*VISA Inc Market Research Report*

**Industry:**

VISA Inc is a multinational payment card services company headquartered in San Francisco, California. The company is in the Financial Services Sector, in the Credit Services Industry, specifically working with electric fund transfers through credit cards, debit cards and prepaid cards. The company uses its digital payments to serve individuals, institutions and government entities. The company is one of the most valuable public corporations in the world, with a 50% market share of card payments worldwide. The company’s VisaNet (global network) has 4 heavily secured data centres –Virginia, Colorado, London and Singapore- that allow for billions of computations each second.

The company began as a method for Bank of America (BoA) to compete with Master Charge (Master Card) in 1958, with the BankAmericard credit card programme (a ‘revolving credit feature’). In 1966 BoA licensed the programme to other financial institutions, then in 1970 BoA formed a cooperative with other issuer banks to take over management and in 1976 it was renamed Visa. The company’s fact sheet states its operations in over 200 territories, 14,000 financial institutions and a $15 trillion volume in over 270 billion transactions with 4 billion cards worldwide.

Visa describes their strategy in the 2023 Annual Report as “to accelerate revenue growth in consumer payments, new flows and value-added services”. Value-added services include open banking, advisory services and risk and identity solutions. New flows include cross-border solutions and commercial solutions (global reach), with consumer payments at the core of the business model, click/tap to pay and tokenization.

**Peer Companies:**

Visa Inc’s 2 foremost competitors are American Express (AMEX) and Mastercard (MA) with similar market capitalisations of $544.5 billion, $131.4 billion and $409.6 billion respectively. As well as enterprise values of $547 and $417 billion (MA), both companies were founded in 1958 and 1966, Visa and MA currently have 28,800 employees and 29,900 employees globally in 2023. However, AMEX falls behind in such categories as it was founded in 1850 and expectedly has a 77,300 strong workforce, likely due to its longevity. Its enterprise value stands at $136 billion better than many other financial services companies, but behind Visa and MA, this may be due to AMEX’s money being earned by discount revenue through merchant transactions, institution and cardholder fees, issuing its own cards yet not having many partner merchants. In comparison, Visa and MA utilise payment networks, services and data processing whereas AMEX is primarily ‘spend’ focused on regard to revenue.

Some comparative ratios are the Price to book, Price to earnings, Return on equity and Price to earnings to growth ratios.

P/B - 14.1 Visa, 63 MA, 4.8 AMEX, Jan 2024

P/E - 32 Visa, 37 MA, 17 AMEX, forward

ROE – 48 Visa, 42 MA, 36 AMEX, 2023

PEG – 2 Visa, 1.8 MA, 1.1 AMEX

The dividend payout ratio for AMEX has a payout ratio of 16% MA a ratio of 19.2% and Visa a ratio of 21.7%. The aforementioned ratios indicate that AMEX may be more profitable and properly valued compared to Visa and Mastercard.

**Substitutes and New Markets:**

Competition in the industry – Visa has over 50% of its customer or client base within the United States. Its primary rivals in the USA are Discover Financial, AMEX and MA. Discover and AMEX can issue their own credit cards and charge card users fees; whereas Visa and MA operate payment processing networks for financial institutions to process card transactions. Visa and MA rely on transaction volume while AMEX and Discover rely on fees and transaction payments from their issued credit cards. The payment solutions industry has fierce competition as PayPal and other companies rely on pricing, customer loyalty, gain market share and continuously innovate.

Potential of new entrants - To enter the payment solutions business it requires lots of capital investment, infrastructure, branding and regulatory approval. The high barrier to entry creates a low threat of new entrants but conversely creates fierce competition between existing competitors. Establishing networks globally is another factor and means that payment solutions in emerging markets could potentially threaten Visa.

Power of suppliers - The bargaining power of suppliers is relatively high as although Visa Inc relies on financial institutions, technology providers and merchant banks, the payment solutions industry has significant competition and switching costs as well as favourable relationships with suppliers can stem increasing expenses for Visa.

Power of customers - Many of Visa’s customers are large institutions with strong purchasing power and as such it's imperative for Visa to remain competitively priced in comparison to other payment solutions. Switching costs lowers the bargaining power of customers as they may lose access to the payment network, employees and cardholders of Visa.

Threat of substitutes - Within payment solutions substitutes pose a high threat as there are many competitors and technologies that can be used in place of Visa. However, Visa innovates with its tap to pay feature and negotiates with banks for greater availability when using their products and services. Constant innovation will stem the threat of substitutes as customers will be inclined to stay with Visa.

