PayPal's Two-Sided Payments Model

Idea In Short

PayPal turned sending money online from a slow, bank-dependent process into something that took an email address and a few clicks. Founded in 1998 and merged with Elon Musk's X.com the following year, the company built its business on a two-sided model that charges merchants a percentage of each sale while giving consumers a mostly free way to pay. That structure scaled through PayPal's years inside eBay, survived the 2015 spinoff into an independent public company and now spans a portfolio that includes Venmo, Braintree and Xoom. PayPal processed close to $1.8 trillion in payments in 2025 across roughly 439 million active accounts, even as competition from Apple Pay, Google Pay and Stripe has intensified. This article examines how PayPal's fee structure, product portfolio and recent leadership change shape its business today.

From Confinity to a rival turned partner

PayPal traces its origins to Confinity, a company founded in 1998 that launched a money transfer service the following year, built around the then-novel idea of moving money using only an email address.[1] Confinity's early competitor was X.com, an online banking venture founded by Elon Musk, and rather than continuing to compete head-on, the two companies merged in 2000. The combined company adopted the PayPal name for its flagship payment product and grew rapidly, expanding from roughly 12,000 accounts to 2.7 million within eight months of launch. By the summer of 2001, PayPal was processing more than 120,000 transactions a day for nine million users, growth fast enough to support an initial public offering in February 2002.

The eBay years and the fee model that stuck

EBay acquired PayPal in 2002 for roughly $1.5 billion, a deal driven largely by the fact that a majority of PayPal's transaction volume was already coming from eBay auctions.[2] Operating inside eBay gave PayPal a built-in customer base and years of stability, during which the company refined the fee structure that still defines its business: a percentage-based charge on the amount a merchant receives, plus a small fixed fee per transaction. That approach let PayPal capture value proportional to transaction size while keeping the cost of accepting payment predictable enough for merchants to build into their pricing. EBay eventually spun PayPal off as an independent public company in 2015, a separation driven partly by activist investor pressure and partly by PayPal's growing ambitions beyond a single marketplace.3

A two-sided platform serving merchants and consumers differently

PayPal's business model depends on serving two distinct customer groups with different needs and different pricing. Merchants pay the bulk of PayPal's transaction fees, typically around 2.9% of the sale amount plus a fixed fee, in exchange for payment processing, fraud protection and access to PayPal's large base of registered users as potential customers. Consumers, by contrast, use PayPal largely free of charge for standard purchases, with fees applied mainly to specific actions like international transfers, currency conversion or withdrawing money via debit card. This asymmetry works because merchants gain more from accepting a widely trusted payment method than an individual consumer gains from having another way to pay, so the platform's revenue collection concentrates where the willingness to pay is highest.

> Charging the side of the market that benefits most from access to the other side is the core mechanic that makes a two-sided payments platform work.

Building a portfolio through acquisition

PayPal has expanded its business substantially through acquisitions rather than organic product development alone. Venmo, acquired as part of Braintree in 2013, built a large following among younger consumers for peer-to-peer payments and has become a business PayPal is working to monetize more directly through merchant checkout integration and a Venmo debit card. Braintree itself gave PayPal a modern payment gateway aimed at software developers and larger merchants who wanted more customizable checkout experiences than PayPal's original product offered. Xoom added international money transfer capabilities, while Honey, acquired in 2020 for close to $4 billion, brought a browser extension that finds coupon codes and has since been folded into PayPal's broader shopping and rewards strategy.4

Interest income and lending as secondary revenue

Beyond transaction fees, PayPal generates revenue from sources tied to the money that flows through its platform rather than the transactions themselves. Funds held in customer PayPal balances are invested in liquid, interest-bearing instruments, and PayPal keeps that interest income as revenue. The company's Working Capital and PayPal Business Loan programs lend money to merchants based on their PayPal sales history, charging a fixed fee rather than traditional interest, and collecting repayment automatically as a percentage of future sales. PayPal Credit offers consumers deferred-interest financing on purchases, generating revenue from interest charges when balances are not paid off within the promotional period. These lending and interest-based products diversify PayPal's revenue beyond pure transaction processing, though they remain smaller than its core fee income.

Competitive pressure from Apple, Google and Stripe

PayPal's competitive position has shifted considerably since its early 2000s dominance of online checkout. Apple Pay and Google Pay now handle a large share of mobile and in-store contactless payments, competing directly with PayPal's ambitions to move beyond online checkout into physical retail. Stripe has built a strong position with software developers and larger enterprises by offering more flexible application programming interfaces, pulling some of the technical, high-growth merchant segment away from PayPal's more consumer-oriented brand. PayPal has responded by pushing its own products deeper into checkout flows, expanding Venmo's merchant acceptance and investing in Braintree to compete more directly for developer-first customers, though maintaining share against well-capitalized rivals remains an ongoing challenge.

Leadership change signals pressure for faster growth

PayPal's board replaced chief executive Alex Chriss with Enrique Lores, formerly of HP, in 2026 after a period in which profit grew steadily but revenue growth trailed what investors expected from the company.5 The company reported full-year 2025 revenue of $33.2 billion, up 4% from the prior year, alongside 439 million active accounts and $1.79 trillion in total payment volume processed across its platforms. Those figures show a company that remains large and broadly used, but growth in the low single digits has drawn scrutiny from investors accustomed to faster expansion during PayPal's earlier years as an independent company. Lores now faces the task of identifying which parts of PayPal's sprawling product portfolio, from Venmo to Braintree to its advertising ambitions, can meaningfully accelerate revenue growth going forward.

