our organization faced] issues of credit card declines, fraud, and the usual credit card challenges. … We see an increase in conversion when we had an option like PayPal on any of our websites."

- **Lack of international payment support.** Several interviewees stated it was difficult to integrate local payment methods like direct bank payments across the globe. They also wanted more global support from their credit card processors.

- **Additional chargeback fees and management overhead for credit cards.** Interviewees reported that their organizations spent more time manually reviewing and resolving fraud and paying higher chargeback fees with traditional payment methods.

### WHY PAYPAL

The interviewees' organizations searched for a solution that could:

- **Provide access to an extensive user base with greater trust, loyalty, and familiarity.** Interviewees reported that their customers were familiar with and felt comfortable using PayPal to facilitate a streamlined checkout process. The head of international business and partner management at a global technology organization said: "PayPal's value to the merchant is to bring its 400 million users to the merchant's checkout. … PayPal's presence brings streamlined user security and logging-in capabilities so that the user doesn't have to enter in information again and again."

The digital payment manager at a supply chain organization said, “Our organization has a very trusted brand among a lot of people, but the size and familiarity of PayPal’s clientele addresses our customers who don’t interact with us at a financial level.”

- **Optimize checkout experience and increase conversion rates.** Interviewees mentioned that one of their main reasons for adopting PayPal Checkout was to facilitate the ease of payment and increase customer conversion rates. Many interviewees reported that PayPal Checkout helped them attract and retain customers and increased conversion rates. The senior manager of alternative payments at a retail organization mentioned: “Many folks don’t want to provide payment credentials to just any website, getting down to the privacy aspect of PayPal’s value prop. We do see an uptick in purchase conversion with PayPal; getting the customer from items and bag to checking out.”

- **Provide strong mobile compatibility and support.** Interviewees recognized PayPal Checkout as a vital partner for their mobile user platform. The VP of e-commerce at a retail organization noted: “PayPal is a mobile-first platform like our organization. They know most of their consumers are on those devices. It’s a well-optimized checkout flow for mobile.”

- **Provide global and regional coverage.** PayPal’s strong global presence and infrastructure were a key driver and value add for interviewees operating in or expanding into global markets. The digital payment manager at a supply chain organization explained: “PayPal can have 30% of the market share in some of the countries [we operate in]. Germany is a significant user of PayPal within our portfolio. We’re borrowing the strength of PayPal’s brand in some international markets where [our organization’s] brand isn’t as strong in the US.”

**“Our goal was‘ [making] checkout as easy as possible for the consumer.’ If they have a strong feeling towards one checkout, whether it be for security, ease of payment, speed of checkout, whatever that might be, we want to offer kind of those main groupings of checkout options for them.”**

*VP of e-commerce, retail*

## COMPOSITE ORGANIZATION

Based on the interviews, Forrester constructed a TEI framework, a composite company, and an ROI analysis that illustrates the areas financially affected. The composite organization is representative of the four interviewees, and it is used to present the aggregate financial analysis in the next section. The composite organization has the following characteristics:

**Description of composite.** The composite organization is a North America-based retail merchant with global operations and $5 billion in annual revenue.

**Deployment characteristics.** The composite organization adopts PayPal Checkout and PayPal Pay Later as alternative payment options for its online checkout experience. The Pay Later option is integrated upstream of checkout on product pages, cart page, and in checkout and is integrated seamlessly through the PayPal Checkout integration. PayPal Checkout constitutes $472 million in total revenue. PayPal Pay Later constitutes upwards of $62 million in total revenue. The average order value (AOV) with traditional payment options, before factoring in PayPal, is $70.

### Key Assumptions

- **$5 billion annual revenue**
- **$472 million in PayPal Checkout revenue**
- **$62 million in PayPal Pay Later revenue**
- **$70 AOV with traditional payments**

# Analysis Of Benefits

Quantified benefit data as applied to the composite

| Total Benefits | | | | | | |
|---|---|---|---|---|---|---|
| **Ref.** | **Benefit** | **Year 1** | **Year 2** | **Year 3** | **Total** | **Present Value** |
| Atr | Incremental profit from increased conversion rate | $11,340,000 | $11,340,000 | $11,340,000 | $34,020,000 | $28,200,902 |
| Btr | Incremental profit from increased PayPal Checkout AOV | $3,402,000 | $3,402,000 | $3,402,000 | $10,206,000 | $8,460,270 |
| Ctr | Incremental profit from PayPal Pay Later | $5,304,000 | $5,304,000 | $5,304,000 | $15,912,000 | $13,190,263 |
| Dtr | Incremental profit from customer retention lift | $0 | $812,940 | $812,940 | $1,625,880 | $1,282,625 |
| Etr | Reduced cost of payment acceptance | $9,564,000 | $9,755,280 | $9,755,280 | $29,074,560 | $24,086,047 |
| | Total benefits (risk-adjusted) | $29,610,000 | $30,614,220 | $30,614,220 | $90,838,440 | $75,220,107 |

