**Task 5 Market Research for Visa Inc**

Visa Inc operates within the financial services industry and specialises in card transactions, facilitating electronic payments around the world.

**Visa’s notable revenue and cost drivers in 2023:**

We have seen a correlation between revenue growth and a rise in transactions processed, which increased by 5% over the previous year. Whilst higher client incentives contributed towards slower year-over-year revenue growth by 11 percentage points for Visa. Visa’s incentive expense was $12 billion, accounting for 38% of revenue.

**Close Peers**

This piece of research has identified Mastercard and Amex as close peers of Visa. Whilst they primarily provide the same services, they similar sized corporations. Their P/E ratios are within the double figures all within the range of 20-40. Whilst Amex’s revenue is over double that of Mastercard’s and nearly double that of Visa’s, their net income are all within the range of $10-$20 billion, which balances out in terms of overall performance. Visa and Mastercard’s net margins are 52% and 44% respectively whilst Amex’s is significantly inferior at 13%.

In comparison, Amex has struggled to control the costs of global expansion of merchants and has somewhat struggled more than Visa and Mastercard. Amex cited this as a challenge in its annual report stating that Visa and Mastercard already have a greater global presence in terms of transaction volumes and have more established relationships with these customers. Amex’s operating expenses increased by 8% partially driven by technology costs to aid business growth and innovation. Visa’s and Mastercard’s overall expenses are only a third of Amex’s expenses.

All three corporations’ costs have been driven by rising interest rates, which they have passed onto consumers. Whilst Amex’s growth rate in interest income has risen by 18 percentage points, expenses within its subsidiary bank AENB, have risen by 3.6 times due to a growth in customer deposits, driven by higher interest rates, which are more favourable to those with savings.

These three factors demonstrate why Amex has struggled in comparison with Visa and Mastercard.

All face legal challenges of global legislation such the EU regulation prohibiting preferred routing and the restriction of interchange fees in some jurisdictions. In many jurisdictions surcharges imposed by merchants are permitted, which may discourage consumers from using their services, reducing transaction volume and then reducing revenue.

Their margins are typically higher than purely product-based businesses due to lower variable costs and economies of scale typically takes place faster. This enables typically faster growth as variable costs such as material, freight, storage, and staffing are significantly lower as these are more of an issue for product-based businesses, where expansion inevitably increases variable costs. This partially explains the higher P/E ratios of Amex, Visa and Mastercard.

**What are the new markets and who are the substitutes?**

New markets have emerged providing more digitalised services such as FinTech firms, cryptocurrency exchanges, digital tokens, digital payment methods, e-wallets and other mobile payment services. Challenge banks with no physical branch can be seen as alternatives, some of which closed due to their inability to generate sufficient revenue to cover the interest payments on clients’ deposits. The 2023 run on challenger banks in US did not adversely affect Visa as was stated in its annual report. Amex has arguably kept up with challenger banks by expanding its own subsidiary bank.

PayPal is one of the most trusted payment systems with its advanced encryption, protecting every transaction. PayPal operates its own fully integrated mobile app for users who can perform all necessary function in one place. (PayPal website as source). Visa is directly collaborating with digital and mobile payment system providers. Its partnership with Western Union is an example. Visa is also investing in its own capabilities through Visa + by enabling clients to link aliases such as mobile numbers and emails to payment details, similar to PayPal’s model. Visa has established technology platforms through its data centers. However, various strategic investments and acquisitions may not deliver. This could disrupt ongoing operations and Visa may struggle to integrate this with existing operations, an issue which PayPal will not likely encounter. Amex is arguably trying to keep up with PayPal. Its costs have been materially driven by trying to develop its technology. Amex is somewhat reliant on driving revenue through incentives and rewards through its partnerships with Marriott, British Airways and others. This is an important niche for Amex as it has enjoyed an increase in the growth of premium portfolios pushing up net card fees. Whilst its overall increase in expenses has been driven mainly by incentives and rewards, this has been partially offset by lower redemption costs and changes in expected redemption behaviours. Amex has focused on areas where customers would earn higher levels of rewards.

