**Visa Incorporation Market Research Report**

Visa Inc. is a global digital payment technology company in the payment cards services Industry that provides services in more than 200 countries and territories to individual and commercial clients, financial institutions, government entities, and merchants. Founded in 1958, VISA has grown to become one of the world’s largest electronic payment networks, connecting financial institutions, merchants, and consumers across the globe. It facilitates global e-commerce through digital payments and information. Visa’s transaction processing network, VisaNet, conducts clearing, authorization, and settlement of payment transactions. The company also routes payment information and related data. Its portfolio of offerings consists of mobile payments, payment cards, commercial payments, transaction processing services, merchant solutions, and other digital services.

**Competitors and Substitutes**

Visa’s competitors in the payment solutions market include Mastercard, American Express, PayPal, and other companies, offering similar services to Visa.

Various payment methods are also available to consumers and businesses, including cash, checks, wire transfers, and other electronic payment solutions which can serve as substitute to visa payment. Also, technological advancements have led to new payment methods, such as mobile wallet, cryptocurrency and blockchain-based solutions which could threaten Visa’s traditional payment solutions.

**Revenue and Cost Drivers**

**Revenue.**

The four key areas that drive Visa Inc. revenues are: Services, Data processing, international transactions, and other services. They account for a total revenue of $39.6 billion at financial year end 2022. The chart below shows the revenues generated by each area.

The key revenue drivers for Visa Inc are payment volume on visa products for purchased goods and services.

Revenue per transaction \* transaction volume.

Based on payments volume and number of transactions, Visa is one of the world’s largest electronic payments system.

**Service Revenue:** Earned for services provided in supporting client usage of Visa payment services. Visa service revenue was $13.4 billion which is about 34% of the company’s total gross revenue. This is up by 16% compared to $11.4 billion at year end 2021. This increase was driven by a 15% growth in nominal payment volume.

**Data Processing Revenue:** Earned for authorization, clearing, settlement, value-added services, network access, and other maintenance and support services that facilitate transaction and information processing among their clients globally. This accounted for the largest portion (36%) of the company’s gross revenue at $14.4 billion. This is up by 13% from $12.8 billion at year end 2021. The increase was due to 17% growth in processed transactions partially offset by the suspension of operations in Russia and unfavorable currency fluctuations.

**International Transaction Revenue:** Earned from cross-border transaction processing and currency conversion activities. This was $9.8 billion and accounted for 25% of gross revenue. International transaction revenue grew by 50% from $6.5 billion at year end 2021 due to an increase in nominal cross-border volumes and volatility of a broad range of currencies and select pricing modifications.

**Other Revenue:** Earnedmainly from value-added services, license fees for use of visa brand or technology, and fees for account holder services, certification, and licensing. This is $2.0 billion and accounted for only 5% of the total gross revenue. Other revenue grew by 19% from $1.7 billion at year end 2021 due to select pricing modifications, travel related card benefits, value added services revenues tied to marketing services, consulting revenues and other value-added services.

**Costs.**

The chart below shows items that drove cost at Visa Inc. as at financial year end 2022. The total cost was $20.8 billion.

* Client Incentive accounted for 52% of the total cost and formed the largest portion at $10.3 billion. It was paid to financial institutions clients, merchants, and strategic partners to grow payment volume, increase Visa product acceptance, win merchants, routing transactions over to their network and drive innovation.
* Personnel expenses include salaries, employee benefits, incentive compensation, share-based compensation, and contractor expenses. It accounted for 25% of the total cost at $5 billion.
* Marketing expenses include expenses associated with advertising and marketing campaigns, sponsorships, and other related promotions of the Visa brand. It cost $1.3 billion which is 7% of the total cost.
* General and administrative expenses consist mainly of card benefits, facilities costs, indirect taxes, travel and meeting costs, foreign exchange gains and losses and other corporate expenses incurred in support of our business. It cost around $1.2 billion and was 6% of the total cost.