### INCREMENTAL PROFIT FROM INCREASED CONVERSION RATE

**Evidence and data.** Interviewees cited that PayPal Checkout increased payment trust and security, provided a convenient and often improved checkout experience, and expanded reach by catering to an international consumer base. In turn, interviewees saw higher conversion rates with PayPal than with traditional payment options like credit cards.

Interviewees noted that consumers felt more comfortable providing or reusing payment credentials within PayPal than through other payment flows. PayPal Checkout reduced friction with the checkout experience and provided near-one click checkouts, mobile optimization, and earlier placement of the checkout button in the customer journey. PayPal's global reach extended interviewees' organizations' access to global consumer base. Interviewees cited the following evidence:

- The senior manager of alternative payments at a retail organization said: "For PayPal, our conversion rate is 25.6%. That's the number of orders versus the number of visits. If we look at gift cards, that's 23% and [credit card] is 22.6%. If we compare just [credit cards] to PayPal, we're looking at 3 percentage points of an increase."
- A VP of e-commerce in a retail organization stated, "We've seen both an increase in new customers that had never shopped with us before and overall conversions in general."

**"Before PayPal, we saw a single-digit growth month over month, but after implementing and integrating PayPal checkout with our platforms, that has increased from 10% to 20% growth in total value or total volume, which is billions in a dollar range."**

*Head of international business and partner management, technology*

**Modeling and assumptions.** In modeling the composite organization, Forrester assumes the following:

- The composite organization receives 180 million e-commerce website visits from customers who would convert using PayPal Checkout.
- The conversion rate with traditional payment options is 2%.
- The average order value (AOV) for purchases made with traditional payment options is $70.
- The composite organization realizes a 1 percentage point increase in conversion rate, or 3% conversion rate, with PayPal Checkout.
- The composite operating profit margin is 10%.

**Risks.** The expected financial impact is subject to risks and variation based on several factors, including:

- The extent of PayPal Checkout integration and utilization across websites, products, and markets.
- The macroeconomic environment and customer purchasing behavior.

**Results.** To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $28.2 million.

## VOICE OF THE CUSTOMER — BENEFITS

"PayPal gets close as humanely possible to a one-click checkout on any website. The speed of Checkout, the autofill of addresses, and their payment method being stored all take any potential friction away from slowing the customer down to converting."

**— VP of e-commerce, retail**

"Using PayPal increases the level of trust of our website just by association."

**— VP of e-commerce, retail**

""When customers see PayPal as an option, they're quick to check out. It's a familiar method. Customers don't have to think about it. It's probably something that they have saved quickly in their preferred device, so it's a quick checkout that the customer trusts. The conversion rate is good there. … There's customer trust. It's effective."

**— Digital payment manager, supply chain**

"Express Checkout allows us to place the checkout button earlier in the customer journey. They see that PayPal sees a lot higher conversion with that button versus a placement later in checkout. Placement is a big one."

**— Senior manager of alternative payments, retail**

"We find PayPal's Vaulting capability very useful and important for the user to reduce friction. Every time you ask people to enter their user ID and password you lose them. Having only to enter [credentials] once and being automatically routed to checkout has given us a big lift."

