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Market Research Report Visa Inc.

Visa inc. is a global credit card company which is responsible for digital payments. Its customers include individuals, corporations, governments, and financial firms. Visa goods include credit, debit, commercial, prepaid, and money transfer products. These products are used by financial institutions all over the world. The purpose of the following report is to assess the impact that Visa inc. has in its market.

Visa is a member of the digital payment technology industry. Digital payment technology is defined as “financial transactions that do not involve the physical transfer of currency” (GoCardless). Digital payment technology is currently one of the largest industries in the world and is still growing. According to Yahoo Finance as of 2022 the Digital payment market was estimated to be worth $84.5 billion with the expectation that it will reach $505.5 billion by 2032. This is based on its CAGR of 19.7% (Yahoo finance). These payments are made using smart phones, credit cards, and the internet. The two types of digital payments are peer to peer and business to consumer. Visa’s role in this industry is being the card network that connects consumers, banks, and merchants making the transactions occur. It is not alone in the industry having fierce competition from companies like MasterCard, and American Express.

American Express specializes in payment cards like Visa. American Express has strong financials. It has a stock price of $174.56, a P/E ratio of 16.38, a market cap of $127 billion, and the stock price has grown 68% in the last five years. Mastercard is the second largest payment processing company in the world, only behind Visa. It has a stock price of $424.68, a P/E ratio of 36.98, Market Cap of $398.25 billion, and the stock price has grown 117% in the last five years. Well, both companies are peers there is still alternatives to Visa which are used today.

Some substitutes to digital payment companies are cash are checks. Credit Cards were not invented until 1946 and debit cards in 1966. Neither became widely accessible until the early 1970s. Before that people paid for everything using cash, checks, or money orders. Today cash and checks are still used but they are much less common. Cash is only used for small transactions between individuals or in person business to customers. Checks are mostly used to pay employees but have become far less used compared to direct deposit which is a form of digital payment. Cash makes up 18% (San Fransisco Fed) of today’s transactions and checks consist of just 4% (Washington Post). Those are old fashioned forms of payment whereas the new market that works against Visa is Cryptocurrency. The largest Cryptocurrency today is Bitcoin. Bitcoin differs from Visa for a couple reasons. Bitcoin is decentralized meaning all transactions are peer to peer on the blockchain. Visa on the other hand acts as a middleman between the bank and the user. Bitcoin is meant to be easily accessible, only requiring a bitcoin wallet and internet connection to make a transaction. Bitcoin is also meant to have much lower fees than Visa.

Fees are one of Visa’s main revenue drivers. In the 2023 Fiscal year Visa had a revenue of $32 billion. The Revenue was broken down into five parts service, data processing, international transactions, other, and client incentives. Service Revenue made up $14.8 billion of revenue. Data Processing was the largest contributor giving $16 billion in revenue. International transactions made $11.6 billion in revenue in 2023. Client incentives are visas entering long term contract with clients by giving cash incentives. Client incentives had a revenue of negative -$12.2 billion. In 2023 Visa had a total of $11.6 of operating costs. These costs were made up of categories such as personnel, marketing, networking and processing, professional fees, depreciation and amortization, general and administrative, and litigation provision. Personnel costs were the highest at $5.8 billion followed by marketing at $1.3 billion.

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.

The Visa Consulting and Analytics team recently listed the ten key trends for 2023 payments. The first one was Gen Z is joining the workforce meaning it is important to observe how they adopt payment methods. Trend 2 is sustainable spending is getting bigger. Visa sees this as an opportunity to create digital tools to help consumers see the impact of what they are buying. Trend three was B2B goes 3.0 meaning businesses are looking more for a one stop shop for payment providers. Other key trends that will affect the market for Visa are Web3, guarding against fraud, mobile wallets, open banking picking up the pace, embedded finance transformation, gig economy boom, and the buy now pay later market. Each of these Trends gives Visa an opportunity to increase its revenue.

**Swot Analysis**

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| --- | --- |
| **Strength**   * Global leader of the processing payment industry * Operates across 200 countries. * Capable of making 65,000 transactions a second * Has a dominant market share having done over 14 trillion transactions * Consistent growth in net income each year | **Weakness**   * Global payment industry is highly regulated * Must adhere to global sanctions, anti-money laundering regulations, and anti-corruption regulations * Governments can regulate Visa’s pricing strategies * Macroeconomic trends can affect consumer spending habits hurting |
| **Opportunity**   * Visa has the opportunity to grow into many markets * With the growth of digital payments visa can expand into sectors like the digital wallet * Buy now pay later is taking off allowing for Visa to expand into that market * Visa can also expand horizontally into industries like fraud prevention, and advisory services | **Threats**   * New forms of payments are arising * Cryptocurrency is gaining popularity as a form of payment * Mobile payment companies are also on the rise with companies like Venmo, PayPal, apple pay, and more * Geopolitical threats also cause alarm making it difficult for companies to operate at full capacity at times. |

**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**

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| **Political:**   * As a global company Visa must deal with different regulations from over 200 countries * Visa must be up to date with different trade policies. * Political unrest in any country can lead to a loss of revenue for Visa |
| **Economical:**   * Macroeconomic conditions across all country’s effects Visa * Visa is also affected by exchange rates * Visa must consider inflation rates. * Interest rates also have a large effect on revenue. * Consumer spending is the biggest economic factor effecting visa |
| **Social:**   * Visa must take into account the different cultures it caters to across the world * Visa must also take into account technological preferences between ages * Population demographics also influence spending habits |
| **Technological:**   * Visa has begun investing in mobile payment solutions to keep up with companies like Venmo, Apply Pay, Zell. * Visa has begun to research the blockchain to keep up with the new technology * Visa is also investing in stronger cyber security |
| **Environmental:**   * Visa must take into account consumers desire of sustainable purchasing * Company must adhere to environmental policies across all the countries it operates in * Natural disasters and lack of resources can also affect consumer spending hurting Visa. |
| **Legal:**   * Visa must comply with numerous laws. * It has to take in account anti money laundering laws and anti-terrorism funding laws * Visa must follow antitrust laws, data privacy laws, and intellectual property laws * Failure to follow any of these can result in fines and legal consequences |

**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

Today Visa is still number one in its industry. It boasts a market cap of $520 billion. This is over $100 billion more than the next closest U.S. company in the industry. Visa has a current stock price of $258 and P/E ratio 31.23. Visa has also seen a growth of 108% over the past five years. Visa’s net income has also gone up annually all but three times since 2009. None the less it has not had a loss in any of those years. These strong financials have allowed Visa to dominate its market share. In the United States Visa controls 61.6% of the market and internationally Visa controls 40% of the marketplace. This puts Visa in first place both domestically and internationally. Internationally Visa has strong competition with the Chinese company UnionPay. UnionPay makes up 32% of the international market, mainly eastern Asia. Visa and other card companies are the norm right now, but they will have to adapt. Mobile pay is becoming more and more popular along with cryptocurrency. Being adaptive is important in this ever-changing industry.

**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). Diversification of Services strategy includes expanding beyond traditional credit and debit card transactions into new areas such as business-to-business payments, cross-border transactions, and data analytics services, diversifying its revenue streams. 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.

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