



Flexible Payout Capabilities Enable Modern, Fast-Growth Global Business Models

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In today's digital economy, organizations must be prepared to deliver excellent commerce experiences on every touch point and to monetize those engagements seamlessly.

Key Takeaways

- ▶ The U.S. saw 37% growth in retail ecommerce in the second quarter of 2020, bringing ecommerce's share of all retail sales from 10.1% in 2019 to 16.1% in 2020.
- ▶ A dedicated payouts platform helps organizations reduce complexity, support a wide range of payment types for payouts, unlock scalable growth across geographies, and support regional regulatory/compliance requirements.

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Supporting complex commerce experiences and new business models requires a flexible outbound payments disbursement system that can serve a wide range of end customers and suppliers/sellers.

Introduction

The explosive growth of digital commerce in recent years has raised the stakes for all organizations to deliver better experiences to their customers, including unique business models that harness advanced technology. For instance, the United States saw 37% growth in retail ecommerce in the second quarter of 2020, bringing ecommerce's share of all retail sales from 10.1% in 2019 to 16.1% in 2020 (U.S. Census Bureau, November 2020). As consumers and business customers adopt online channels to purchase, IDC has seen many of the fastest-growing merchants leverage new digital-first business models such as multisided marketplaces, sharing economy services, and business networks.

Supporting complex commerce experiences and new business models requires a flexible outbound payments disbursement system that can serve a wide range of end customers and suppliers/sellers. The traditional route, which consists of repurposing legacy technology from banks and money transfer operators, does not allow merchants to keep up with the expectations of their customers and partners. As digital business models continue to make up a larger share of the overall economy, the payments category must expand further to handle not only the inbound facilitation of purchases but also the outbound disbursement of a growing variety of payouts, including refunds, rebates, commissions, fares, and booking fees.

Faced with this challenging, fast-paced environment, many digital merchants are also finding that the scale and complexity of these emerging business models necessitate payout capabilities integrated directly into their overarching payments infrastructure and strategy—not a collection of disparate payment point solutions for payment acceptance, point of sale, fraud management, and compliance.

Overview of the Payouts Landscape

With the pace of business accelerating, organizations of all sizes and across every industry are evaluating new ways they can package and charge for their products and services. When taken together, marketplaces and on-demand business models are being driven by alternative acceptance and local disbursement functionality. For marketplaces and on-demand business models, this core aspect can be quite challenging, especially when viewed through the demanding lens of today's rapid pace of business for many ecommerce companies. As merchants adopt these new technologies, they are seeking vendors that integrate acceptance and disbursement capabilities into a holistic payments platform that offers global coverage, regional preferences, and financial instrument optionality. Also, merchants are challenged with an increasing number of regions, pay-in and payout methods, and acceptance gateways. Amid all this complexity, merchants must deliver a seamless, consistent, and flexible experience.

Ultimately, digital commerce success hinges on payments. No matter how strong a merchant's marketing, catalog, or fulfillment operations are, the ability to accept and send payments is where the rubber meets the road. Unfortunately, the payment solutions on the market today are fragmented, and merchants do not fully understand the scope of the problem they are ultimately trying to solve concerning payouts. Existing legacy payment systems are being repurposed to meet the challenges of global disbursements, but they lack ubiquity, simplicity, and a holistic approach to solving the complex issue of global payment disbursements. Utilizing legacy solutions can introduce a multitude of challenges and limitations that hamper vendor functionality and

negatively impact customer experience. **Figure 1** summarizes the key challenges that IDC observes in the payouts space.

FIGURE 1 Challenges with Legacy Payouts Systems

Increasing service requests from recipients, complicating treasury management, and restricting the merchant's control over the payment workflow.

Providing subpar recipient experience due to slow, lost, or delayed payments and increased fees/costs.

Stunting scalability by limiting a merchant's ability to service unbanked and underbanked recipient demographics.

The Evolution of Payouts

Flexible payout capabilities are critical for modern commerce including marketplaces and new business model providers. Payouts play a pivotal role in enabling global and demographic scalability. Payouts are crucial to ensuring compliance with evolving regulations (e.g., PSD2). Also, there is a need for increased visibility into every stage of a payment's life cycle, especially last-mile delivery.

The Other Side of Complexity

While merchants are demanding more simplicity, recipients' demands are becoming more complex:

- ▶ Merchants are challenged to be able to pay banked, unbanked, and underbanked demographics.
- ▶ Merchants are challenged with disbursing payments globally, in local currencies, through recipient-preferred and recipient-selected local methods.
- ▶ Merchants are challenged with providing real-time (or near-real-time) payout delivery while limiting the cost and fees that are charged to the recipient.

Another aspect of payouts that is increasingly important in the hypercompetitive ecommerce space is that payouts have an impact on the customer experience as well as the merchant's brand. In many ways, the recipient's payout experience is just as important as the consumer's checkout experience. Much of ecommerce is built, like all retail, upon trust and providing smooth, efficient, and transparent transactions. Frictionless and simple payouts nurture trust among business stakeholders.

