Twitter Thread by BlueToothDDS

BlueToothDDS
@BlueToothDDS

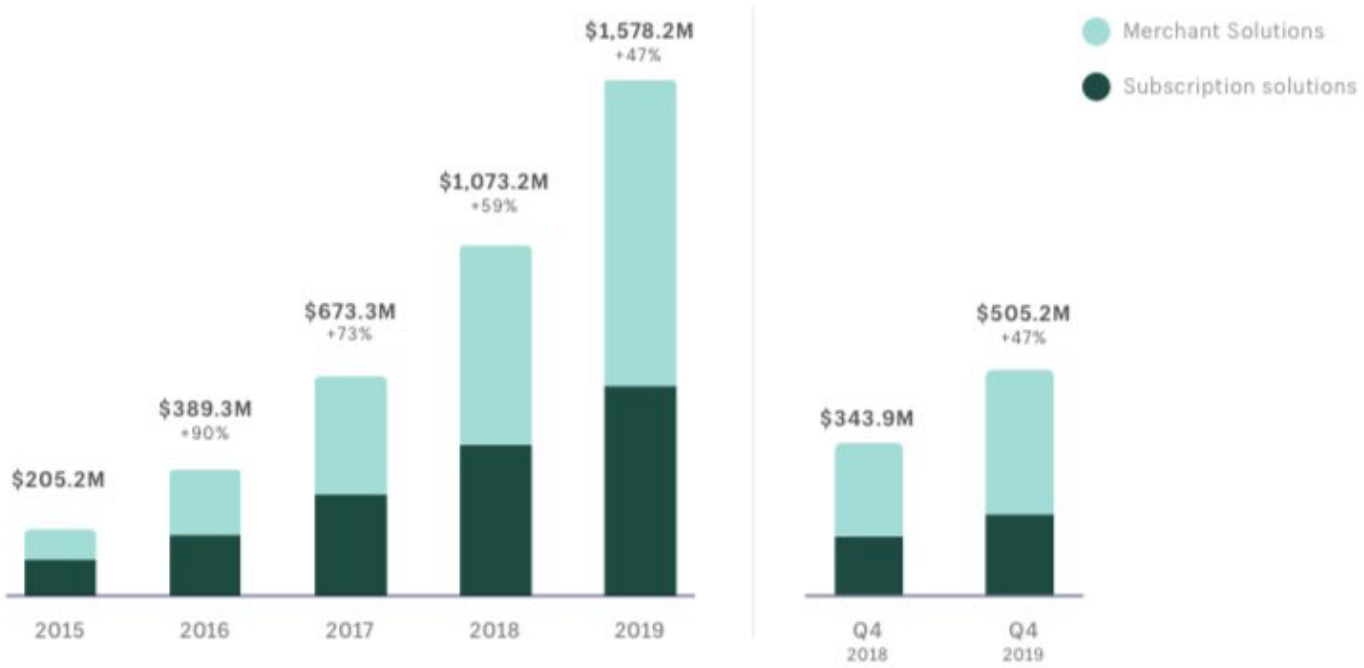
Recent musings on payments as it relates to $SHOP + $FB: first some basics, then a few thoughts on recent developments

TLDR: Capturing % of GMV great for SHOP (already well appreciated), but perhaps even better for FB (still early days, unlikely to see impact until Q3 this year)

> $SHOP Expands Its Checkout System to $FB and Instagramhttps://t.co/IsM1FNsFXV
>
> — Jerry Capital (@JerryCap) February 9, 2021

1) $SHOP launched Shopify Payments in mid 2013 and this substantially changed the trajectory of its business, which previously didn't scale (directly) with the GMV running through its platform

Shopify Payments today is ~75% of SHOP's faster growing non-subscription revenue



2) Shopify Payments currently drives ~50% of $SHOP revenue and is enabled by 2/3+ of all SHOP merchants (in ■■ 90%) accounting for nearly 1/2 of GMV generated on SHOP digital store fronts