**— Head of international business and partner management, technology**

| Incremental Profit From Increased Conversion Rate | | | | | |
|---|---|---|---|---|---|
| **Ref.** | **Metric** | **Source** | **Year 1** | **Year 2** | **Year 3** |
| A1 | Total website visits applicable to PayPal Checkout (excluding PayPal Pay Later) | Composite | 180,000,000 | 180,000,000 | 180,000,000 |
| A2 | Conversion rate with traditional payment options | Composite | 2% | 2% | 2% |
| A3 | Total number of purchases with traditional payment options | A1*A2 | 3,600,000 | 3,600,000 | 3,600,000 |
| A4 | AOV with traditional payment options | Composite | $70 | $70 | $70 |
| A5 | Online revenue with traditional payment options | A3*A4 | $252,000,000 | $252,000,000 | $252,000,000 |
| A6 | Improved conversion rate with PayPal in percentage points | Interviews | 1% | 1% | 1% |
| A7 | Conversion rate with PayPal Checkout | A2+A6 | 3% | 3% | 3% |
| A8 | Online revenue with PayPal Checkout | A1*A7*A4 | $378,000,000 | $378,000,000 | $378,000,000 |
| A9 | Incremental revenue from increased conversion rate with PayPal Checkout | A8-A5 | $126,000,000 | $126,000,000 | $126,000,000 |
| A10 | Operating profit margin | TEI standard | 10% | 10% | 10% |
| At | Incremental profit from increased conversion rate | A9*A10 | $12,600,000 | $12,600,000 | $12,600,000 |
| | Risk adjustment | ↓10% | | | |
| Atr | Incremental profit from increased conversion rate (risk-adjusted) | Composite | $11,340,000 | $11,340,000 | $11,340,000 |
| **Three-year total: $34,020,000** | | | **Three-year present value: $28,200,902** | | |

### INCREMENTAL PROFIT FROM INCREASED PAYPAL CHECKOUT AOV

**Evidence and data.** Interviewees reported that purchases made through PayPal Checkout had a higher average order value than through traditional payment options. PayPal is a well-established and trusted brand, which helps customers feel more secure and confident when making purchases. Interviewees said that PayPal Checkout offered enhanced checkout convenience and speed, allowing customers to pay with a few clicks and without the need to enter their credit card details or shipping information repeatedly. The increased trust and user-friendly checkout experience contributed to higher AOV.

The VP of e-commerce at a retail organization told Forrester they saw a 12% increase in AOV with PayPal Checkout.

**Modeling and assumptions.** In modeling the composite organization, Forrester assumes the following:

- The composite organization realizes $378 million of revenue with PayPal Checkout after accounting for the increased conversion rate but before accounting for the increase in average order value.
- PayPal Checkout drives a 10% increase in AOV as compared to the AOV with traditional payments, resulting in a $77 average order value for PayPal Checkout purchases.
- The composite operating profit margin is 10%.

**Risks.** The expected financial impact is subject to risks and variation based on several factors, including:

- The extent of PayPal Checkout integration and utilization across websites, products, and markets.
- The macroeconomic environment and customer purchasing behavior.

**Results.** To account for these risks, Forrester adjusted this benefit downward by 10%, yielding a three-year, risk-adjusted total PV of $8.5 million.

**Incremental Profit From Increased PayPal Checkout AOV**

| Ref. | Metric | Source | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|---|
| B1 | Online revenue with PayPal Checkout | A8 | $378,000,000 | $378,000,000 | $378,000,000 |
| B2 | AOV without PayPal | Composite | $70 | $70 | $70 |
| B3 | Increase in AOV with PayPal Checkout | Interviews | 10% | 10% | 10% |
| B4 | AOV with PayPal Checkout | B2*(1+B3) | $77 | $77 | $77 |
| B5 | Incremental revenue with increased PayPal Checkout AOV | B1*B3 | $37,800,000 | $37,800,000 | $37,800,000 |
| B6 | Operating profit margin | Composite | 10% | 10% | 10% |
| Bt | Incremental profit from increased PayPal Checkout AOV | B5*B6 | $3,780,000 | $3,780,000 | $3,780,000 |
| | Risk adjustment | ↓10% | | | |
| Btr | Incremental profit from increased PayPal Checkout AOV (risk-adjusted) | A8 | $3,402,000 | $3,402,000 | $3,402,000 |
| | **Three-year total: $10,206,000** | | **Three-year present value: $8,460,270** | | |

### INCREMENTAL PROFIT FROM PAYPAL PAY LATER

**Evidence and data.** Interviewees' organizations realized a greater average order value with PayPal Pay Later than both traditional payments and PayPal Checkout. Pay Later gave customers increased purchasing power by allowing them to spread out their payments over time, making higher priced cart values more accessible. This led to customers being more willing to make larger purchases. Interviewees cited the following evidence:

- The head of international business and partner management at a technology organization told Forrester, "Over 10% of PayPal users leverage 'buy now, pay later' in the markets we offer that, and their ticket size tend to be 35% larger than the [non-PayPal Pay Later] users."

- In addition to the lift in average order value, the VP of e-commerce at one retail organization noted they experienced an increased frequency of repeat purchases when PayPal Pay Later was a payment option. The interviewee stated: "[PayPal Pay Later customers] generally shop again before they finish paying off the first 'buy now, pay later' purchase. They're coming back, and maybe they're getting something smaller without a 'buy now, pay later' option, but they're back sooner than making their full payment."

