# Visa Inc.

Industry: Digital Payments

Key Competitors: Paypal, Mastercard

The main reason both Paypal and Mastercard are the largest competitors of Visa is due to their focus in similar areas whilst other large competitors have a more diverse area of operation. Both Paypal and Mastercard are also seen in a good light by investors with their market caps sat at $67.2 Billion and $397.7 Billion compared to Visa’s $532.1 Billion.

Substitutes:

* Cash
* Cheques
* Electronic payments
* Virtual currency
* Digital Wallets
* Global/multi regional Networks
* Domestic and closed loop payment systems
* Mobile channels
* Ecommerce payment methods.

Revenues:

The 4 types of revenue that Visa produce is: Service, Data processing, International transactions and other. Service revenues are related to the services provided by Visa to customers to aid them in the usage of their systems, Fees relating to payment volumes. Service revenues brought in $14.8 Billion in 2023.

Data processing revenues are earned from authorising, clearing and settling transactions, value adding services relating to issuing, accepting, risk and identifying solutions along with network access, maintenance and support that facilitate transactions and info processing. Data processing revenues totalled $16 Billion in 2023.

International Transactions revenue comes from international transactions which bring in data processing and service revenues along with currency dealings. International Transactions brought in $11.6 Billion in 2023.

Other income comes from value added from advising, marketing and certain card benefits, licensing fees for the visa brand as well as fees for account holder licensing ,certification and services. Other income totalled $2.4 Billion in 2023. International Revenues slightly higher at $18.5 Billion compared to the $14.1 Billion of domestic in 2023.

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 table below shows how much of the total revenue each of the revenue stream accumulated excluding the expense from client incentives.

Revenue Drivers include:

* Lower growth due to higher spending on customer incentives
* Changes in USD currency strength against other currencies (-1.5% to growth in 2023)
* Number of transactions occurring up by 10%
* Increase in volume of transactions occurring both nationally and internationally 5% and 23%
* Increase of services used by current customers.

Expenses:

Personnel expenses are from salaries, employee benefits, incentive compensation, share based compensation and contractor expenses. Personnel expenses totalled $5.8 Billion

Marketing expenses include those that are associated with marketing campaigns along and advertising. Sponsorships and other related promotions as well as client marketing. Marketing Expenses totalled $1.3 Billion in 2023

Network and processing costs are those associated with operating the processing network this includes the maintenance and equipment rental. The fees for data processing fall under this as well. The costs for Network and Processing totalled $736 Million.

Professional Fees are those based around legal and consulting that are required as well as other undefined professional services. Professional fees total $545 Million.

General and Admin Fees include those surrounding mainly card benefits (costs associated with airport lounge access, extended cardholder protection and concierge services), facilities costs, travel and meeting expenses, foreign exchange gains and losses along with other supportive corporate expenses. General and administrative costs incurred totalled $1.3 Billion in 2023.

Litigation Provision is outlined as an operating expense and started to be incurred in 2022 and is based on litigation cases and is outlined by the advice of the counsel. Litigation costs reached $927 Million.

Industry Trends:

An increasing number of customers are shying away from going into stores to make their purchases instead going online which means more likely for them to use digital payments systems this in turn will increase revenues.

There are new methods to pay another person or company as listed in the other substitutes this could lead to lower revenues as existing and potential customers opt for different payment methods.

Fintech companies that are creating new digital payments systems or networks that aid these systems are either being purchased by or merged with digital payments companies. Those who fail to create external relationships could fall behind. Resulting in a drop in revenues and potential increase in costs as companies spend more to increase their customer base.

Technologies are evolving making more efficient or convenient systems for customers those who can’t adapt to the industry environment will struggle. Consistent adaptation inflates research costs to however, failure to keep up to date will cause customers to go elsewhere.

Consumer behaviours are changing as people are using a more diverse set of payment methods than ever before and looks to continue growing and diversify further this means that keeping customers is requiring more incentives which reduces net revenues.

Regulations around the digital payments industry are becoming more restrictive. This includes which countries certain companies can enter for example in New Zealand companies have to consult the government before entering which can superficially create monopolies. Tthis increases costs as more incentives may be required in order to obtain access to customers in certain countries.

