**Task 5**

Visa Inc. is a global renowned digital payment technology company facilitating fast, secure, and reliable electronic payments worldwide. It acts as a connector between consumers, merchants, financial institutions, businesses, and government entities. Visa operates in a four-party model involving card issuing financial institutions, acquirers, and merchants. Despite not being a bank or directly issuing cards, Visa operates the world's largest retail electronic payments network based on payments volume, number of transactions, and cards in circulation.

The company's revenue model primarily involves administering the collection and remittance of interchange reimbursement fees through the settlement process, without directly earning revenue from interest or fees paid by account holders on Visa products. Key initiatives include the acquisition of Visa Europe in 2016, aimed at enhancing its global impact and pursuing a technology transformation in the industry to adapt to the digital economy. It has implemented strategies to fuel innovation through initiatives like the Visa Developer Platform (VDP). Additionally, Visa's capital structure involves issuing senior notes and preferred stock to unify its operations and create a single global company,

**Peer Analysis**

One of Visa Inc’s main peers is, Mastercard incorporated, which both operate in the financial industry. Despite being competitors in the payments industry, they share a similar business model based on facilitating electronic funds transfers and transactions through their respective networks. Visa was involved in $14.1 trillion in payments while Mastercard grossed $8.2 trillion in volume. In 2020 Visa and Mastercard made up 40% and 24% of the global card payments industry respectively. 32% of worldwide market share went to the Chinese state-owned company, UnionPay. This is because Mastercard and Visa's ability to operate in China is heavily restricted by protectionist policies, which have enabled UnionPay to take up 99% of China's card payments market. However UnionPay’s market share outside of China is estimated to be just 1%. If instead we look at market share in Europe, Visa has 60% and Mastercard has 39%

Another peer to Visa inc is Paypal holdings. PayPal has exhibited even more robust revenue and EBIT growth rates over the past five years. With an average revenue growth rate of 17.55% and an average EBIT growth rate of 21.34%, PayPal surpasses Visa's figures. Visa's five-year average revenue growth rate stands at 10.83%, accompanied by a 12.13% average EBIT growth rate. Furthermore, in the second quarter of 2022, PayPal disclosed figures indicating a total of 429 million active accounts, including 35 million active merchant accounts, underscoring its significant market presence and expansion.

**Substitutes to Visa Inc.**

**Cryptocurrencies**

* Cryptocurrencies like Bitcoin and Ethereum have been considered to be alternatives to traditional payment methods. While their adoption remains relatively limited, they offer distinct advantages such as borderless transactions, enhanced security, and the potential for value appreciation. Bitcoin, has emerged as a preferred store of wealth and a potential hedge against economic instability. Some businesses and online platforms now accept it as a form of payment. Ethereum, on the other hand, serves as the foundation for decentralized applications (DApps) and smart contracts, opening up new avenues for financial transactions and innovation.

**Google Pay**

* Google Pay, a significant contender in the digital payments landscape, was created by Google to enable customers to utilise their Android devices for both online and in-store payments. Additionally, Google Pay supports peer-to-peer (P2P) transactions, further enhancing its versatility. A notable advantage of Google Pay is its integration with other Google services. By linking their payment methods to their Google accounts, users can effortlessly make purchases on various platforms, including Google Play, YouTube, and Google Store. This integration adds convenience for users within the Google ecosystem.

**New markets**

However, the emergence of fintech over the last two decades has resulted in an influx of fresh competitors and innovative payment methods. While Visa discovered relative ease in collaborating with major players in big tech, such as Apple, and established entities within the payment ecosystem, like PayPal, to adopt new technologies and introduce novel payment solutions, it faced difficulties in forming partnerships with rapidly evolving business models of emerging fintech companies, such as TransferWise and Paytm. In less-developed markets, the low go-to-market expenses of emerging fintech firms often circumvented the necessity for costly physical payment infrastructure. Conversely, in mature markets, these new technologies bypassed traditional card payment infrastructure by establishing direct connections with merchants and customers through alternative networks.