  The VP of e-commerce continued: "[PayPal Pay Later] created a little more loyalty because they know it's there if they need it for the next time, and they've used it with us versus going to a different website that may or may not have it."

- The senior manager of alternative payments at another retail organization found that Pay Later catered to specific demographics of purchases and events and purchase types. The interviewee said: "We see that customers use 'buy now, pay later,' either as a newer customer to the brand or seasonally for specific purchases. It helps us cater better to certain demographics like Gen Z [and] early or later Millennials who can expand their access to credit. For folks with less access to credit, that's a good option to expand their purchasing power."

  The senior manager of alternative payments continued: "[PayPal Pay Later also] helps parents like moms shopping for back to school or for the holidays. Providing a budgeting financial management tool is really beneficial for that customer and so that builds loyalty with that customer."

**Modeling and assumptions.** In modeling the composite organization, Forrester assumes the following:

- The composite organization has integrated Pay Later upstream messaging to alert customers of the opportunity for financing.

> **"[PayPal Pay Later] has grown as a percentage of checkout. About 10% of checkout was using an installment payment method. It became a shockingly large number very quickly."**
>
> *VP of e-commerce, retail*

PayPal Pay Later increase in AOV compared to PayPal Checkout

**35%**

- The composite organization experiences 600,000 additional purchases that are dedicated to PayPal Pay Later.
- Customers spend an average of 35% more with PayPal Pay Later than they do with PayPal Checkout, bringing the AOV to $104.
- The composite operating profit margin is 10%.

**Risks.** The expected financial impact is subject to risks and variation based on several factors, including:

- The extent of PayPal Checkout integration and utilization across websites, products, and markets.
- The macroeconomic environment and customer purchasing behavior.

**Results.** To account for these risks, Forrester adjusted this benefit downward by 15%, yielding a three-year, risk-adjusted total PV of $13.2 million.

**Incremental Profit From PayPal Pay Later**

| Ref. | Metric | Source | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|---|
| C1 | Total number of additional purchases with buyers using PayPal Pay Later | Composite | 600,000 | 600,000 | 600,000 |
| C2 | PayPal Checkout AOV | Interviews | $77 | $77 | $77 |
| C3 | Increase in AOV with PayPal Pay Later compared to PayPal Checkout AOV | Interviews | 35% | 35% | 35% |
| C4 | PayPal Pay Later AOV | C2*(1+C3) | $104 | $104 | $104 |
| C5 | Incremental revenue with PayPal Pay Later | C1*C4 | $62,400,000 | $62,400,000 | $62,400,000 |
| C6 | Operating profit margin | Composite | 10% | 10% | 10% |
| Ct | Incremental profit from PayPal Pay Later | C5*C6 | $6,240,000 | $6,240,000 | $6,240,000 |
| | Risk adjustment | ↓15% | | | |
| Ctr | Incremental profit from PayPal Pay Later (risk-adjusted) | Composite | $5,304,000 | $5,304,000 | $5,304,000 |
| | **Three-year total: $15,912,000** | | **Three-year present value: $13,190,263** | | |

### INCREMENTAL PROFIT FROM CUSTOMER RETENTION LIFT

**Evidence and data.** Several interviewees noted that PayPal Checkout drove greater repeat purchases and customer loyalty. By improving customer trust and loyalty, reducing payment friction, and offering enhanced security and payment protection, interviewees found that customers were more likely to purchase more frequently. Interviewees cited the following evidence:

- The senior manager of alternative payments at a retail organization noted they saw a 5-percentage-point increase in customer retention. The interviewee said: "We saw that 52% of PayPal users shopped with us again the subsequent year, whereas customers that use just traditional credit cards, that was only 47%. So there was a 5-percentage-point bump in customer retention just making one purchase this year after making at least one purchase last year."
- The same interviewee also mentioned that PayPal customer share of wallet was higher for their retail organization. The senior manager of alternative payments told Forrester: "PayPal customers spent 98% this year of what they spent last year. So if they spent $100 last year, they spent $98 with us this year. Customers who use just traditional credit cards only spent $85 this year out of the $100 they spent last year. We lost 15% of spend for customers that use traditional credit cards, whereas we only lost 2% of spend for customers that use PayPal."

