**VISA INC**

**Company description and Industry it operates in**

Headquartered in Foster City, California, Visa Inc. stands as a prominent American payment service provider with a global footprint spanning over 200 countries. Operating through its sophisticated VisaNet processing network, the company facilitates the expeditious clearing and settlement of secure payment transactions on a global scale. Positioned within the dynamic and intensely competitive landscape of the global payments industry, Visa plays a pivotal role in dismantling barriers and fostering global economic connectivity. The company's comprehensive portfolio encompasses a diverse range of offerings, including mobile payments, payment cards, commercial payments, transaction processing services, merchant solutions, and various digital services. As the digital payments industry continues its robust evolution, Visa anticipates significant growth, with the total transaction value projected to reach an impressive US $9.46 trillion in 2023. This trajectory is anticipated to persist, showcasing an estimated annual growth rate (CAGR 2023-2027) of 11.80%, ultimately culminating in a projected total transaction value of US $14.78 trillion by 2027. This trajectory is substantiated by the escalating adoption of digital payments, driven by the unparalleled convenience they afford users, enabling swift and seamless transactions. Within this expansive landscape, digital commerce emerges as the dominant sector, projecting a total transaction value of US $6.3 trillion in 2023, with Mobile POS payments closely following suit at $3.3 trillion in total transaction value. Visa's strategic positioning and robust portfolio uniquely position it to navigate and capitalize on these burgeoning trends within the flourishing digital payments ecosystem. Visa stated strategy “ is to accelerate our revenue growth in consumer payments, new flow and value added services and fortify the key foundations of our business model”

**Two close peers**

In consideration of their primary operational focus and key financial indicators, Visa's primary competitors emerge as MasterCard and American Express. Despite neither Visa nor Mastercard directly issuing credit cards, distinct from American Express, these entities are deemed direct competitors due to their global network presence akin to Visa, offering a comparable spectrum of services and boasting expansive international client bases. MasterCard's financial performance for the 12 months concluding in September 2023 is noteworthy, reflecting a revenue of $24.367 billion, marking a substantial 12.62% year-over-year increase, accompanied by a robust market capitalization of $388.08 billion. In contrast, American Express achieved a revenue of $65 billion over the same period, depicting a notable 23.39% year-over-year increase, with a market capitalization of $124.49 billion as of November 2023. This comparative analysis underscores Visa's strong competitive standing in the market, positioning itself as a global leader in digital payments. Visa reported revenues of $29.3 billion for the fiscal year 2022, marking a substantial 22% increase from the preceding year, coupled with an elevated market capitalization surpassing both MasterCard and American Express at $515.48 billion.

**Substitute and new markets**

VISA is strategically positioned to harness the opportunities presented by technological advancements and the ongoing shift towards digital payments. The recent acquisition of Tink AB and the agreement to acquire Pismo underscore Visa's unwavering commitment to innovation and its proactive expansion into emerging markets. Notably, Visa is actively exploring the integration of blockchain technology into its payment systems, collaborating with fintech partners to enhance transaction speed and security.Visa's overarching strategy encompasses a dedicated focus on value-added services, including but not limited to fraud prevention, advisory services, and the incorporation of open banking capabilities. Leveraging its extensive network and cutting-edge data analytics, Visa is well-poised to deliver distinctive services that elevate customer experience while generating additional revenue streams. The company's substantial investment in these strategic areas serves as a testament to its forward-thinking approach to sustainable growth and proactive customer engagement. Furthermore, Visa is positioned to introduce a user-friendly app designed to enhance spending management efficiency, providing users with a convenient tool to streamline and optimize their financial transactions. This initiative aligns with Visa's commitment to delivering innovative solutions that cater to the evolving needs of its user base. Visa’s acquisition of ‘Currencycloud’, aims to enhance Visa’s FX capabilities in cross border payments, as CurrencyCloud is a global platform that enables banks to provide FX solutions.

Geographical expansion. Visa Debit Processing Service (DPS) processes payments for eight of the top ten Visa US issuers and its 44bn transactions represented approximately one-quarter of Visa’s processed transactions. Yet this has historically been largely a US business and management has outlined plans for international expansion, starting in Germany. While issuer debit processing is a competitive market, high domestic market share suggests benefits to product bundling and is encouraging for the international expansion potential.