**Visa Inc’s revenue drivers**

One of Visa Inc’s main revenue drivers would be its acquisitions. Visa's strategic acquisitions, such as The Currency Cloud Group Limited (Currency cloud) and Tink AB (Tink), have significantly boosted its position in the evolving financial services landscape. With the acquisition of Currency cloud, a global platform facilitating cross-border foreign exchange solutions, Visa enhances its capabilities to offer efficient and innovative international payment services. Currency cloud’s technology enables financial institutions and fintech companies to streamline cross-border transactions, providing Visa with a competitive edge in catering to the growing demand for global payment solutions. This acquisition not only expands Visa's service offerings but also broadens its reach into new markets, tapping into the increasing cross-border payments sector.

Similarly, the acquisition of Tink, an open banking platform empowering financial institutions, fintechs, and merchants to develop financial products and services, aligns with Visa's strategic vision of driving innovation in the digital payment’s ecosystem. Tink's expertise in open banking infrastructure enables Visa to leverage data-driven insights and develop personalised financial solutions for consumers and businesses. By integrating Tink's platform into its ecosystem, Visa enhances its capabilities to deliver tailored financial experiences, such as personalised budgeting tools and enhanced payment options, to meet the evolving needs of its customers.

**Another Revenue driver** for Visa Inc would be its net revenue growths. Visa's net revenue growth of 22%. This growth is primarily driven by several key factors, including an increase in nominal payments volume, processed transactions, and nominal cross-border volume. As the global economy rebounds from the challenges posed by the COVID-19 pandemic, Visa's payment network continues to facilitate a surge in transactional activity, reflecting heightened consumer spending and economic recovery efforts. Moreover, Visa's strategic initiatives to expand its presence in emerging markets and capitalise on the growing trend towards digital payments have contributed to an increase in net revenues..

Furthermore, Visa's ability to navigate currency fluctuations through its hedging program has mitigated the negative impact of exchange rate movements on net revenue growth, to an extent. Despite facing headwinds from adverse exchange rate movements, Visa's hedging strategies have effectively cushioned the company against potential revenue losses, highlighting its proactive approach to risk management.

**Visa Inc’s Cost drivers**

One of Visa Inc’s cost drivers would be its network and processing expenses. Visa Inc. has experienced a substantial increase in processed transactions, surpassing 160 billion transactions globally in fiscal year 2022, marking a notable 12% year-over-year growth. This surge underscores the critical necessity for Visa to reinforce its processing network to efficiently manage the expanding workload. In response to this demand, Visa allocated approximately $1.5 billion towards network and processing expenses in the same fiscal year, reflecting a significant 10% increase compared to the previous year. These investments covered upgrades to data centres, expansion of network capacity, and implementation of advanced cybersecurity measures to safeguard against potential threats. As the pillar of Visa's operations, the processing network serves as the channel through which transactions flow, requiring constant vigilance and investment to uphold the company's reputation for reliability and security.

**Another cost driver to Visa Inc** would be their personnel expenses which contribute a high proportion of Visa Inc’s operating expenses. Personnel expenses constitute a significant portion of Visa Inc.'s operating costs, including salaries, employee benefits, incentive compensation, share-based compensation, and contractor expenses. With Visa's continued growth and expansion initiatives, there has been a notable increase in personnel expenses over recent years. For instance, in fiscal year 2022, Visa reported a substantial rise in personnel expenses, totalling approximately $4.2 billion, reflecting a marked increase compared to the previous year. This increase can be attributed to several factors, including a higher number of employees and compensation adjustments to attract and retain talent, in line with Visa's strategy to invest in future growth initiatives.

**Market Trends**

One of the key trends from Visa Inc which has been followed by the global landscape would be shift to the digital market. E-commerce expenditure, both domestically and across borders, has displayed remarkable resilience and consistency compared to pre-pandemic levels, persisting significantly above the established trend line from before the COVID-19 era even as the pandemic's effects diminish. This sustained push in online transactions underscores a fundamental shift in consumer behaviour, signalling an irreversible trend towards digital commerce. Consequently, stakeholders across the ecosystem are compelled to allocate resources and investments accordingly to adapt to this evolving paradigm.