As we all know, Shopify Payments is powered by Stripe, so not available where Stripe is not

3) Per filings, $SHOP charges ~275 bps gross yield (rack rate is 2.4-2.9% + $0.30 depending on which subscription plan a merchant chooses) and makes ~90-100 bps net yield on Shopify Payments, after interchange and processing fees paid to Stripe and downstream (WFC/FISV)

4) For the < 1/3 of $SHOP merchants and 1/2+ of GMV not on Shopify Payments, the merchant brings its own 3rd party payment processor

In this scenario, SHOP only captures a nominal transaction fee on the non-Shopify Payments GMV (~25bps on blended basis)

H/t @JerryCap

5) $SHOP introduced Shop Pay in mid-2017 as an accelerated checkout option for all merchants using Shopify Payments (no incremental fee)

Shop Pay helps conversion and is ...

■-to-■: Apple Pay, Google Pay

■-to-■: PayPal, Amazon Pay (not offered by Stripe, distinct gateways)

If your store has Shopify Payments enabled, then you receive payments through Shopify Payouts when a customer pays using Shopify Payments and specific accelerated checkouts. If customers pay using third-party payment gateways, then you won't see your payout information in your Shopify admin.

Payment provider	Provider type	How the customer pays	How you get paid
Shopify Payments	Payment gateway	Using Shopify Payments	Through Shopify Payments
Apple Pay	Accelerated checkout	Using Apple Pay	Through Shopify Payments
Amazon Pay	Payment gateway	Using Amazon Pay	By Amazon
PayPal	Payment gateway	Using PayPal	By PayPal
Google Pay	Accelerated checkout	Using Google Pay	Through Shopify Payments
Shop Pay	Accelerated checkout	Using Shop Pay	Through Shopify Payments

6) $FB launched FB Pay in Q4 2019 to enable a unified payment experience across its properties

It works as a wallet and is powered in the backend by PayPal, Stripe and several other payment partners that FB has lined up to enable FB Pay around the world

https://t.co/yA6VMeVlDb

7) While $FB has global ambitions to roll out FB Pay everywhere its users engage with its apps, today it is only really enabled for the Blue App (globally) and Instagram (■■, most of ■■ and ■■ only). For Messenger it's only available in ■■ and ■■, for WhatApp only in ■■ and ■■

8) Then in May 2020, to much fanfare $FB announced FB Shops to enable merchants to sell directly on the Blue App and Instagram (today), and facilitate customer support or purchase goods via chat through Messenger, WhatsApp and Instagram Direct (future)

https://t.co/2qVxBJ9sgx

9) The same day FB Shops launched, Zuck/Tobi recorded a live chat discussing how $FB + $SHOP are partnering in this effort

But of course SHOP is only one of many e-comm platform partners, including $BIGC, WooCommerce and others to onboard their merchants
https://t.co/bqsg0wJpiS

10) Now the interesting part: How do payments work on FB Shops?

A: Depends on whether a merchant is approved to sell on $FB, and more importantly how the merchant enables checkout (native checkout on FB/Instagram or click to checkout on merchant website)
https://t.co/JYnneiUmyv

11) If native checkout on $FB, payment processing is run through FB Pay and merchant pays FB a selling fee of 5% per shipment (minimum $0.40)

This fee is deducted by FB directly from net proceeds. No fees are collected for payments by $SHOP, even if it’s a SHOP merchant

Selling fee

When you make a sale, we deduct a fee from your payout automatically. We call this a selling fee.

The selling fee is 5% per shipment, or a flat fee of $0.40 for shipments of $8.00 or less. You keep the rest of your earnings.

Here's an example of how we apply the selling fee to your sales. Let's say that you're fulfilling an order with multiple items in 2 shipments:

- If the first shipment is $10.00 USD, we'll deduct $0.50 for the selling fee.
- If the second shipment is $6.00, we'll deduct $0.40 for the flat fee.