Global Businesses Face Challenges Supporting Seamless Payouts

Traditional financial institutions and card networks are increasing their portfolio offerings to existing customers to include some payout functionality. However, many of these vendors have not accounted for the complexity of serving a unified inbound payments and outbound payouts model.

Organizations that go those routes are challenged by:

- ▶ **The ability to adapt.**
Traditional business banking partners typically do not build their own technology stacks; rather, they utilize white-label third-party solutions, which reduces the ability of financial institutions to respond quickly to emergent needs.
- ▶ **Global and regional variations.**
Global digital regulations are changing quickly. Traditional payments vendors and financial institutions are not fully equipped to offer a regional focus. The changing regulatory environment—where countries are becoming more protective of how money moves in and out of their jurisdictions, there isn't a single global standard, and the increase in protections on banking systems creates more indirect competition—makes it increasingly difficult for businesses to expand to new regions.
- ▶ **The accelerated move to digital wallets.**
IDC's 2020 PayPal Enterprise Payments Survey found that supporting digital wallets is a top priority among organizations as they adapt to the

Best-of-breed payouts systems provide increased visibility into payment timing and delivery for both merchants and recipients.

quickly evolving commerce environment. Financial institutions and card networks are not well equipped to support these methods of payment. PayPal has a unique advantage with its two-sided network and its consumer-level digital wallet offering.

Benefits of Payout Systems

Merchants face complex challenges when looking to support complex payouts. Partnering with the right payments provider can help organizations deliver better experiences to their customers and partners.

A flexible, purpose-built payouts system provides online merchants with the following benefits:

- ▶ **Increased control over the payment workflow.**
Best-of-breed payouts systems provide increased visibility into payment timing and delivery for both merchants and recipients. Such systems accommodate multiple payout use cases, brands, or lines of business through a flexible and configurable payout environment and user interface (UI) for each use case. These solutions also provide self-serve upgrade paths to enhanced capabilities and feature functionality when required by the merchant.
- ▶ **Broader payout offerings and optionality.**
Best-of-breed payout systems offer payout methods that accommodate the receiving party's preference, increasing payout choice to different recipient demographics (geographical, situational, etc.). This provides fast, local currency payouts that minimize costs and fees.
- ▶ **Tools to grow globally.**
Merchants gain the ability to register and pay individuals and businesses in 200+ countries and territories. Doing so removes operational friction,

such as the need to create local entities or open local bank accounts in new countries to facilitate local currency payouts, unlocking economies of scale to further their business goals across geographies and markets.

▶ **Ability to manage regulatory and compliance requirements.**

Payouts systems help merchants meet regulatory and compliance requirements across multiple geographies, with the operational support for local licensing requirements and regionally specific fraud management.

Trends in the Payouts and Digital Payments Markets

The following major trends will shape the payouts, digital payments, and ecommerce markets over the next 36 months:

- ▶ **Emerging sharing economy markets.**
New markets are garnering attention, including online gaming, digital royalties, and multilevel marketing.
- ▶ **Growth of the gig economy.**
In a gig economy, companies prefer to create temporary, flexible jobs rather than permanent jobs, and flex-job growth will continue well into 2022.
- ▶ **Globalization.**
An increasing number of organizations are selling across borders, increasing the complexity of their commerce, payments, and finance operations.
- ▶ **Proliferation of marketplaces.**
New industry-specific marketplaces will emerge, as well as business models that don't cannibalize the core business.

PayPal Payouts Brings Growth Potential to the PayPal Commerce Platform

In 2019, PayPal introduced a specialized offering for payouts to support a wider range of business models among its merchants. PayPal's "platform" approach extends across the merchant journey, including onboarding, processing payments, expanding payment types, managing fraud, and streamlining payouts. PayPal's portfolio includes Braintree's payments gateway, Simility's artificial intelligence (AI)-based fraud management, and Hyperwallet's robust payout capabilities and subscription management.

PayPal's acquisition of Hyperwallet brought best-of-breed payouts to the PayPal Commerce Platform so that merchants can benefit from unique business models as part of an end-to-end payment platform. The new offering, PayPal Payouts, provides merchants with the flexibility and simplicity they need to enable and evolve their business model around the world. With Payouts, PayPal provides merchants with the tools and technology needed not just to facilitate payouts but also to create a recipient disbursement experience that is as simple and seamless as the consumer checkout experience.

PayPal's payout capabilities provide a flexible architecture and segment-specific features to unlock core merchant needs and functionality across three unique segments:

► **Business and Enterprise.**

Payouts are funded by the merchant directly.

► **Marketplace and Platform.**

The payout is the result of a transaction taking place in a marketplace or on a platform.

► **Financial Institutions.**

Domestic and global banks act as a channel partner for their business and enterprise customers' disbursement requirements.

