

Leading Online Merchants Reveal How They Increased Sales from New Customers and Higher AOVs Using PayPal™ and Bill Me Later®

Overview

Why do online merchants deploy alternative payments PayPal and Bill Me Later — and do these options have impact on merchants sales? Answers to those questions are exactly what Steve W. Martin, a renowned author, sales consultant, and recognized expert on the study of human nature of customer decision-making recently set out to find. To do so, Martin interviewed hundreds of executive decision makers at the Top 100 leading online merchants.

The resulting research, the *Study of PayPal and Bill Me Later Alternative Payment Methods at Top 100 eCommerce Merchants*, details the sales growth merchants experienced using PayPal and/or Bill Me Later.

Methodology

For this study, Martin interviewed key executives at many of the top 100 eCommerce and leading mid-sized online merchants about their experiences and perceptions of PayPal and Bill Me Later. Forty-six executives from 43 different companies participated in the blind study (they agreed that their names and business would remain anonymous) that totaled more than 26 hours. Of the executives, 65 percent currently offer PayPal and/or Bill Me Later; the others were considering offering both options.

Why merchants choose to deploy PayPal and Bill Me Later

Bill Me Later. The executives interviewed cited four primary reasons for offering Bill Me Later. In order of importance: incremental sales and increased average order values, lower processing fees, increased security, and widespread adoption. “Additional payment methods bring in additional customers,” said one executive. “Studies continue to show that when you add additional payment methods you reach new customer segments and thus increase your potential customer base and sales,” he added.

Bill Me Later also is widely available now, and thus more buyers expect this payment option. “When Wal-Mart started accepting Bill Me Later, that helped solidify it as a legitimate payment method,” said another executive.

PayPal. In order of most frequently mentioned, Martin also found four primary drivers for PayPal deployment: increased customer conversion, increased sales, lower processing costs, and competitive pressure. “We do a lot of online surveys,” explains an executive. “The need for PayPal came to us via these surveys. PayPal was something that we heard time and time again from our customers that we needed to have.”

This executive summed up the sales impact many merchants experience when addressing customer demand: “We saw that PayPal was doing well in the market and is a well-known brand. So we decided to add it to our site. When we indicate in our marketing campaigns that we accept PayPal, it drives new customers. Offering PayPal helps close the deal.”

“Immediately upon launch PayPal was 6 percent share of our sales”

— IR Top 50 IR General Merchandise Retailer

“PayPal’s does not cannibalize our credit card users”

— IR Top 50 IR General Merchandise Retailer

“PayPal drives incremental sales. Bill Me Later lifts average order values”

— Multichannel Children’s Retailer

*“PayPal outperformed
Discover in the first month
after launch”*

— IR top 50 Consumer
Electronics Multichannel
Retailer

*“PayPal’s incremental lift
has been 35–40 percent
so far”*

— IR top 50 Consumer
Electronics Multichannel
Retailer

*“We believed PayPal would
be 2 percent of our sales;
it’s more like 5 percent and
25 percent of PayPal sales
are incremental.”*

— Specialty Clothing Retailer

Cost savings, through often substantially lower transaction fees, was another item cited often in this study. “It was important that we provide the choice for our customers to pay any way they want. There also are benefits from a cost perspective — and in these times, reducing costs in any way, shape, or form is a good thing,” said one vice president.

PayPal and Bill Me Later: Real-World Sales Impact

Bill Me Later Sales Impact. Survey respondents reported that Bill Me Later attracted a significant number of entirely new customers. Typically, Bill Me Later customer purchases account for 5–7 percent of an overall merchant sales. “We started off with nothing and in a matter of four or five weeks we’re approaching 7–9 percent of the business with Bill Me Later,” according to one executive. Another stated: “We have been using Bill Me Later for years and it is running between 4 and 5 percent of transactions. That’s considered good. The value is that a majority of these customers are new to us.”

Just as important, if not more so, is that survey participants reported a wide range of incremental sales that are attributable directly to Bill Me Later. In fact, approximately 30–50 percent of Bill Me later purchases were made by new customers. “Our studies shows about 45 percent of customers are new,” according another merchant.