**Current industry/Market trends**

The global digital payments market is now estimated to be worth more than the car manufacturing sector and is expected to reach USD$20 trillion by 2026. Today, we are seeing a surge in demand for prepaid or eBanking debit payment cards across the globe. While the payment card market is established and substantial, there are still opportunities for expansion. The following are key trends in the market that providers need to be aware of:

* **The rise of new generations of consumers**. The Millennial and Gen Z demographic groups are now well established and have considerable spending power and economic impact. They are the two generations who are leading the charge on digital innovation, embracing digital and smart device payments and virtual cards. The combination of increased adoption alongside a wider choice of alternative payment cards is making financial services more accessible than ever before.
* **Reaching the unbanked and underserved**. An increase in adoption of cards among the unbanked and underserved populations will create multiple opportunities for players operating in the global payment market – but only if they offer the right services at an affordable price point.
* **Apps and the mobile-first experience.** Conservative estimates put the number of smartphones on the planet at seven billion, equating to ownership by roughly 86 percent of the world's population. Providing an easy-to-use, seamless, and intuitive mobile-first experience is becoming a priority, including in the payments space.
* Augmented reality (AR) is set to expand as brands look to elevate experiences. With many consumers window-shopping and buying online, brands are working to attract consumers with innovations that connect AR and retail buying experiences.
* **Contactless payments expansion with wearable devices**. Wearable devices for payments are another continuing global trend, as the ease and convenience of payment wearables grow in popularity, with a growth rate of 124% expected over the next five years.

**Industry Analysis/Key strategies**

The global payments industry has been growing rapidly ever since the aftermath of the 2008 recession, in 2018 the industry totaled revenues of 1.9 trillion.

The strategy for Visa is to expand their core Business which consists of Core Products (cards), Tap to pay technology, Ecommerce (outpacing physical retail), Access & Acceptance (new markets), Partnerships (through fintech development) and Ventures (strategic investments to enrich broader payment systems). In 2019 Visa acquired earth por EarthPort that allows Visa to reach 99 percent of the world’s banked population in 88 countries, including the top 50.

Visa provides auxiliary or value – added services which is a growth opportunity. Visa’s fraud and security services run by artificial intelligence-powered risk scoring engine helped financial institutions prevent about $25 billion in fraud. In addition, Visa provides tokenization services and their product, developed by their provider Bell ID, allows users for much lower fees. Visa also provides data analytics, settlement and other services within this group of services.

Mastercard’s strategy is to broaden their capabilities as consumers and merchants demand enhanced payment options, with Mastercard focusing its technology on the business-to-business market which Mastercard estimated is a $25 trillion market annually in the U.S. Mastercard have begun implementing this strategy through various acquisitions.

**SWOT Analysis**

The SWOT analysis gives insights into the internal and external factors, namely: strength, weakness, opportunity, and threats affecting the business of Visa Inc. The factors are listed below.

***Strengths***

* Largest Market Share
* Mostly Recognized brand
* Sponsorship Programs
* Endorsement
* Worldwide Availability
* Lower Fees

***Weaknesses***

* High Exposure to Fraud and Hazard
* Litigation Risk
* Surging Operating Cost
* High Dependency on Contractual Relationship

***Opportunities***

* Cashless Society
* New Markets
* Loyalty Programs
* Mobile Payment
* Initiative to Expand Access in Different Geographies

***Threats***

* Regulatory Issues
* Highly Competitive Environment
* Price Wars
* Economic Slowdown
* Security Breaches and Cyber-Attacks

**Strengths**

Strong and secure payment infrastructure

* Strong distribution network

Market leadership and strong brand value

Strong strategic partnerships with card issuers and merchants

Resilient business model that protects against inflation

**Weakness**

Lack diversification in business model

Lack of product development to combat new and emerging payment methods

Lack of innovation

**Opportunities**

Increasing preference for online shopping and cash-less transactions due to the pandemic

Opportunities to collaborate with emerging competitors like PayPal and mobile wallets