Visa Inc.'s recent acquisition strategy is strategically aligned with prevailing trends in digital commerce, particularly the enduring consumer shift to online transactions and the rising prominence of Buy Now, Pay Later (BNPL) models. Through acquisitions like Tink AB, an open banking platform, and Pismo Holdings, a cloud-native issuer processing and core banking platform, Visa reinforces its digital capabilities and expands its presence within the rapidly evolving fintech landscape. B2B payments driven by new solutions from fintech’s and new

market entrants that have the potential to reshape cross-border money movement. Additionally, experts anticipate BNPL's growth to escalate by as much as 20% annually until 2023, with expectations of capturing a substantial share, approximately 13%, of the unsecured credit market. These acquisitions position Visa to capitalise on the growing demand for seamless digital payment solutions, enabling the company to offer innovative services that cater to changing consumer preferences.

Other companies have also followed in Visa Inc’s footsteps by exploring new and emerging markets to increase sales by expanding its network and acquisitions. This is done to expand their service offerings and diversify sales which mirrors the path taken by Visa Inc’s cost driver to invest in networking and personnel. Google has emerged as the most assertive investor in the fintech sector, with the tech giant undertaking 23 fintech investments from 2020 to the present year. Amazon, meanwhile, has made seven investments within the same timeframe. Notably, Stripe, an online payment processing company, secured $600 million in funding in April 2020, with support from various investors including Google Ventures.

**SWOT Analysis of Visa Inc.**

|  |  |
| --- | --- |
| **Strengths**   * Visa maintains operations across nearly every nation worldwide. * Expansive global footprint has significantly expanded Visa's customer base, sustaining its market presence and influence. * Visa sponsors several events throughout the year. These include Visa Newsroom, Paralympics, FIFA, and the Olympics. * Visa’s data centres can handle 30,000 simultaneous transactions and 100 billion computations per second. | **Weaknesses**   * Due to nature of financial transactions handled by Visa, the risks associated with fraud and hacking are high. Consequently, customers may feel less secure and exhibit hesitancy towards utilizing Visa's services. * Visa has to spend on R&D and innovation to find ways to improve the user experience. * Visa needs other financial institutions to buy its services, it is highly dependent on the limited financial institutions in the market. |
| **Opportunities**   * Visa has the opportunity to enhance its products and services to better serve users. * Increase in the number of banks poses an opportunity for Visa to attract these banks to take services and products of Visa. As a result, this will help the company grow and increase its revenue. * Growing shift to e-commerce platforms means consumer behaviour shifts more towards online payment methods. | **Threats**   * Visa has to deal with tough competitors like Mastercard and PayPal to maintain its position in the market. * In case of a global recession, Visa can experience losses as people may pull out money from banks, and the number of transactions taking place would decrease. * Ukraine- Russia war resulted in loss of $1.6 billion, attributable to the fact that approximately 4% of its revenue was derived from the country. |

**Visa and Mastercard key Strategies and Performance.**

Mastercard has been leaning towards the business-to-business (B2B) payments sector, valuing it at approximately $25 trillion annually in the U.S. The company's strategy centres on leveraging fast automated clearing house (ACH) payment rails, which serve as a primary conduit for B2B payment transactions. This strategic direction is underscored by substantial acquisitions, including the $1.15 billion acquisition of VocaLink Holdings Ltd. in 2017 and the $3.19 billion purchase of a substantial portion of European payments technology company Nets A/S in 2019. These acquisitions bolster Mastercard's capabilities in real-time payments, marking a substantial commitment to advancing B2B payment solutions.