The selling fee:

- Includes taxes.
- Includes the cost of payment processing.
- Applies to all checkout transactions for all product categories on Facebook and Instagram.
- Helps fund other programs for a good buying and selling experience.

12) On a relative basis, the 5% $FB seller fee is clearly higher than the ~2.75% gross yield $SHOP charges for Shopify Payments, but it's in line with pricing for FB Marketplace and a substantial discount to take-rates for $EBAY and $ETSY (both around 10% when including payments)

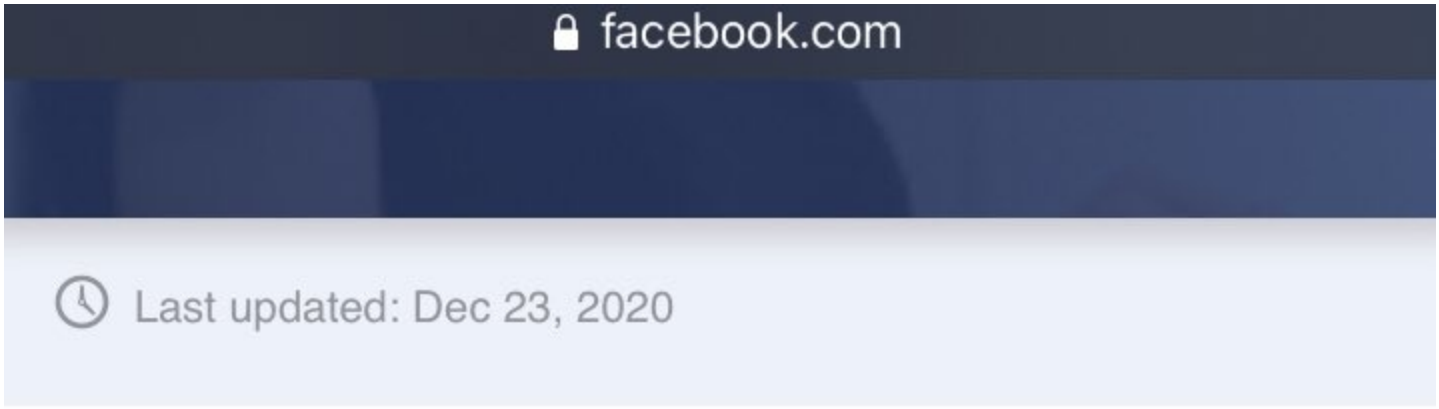
13) Don't know for sure but an educated guess would indicate that on a net basis (after interchange and processing fees) for any GMV processed through native checkout on $FB, FB Pay is probably pocketing ~2-3x the 90-100 bps net yield that $SHOP captures from Shopify Payments ■