**Modeling and assumptions.** In modeling the composite organization, Forrester assumes the following:

- The composite organization recognizes $478.2 million in revenue after the conversion rate increase, PayPal Checkout AOV increase, and PayPal Pay Later purchases are accounted for.

> **"We see that that customers check out with PayPal, shop more frequently with us. Their spend retention is higher."**
>
> *Senior manager of alternative payments, retail*

- Two percent of PayPal customers repeat purchases in the subsequent year as compared to traditional payment customers.
- The composite operating profit margin is 10%.

**Risks.** The expected financial impact is subject to risks and variation based on several factors, including:

- The extent of PayPal Checkout integration and utilization across websites, products, and markets.
- The macroeconomic environment and customer purchasing behavior.

**Results.** To account for these risks, Forrester adjusted this benefit downward by 15%, yielding a three-year, risk-adjusted total PV of $1.3 million.

**Incremental Profit From Customer Retention Lift**

| Ref. | Metric | Source | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|---|
| D1 | Total PayPal revenue after conversion rate, AOV, and PayPal Pay Later lift | A8+B5+C5 | $478,200,000 | $478,200,000 | $478,200,000 |
| D2 | Increased customer retention rate | Interviews | 2.00% | 2.00% | 2.00% |
| D3 | Incremental revenue from increased customer retention | $D1_{PY}$*D2 | $0 | $9,564,000 | $9,564,000 |
| D4 | Operating profit margin | Composite | 10% | 10% | 10% |
| Dt | Incremental profit from customer retention lift | D3*D4 | $0 | $956,400 | $956,400 |
| | Risk adjustment | ↓ 15% | | | |
| Dtr | Incremental profit from customer retention lift (risk-adjusted) | A8+B5+C5 | $0 | $812,940 | $812,940 |
| | **Three-year total: $1,625,880** | | **Three-year present value: $1,282,625** | | |

### REDUCED COST OF PAYMENT ACCEPTANCE

**Evidence and data.** Interviewees noted that their organizations reduced the cost of payment acceptance fees by avoiding credit card transaction fees for all payment volume that instead went through PayPal. This helped offset the PayPal rate.

The VP of e-commerce at a retail organization said: “When you look at the fees related to PayPal, it’s so similar to credit card processing. It’s not like it’s drastically different. You’re going to pay somebody to go process this payment either way, so let’s have as many options that the customer is familiar with and likes to use.”

**Modeling and assumptions.** In modeling the composite organization, Forrester assumes the following:

- In Year 1, the composite organization recognizes $478.2 million in revenue after the conversion rate increase, PayPal Checkout AOV increase, PayPal Pay Later purchases, and retention lift are accounted for. In Years 2 and 3, this rises to $487.8 million.
- The composite organization avoids paying 2.5% of fees that it would have had to pay traditional payment providers and reinvests those costs into PayPal Checkout fees.

**Risks.** The expected financial impact is subject to risks and variation based on several factors, including traditional payment and credit card processing fees.

**Results.** To account for these risks, Forrester adjusted this benefit downward by 20%, yielding a three-year, risk-adjusted total PV of $24.1 million.

**Reduced Cost Of Payment Acceptance**

| Ref. | Metric | Source | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|---|
| E1 | Total PayPal payment volume after conversion, AOV, and retention lift | D1+D3 | $478,200,000 | $487,764,000 | $487,764,000 |
| E2 | Credit card processing fees | Composite | 2.5% | 2.5% | 2.5% |
| Et | Reduced cost of payment acceptance | E1*E2 | $11,955,000 | $12,194,100 | $12,194,100 |
| | Risk adjustment | ↓ 20% | | | |
| Etr | Reduced cost of payment acceptance (risk-adjusted) | D1+D3 | $9,564,000 | $9,755,280 | $9,755,280 |
| | **Three-year total: $29,074,560** | | **Three-year present value: $24,086,047** | | |

## UNQUANTIFIED BENEFITS

Interviewees mentioned the following additional benefits that their organizations experienced but were not able to quantify:

- **Improved global reach.** PayPal's international operations, infrastructure, and reputation helped interviewees' organizations enter new international markets. The head of international business and partner management at a technology organization said: "PayPal is US-based but they are situated internationally and [offer support in] the majority of the markets that we operate. They have local settlement operations and local entities that we can perform local settlements with which, when you're doing international business, having a local arrangement is very important."

  The digital payment manager at a supply chain organization stated: "In some places, I mean, we recently started taking PayPal payments in Malaysia and Indonesia, and we weren't sure what the mix would be. It's tough to integrate bank payments directly there. [Our credit card processors] are not strong. We weren't sure what PayPal would do. It's been surprisingly strong."