**Revenue Drivers:**

Visa’s net revenue for 2023 was $32.653 billion and its net income was $17.273 billion (GAAP); both are more than a 10% increase from 2022. Data processing, Services and International Transactions generated $16 billion, $13 billion and $11 billion respectively (12 months ended). The key business driver is the cross-border volume sales, over 20% YoY growth. Visa primarily makes profit from selling services as a middleman between financial institutions and merchants, the interest from card payments goes to the card issuing institution. In March 2022 Visa acquired the European open banking company Tink which allows the development of data driven financial services. Earnings per share increased by 18% (GAAP & NON-GAAP) and comprehensive income increased by 50%.

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.

**Cost Drivers:**

The cost drivers for Visa are related to its innovation as the payment solution industry is fiercely competitive and seeks to increase availability and ease of use. Operating expenses for September 2023 were $11.653 billion with over $5 billion coming from Personnel (employees and utilities. Client incentives –paid to business partners for product acceptance and routing transactions- was most operating activities totaling $11 billion against $20 billion net cash provided. As percentage of revenue: 2023, Net profit margin 52.9 (above its competitors)

**Industry & Market Trends:**

* Buy Now Pay Later continuing to grow, clothes for millennials most common demographic
* Surge in account-to-account A2A payments particularly in emerging markets
* Real time payments have CAGR of 32% for the 2020s
* Digital Wallets will attract trillions of dollars in the coming years
* Increase in embedded payments for consumer usage
* Growth of contactless, cashier less, tap, phone and digital payments
* Role of AI in AML, generative artificial intelligence in anti-money laundering
* The Web 3.0 method will allow for users to personalise payments and offers etc.

**SWOT grid**

|  |  |
| --- | --- |
| **Strengths** | **Weaknesses** |
| - Global Presence, over 200 territories  - Brand reputation  - Secured data centres  - Events sponsorships | - Possible susceptibility to fraud and hacking  - High operating expenses on innovation  - Dependency on small yet strong pool of clients |
| **Opportunities** | **Threats** |
| - Innovation can create a technological advantage against competitors  - Increase in banks and thereby bank accounts worldwide (emerging markets)  - Investing in cybersecurity  - Increased popularity of e-commerce payments | - Political and Economic instability due to global presence  - Regulatory changes coinciding with technological growth and trust laws  - Payment solutions is a highly competitive industry |

**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 grid**

|  |  |  |
| --- | --- | --- |
| **Political** | **Economic** | **Social** |
| - Suspension of all business related to Russia due to Ukrainian invasion  - Policies, laws and regulations between Visa entities | - Stability of host country & currency  - Inflation, Interest, Unemployment, Exchange and Growth rates | - Changing lifestyles and demographics could impact Visa’s business model concerning spending habits  - Education in the country and Visa’s business |
| **Technological** | **Environmental** | **Legal** |
| - Cybersecurity  - FinTech partnerships  - Mobile payments allowing for new opportunities | - Climate Change & Renewables  - Regulatory laws  - Resource scarcity  - Natural disasters by country | - Antitrust laws in foreign hosts  - Intellectual property laws (important for market share)  - Anti-money laundering  - Data privacy |

**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 Environment:**

Visa has a handful of rivals in the payment solutions industry, those being PayPal, Discover, MA and AMEX. Visa’s competitive advantage over its rivals is its size (both market share and market capitalisation), brand loyalty and innovation.

Mastercard’s strategy revolves around expanding payments for consumers, businesses and governments, extending services and new network opportunities for open banking and digital identities. $8 trillion dollars in 125 billion transactions with a net income of $9.9 billion (all up by 10-12%). MA seeks to further this growth by growing their core, diversifying into new customers and geographies and building new areas for the future. In comparison, AMEX’s year to date 2023 interest income is $14.431 billion, revenues of $35.186 billion, interest expense of $5 billion with $1.5 trillion in volume with 19 billion transactions. MA’s net revenue and interest expense were $24 and $10 billion for 2023.

To keep ahead of its competitors Visa will largely focus on inclusive small business programmes as shown by their 2024 Proxy Statement on ESG. The integration of Currencycloud and Tink demonstrates progress. Visa looks to fortify their key foundations of networking, technology, security, brand and talent (human capital) for their long-term corporate strategy. Additions to employee benefits of wellbeing, financial and life and workforce demographics demonstrate a diverse and inclusive workforce.

AMEX’s similar profitability scope and brand loyalty yet different business model potentially makes it an apt investment comparison to Visa. AMEX has 4 key strategies, expanding benefits for high spending customers, evolving card value propositions, increasing merchant acceptance and increasing global position.

**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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