Key Partners

Banks and card networks form essential partners for PayPal, since the company relies on existing financial infrastructure to move money between accounts and settle transactions. Payment processors and acquiring banks help PayPal accept and route payments across different countries and currencies. Software developers and platform partners integrate PayPal and Braintree into e-commerce websites, mobile apps and point-of-sale systems, extending PayPal's reach without direct sales effort. Retail and e-commerce platforms, including major shopping cart providers, offer PayPal as a built-in checkout option, giving the company distribution across millions of merchant websites.

Key Activities

PayPal's core activity is processing payment transactions securely and quickly across its consumer and merchant products, a function that requires constant investment in fraud detection and risk management. The company develops and maintains its platform across web, mobile app and in-store channels, including PayPal, Venmo, Braintree and Xoom. Managing relationships with merchants, from small businesses to large enterprises, and supporting their integration with PayPal's payment tools represents an ongoing operational activity. PayPal also runs lending operations through Working Capital and PayPal Credit, requiring underwriting and risk assessment separate from its core payments business.

Key Resources

PayPal's global technology platform, capable of processing payments across more than 200 countries and multiple currencies, is its most fundamental resource. The company's brand, built on decades of association with secure online payment, remains valuable even as competitors offer comparable technical capabilities. PayPal's large base of registered users and merchants functions as a resource in itself, since network effects make the platform more useful to each new participant. Access to bank financing and capital markets supports

PayPal's lending products and its ability to invest in new features and acquisitions.

Value Propositions

PayPal offers convenience, letting users store payment details once and check out quickly across a large number of merchant websites without re-entering card information. Security and buyer protection programs give consumers confidence when transacting with unfamiliar merchants, while seller protection gives merchants recourse in cases of fraud or disputes. The brand's decades of trust function as a value proposition independent of any specific feature, particularly for older or less tech-savvy users. Global scale allows PayPal to support international transactions and currency conversion in ways that remain complicated for many smaller competitors to replicate.

Customer Relationships

PayPal's relationship with most individual users is largely self-service, with account management, transaction history and dispute resolution handled through the app or website without direct human contact. The company maintains a large customer service organization, with thousands of employees supporting users and merchants who need help beyond self-service tools. Buyer and Seller Protection Programs function as an ongoing trust mechanism, reassuring both sides of a transaction that PayPal will intervene if something goes wrong. Merchant-facing account teams support larger business customers with more complex integration and pricing needs.

Channels

PayPal's website and mobile app serve as its primary channels, handling the majority of consumer transactions and account management. Venmo and Xoom operate as distinct branded apps under PayPal's ownership, each serving a specific transfer use case while still connecting back to PayPal's broader infrastructure. Braintree's software development kits and application programming interfaces let merchants and developers embed PayPal payment capabilities directly into their own websites and apps. PayPal Here, an offline card reader, extends the company's channels into physical retail and in-person transactions.

Customer Segments

Individual consumers who shop, send and receive money make up PayPal's largest customer segment, using the platform for everything from online purchases to splitting bills with friends. Merchants, ranging from small online sellers to large enterprises, form the second core segment, paying transaction fees in exchange for payment processing and access to PayPal's user base. Software developers and platforms integrating Braintree represent a more technical segment, often requiring different support and pricing than PayPal's consumer-facing brand. Small businesses using Working Capital loans or PayPal Credit form a segment defined by their need for accessible financing tied to their existing sales activity.

Cost Structure

Transaction processing costs, including fees paid to banks and card networks for moving money, represent PayPal's largest and most consistent expense category. Customer support, sales and marketing spending fund the teams and campaigns needed to retain both consumer and merchant customers in a competitive market. Product development costs support continuous investment in fraud prevention, new features and the technology underlying PayPal, Venmo and Braintree. General and administrative expenses, along with provisions for credit losses on lending products, round out the company's cost base.

Revenue Streams

Transaction fees charged to merchants, typically around 2.9% of the sale amount plus a fixed per-transaction charge, generate the largest share of PayPal's revenue. Additional fee income comes from currency conversion, international payments, withdrawals and premium services like Payflow's customizable checkout option. Interest earned on customer account balances and revenue from lending products, including Working Capital and PayPal Credit, contribute further diversified income streams.

- 1PayPal company history
- 2EBay buys PayPal for $1.5 billion
- 3EBay spins off PayPal
- 4PayPal acquires Honey
- 5PayPal replaces CEO Alex Chriss

Summary

PayPal's business model still rests on the same mechanic it launched with in 1999: charge a small percentage every time money moves between a merchant and a consumer, and make that transfer easier than the alternatives. Scale has made that mechanic durable, with hundreds of millions of active accounts and trillions of dollars in annual payment volume flowing through PayPal, Venmo, Braintree and Xoom combined. But durability has not translated into consistently strong growth, and PayPal replaced chief executive Alex Chriss with former HP leader Enrique Lores in 2026 after a stretch of revenue growth that fell short of investor expectations. The company's challenge now is defending transaction volume against Apple Pay, Google Pay and Stripe while finding new revenue beyond the checkout button that made it famous. How PayPal answers that question will determine whether its next decade resembles its first two or looks meaningfully different.