# VISA Inc - Market Research Report

## Industry: Business Services (Digital Payments)

**Overview**

Most likely, you have encountered VISA in one form or another, with their presence being monumental in their core payment products. However, their business model may be even more extensive than many first envisage. Outlined in their Annual Report (2023), their strategic segments are split up into “Consumer Payments, New Flows and Value-Added Services”. Targeting these segments enable VISA to “differentiate”, “capture new sources of money movement” and “remain focused on moving trillions of dollars of consumer spending”. Notably, there is a degree of risk mitigation through a balance of products in different phases of their lifecycle, with mature products like payment cards being blended with innovative facets of the financial sector e.g., tokenization and open banking. This is intended to serve as a counter-active tool to creative destruction in an increasingly dynamic financial landscape.

**Peers/Competitors**

Using VISA’s core revenue drivers as a starting point, it stands to reason that their biggest competitors would consist of the major players in Consumer Payments. MasterCard would be considered a clear competitive force to most, and with good reason, as these entities continue to shape how we pay with their widely accessible payment cards. This is exemplified in the 2022 Network comparison in VISA Inc’s Annual Report (2023) with VISA and Mastercard generating $11.668tn and $6.568tn in Payments Volume respectively, and with a staggering 6.873 billion cards in issue between the two of them. Both mature players still have a keen eye on growth however, with top-line revenue still increasing over the last few years. In terms of percentage growth, we have seen 23.41%, 17.76% and 12.62% for MasterCard (2021-23), with VISA boasting 10.34%, 21.59% and 11.41% over the same period.

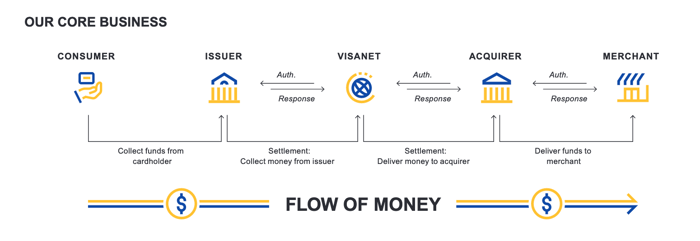
\*2023 includes the 12-month trailing revenue from September

Another large-scale competitor to VISA is PayPal. Despite considerable differences in their business models, the presence of PayPal in this market is undeniable, and they show no signs of slow-down. Their ‘closed-loop payments system’ (The Motley Fool, 2022) operates through market participants joining the network and interacting with one-another using PayPal accounts to conduct the payments process. This can be viewed as a supplementary tool to VISA’s strategic objectives, given the PayPal network uses stored cards to facilitate transactions. However, risks arise from this model, as the natural tendency would be for PayPal to promote the use of ‘PayPal balances’ and relinquishing control puts them at the mercy of the multinational corporation.

One aspect of the payment industry that would be difficult to ignore is the rise in cryptocurrencies. There has been a well-documented introduction of the capability to use the blockchain, a decentralized ledger that can operate with autonomy as a system. Given the mistrust many consumers may have post-financial crisis 2007-09, governmental currency mismanagement and red tape from large-scale regulation, there is a discernible hunger amongst much of the global population to adopt this technology. However, full-scale adoption is likely to be limited in the short-term given its reputation as a speculative asset, with volatility being counter-productive to its purpose as practical application of Bitcoin, for example, are hindered by its inability to act as a viable store of value and medium of exchange.

**Revenue/Cost Drivers**

As touched upon in the Overview, the three targeted revenue segments come from Consumer Payments, New Flows and Value-Added Services. VISA’s core business in Consumer Payments is executed primarily via Debit Cards, Credit Cards and Prepaid Cards. In contrast to PayPal, VISA utilize an ‘open-loop payment network’ (The Motley Fool, 2022) which allows them to offer integrated solutions along the end-to-end process of the consumer extending their VISA card to make payment, up until the merchant acquires the funds for the good/service they have provided. Therefore, their success in generating revenue is not only contingent to the reliability of their technological infrastructure, the quality & delivery of their cards, but also their ability to work and build lasting relationships with partnering financial institutions that strive for a seamless customer experience.



\*Image Source: VISA Annual Report (2021)

Navigating down to the Consolidated Statement of Operations in VISA’s annual report (2023), we can identify the cost bases that VISA are subject to. Using 2021-23 as a frame of reference, some notable categories of expenses are personnel, marketing, network & processing and general. These all have grown in line with expectations given expansion in revenue over the above period. The real crux to the benefit of this industry is that it provides stable cash flows at high-margin, as there is a large degree of automation once the complex infrastructure has been developed. We can observe this over 2021-23 with chronological operating margins of 65.56%, 64.19% and 64.31% delineating the validity of the business model that has formulated over the years, and the margin of safety VISA have to invest and take risks in an era where comprehensive digitalization and AI take centre stage in shaping the future.

**Grid Analysis**

**SWOT**

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| **Strengths**  Market Leader: VISA did not reach the status of the biggest player in this market without a robust multi-faceted strategy. Exceptional growth, market share, net income, and a diverse product and region portfolio presents vast opportunities for VISA to invest further and effectively expand. | **Weaknesses**  R&D: the position of VISA relatively lagging behind its peers in R&D investment has been well-stated. Given their stature, it may be advantageous to portion more capital towards innovation to ensure a long-term competitive advantage is maintained. |
| **Opportunities**  ‘New Flows’ and Tokenization: the foundation to provide a fully flexible service offering is well underway, with VISA Token Service (VTS) and Currencycloud platforms meeting the complex demands of the modern consumer who wishes for digital and expansive means of payment services. | **Threats**  Concentration Risk: given VISA’s operating model relies upon B2B sales, it’s growth and prosperity is dependent on the limited actors within the market (financial institutions). They may opt to develop unique technologies or switch to competitors at relatively low fees. |

**PESTLE**

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| **Political**  Conflict: exposure to countries with geo-political tensions - large losses due to Russia-Ukraine war with revenue in Russia making up 2% & 4% of consolidated net revenues respectively. | **Economic**  Debt Servicing: global tightening cycle - Fed Funds rate= 5.25-5.5%, UK base rate= 5.25%, EU deposit rate= 4% - means cost of servicing debt and cost of capital will be high for an unspecified period. |
| **Social**  De-Globalization: prevalence of protectionist policies ‘promoting domestic networks, switches and RTP systems’ on a global scale threatens VISA’s current operations and future expansion prospects. | **Technological**  Online Retailers: large-scale online transition, scan payment facility integration and new FinTech applications provides significant further scope for revenue growth. |
| **Legal**  Regulatory Scrutiny: increased limits on fees/rates with EU IFR, US Fed and MDR regulation amongst others containing restriction on expansion | **Environmental**  CRS: increased emphasis from stakeholders regarding matters ‘that touch upon sustainability, climate change, human capital, inclusion & diversity, and human rights.’ |

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