Coinbase has emerged as a new competitor. With no headquarters or premises, its staff all work remotely. This saves fixed costs and variable costs. Coinbase has helped set the trend towards remote working, avoiding costs such as building leases and vast machinery. Visa may face difficulties in providing such flexibility for employees as stated in its annual report. Amex owns and leases numerous properties globally. This points towards automation trends, potentially reducing variable costs as Coinbase relies on fewer staff even with expansion. However, Coinbase is heavily reliant on strong performing cryptocurrencies and high trading volumes from its customers. This can be reflected by its inability to deliver a net profit, during periods of downturn within the crypto market. Only when cryptocurrency is on the rise, can Coinbase achieve net margins in excess of 20%. Therefore, Coinbase is a less suitable substitute to card companies, some of which are forming partnerships with payment providers who have already adopted the use of cryptocurrency.

Visa and its peers have demonstrated their ability to thrive during periods of volatility, which Coinbase has struggled to achieve. This is partially because they rely on multiple stable fiat currencies, hedging the risk of adverse currency movements. This can be demonstrated by Visa’s 11% revenue growth from the previous year being mainly due to a growth in cross-border transactions, despite suspending operations in Russia (accounting for 4% global revenue circa).

Wise provides a new threat with its fully digital service platform. It provides bespoke services through its three main products Wise Account, Wise Business and Wise Platform. Funds can be transferred rapidly and in high volumes. Growing demand can be reflected in its continuous year-over-year growth rate in revenue suggesting greater demand for its services.

Coupled with its exponential revenue growth, Wise’s P/E ratio is far superior to the industry average and its peers such as Western Union and PayPal. This suggests a potential for rapid growth and Wise has the potential to take a large portion of the market share. Arguably, Wise has been an overlooked competitor in the eyes of Visa, Amex and Mastercard. If larger corporations cannot compete with Wise, we may see some of them trying to form partnerships with Wise or even acquire it if possible.

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| **Strengths:**High net profit margins, cross border expansion, strong global presence, conversion of transaction growth into revenue and profitability. Thriving during volatility.Not solely reliant on acquisitions for further innovation. | **Weaknesses:**Transitioning towards remote working for staff and flexibility, resulting in rising variable costs.Keeping up with specialised digital payment service providers. | **Opportunities:**Joining the AI race. Developing Visa Plus, expanding its own capabilities. Acquiring and/or investing in Fintech firms with established digital capabilities. Faster decarbonisation being service based. | **Threats:**The rise of Wire. Digital integration with existing services. Managing the inherent risks of AI.Acquisitions and investments may not succeed. |

**Political:**

Wars and changes in governments may determine future restrictions or provide new business in certain jurisdictions. Competition restrictions may affect future acquisitions. Sanctions and trade tensions around the world. Trends towards nationalism and protectionism could lead to further suspension of operations in other regions.

**Economic:**

Strives through volatility such as rising interest rates. Higher margins than its substitutes and competitors.

**Social:**

Improving flexibility for employees. Automation vs providing employment for communities around the world. The remote working model may not be conducive to how Visa et al operate.

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**Legal:**

Prohibition of ownership of international businesses in some regions will hinder growing usage of their services. Local laws only allowing domestic networks for transactions. Lack of restrictions on surcharges. Rising compliance costs.

**Technological:**

Opportunity to enter the AI race and also compete in the digital payments sphere. AI risk must be carefully managed leading to greater compliance costs. Investing in and developing its own digital capabilities.

**Environmental:**

Decarbonisation should be easier for a largely service based businesses due very few if any physical delivery and movement of products.

Sources:

Morningstar, 2023 Annual reports of Visa, Amex and Mastercard.

<https://www.paypal.com/uk/digital-wallet>

<https://www.spglobal.com/spdji/en/indices/digital-assets/sp-cryptocurrency-largecap-ex-megacap-index/#overview>