PayPal's payout capabilities are grounded on three cornerstones of core functionality: simplicity, optionality, and control of the recipient experience. These tenets are described as follows:

► **Simple Payment Instruction Submission.**

Three integration methods provide merchants with an approach that works with their available development resources and integration savvy:

- **Payouts Web:**

No technical integration/developer resources required; self-serve payment instruction submission via a prebuilt merchant servicing interface

- **Large batch upload:**

Limited technical integration/developer resources required; SFTP file upload for large payment instruction submissions

- **API integrations:**

Varying levels of technical integration/developer resources required; fully integrate payment submission technology into existing website/application

► **Increased Payout Optionality/Currencies.**

Merchants have the ability to unlock the methods, currencies, and geographies they need with:

- **Branded payouts:**

PayPal (115 countries/24 currencies) and Venmo (United States/USD)

- **Bank transfers:**

Low-cost local bank transfers in 90+ countries and 42 currencies; cross-border wires to 200+ countries and in 19 currencies; instant transfers for existing Visa, Mastercard, and China UnionPay bank cards

- **Prepaid cards:**

Merchant-branded Visa and Mastercard virtual and physical cards issued in major currencies that enable real-time payments allowing recipients to spend funds at POS and withdraw at ATMs

- **Other methods:**

Electronic gift cards (instant delivery); cash pickup (global cash pickup in 50+ countries and territories); and paper check

► **Control of the Recipient Experience.**

Three recipient UI options provide merchants with varying levels of white-label branding and control over their recipients' payout experience:

- **Cobranded, PayPal-hosted recipient interface.**

No technical integration/developer resources required; include merchant branding in recipient notifications and UI by uploading logo in a prebuilt merchant servicing interface

- **Drop-in UI to embed functionality.**

Limited technical integration/developer resources required; embed payout functionality into merchant's website or mobile app with ability to customize styling

- **Fully integrated with APIs.**

Varying levels of technical integration/developer resources required; fully control the recipient experience, styling in merchant's native website/application

CASE STUDY 1

A Micro-Mobility Scooter Company

Requirements: In this micropayment use case, the merchant needed payout capabilities that could handle high volumes of very low-value payments across multiple geographical regions.

Problem: Most solutions wouldn't easily allow for the accrual of payments; the cost of collecting a micropayment via a traditional payment method was prohibitive, plus the merchant needed unbanked options to satisfy its recipient demographic.

Solutions: Capabilities were configured into a virtual account payout model, which allows pending payments to accrue over time. Recipients could then collect funds when convenient. Payout methods included PayPal, cash pickup, and direct to a bank account.

Results: Payout coverage was offered in 30+ countries in local currencies.

CASE STUDY 1

A Large Global Online Retailer

Requirements: The retailer required a low-touch, off-the-shelf integration — no developer resources were available. It also wanted a white-labeled solution to improve and control the sellers' payout experience.

Problem: Due to the global nature of the platform, sellers were required to have a local bank account in each region before they could begin selling merchandise in those regions/receive their payouts.

Solutions: Capabilities were configured in a multicurrency virtual account payout model so that sellers could collect earnings from multiple regional marketplaces in one location. The recipient user experience was a cobranded web portal.

Results: Sellers could choose when and in which currency to collect their earnings. The merchant could create accounts using SSO, and sellers could easily register a bank account.

Challenges

PayPal faces the following challenges in the fraud management and digital payments space:

► **Quick integration of cross-portfolio capabilities.**

PayPal has been quickly expanding its payments portfolio to include Braintree, Simility, Hyperwallet, and other acquisitions. While each of these point solutions adds important functionality to PayPal's platform, there is still work to be done connecting technology architectures and workflows.

► **Rapidly changing regulatory environment.**

While flexible digital payment capabilities are empowering merchants to rapidly build new omni-channel workflows, every payments provider faces ever-changing regulatory challenges. PayPal has proven its ability to support the latest compliance, fraud management, and local regulatory requirements, but all technology vendors are challenged with global and economic changes.

Conclusion

Merchants of all sizes, across an increasing number of industries, require payment technology that goes beyond simple shopping cart checkout and can service a growing network of global recipients, freelancers, and independent contractors. This poses challenges from the increasing complexity of delivering payouts on a global scale while providing flexibility of payment options. A dedicated payouts platform helps organizations reduce complexity, support a wide range of payment types for payouts, unlock scalable growth across geographies, and support regional regulatory/compliance requirements. IDC has found that enterprises and digital merchants that initiate payouts typically see operational benefits, such as payouts capabilities, from working with an integrated payments platform vendor.

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Jordan Jewell is a Research Manager for IDC's Enterprise Applications and Digital Commerce team and leads IDC's Digital Commerce research practice. In this role, he leads research initiatives addressing both B2B and B2C digital commerce platforms, digital marketplaces, order management software, and adjacent technologies that facilitate online commerce. Jordan joined IDC in 2015.

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Message from the Sponsor

About PayPal

Our mission at PayPal is to democratize financial services to ensure that everyone, regardless of background or economic standing, has access to affordable, convenient, and secure products and services to take control of their financial lives.

Fueled by a fundamental belief that access to financial services creates opportunity, we work across our brands to give people the financial tools they need to connect and transact in new and powerful ways — and ultimately, to join and thrive in the global economy.

For more information, please visit us at:

paypal.com/enterprise

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