Merchants also said that Bill Me Later’s percentage of sales generally doubled when they offered financing promotions. “With the 90-day promotion turned on, we are averaging 3 percent. When we turn off the 90-day promotion, we run about 1.5 percent,” said one merchant. Merchants that promoted Bill Me Later up front and on pages throughout their web site reported 30 percent higher usage on average.

Bill Me Later sales, merchants said, are complementary to their credit card and private label buyers. “I think Bill Me Later becomes a supplement to their regular credit cards. They might be fine with giving you their credit card number, but they know they don’t have quite the credit available to make the purchase so they use Bill Me Later for that little credit extension,” said one respondent. While another cited the synergies among all payment methods: “Our goal is to someday have 20% of orders go through PayPal, Bill Me Later and our private label credit card.”

Also, interview participants consistently reported larger average order sizes for Bill Me Later transactions when compared to credit card purchases. Bill Me Later average order values ranged from 10 percent to four times larger than the average credit card transaction. “Bill Me Later transactions are double our average order value,” said one manager. “Our customers are savvy, higher income and in the age group of forty and above. Bill Me Later is slightly exceeding our expectations in terms of percentage of orders, and the orders have a higher than average order size than even American Express,” reports another.

Martin also found that merchants were highly successful at boosting average order values through Bill Me Later financing promotions. “The average order value is about 20 percent higher when the 90-day same as cash promotion isn’t on, and close to double that when it is,” explains one retail executive.

PayPal Sales Impact. Survey participants reported attracting entirely new customers and significantly lowering transaction costs with PayPal. On average, merchants reported 25–40 percent incremental sales through PayPal. The highest reported incremental sales increase was more than 60 percent. “More than 60 percent of [our] PayPal customers are new. This is phenomenal. We’ve joined

“PayPal is 8 percent of our sales, one month after launch”

— Top “Tween” Apparel Company

“We believe PayPal will increase conversation and give customers more choice”

— Top Women’s Apparel Brand

“PayPal made the most sense to deliver an ROI, especially since we are a global company”

— Sportswear Company

their affiliate program. After we started promoting PayPal through e-mails and throughout our web site, PayPal transactions jumped from 6–8 percent,” says another. Those results are typical. Merchants reported mid to high single digits as percentage of sales on average. The highest reported PayPal overall sales percentage reached 30 percent.

When it came to PayPal’s ability to cut transaction costs, this corporate officer said, “In these economic times, we are looking for cost savings. We saw PayPal as an opportunity to reduce credit card costs roughly \$100,000 annually.” In fact, merchants reported an average savings of one-half to one percentage point per transaction when using PayPal.

Executives also reported immediate results upon implementing PayPal. As one merchant put it, “In the first month, PayPal outperformed Discover. PayPal’s percentage of transactions is about 4 percent; as a percentage of dollars, it’s about 5 percent.” Another corporate director reported, “We didn’t even tell anybody that we had PayPal or were going to introduce it on our site. Within two minutes of having it in our cart, somebody checked out using it.”

Conclusion

So, why do online merchants deploy alternative payments PayPal and Bill Me Later — and what are their results? Merchants deploy Bill Me Later with the goal of attracting new customers, increasing average order values, and to offer their customers convenience. Whereas PayPal helps to answer customer demand, increase sales, and lower transaction costs associated with credit cards. Both products together help merchants easily and swiftly achieve their goals.

That’s the consensus of those interviewed. Separately, PayPal and Bill Me Later are proven to help merchants attract new customers and increase sales. As the study concluded, Bill Me Later purchases typically account for 5–7 percent of overall merchant sales, and approximately 30–50 percent of Bill Me Later purchases are from entirely new customers. Interview participants consistently reported larger average order sizes for Bill Me Later transactions when compared to credit card purchases. For PayPal, merchants reported 25–40 percent incremental sales, and significant savings on PayPal transactions versus other payment methods. With results like that, it’s no wonder more merchants are concluding, as this multichannel retailer did, that “PayPal and Bill Me Later are leaders in alternative payments.” To learn more about how PayPal and Bill Me Later can help your organization attract new customers and increase sales, visit www.paypal.com and www.billmelater.com today.



2211 North First Street
San Jose, CA 95131

9690 Deereco Road
Timonium, MD 21093