**Key revenue and cost drivers**

Visa's fundamental revenue streams emanate from its global facilitation of payments, augmented by a diverse array of value-added services. The revenue structure is segmented into five primary categories, namely service revenues, data processing revenues, international transaction revenues, other revenues, and client incentives. Service revenues, totalling $13.4 billion in 2022, result from the provision of services supporting Visa payment transactions. This revenue surge was attributed to a remarkable 15% growth in nominal payments volume, underscoring the expanding utilization of Visa payment services by clients. Data processing revenues, amounting to $14.4 billion, encompass earnings from value-added services, maintenance, and support services that facilitate transactions between Visa clients. This category includes revenues from authorization, clearing, settlement, value-added services, network access, and various support services globally. The notable uptick in revenues is primarily attributed to a substantial 17% growth in processed transactions, although it was partially mitigated by the suspension of operations in Russia and adverse currency fluctuations. International transaction revenues, totalling $9.8 billion, stem from cross-border activities, predominantly arising from the processing of transactions where the issuer's country differs from the beneficiary, involving currency conversions. Visa and Mastercard’s take rate or revenue yield (net revenue divided by total payment or purchase volume) has increased by respective averages of only 0% / 1% per annum over the past 5 years to FY22 (Figure 25 and Figure 26). However, yields were impacted during the pandemic and the higher yielding cross-border mix is only set to fully recover over the next year. Finally, other revenues, accounting for $2 billion, primarily comprise fees for utilizing the Visa brand or technology, coupled with revenues related to acquisitions, consulting, and marketing services. This nuanced revenue structure exemplifies Visa's multifaceted approach, leveraging diverse income streams to navigate the intricacies of the global payments landscape. Continuing to grow the network reach is critical for the durability of these networks, enabling them to remain key distribution partners for product innovators. New digital wallets coming to market have often partnered with the networks to benefit from their merchant acceptance footprint, rather than build this directly, even in the case of the largest enterprises like Apple. In another example, previously closed loop digital wallets such as PayPal are using the new Visa+ product, launched in April 2023, to facilitate open loop interoperability with other networks. The card networks have been focused on driving network-of-network or multi-rail strategies. Leveraging connections with A2A and other rails, Visa / Mastercard claim to have access to nearly 7bn / 10bn endpoints5 , thus maintaining leadership in network reach.

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.

**Costs**

Visa operating expenses are divided in 7 main segments: personnel, marketing, network and processing, professional fees, depreciation, and amortisation, general and administrative and litigation provision, which was not considered a core expense. Personnel expenses include salaries, employee benefits, incentive compensation, share-based compensation, and contractor expenses. Personnel costs are nearly half of all costs at the company, with costs of $4.990 million in 2022, which was a 18% increase from 2021. This increase represented high remuneration per employee and increased headcount. There were some also increases in support for employees in Russia and Ukraine. No of employees and wage inflation is therefore a key sensitivity in Visa Inc overall cost base. Marketing expenses rose 18% to $1.3bn on 2021 due to higher spending on various campaigns including the FIFA World Cup. Network and processing expenses come to $743m in 2022 a rise of 2% on 2021 and these mainly represent expenses for the operation of our processing network, including maintenance, equipment rental and fees for other data processing services .. General and Administration accounted for $1.194bn a rise of 21% on 2022.

**Identify key trends**

With the total transaction value in the digital payments industry projected to reach $9.46 trillion in 2023, Visa is well-positioned to capitalize on the rising adoption of digital payments driven by the convenience they offer. The company's revenue drivers include service revenues and data processing revenues, fuelled by a 15% growth in nominal payments volume and a 17% increase in processed transactions. Visa's commitment to technological innovation, as evident in its exploration of blockchain technology and strategic acquisitions like Tink AB, aligns with market trends and enhances its competitiveness. The company's strategic focus on value-added services, such as fraud prevention and open banking capabilities, underscores its forward-looking approach to creating additional revenue streams. While high operating expenses, regulatory complexities, and dependency on clients pose challenges, Visa's revenue growth of 22% in 2022, coupled with a higher market capitalization than its close competitors, MasterCard and American Express, reflects its solid financial performance and market leadership.