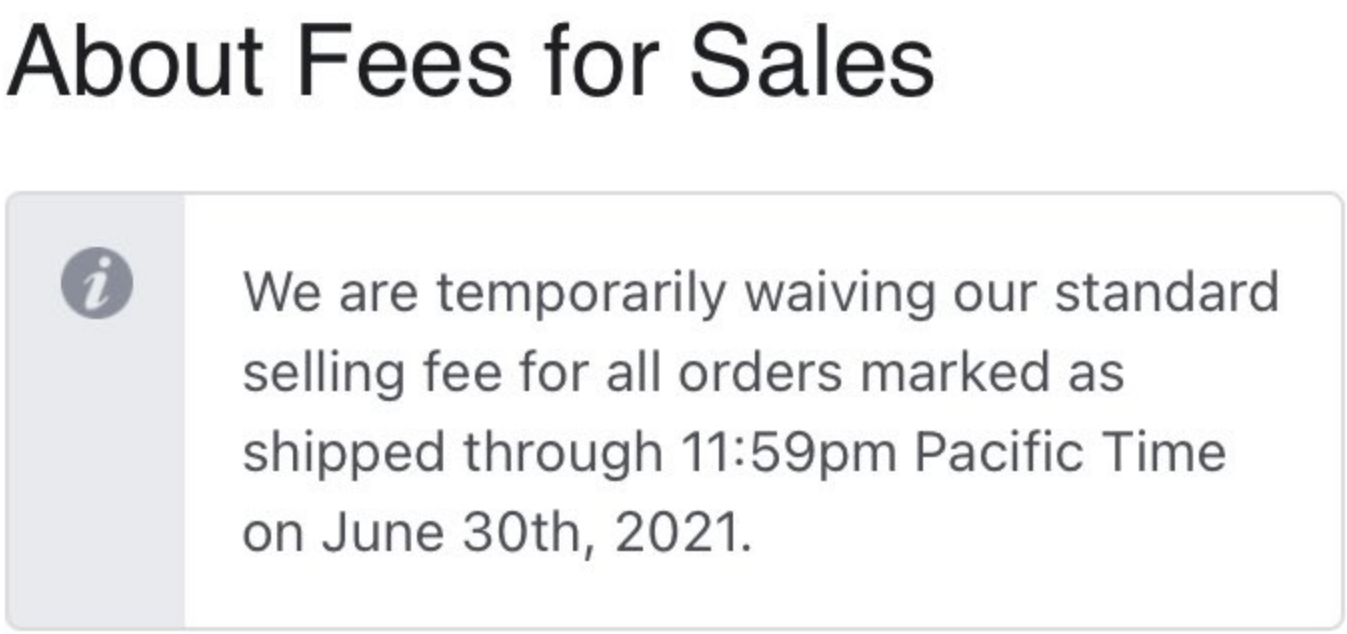
14) Can't wait for Q3 2021 to come soon enough!

Why?

Because $FB hasn't implemented this 5% selling fee yet. It's been waived until July 1, in part due to the ongoing pandemic, but also in order to drive usage