- **Reduced fraud.** Several interviewees noted that they realized less fraud, saving them credit card chargeback fees and contact center operational costs. The VP of e-commerce at a retailer said: "Generally, we have less fraud through the PayPal channel than we do with credit card fraud chargebacks. … We're saving the fees from credit card chargeback and some labor hours within the call center of manually reviewing the flagged orders or potential credit card fraud."

- **Strong vendor partnership and support.** Interviewees praised the partnership and support they received from PayPal. The digital payment manager of a supply chain organization said: "The partnership [with PayPal] has been good, and the implementation has been very stable. We've had a few surges over time, but that's to be expected. There's some risk, but I'd say wholly over the 10 years, it's been very stable, which is tough to say for a company that's grown as much as PayPal. The PayPal Checkout experience being directly integrated has helped us out."

- **Reduced risk of downtime.** Incorporating PayPal Checkout gave interviewees' organizations redundancies in case other payment options experienced an outage. The senior manager of alternative payments in a retail organization said: "PayPal is a built-in fail-safe on being able to accept and process transactions in case there is an outage, glitch, or defect occurring with our traditional processing."

> **"Having a partner that not only has a broad user base and unified user experience but also has a really broad geographic location and a regional coverage is probably one of the key elements that make us work really well with PayPal."**
>
> *Head of business and partner manager, technology*

## FLEXIBILITY

The value of flexibility is unique to each customer. There are multiple scenarios in which a customer might implement PayPal Checkout and later realize additional uses and business opportunities, including:

- **Integration of additional "buy now, pay later" options and emerging digital payment methods like cryptocurrency.** Merchants with PayPal can access additional offerings like "buy now, pay later" options and alternative digital payment methods like cryptocurrency. Interviewees said accepting cryptocurrency through PayPal reduces risk compared to building out that infrastructure in-house.

  The digital payment manager in a supply chain organization stated: "By offering PayPal, we can explore many payment methods that we don't directly accept, but PayPal has them integrated. With things as wild as Bitcoin or local payment methods in smaller countries, we don't want the risk of building out the infrastructure. But if it has enough volume to build that out, support it, and hold it in their wallet, I have no problem taking a PayPal payment."

- **Venmo integration.** Interviewees said that they were exploring integrating Venmo into their payment options to provide more options, appeal to younger demographics, and increase conversion rates.[3] The VP of e-commerce at a retail organization said: "With Venmo as a checkout option, I think it will increase conversion. It appeals to a younger demographic, and you can store cash there for fun things like going out to dinner with friends or shopping."

- **Marketing campaigns.** Several interviewees used PayPal's comarketing campaigns to drive further traffic and conversion. The head of international business and partner management at a technology organization said: "PayPal has a strong, flexible marketing team … after you do a campaign, you're looking at the return of the investment, how much money you're putting in, and how much you're going out of it. PayPal campaigns have often come up with pretty top returns. So, all those market dollars that put in 100% yield way more than what kind of some of the other standard marketing would have gotten."

  The head of international business and partner management continued: "It's a joint marketing effort, but I feel like the PayPal team is great. They are very creative and tailor their marketing towards our platform's needs and our platform users' behaviors. So often now that the marketing result tends to be much more efficient than some others."

Flexibility would also be quantified when evaluated as part of a specific project (described in more detail in Appendix A).

# Analysis Of Costs

Quantified cost data as applied to the composite

| Total Costs | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Ref.** | **Cost** | **Initial** | **Year 1** | **Year 2** | **Year 3** | **Total** | **Present Value** |
| Ftr | PayPal rate | $0 | $12,552,750 | $12,803,805 | $12,803,805 | $38,160,360 | $31,612,936 |
| Gtr | Implementation and ongoing costs | $6,090 | $108,439 | $108,439 | $108,439 | $331,406 | $275,761 |
| | Total costs (risk-adjusted) | $6,090 | $12,661,189 | $12,912,244 | $12,912,244 | $38,491,766 | $31,888,697 |

### PAYPAL RATE

**Evidence and data.** Interviewees noted their organizations paid a rate calculated against the total payment volume that was processed through PayPal.

**Modeling and assumptions.** In modeling the composite organization, Forrester assumes the following:

- The composite organization incurs just under $12 million in PayPal fees in Year 1 and $12.2 million in fees in Years 2 and 3 (rounded) as total payment volume increases.
- Rates shown are for informational purposes only and do not constitute a binding contract or commitment to provide specific rates to any merchant. You should always obtain your own independent, tax, financial, and legal advice before making any material decision.

