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Democratizing digital finance: An interview with PayPal CEO Dan Schulman

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By working to be a better champion of its customers, PayPal has seen its transactions and customer base grow and satisfaction among employees swell.

In this video interview, PayPal CEO Dan Schulman discusses how putting the needs of customers before certain business priorities paid off not only for customers but also for the company's employees and, ultimately, the business itself.

How PayPal works to be a champion of the customer

We started an initiative we called "customer choice." In the company, we have a mantra that we need to be the ultimate consumer champion, or customer champion. Sometimes those are just words that people say. Everyone says, "You should be outside-in, not inside-out," that kind of thing.

But for the most part, if you really are a customer champion, you are challenging a part of your business model, because a lot of business models are done to prey on the inefficiencies in the market. You saw that in the mobile industry. You see that sometimes in the financial-services industry.

Since the beginning of PayPal, we had been steering customers to their low-cost instrument on file. So, in other words, it may not have been what the customer wanted to use. But it was the highest-margin project for us. We had a very long conversation, many conversations at the board level and inside PayPal, to say, "If we really are going to be a customer champion and build a great and enduring company over the long term, what we need to do is give customers choice and allow them to choose what instrument they want to pay with. How do they want to pay, every single time?"

This was a somewhat courageous decision. The day we announced it, our stock dropped 9 percent. Within hours, there were headlines saying, "Schulman's strategy questioned as stock drops 9 percent." I thought to myself, "Give me at least a couple of days to prove that my strategy's working out, not hours. Maybe even weeks and months and years."

What putting customers first can do

Here we are, two years after announcing that and implementing it globally. We've put on 70 million incremental customers. Our transactions have almost doubled in that time frame, and we have fewer calls coming into our customer-service center than we did two-and-a-half years ago.

What does that mean? It means that customers are happier. It also means that our costs are down. Customers are spending more. Their engagement is up. Churn is down. And that was ultimately such a transformational moment for us as a company.

Making capital more inclusive and accessible

There's also a flip side to technology that can be more Orwellian. I think we, as leaders in the tech industry, and all of us, need to think about an ethics of technology as we go forward, because we live in a very rapidly changing world, an era where quantum computing and general artificial intelligence is coming to the rise, with an explosion of data that feeds those two things and makes them even smarter.

But we can use that data and that information in ways that are incredibly helpful—and maybe even open up access to the digital economy and afford everyone the opportunity to participate in that economy. A good example of that is working capital. At this point, on a run rate, I'll bet we're one of the top five providers of working capital of small businesses in the US.

We do that without ever looking at a FICO[1] score of that small-business customer. Because we have data and models that enable us to assess whether extending that working capital is the right thing for that customer. Can they responsibly take that loan and then use it to help their business?

[1] Fair Isaac Corporation, a data-analytics company that provides credit scores.

Here's what we found, two facts that I thought were fascinating. Twenty-five percent of the $5 billion in loans [from the PayPal Working Capital program], so $1 billion, went to the 3 percent of counties in the US where ten or more banks have closed branches. Those are "banking deserts." Banking deserts occur where the median income of the neighborhood is less than the national average. By definition, we were starting to lend to minority-owned businesses, women-owned businesses. They could not have gotten those loans were it not for PayPal. There wasn't another alternative.

Then you combine it with the second fact, which is that where we extend working capital, on average, a small business's sales go up 22 percent, versus the control group of 2 percent. Think about what we do for neighborhoods and communities as a result of that use of data and information and technology. It's tremendously powerful in driving financial health.

Taking a real walk in the customer's shoes

But for me, actually walking in the shoes of those who are underserved [is important]: going to cash-checking locations and trying to cash a check, going to money-order centers to send a bill, standing in the lines, hearing the conversations, understanding how long it takes to go do that, how much money they actually do take from you for just doing currency conversions. Without doing that, you don't understand that managing and moving money is not just about the cost element—it's also the time element. It's practically a part-time job to go and do it. For me it was a way to really understand, one, this is a huge customer pain point. Two, can we solve it? And, three, is it an issue big enough for us to go after?

Once all of those were set in my mind, then I wanted everyone in PayPal to go through that same exercise. That's why when you do employee surveys at PayPal, some 94 percent of our employee base, that's an incredible number, understand our mission and vision and are proud to work at PayPal. When you have that kind of employee base so engaged in what you're trying to do, that's a winning formula for future success. □

Dan Schulman is the president and CEO of PayPal. **Rik Kirkland**, a partner in McKinsey's London office, conducted this interview.