Q3 will be when this revenue will start appearing in FB's numbers

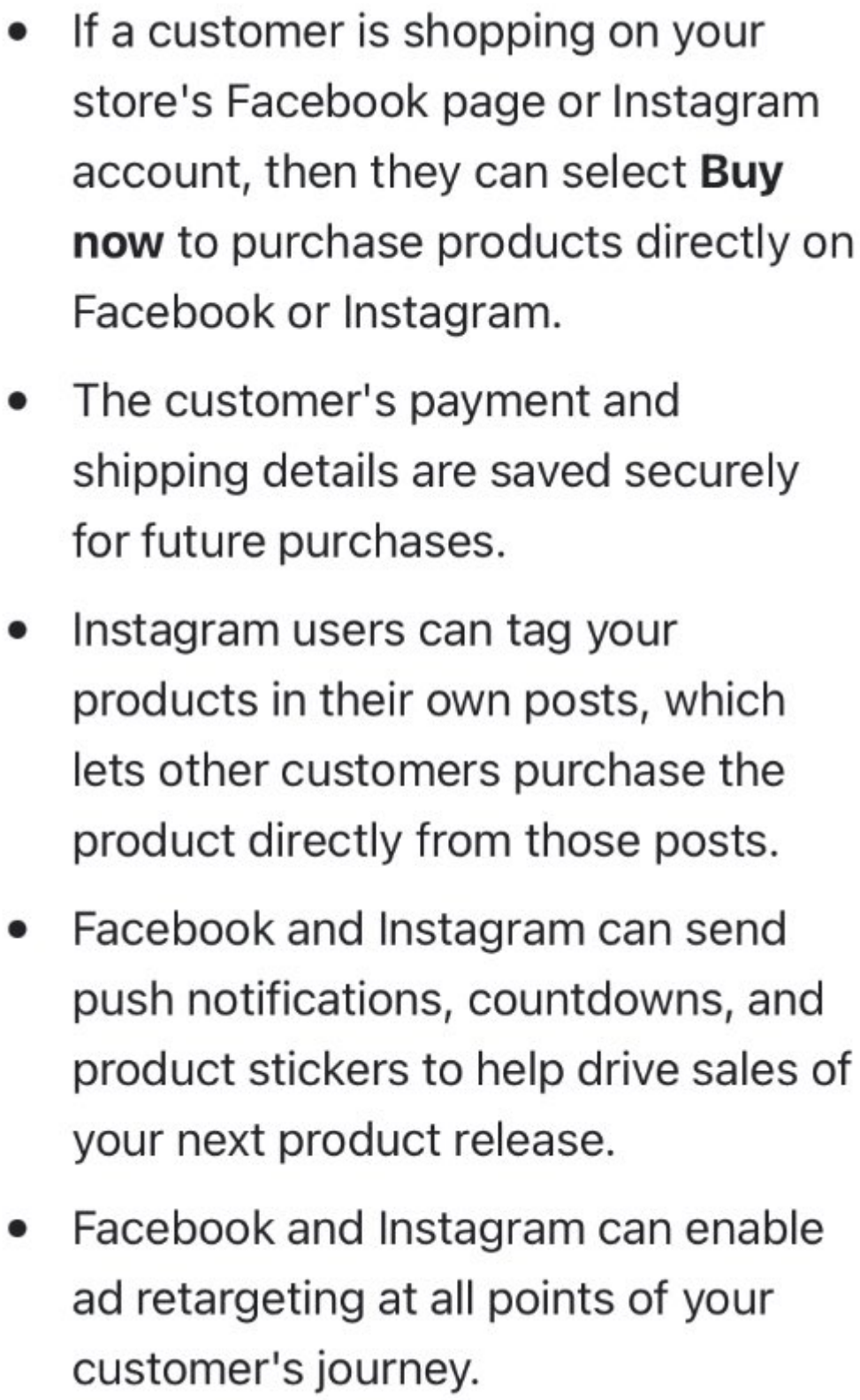




15) Other pros/cons of $FB native checkout for merchants:

Good: streamlined purchase flow, drive purchase intent through FB/Instagram tags/notifications, retargeting

Bad: No discounts/subscriptions, limited shipping options, various other FB limitations/requirements



16) If the merchant only provides a link to checkout on its $SHOP website (thereby steering consumers off $FB/Instagram for payment), the payment fees are lower and the transaction would be processed with Shopify Payments (or 3rd party processor)

No 5% seller fee paid to FB ...

Check out from your Shopify store

Review the following considerations for having your customers check out from your Shopify store:

- If a customer is shopping on your store's Facebook page or Instagram account, then they can select **View on website** to be redirected to your Shopify store where they can complete their purchase.
- You can customize your customer's online store checkout experience. These customizations include allowing discounts and subscriptions, custom branding and messaging, and preorder options.
- You can use enhanced shipping options, such as flat shipping rates and carrier calculated shipping rates.
- There are lower selling fees. Selling fees are based on your Shopify store's plan.
- Customers shopping directly from your online store means that your store gets more traffic, and can lead to larger purchases.

17) ... but of course $FB will still recapture some of that lucrative selling fee lost by charging the merchant ad fees for driving a click to its website

Mr/Mrs Merchant, pick your poison. Either way, driving more commerce is good for FB ■

18) Now this week, $SHOP announces it will integrate Shop Pay into the native $FB checkout experience as an option consumers can choose to accelerate the checkout flow

It's only available for purchases on SHOP powered digital store fronts on FB/Instagram

https://t.co/vnjNq9NLJw

19) This integration benefits $SHOP and $FB in different ways but is mutually advantageous: higher conversion + faster checkout is good for both (and the merchant)

SHOP likely gets a small cut of FB's 5% selling fee (similar to if FB user pays using PayPal). Better than nothing!

20) Capturing % of GMV through payments is already part of the $SHOP equity story— not so much for $FB at 25x Fwd P/E (GMV isn't even disclosed... yet)

Still early days but if native checkout catches ■, hard not to see how FB Pay doesn't scale into something very meaningful ■