NO. 011

What Stripe Can Become: Broader Tech Consolidation

I think Stripe’s internal strategy is a consolidation of products within its sector.

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The influx of many enterprise companies was due to the advent from on premise computing/storage to the cloud, lowering the barrier to creating new companies. Hence, it was somewhat possible to create “Niche” enterprise businesses, such as a Dropbox or an Intercom. These businesses were able to create sustainable recurring profits because of a business model boom and customer captivity in terms of enterprise switching costs. Hence, none of these businesses are disappearing and should remain stable companies for a long time. There is a broader move to add company-adjacent products to further entrench customers and somewhat diversify from a core business.

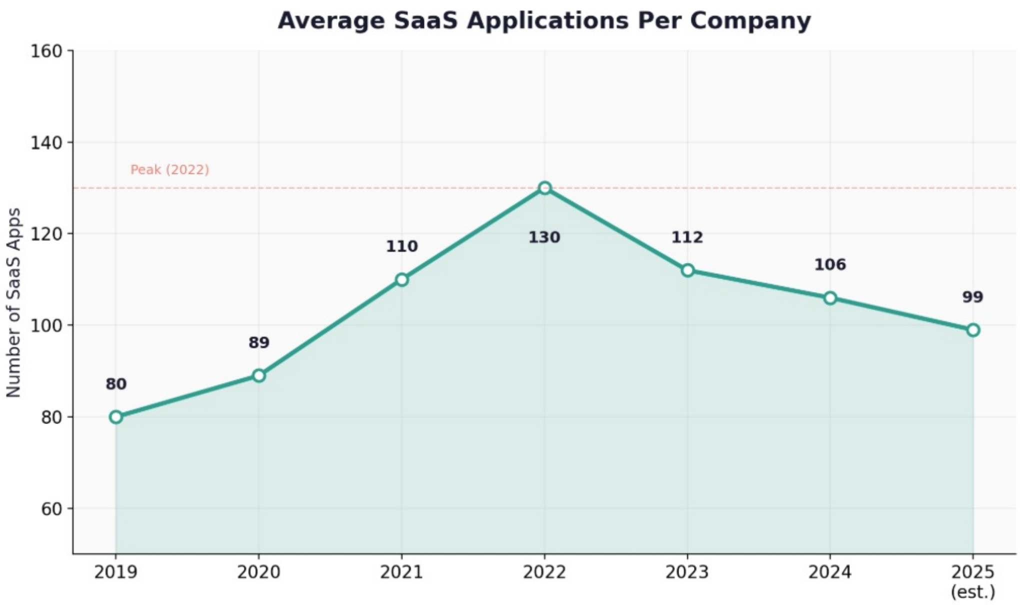
As costs rise for enterprises via AI spending, there is a need to cut costs and not pay for 20 different niche enterprise solutions. So there is a market need for a more bundled experience. Stripe has launched several products around the core payments business to help with accounting, taxes, and incorporation. Cloudflare is doing something similar by creating a suite of cybersecurity products, all under one roof, VPN’s, boxes, CDN’s.

This broader repeated concept of new technology leads to fragmented markets, then slower growth, and a need to expand the core business to continue to grow and expand their respective businesses.

So this is further strengthened by the recent acquisition efforts Stripe has made in PayPal and OpenRouter. PayPal is interesting because it gives Stripe a powerful brand and acceptability in payments on the internet. It also gives Stripe an entry into the consumer market and p2p payments. OpenRouter is more interesting because of its potential position in the AI value chain. There still does not seem to be any kind of economic barrier protecting frontier models from an inevitable commoditization. OpenRouter acts as an aggregator of sorts, and could be the premier application in the AI value chain.

While both are still under negotiation, it highlights the broader strategy of building a suite of products. This creates a much more valuable business because the likelihood of growing and defensible cash flows increases. You can switch, perhaps all your files on your Dropbox to a GDrive, difficult but not unreasonable. You likely cannot switch your payments, your taxes, your accounting, and additional products.

Overall consolidation is just a natural phase in the industry, and perhaps the most value accruable to shareholders. It is the strategy of investing based on capital cycles and an interesting development in the current state of enterprise SaaS. The current new wave of companies building AI first is likely to not stick around. New technologies are almost always better bundled in the enterprise world. Figma is a much more enhanced product with AI, not irrelevant. Though to build defensibility, you cannot just be a one-trick pony; surely companies that are really just a feature will struggle as this wave of fragmented SaaS comes to an end.



*Credit SaaSMag

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