

Could a merger follow the PayPal-eBay split?

October 1 2014, by Mae Anderson



In this Wednesday, Feb. 27, 2013, file photo, attendees walk in front of an EBay and PayPal display area at the Mobile World Congress, the world's largest mobile phone trade show, in Barcelona, Spain. PayPal is splitting from EBay Inc. and will become a separate and publicly traded company during the second half of 2015. (AP Photo/Manu Fernandez, File)

PayPal's split from long-time partner eBay Inc. makes Carl Icahn mighty happy. But he doesn't think PayPal should stay single for long.

Icahn, who months ago called on eBay to spin off the lucrative online

and mobile [payment service](#), continues to believe that the payments field must be consolidated, either by PayPal buying up smaller rivals or by merging with another major player.

"In light of the development of strong competition such as the advent of Apple Pay, the sooner these consolidations take place, the better," he wrote on his website Tuesday in the wake of eBay's announcement that it will split off PayPal by the second half of 2015.

An independent PayPal will be much more appealing to potential customers like Amazon.com who compete with eBay. And PayPal will have more freedom to aggressively take on new mobile pay challenger Apple Pay.

PayPal services \$1 of every \$6 dollars spent online. It collects fees from over 150 million users who use the online service to send money to other users and pay for goods and services in more than 200 markets. The service posted 20 percent revenue growth in the last quarter to \$1.95 billion—representing nearly half of eBay's total revenue. And it's on track to process 1 billion mobile payments this year. The company's PayPal Here and One Touch mobile payment service, which it acquired with the purchase of Braintree, compete with players such as Square and Google Wallet.

The payoff is huge for whichever player can ultimately own the digital wallet space: mobile payments could spike to \$58.4 billion by 2017 from just \$1 billion last year, Citi Investment Research analyst Mark May said in August. And the pressure is on. Apple Inc., which has 800 million user accounts through iTunes, threw down a gauntlet last month with the announcement of its own [mobile payment](#) service Apple Pay, built into the iPhone 6.

So what might be PayPal's first solo move?

Some analysts say the company could be a takeover target. Google and Microsoft, not to mention Visa and Mastercard, have tried to build online payment platforms with varying degrees of success, notes Cantor Fitzgerald analyst Youssef Squali. While Google is unmatched in Internet search, it has struggled with Google Wallet and Checkout, and acquiring PayPal could be a way for Google to quickly secure a leadership position in commerce and payments, R.W. Baird analyst Colin Sebastian has suggested. He also points out that PayPal will end up with a sizable amount of cash and none of eBay's debt.

New CEO Dan Schulman will bring both mobile and prepaid payment experience to the company. Schulman, 56, was founding CEO of Virgin Mobile, before leading the prepaid group at Sprint Nextel and most recently expanding mobile and online pay services at American Express. Citi's May noted that few people have that background in financial services, [mobile](#) technology and payments—three key strengths to be competitive going forward in digital payments.

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