**Risks.** The expected financial impact is subject to risks and variation based on several factors, including discounts, total payment volume, and size of deployment.

**Results.** To account for these risks, Forrester adjusted this cost upward by 5%, yielding a three-year, risk-adjusted total PV (discounted at 10%) of $31.6 million.

| PayPal Rate | | | | | | |
|---|---|---|---|---|---|---|
| **Ref.** | **Metric** | **Source** | **Initial** | **Year 1** | **Year 2** | **Year 3** |
| F1 | PayPal rate | Composite | | $11,955,000 | $12,194,100 | $12,194,100 |
| Ft | PayPal rate | F1 | | $11,955,000 | $12,194,100 | $12,194,100 |
| | Risk adjustment | ↑5% | | $11,955,000 | $12,194,100 | $12,194,100 |
| Ftr | PayPal rate (risk-adjusted) | | $0 | | | |
| | **Three-year total: $38,160,360** | | | **Three-year present value: $31,612,936** | | |

### IMPLEMENTATION AND ONGOING COSTS

**Evidence and data.** Interviewees told Forrester their organizations incurred varying change management and implementation costs depending on the size and scope of deployment. Interviewees' organizations also dedicated internal labor for ongoing maintenance, enhancements, upgrades, and vendor management.

The VP of e-commerce at a retail organization stated, "[The implementation] was quick. It seems that every implementation with PayPal seems like it's within 48 hours. Whether we're adding a "buy now, pay later," or whatever it might be, it's generally fairly easy for our web team to manage that."

**Modeling and assumptions.** In modeling the composite organization, Forrester assumes the following:

- The composite organization dedicates 100 developer hours to integrate and deploy PayPal Checkout.
- The average hour fully burdened rate for a developer is $58.
- The composite organization dedicates a total of 0.9 FTEs to ongoing maintenance, enhancements, upgrades, and vendor management.
- The blended average fully burdened annual rate for payment administrators and developers is $114,750.

**Risks.** The expected financial impact is subject to risks and variation based on several factors, including:

- Deployment size and scale.
- Upgrade frequency and demand.
- Internal expertise.

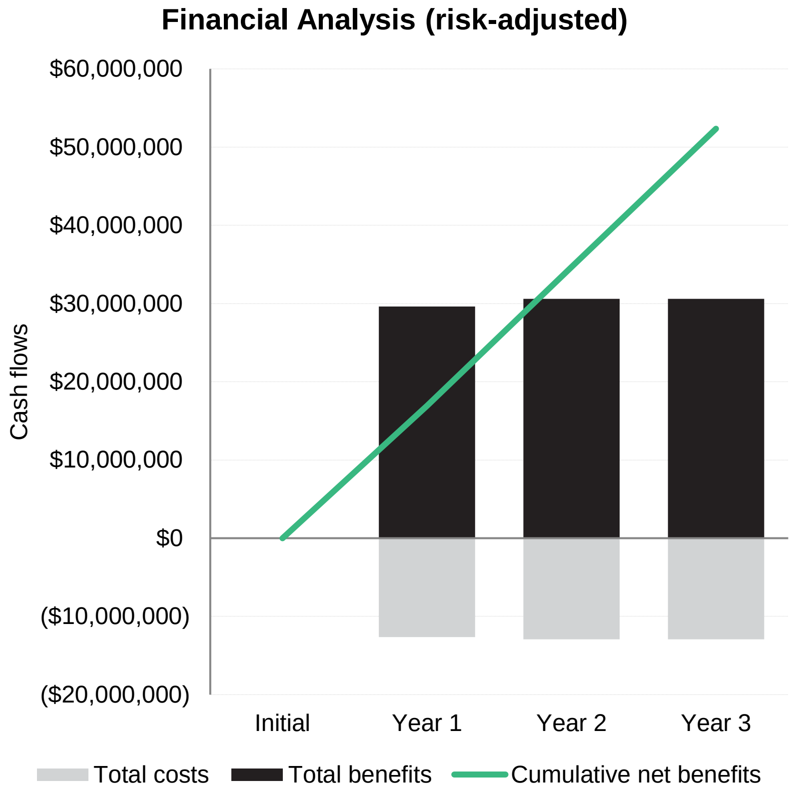
**Results.** To account for these risks, Forrester adjusted this cost upward by 5%, yielding a three-year, risk-adjusted total PV of $276,000.