Loyal and large customer base that can be introduces with new or add on products

Availability of vast data that can be researched for product development

**Threats**

Threat of becoming obsolete due to new and emerging payment technologies

Increased competition owing to duopoly market

Lack of differentiation from competitor

Large amount of personal data that needs to be secured for privacy

Threat of fraudulent activities

Threat of money laundering and terrorism financing

**PESTEL Analysis**

PESTEL analysis is used to analyze the macro environment of an organization. Changes in the macro-environment factors can have a direct impact on not only Visa Inc. but also can impact other players in the industry. The table below shows the factors affecting the digital payment networks industry using PESTEL grid.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| ***Political*** | ***Economic*** | ***Social*** | ***Technology*** | ***Environment*** | ***Legal*** |
| * Political Stability
* Tax Policy
* Industry Regulation
* Trade Blocks
* Intellectual property protection
 | * Inflation Rate
* Interest Rate
* Consumer Spending Trends
* Exchange Rate
* Business Cycle
* Labour Cost
 | * Demographics
* Education Level
* Family Size and Structure
* Culture
* Attitude
* Leisure Interests
* Health consciousness
 | * Technological Infrastructure
* Internet Penetration
* Use of social media
* Investment in R &D
* Tech Savviness
 | * Recycling
* Green Consumption
* Renewable Energy Investments
* Waste management
* Climate Change
 | * Health and safety Law
* Employment Laws
* Anti-discrimination law
* Data Protection
* Copyright, patents / Intellectual property law
 |

 **Political**

Demonetization (India)

Attitude of ruling party about cards instead of cash

Government backed local competitors

Tax legislations

**Social**

Attitude towards credit cards/savings

Card penetration in developing countries

Increasing number of elderly people becoming digitally literate

**Technological**

Impact of technology helping competitors and new entrants

Costs for new technology adoption and prevention of fraud and crime

Crypto currency gaining market share

Emerging mobile wallets like paypal

Penetration of ATMs and Point of sale

Tokenization, Biometrics, Machine learning

Tap to pay, Scan to pay

**Environmental**

Global warming impact on weather issues which affect spending patterns

Seasonality impact on spending patterns

Covid and work from home culture increasing the use of cards in e-commerce compared to cash

**Legal**

KYC and privacy laws in various countries

Anti money-laundering laws

Privacy and data protection laws

**Analysis of Competitive Environment**

Visa Inc. Operates in a highly competitive industry. It competes with big rivals, including MasterCard, American Express, Discovery as well as digital payments companies such as PayPal. Below are the analysis of the competitive environment using Porter’s five forces:

* **Threat of New Entrants**. Visa Inc and its peers face low threat of new entrants as the entry barrier into payment is relatively high due to high capital requirements needed to establish a payment technology infrastructure. Several factors could still attract new entrants.
* **Industry Rivalry**. The industry rivalry for Visa is intense, as it competes with other payment solutions providers, such as Mastercard, American Express, PayPal, and various other companies that offer similar services. These competitors often engage in price wars and use aggressive marketing strategies to gain market share and customer loyalty. Visa Inc competitive advantage lies in its larger market share and a strong brand image.
* **Threat of Substitutes**. The threat of substitutes for Visa is high as there are good competitors that offer similar products and services. Also, various payment methods are available to consumers and businesses, including cash, checks, wire transfers, mobile wallet, and cryptocurrencies.
* **Bargaining Power of Buyers**. The bargaining power of buyers in this industry is high. Visa’s customers banks, merchants, and consumers. These customers have significant bargaining power because they can choose from various payment solutions providers and switch to a different provider if unsatisfied with Visa’s services or pricing. They can negotiate favorable terms and pricing with Visa or switch to a competitor if unsatisfied with the current arrangement. This gives them significant leverage in their negotiations with Visa.
* **Bargaining Power of Suppliers**. The bargaining power of suppliers for low as Visa and its peers has strong relationships with its suppliers and can often negotiate favorable terms and pricing due to its large scale and market position. Visa could potentially switch to other suppliers or develop its own solutions in-house if suppliers were to demand unfavorable terms or pricing. These reduced the bargaining power of suppliers in the industry.

Overall, Visa Inc competitive advantage is built on its extensive network and robust infrastructure, brand recognition and reputation, strong partnerships, and commitment to innovation and research and development.

Visa’s strategy is to accelerate its revenue growth in consumer payments, new flows, and value-added services, and fortify the key foundations of its business model. The following are the key strategies:

* Remain focused on moving the trillions of consumer spending in cash and checks to cards and digital accounts on Visa’s network of networks.
* Use its network of networks approach to create opportunities to capture new sources of money movement through card and non-card flows.
* Use Value Added Services to diversify its revenue with products and solutions that differentiate its network, deepen its client relationships, and deliver innovative solutions across other networks.
* Strive to become a network of networks, offering a single connection point for senders and receivers to enable money movement to all endpoints and to all form factors, using all available networks.

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