**SWOT ANALYSIS**

|  |  |
| --- | --- |
| Strengths  | Weaknesses |
| * Global presence -operating in 200 countries
* Processing capability - over 65,000 transactions per second)
* Safe data centres - safe centres protected from natural disasters, criminal attacks and terrorism.
* Strong marketing – Sponsoring several events throughout the year including Fifa, the Olympics and Visa Newsroom
 | * Risky operations – dealing with no-tangible financial transactions, high risk of fraud and hacking
* High operating expense – high expenses on R&D and innovation to continue being leaders and improving user experience
* Dependency on clients – Involved in B2B sales as it doesn’t produce cards directly, therefore dependent on financial institutions in the market
* Regulatory and legal challenges – Visa operates in a highly regulated environment. The company’s 10-K filing highlights the complexity of global regulations that impact Visa
 |
| Opportunities  | Threats  |
| * Using innovation – Visa is well positioned to capitalise on new innovation and technological advancements. They can make their products/services more facilitating for the users
* Increasing number of banks – increase in the number of banks poses an opportunity for Visa to attract these banks to take their services
* Expansion of value-added services – Visa’s strategies includes a focus on value-added services such as fraud prevention. By using its vast network and data analytics, Visa can offer differentiated services to improve customer experience and generate new revenue streams.
 | * Global recession – recessions always damage businesses as they force people to lower their cost of living
* War in Russia-Ukraine – since the war began, Visa stopped operating in Russia and have witnessed a loss of $1.6b since than.
* War in Middle East
* High competition – the payment processing industry is witnessing the entry of new players and the growth of alternative payment methods. Visa must work on USP to remain relevant as Mastercard and Paypal maintain their position in the market
 |

The SWOT analysis reveals a company with a formidable global presence and financial strength, looking to leverage technological advancements and expand its value-added services.

**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

**PESTLE ANALYSIS**

|  |  |
| --- | --- |
| Political  | * Government regulations
	+ As Visa operates in a range of countries, each country has its own set of regulations related to financial services. Therefore any changes to these regulations can impact Visa Inc.’s operations
* Trade policies
	+ Operations are affected by trade policies adopted by different countries
* Political stability
	+ Political instability in any country can affect Visa’s Inc.s operations. Any unrest, protests or wars, like seen with Russia which has costed Visa $1.6 billion since it stopped operating there as Russia accounted for 4% of revenues
 |
| Economic  | * Global economic conditions
	+ Visa operates in a global marketplace, and as such, the economic conditions of different countries can impact its operations.
* Exchange rates
	+ As Visa operates in multiple currencies, fluctuations in exchange rates can affect its revenue and profitability. Take the euro and sterling suffering at the moment, compared to the US dollar flourishing
* Inflation rates
	+ Increase in interest rates can lead to an increase in the cost of operations for Visa. Inflation rates very high at the moment, which will be affecting Visa’s operations. Also, affecting consumer spending.
 |
| Social  | * Changing lifestyles and demographic shifts
	+ As changes happen, shifts in spending habits change, which can affect Visa’s transaction volume and revenue growth. Demographic shifts can affect Visa, with an aging population Visa can capitalise on an increase in healthcare needs.
* Technological advancements
	+ The increasing adoption of mobile payment solutions could compete with Visa’s traditional payment solutions
 |
| Technological | * The rise of mobile payments has created new opportunities for Visa
* Visa has been exploring the use of blockchain technology in payments, partnering with fintech companies to explore the potential of blockchain in improving the speed and security of transactions
 |
| Legal  | * Anti-money laundering laws
	+ Visa is required to comply with various anti-money laundering laws, to prevent money laundering and terrorist financing
* Data privacy laws
	+ Visa is dealing with a lot of sensitive customer data. Laws like GDPR and CCPA are critical for Visa to protect customer data and maintain customer trust
* IP laws
	+ With a strong portfolio of patents and trademarks, Visa has to protect these intellectual property rights to maintain a competitive edge
 |
| Environmental  | * Climate change
	+ Can affect operations with bad weather, leading to operational disruptions and increased costs
* Regulatory compliance
	+ Visa operates in a highly regulated industry where it needs respond to new environmental regulatory compliance
* Natural disasters
	+ Floods, hurricanes, earthquakes can all impact Visa’s operations. As well as damaging the company’s physical infrastructure
 |

**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

**Competitive landscape**

Visa competes against all form of payment. Including paper-based payments, primarily cash and checks and all forms of electronic payment. Electronic payment competitors principally include.

* Global or Multi Regional Networks. E.g. Mastercard, Amex, Discover, Union Pay
* Local and Regional Networks e.g. Star , NYCE and Pulse in the US, Interac in Canada
* Digital Wallet Providers
* Alternative Payment Providers
* Real-time Payment (RTP) Networks
* Payment processors