In contrast to Mastercard, Visa is directing its efforts towards broadening its payment networks and extending its global presence. A pivotal element of this approach is Visa Direct, a rapid payment infrastructure facilitating person-to-person and business-to-consumer transactions. Visa's acquisition of Earthport PLC, a London-based provider of cross-border payment services, has diversified its processing capabilities beyond its existing network, enabling payments to any type of account across multiple payment channels. This acquisition has notably expanded Visa's access to global banking networks. Additionally, Visa's pending acquisition of payment processing start-up Plaid Inc. positions the company to enter the financial information network, facilitating connections between customers' bank accounts and third-party finance apps like Venmo and Robinhood.

Recent Financial Performance and Market Trends

Both Visa and Mastercard continue to demonstrate strong performance, driven significantly by cross-border transactions. Despite an issue in card issuance (7% for Visa and 5% for Mastercard), the average spending per card has seen a decline. Quarter-over-quarter growth for both firms stands at around 11%, primarily attributed to increased revenue from cross-border transactions. Visa and Mastercard's strategies also encompass client incentives and an escalating focus on net revenue as a proportion of gross dollar volume (GDV).

**PESTLE Analysis for Visa Inc.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Political** | **Economic** | **Social** | **Technological** | **Legal** | **Environmental** |
| 1 .Visa Accounts should engage with the dynamic civil society network to identify areas for cooperation.  2. In the post-9/11 world, companies like Visa Accounts must operate with awareness of the threat of terrorist attacks.  3. Implementing prudent measures such as insurance and risk mitigation strategies can help mitigate losses from terrorist incidents.  4. The nation’s investment-grade bond rating indicates a conducive environment for companies like Visa Accounts to thrive in a politically stable and transparent setting.  5. Strengthening democratic institutions will promote transparency and reduce corruption levels.  6. The country’s adherence to international agreements enhances its credibility as a reliable global partner. | 1. Visa Accounts can capitalize on the higher GDP growth rate by expanding its product range and targeting new customers  2. With the increasing share of services in the economy compared to manufacturing and agriculture, Visa Accounts should carefully assess forex risks before entering new markets.  3. The steady increase in household income presents an opportunity for Visa Accounts to expand its market beyond traditional customers through targeted marketing campaigns.  4. While exploiting this trend may boost product sales in the short term, Visa Accounts should also consider the medium-term forex and currency devaluation risks. | 1. As the population ages, there will be a reduced demand for technology-intensive products, prompting Visa Accounts to adapt its product offerings accordingly.  2. Demographic trends play a crucial role in assessing economic demand, prompting Visa Accounts to consider demographic shifts when developing new products and integrating features tailored to specific segments.  3. Visa Accounts should analyse attitudes towards authority across different regions before launching marketing campaigns, recognizing that cultural perceptions vary widely, with authority being revered in Asia but often challenged in the West. | 1. Visa Accounts may need to address the gap with China in mobile payments technology to remain competitive in the market.  2. Visa Accounts should assess societal technology acceptance levels before product launches to ensure adequate infrastructure support.  3. Analysing potential areas where technology can enhance supply chain operations can improve transparency and flexibility for Visa Accounts.  4. Assessing production cost trends and levels of automation can inform Visa Accounts’ strategic decision-making. | 1. Before entering new markets, Visa Accounts must assess differences in business laws compared to their home market.  2. Evaluation of securities laws and listing requirements for national or regional stock exchanges is necessary.  3. Visa Accounts must assess compliance with information laws in each country of operation.  4. Evaluation of labour laws and their alignment with Visa Accounts’ business model is essential.  5. Assessment of intellectual property rights protection levels under each country’s legal system is crucial. | 1. Investing in renewable energy sources can align with Visa Accounts' competitive strategy and sustainability goals.  2. Visa Accounts should assess waste management regulations in target markets and ensure compliance with local requirements.  3. Understanding the country's commitments under the Paris Agreement and the level of compliance with climate goals is crucial for Visa Accounts.  4. Environmental changes can impact Visa Accounts' business model and supply chain, necessitating adaptability to avoid disruptions. |