

PayPal updates merchant fee structure to sharpen competitive edge

Article

The news: PayPal [says](#) it plans to change some of the fees it charges US merchants for its payment services. These changes, which will go into effect on August 2, are expected to mostly affect small and medium-sized businesses (SMBs), since larger merchants often negotiate pricing deals with PayPal.

Here's a breakdown of the key changes:

- **For online payments:** The rate for online transactions will increase to **3.49% plus \$0.49**, up from 2.90% plus \$0.30 for PayPal payment products (such as PayPal Checkout, Pay with Venmo, Pay in 4). Under PayPal's new fee structure, merchants would pay \$3.98 in fees for a \$100 transaction, compared with \$3.20 before. Online credit or debit payments will be **2.59% plus \$0.49** per transaction (with the option to include Chargeback Protection for an additional fee) versus 2.9% plus \$0.30 previously. The fee change would amount to a savings of 12 cents on a \$100 transaction.
- **For in-person payments:** In-person QR code payments will remain unchanged. For QR code transactions over \$10, the rate is **1.90% plus \$0.10** per transaction, and for such transactions \$10 and under, the rate will be **2.40% plus \$0.05**. For certain in-person debit and credit transactions the rate will be **2.29% plus \$0.09**—or \$2.38 in fees for a \$100 purchase.

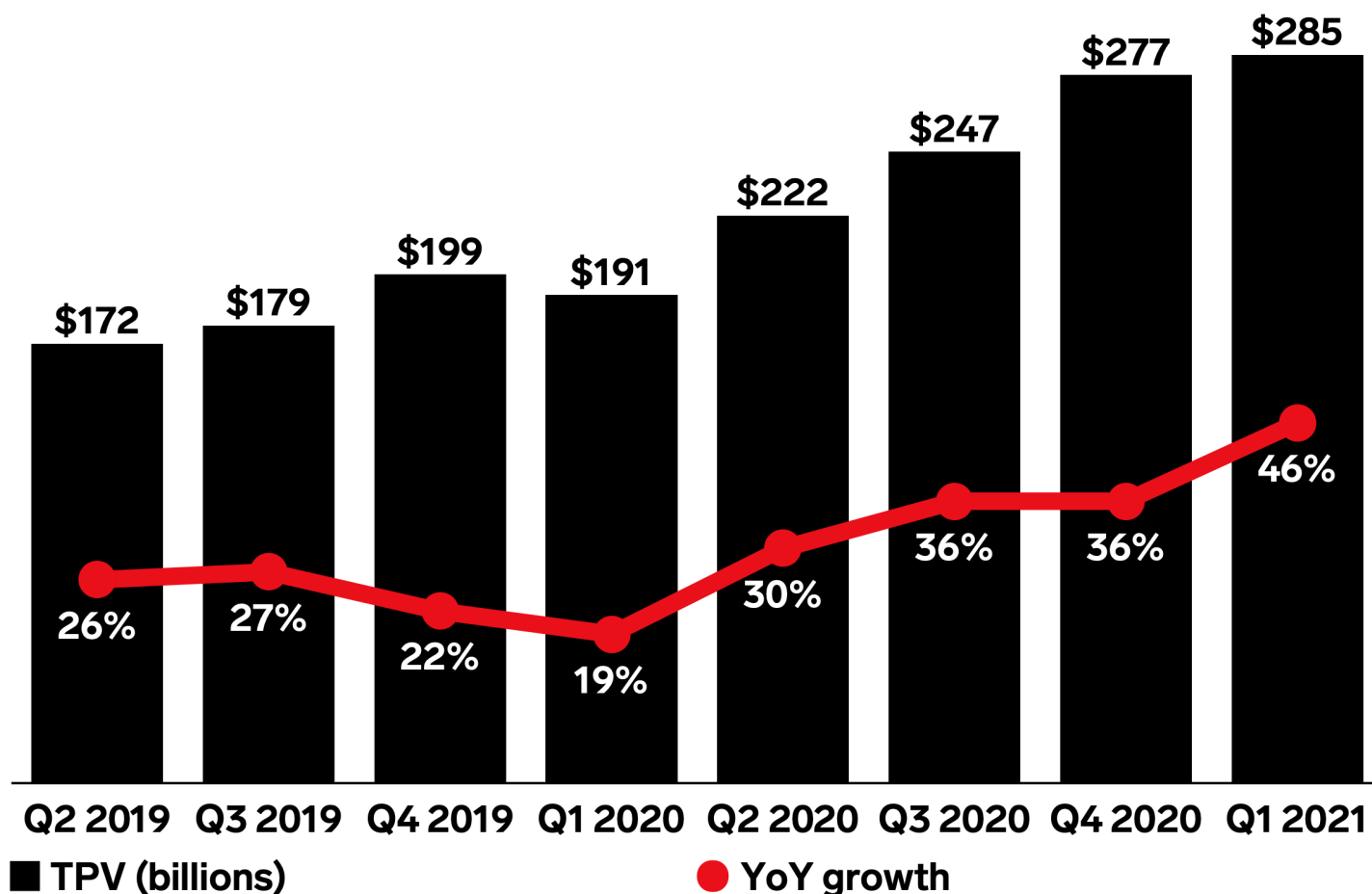
How we got here: The pandemic helped accelerate PayPal's growth as merchants leaned on the firm to facilitate transactions amid spikes in ecommerce and consumer adoption of digital and contactless payments. In Q1 2021, PayPal's total payment volume (TPV) surged **46%** year-over-year (YoY) on a constant currency basis to hit **\$285 billion**—up from 19% YoY in Q1 2020.

The big takeaway: Increasing some of its merchant fees can help PayPal fund proprietary products and further drive revenues, which grew 29% YoY to hit **\$6.03 billion** in Q1—a rate slower than volume growth. Meanwhile, lowering other fees may make PayPal more competitive with companies like **Square** and **Visa** which offer their own payment processing services.

Though it's possible that the fee increases could result in some merchants leaving PayPal, the payment and retail solutions that it offers merchants likely outweigh these risks—especially considering that digital payment offerings like those offered by PayPal will become much more important as consumers continue shopping online and adopting contactless payment methods.

PayPal Total Payment Volume (TPV)

global



Note: growth is reported on a constant currency basis

Source: PayPal, 2021

Methodology: This data is from PayPal's Q1 earnings report released on May 5, 2021.

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