# VISA Inc - Market Research Report

## Industry: Business Services (Digital Payments)

**Overview**

Most likely, you have encountered VISA in one form or another, with their presence being monumental in their core payment products. However, their business model may be even more extensive than many first envisage. Outlined in their Annual Report (2023), their strategic segments are split up into “Consumer Payments, New Flows and Value-Added Services”. Targeting these segments enable VISA to “differentiate”, “capture new sources of money movement” and “remain focused on moving trillions of dollars of consumer spending”. Notably, there is a degree of risk mitigation through a balance of products in different phases of their lifecycle, with mature products like payment cards being blended with innovative facets of the financial sector e.g., tokenization and open banking. This is intended to serve as a counter-active tool to creative destruction in an increasingly dynamic financial landscape.

**Peers/Competitors**

Using VISA’s core revenue drivers as a starting point, it stands to reason that their biggest competitors would consist of the major players in Consumer Payments. MasterCard would be considered a clear competitive force to most, and with good reason, as these entities continue to shape how we pay with their widely accessible payment cards. This is exemplified in the 2022 Network comparison in VISA Inc’s Annual Report (2023) with VISA and Mastercard generating $11.668tn and $6.568tn in Payments Volume respectively, and with a staggering 6.873 billion cards in issue between the two of them. Both mature players still have a keen eye on growth however, with top-line revenue still increasing over the last few years. In terms of percentage growth, we have seen 23.41%, 17.76% and 12.62% for MasterCard (2021-23), with VISA boasting 10.34%, 21.59% and 11.41% over the same period.

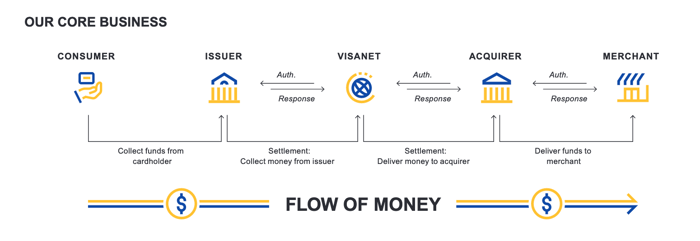
\*2023 includes the 12-month trailing revenue from September

Another large-scale competitor to VISA is PayPal. Despite considerable differences in their business models, the presence of PayPal in this market is undeniable, and they show no signs of slow-down. Their ‘closed-loop payments system’ (The Motley Fool, 2022) operates through market participants joining the network and interacting with one-another using PayPal accounts to conduct the payments process. This can be viewed as a supplementary tool to VISA’s strategic objectives, given the PayPal network uses stored cards to facilitate transactions. However, risks arise from this model, as the natural tendency would be for PayPal to promote the use of ‘PayPal balances’ and relinquishing control puts them at the mercy of the multinational corporation.

One aspect of the payment industry that would be difficult to ignore is the rise in cryptocurrencies. There has been a well-documented introduction of the capability to use the blockchain, a decentralized ledger that can operate with autonomy as a system. Given the mistrust many consumers may have post-financial crisis 2007-09, governmental currency mismanagement and red tape from large-scale regulation, there is a discernible hunger amongst much of the global population to adopt this technology. However, full-scale adoption is likely to be limited in the short-term given its reputation as a speculative asset, with volatility being counter-productive to its purpose as practical application of Bitcoin, for example, are hindered by its inability to act as a viable store of value and medium of exchange.

**Revenue/Cost Drivers**

As touched upon in the Overview, the three targeted revenue segments come from Consumer Payments, New Flows and Value-Added Services. VISA’s core business in Consumer Payments is executed primarily via Debit Cards, Credit Cards and Prepaid Cards. In contrast to PayPal, VISA utilize an ‘open-loop payment network’ (The Motley Fool, 2022) which allows them to offer integrated solutions along the end-to-end process of the consumer extending their VISA card to make payment, up until the merchant acquires the funds for the good/service they have provided. Therefore, their success in generating revenue is not only contingent to the reliability of their technological infrastructure, the quality & delivery of their cards, but also their ability to work and build lasting relationships with partnering financial institutions that strive for a seamless customer experience.



\*Image Source: VISA Annual Report (2021)

Navigating down to the Consolidated Statement of Operations in VISA’s annual report (2023), we can identify the cost bases that VISA are subject to. Using 2021-23 as a frame of reference, some notable categories of expenses are personnel, marketing, network & processing and general. These all have grown in line with expectations given expansion in revenue over the above period. The real crux to the benefit of this industry is that it provides stable cash flows at high-margin, as there is a large degree of automation once the complex infrastructure has been developed. We can observe this over 2021-23 with chronological operating margins of 65.56%, 64.19% and 64.31% delineating the validity of the business model that has formulated over the years, and the margin of safety VISA have to invest and take risks in an era where comprehensive digitalization and AI take centre stage in shaping the future.

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.

**Grid Analysis**

**SWOT**

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| --- | --- |
| **Strengths**  Market Leader: VISA did not reach the status of the biggest player in this market without a robust multi-faceted strategy. Exceptional growth, market share, net income, and a diverse product and region portfolio presents vast opportunities for VISA to invest further and effectively expand. | **Weaknesses**  R&D: the position of VISA relatively lagging behind its peers in R&D investment has been well-stated. Given their stature, it may be advantageous to portion more capital towards innovation to ensure a long-term competitive advantage is maintained. |
| **Opportunities**  ‘New Flows’ and Tokenization: the foundation to provide a fully flexible service offering is well underway, with VISA Token Service (VTS) and Currencycloud platforms meeting the complex demands of the modern consumer who wishes for digital and expansive means of payment services. | **Threats**  Concentration Risk: given VISA’s operating model relies upon B2B sales, it’s growth and prosperity is dependent on the limited actors within the market (financial institutions). They may opt to develop unique technologies or switch to competitors at relatively low fees. |

**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**

|  |  |
| --- | --- |
| **Political**  Conflict: exposure to countries with geo-political tensions - large losses due to Russia-Ukraine war with revenue in Russia making up 2% & 4% of consolidated net revenues respectively. | **Economic**  Debt Servicing: global tightening cycle - Fed Funds rate= 5.25-5.5%, UK base rate= 5.25%, EU deposit rate= 4% - means cost of servicing debt and cost of capital will be high for an unspecified period. |
| **Social**  De-Globalization: prevalence of protectionist policies ‘promoting domestic networks, switches and RTP systems’ on a global scale threatens VISA’s current operations and future expansion prospects. | **Technological**  Online Retailers: large-scale online transition, scan payment facility integration and new FinTech applications provides significant further scope for revenue growth. |
| **Legal**  Regulatory Scrutiny: increased limits on fees/rates with EU IFR, US Fed and MDR regulation amongst others containing restriction on expansion | **Environmental**  CRS: increased emphasis from stakeholders regarding matters ‘that touch upon sustainability, climate change, human capital, inclusion & diversity, and human rights.’ |

**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

**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.

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