RTP networks are decreasing their costs allowing for them to lower prices for customers deteriorating growth for digital payment companies within the US.

Cyber Attacks are getting more elaborate and more common which leads to higher costs whether to pay customers for funds they lost or to protect against them. Increasing attacks creates a lower level of trust for digital payment systems.

Merchants who were loyal customers of specific digital payment customers are beginning to use multiple which lowers their costs but increases competition as it lowers the profitability of individual customers.

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| **Strengths**   * Visa reported a net profit margin of 52.89% which increased since 2022 showing they’re very good at managing finances and operations in a way to create further value from current customers. * CapEx just above $1 Billion to bring in $20 Billion shows the amount of free cash flow that Visa have available to spend on researching new technologies to keep up with the everchanging environment. * Visa own multiple different patents and trademarks which make it hard for competitors to catch up. | **Weaknesses**   * The size of Visa is an issue as it means most people have already done business with them in one way or another. This means their main way of growing is either internationally, which can be more expensive than growing domestically, or by an increase in the volumes customers conduct their business. * This size also creates issues surrounding monopolistic business practices and puts them under scrutiny which Visa found when they got their practices put under the microscope around inflated charges to merchants to use their services. |
| **Opportunities**   * Countries that are difficult for international digital payments businesses to enter are a hidden opportunity for Visa due to their potential to create further monopolies within these countries if they can persuade the governments to allow them to conduct business. | **Threats**   * Lower cost RTP systems are deteriorating the customer base of Visa within the US which will cost Visa more funds to gain new customers. * Delaware laws surrounding mergers and the current litigation against visa make it almost impossible for them to merger in an environment where their competitors are merging with newly established FinTech companies which help them better their digital payment systems and grow. |

**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

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| **Political**  International governments are reluctant to let foreign businesses control the payment systems in their countries.  Cyber-attacks aimed toward countries going through businesses are becoming more common and vicious. | **Economic**  The clearing house oversees the RTP network in the US with similar systems in the works in other countries creating low-cost, high efficiency systems for customers pay.  Currency pairings around the world have serious impacts on the bottom line of international companies which is inflated for digital payments companies whose focus is ensuring these finances get to their destination safely | **Social**  Customers are split between an increasing number of different payment methods.  Customer trends show that less people are going into stores to make their purchases thus creating more accessible potential customer base.  People who are already use digital payment systems are loyal and require higher incentives. | **Technological**  New technology is coming out which makes payment cheaper and more efficient failing to keep up with these advances can lead a company into obscurity.  The competitive outlook in the industry is more toxic with an increasing number of methods to pay for items. | **Environmental**  Although digital payments companies don’t have a large impact or a direct one, they are able to increase sustainability of those they do business with by offering them incentives of doing so. | **Legal**  Regulations surrounding the industry are ever changing as governments around the world begin to understand more about the control the companies possess when they do well.  Companies which have too much control such as Visa and Mastercard have actin taken against them for their monopolistic business practices. |

**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

Overall, the outlook for Visa is that of high risk. They see an environment around them that has extreme competition and constant evolution with a lack of ability to adapt externally through mergers, acquisitions or further patents and trademarks. This requires them to attempt to build from within which parallels their current strategy they are enforcing, allowing competitors to research potential technologies and move forward then building upon the newfound technologies. This allows for Visa to see what is good and what is bad and see others spend excess funds on failures. These risks they avoid by employing this strategy can be seen through the outcomes at PayPal who look for new technologies regularly which Visa imitate to better effect.

The lack of ability to grow externally however, although working out for them currently can lead to customers moving to competitors due to better, more efficient technologies which require higher incentives to reacquire. This is the biggest risk as Visa can’t begin to grow externally until their competitors catch up which is beginning to make their growth expectations in the stock market lower which leads to less investors believing in their financial growth, if investors believe in the industry they would be better off investing in their competitors before investing in Visa as they have to catch up to Visa before Visa’s investment would make due to the increased expected growth. This statement is backed up by the P/E performance of PayPal.

**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). 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.