**Implementation And Ongoing Costs**

| Ref. | Metric | Source | Initial | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|---|---|
| G1 | Development hours to integrate PayPal Checkout | Interviews | 100 | | | |
| G2 | Hourly developer fully burdened rate | Composite | $58 | | | |
| G3 | Subtotal: Implementation costs | G1*G2 | $5,800 | | | |
| G4 | FTEs required for maintenance, enhancements, upgrades, and vendor management | Interviews | | 0.9 | 0.9 | 0.9 |
| G5 | Annual payment administrator and developer blended fully burdened rate | Composite | | $114,750 | $114,750 | $114,750 |
| G6 | Subtotal: Ongoing management | G4*G5 | | $103,275 | $103,275 | $103,275 |
| Gt | Implementation and ongoing costs | G3+G6 | $5,800 | $103,275 | $103,275 | $103,275 |
| | Risk adjustment | ↑5% | | | | |
| Gtr | Implementation and ongoing costs (risk-adjusted) | | $6,090 | $108,439 | $108,439 | $108,439 |
| | **Three-year total: $331,406** | | | **Three-year present value: $275,761** | | |

# Financial Summary

## CONSOLIDATED THREE-YEAR RISK-ADJUSTED METRICS




The financial results calculated in the Benefits and Costs sections can be used to determine the ROI, NPV, and payback period for the composite organization's investment. Forrester assumes a yearly discount rate of 10% for this analysis.

**These risk-adjusted ROI, NPV, and payback period values are determined by applying risk-adjustment factors to the unadjusted results in each Benefit and Cost section.**

**Cash Flow Analysis (Risk-Adjusted Estimates)**

| | Initial | Year 1 | Year 2 | Year 3 | Total | Present Value |
|---|---|---|---|---|---|---|
| Total costs | ($6,090) | ($12,661,189) | ($12,912,244) | ($12,912,244) | ($38,491,766) | ($31,888,697) |
| Total benefits | $0 | $29,610,000 | $30,614,220 | $30,614,220 | $90,838,440 | $75,220,107 |
| Net benefits | ($6,090) | $16,948,811 | $17,701,976 | $17,701,976 | $52,346,674 | $43,331,410 |
| ROI | | | | | | 136% |
| Payback | | | | | | <6 months |

# Appendix A: Total Economic Impact

Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

### TOTAL ECONOMIC IMPACT APPROACH

**Benefits** represent the value delivered to the business by the product. The TEI methodology places equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization.

**Costs** consider all expenses necessary to deliver the proposed value, or benefits, of the product. The cost category within TEI captures incremental costs over the existing environment for ongoing costs associated with the solution.

**Flexibility** represents the strategic value that can be obtained for some future additional investment building on top of the initial investment already made. Having the ability to capture that benefit has a PV that can be estimated.

**Risks** measure the uncertainty of benefit and cost estimates given: 1) the likelihood that estimates will meet original projections and 2) the likelihood that estimates will be tracked over time. TEI risk factors are based on "triangular distribution."

The initial investment column contains costs incurred at "time 0" or at the beginning of Year 1 that are not discounted. All other cash flows are discounted using the discount rate at the end of the year. PV calculations are calculated for each total cost and benefit estimate. NPV calculations in the summary tables are the sum of the initial investment and the discounted cash flows in each year. Sums and present value calculations of the Total Benefits, Total Costs, and Cash Flow tables may not exactly add up, as some rounding may occur.

### PRESENT VALUE (PV)

The present or current value of (discounted) cost and benefit estimates given at an interest rate (the discount rate). The PV of costs and benefits feed into the total NPV of cash flows.

### NET PRESENT VALUE (NPV)

The present or current value of (discounted) future net cash flows given an interest rate (the discount rate). A positive project NPV normally indicates that the investment should be made unless other projects have higher NPVs.

### RETURN ON INVESTMENT (ROI)

A project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits less costs) by costs.

### DISCOUNT RATE

The interest rate used in cash flow analysis to take into account the time value of money. Organizations typically use discount rates between 8% and 16%.

### PAYBACK PERIOD

The breakeven point for an investment. This is the point in time at which net benefits (benefits minus costs) equal initial investment or cost.

# Appendix B: Endnotes

[1] Source: "Merchants Want More From Their Payment Providers," Forrester Research, Inc., June 6, 2022.
[2] Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

[3] Venmo is available to users located in the US.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