Visa has a higher market capitalisation ($515.48 billion) compared to both Mastercard ($388.08 billion) and American Express ($124.49 billion). In the competitive landscape of the payment technology industry, Visa, a dominant player, contends with a moderate threat of new entrants. In the fiercely competitive landscape of digital payment platforms, Visa Inc. has encountered intense rivalry, particularly in the evolving shift from card systems to mobile payment platforms. Despite facing challenges in breaking into the Chinese cashless market and experiencing setbacks with key merchants like Kroger, which rejected Visa due to high charges, Visa contends with formidable competitors offering similar services at more reasonable prices. There are some 300 plus payment methods that compete with Visa and Mastercard’s many of which charge lower fees to merchants . On disruption risks, account-toaccount (A2A) rails are currently most in focus. Worldpay forecasts A2A to take share of consumer spending, driven by merchant adoption due to low fees. But A2A volumes are just 3% of combined card volumes and growing only slightly faster than cards. Consumers continue to prefer cards for many reasons including rewards and convenience. The low fees of bank transfers understandably appeal to merchants and are increasingly easy for consumers to use via digital wallet intermediaries. But from a relatively small base, A2A volumes are forecast to grow only

Slightly faster than card volumes, according to Redburn Atlantic.

Competitive concerns are ever present for card networks. Interestingly countries like Brasil and India have seen rapid adoption of A2A. In Switzerland Twint reaches half the country’s population and, in the Netherlands, iDeal facilitates 70% of Dutch ecommerce transactions. There have also been a recent number of announcements made by merchant acquirers to enable their merchants to accept A2A payments, such as: i) Stripe is now promoting its Link payment button, which can store both card and bank account payment credentials like PayPal (Stripe previously partnered with open banking vendor Plaid, but now appears to be providing its Link payment button in-house, launching with merchants such as Uber and Airbnb), ii) Adyen partnered with Tink (owned by Visa) in October 2022 to provide Pay by Bank capabilities (though in this case Tink is owned by Visa), and iii) Shopify is using Volt to provide A2A payments to its international merchants from June 2023. Leveraging real-time A2A payment rails, moving money electronically has become low cost, quick and frictionless, which one could argue threatens to displace the card networks’ long-term share of consumer payments:

• Cheaper. Illustrating the fee advantage of A2A rails, economists at the Brazilian central bank found that its local payment method Pix cost an average 22bps for merchants, which was well below 100bps+ for debit and ~220bps for credit cards. That said, fees vary significantly by region e.g. interchange fees in Europe regulated at low rates likely make the difference in fees less meaningful.

 • Faster. A2A transactions are becoming close to real-time in speed as countries upgrade their bank-to-bank rails. This enables merchants to receive funds almost instantly, providing a cash flow advantage compared to cards, which typically settle two days after authorisation.

 • Easy. Biometric authentication on mobile phones has made these payments relatively low-friction and secure, though arguably no more so than for card-funded digital wallet transactions.

As such, the chart below from open banking firm TrueLayer suggests a starkly negative outlook for carded market share. The chart below is based on European ecommerce transactions, a subsegment of the global consumer payment market that is arguably more competitive than the US with respect to the number of local alternative payment methods.



Interestingly the survey from Redburn Atlantic Equities by Token in May 2022 showed that consumers perceive cards as broadly having the same security as A2A payments and significantly easier to use,



Robust barriers to entry, such as stringent regulatory compliance and substantial capital requisites, shield Visa, while the allure of untapped markets and technological innovation beckons potential newcomers. Visa's revenue resilience, fuelled by standing, demanding a sustained commitment to innovation. Conversely, Visa adeptly wields a low bargaining power over its diverse supplier base, strategically manoeuvring within an environment devoid of supplier concentration. The high bargaining power wielded by Visa's clientele, comprised of influential entities like financial institutions and merchants, necessitates strategic initiatives. Visa must continually differentiate its offerings, fortify customer relations, ensure competitive pricing, perpetually innovate, and expand its customer portfolio to maintain a favourable competitive position. In recognizing the looming threat of substitutes in an ecosystem teeming with diverse payment methods, Visa proactively combats this challenge by fostering innovative solutions, competitive pricing strategies, robust security protocols, collaborative ventures, and comprehensive customer education initiatives. The intensity of industry rivalry within the payment technology realm, where aggressive competition and perpetual innovation prevail, underscores Visa's imperative to maintain a strategic edge. Strategies encompassing product differentiation, strategic alliances, sustained investment in innovation, unwavering commitment to customer service excellence, and judicious pricing practices are vital for Visa to mitigate the competitive fervour. In sum, while Visa presently commands a robust market position, prudently navigating these dynamics and sustaining a focus on innovation, client-centric approaches, and strategic alliances will be instrumental in fortifying its investment appeal in the dynamic landscape of the payment solutions industry. V/MA are expanding reach with both consumers and merchants, making the networks key distribution platforms for product innovators. In addition, the growth of valueadded services differentiates the networks and enables them to monetise noncard transactions.

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