VISA INC:

Industry: Visa operates in the Transaction and payment processing industry (credit services).

Peers:

Mastercard: Payment processing between the card-issuing bank, the cardholder, and the banks of merchants is Mastercard's primary business. Mastercard's branding and publicity are enormous. Mastercard conducts business in approximately 210 countries worldwide and processes transactions in nearly 150 currencies and 53 languages. With an estimated user base of 36.5 billion, Mastercard is a firmly established brand that competes vigorously within its industry. Its compatibility with multiple platforms is a significant strength of the organisation. Its formidable rivalry towards Visa stems from its exceptional payment processing capabilities and exceptional brand value.

Paypal: PayPal serves as a payment processor for numerous commercial users, online vendors, and auction sites. PayPal charges a fee for the provision of assistance with these operations, including one-click transactions and password memory. With a global presence spanning across 203 countries, PayPal enjoys significant in-band visibility. It provides an extensive array of services, including a virtual terminal, online invoicing, PayFlow Payment gateway, and PayPal. Due to the robust security system that PayPal has implemented; it is a leading competitor to Visa. Although the company’s do differ as PayPal does not issue payment cards they both provide a payment service.

**Substitutes:**

Stripe: Stripe has adopted a contemporary approach in providing payment services. While not classified as a conventional financial services provider like Visa due to its lack of card issuance to clients, this entity does provide a payment processing platform for both businesses and consumers. In addition to its versatility and ability to process a wide range of payment cards, Stripe provides businesses with a platform for credit card processing and payment processing. Thousands of businesses in the retail, subscription, software, and marketplace sectors, in addition to distributors and retailers, utilise the Stripe platform. Additionally, they offer businesses solutions to manage their business expenditures, send invoices, issue virtual and physical cards, acquire financing, and prevent fraud. Despite the perception that Stripe is a viable alternative, a possible merger between Visa and Stripe appears probable soon, given that Stripe could benefit from leveraging Visa's brand recognition to expand its operations in emerging markets.

Paypal: The alternative provided by PayPal differs to Visa’s business model. Visa currently operates as an intermediary between the acquirer, merchant, and the issuer, consumer. In contrast, PayPal operates exclusively for merchants and customers who have registered on their platform. While this may seem like a strategic manoeuvre to enhance customer retention, it is important to note that it restricts the platform to these parties. The potential reversal of this effect could be an incentive for new businesses to onboard, given the self-contained nature of consumers and businesses within the PayPal environment, which is inherent to the business model. However, this does result in reduced fees, as PayPal does not require an intermediary fee in the form of a spread.

**Emerging markets:**

Visa may enter the digital payments sector and compete with PayPal. It can accomplish this by establishing its own payment network, which will allow users and businesses to join the payment ecosystem in exchange for lower transaction costs. Visa's expansion into digitalized payment systems, such as digital wallets, can be critical because it can increase access to digital payments by meeting evolving consumer preferences for managing their money and transforming some previously closed-loop systems limited to specific geographies or functionalities into open ones, providing users with greater choice, security, and utility. They have the opportunity to expand their financial inclusion by ensuring that all consumers and businesses around the world have access to a payment method; this will allow them to dominate in this sector if they are able to implement their own solution to a new area that does not currently have a payment processing system in place (when we refer to area, we mean geographical location). Visa has the potential to expand into the digital currency sector to connect digital currencies to its existing merchant network; this can be accomplished by collaborating closely with large crypto companies.

**Key Revenue Drivers:**

**Consumer Payments:** Most consumers indicate that they have permanently transitioned to digital payment methods for numerous goods. This change in preference is reflected in the worldwide shift towards digital; the three main pillars of Visa’s consumer payments enablement strategy are expanding access to credentials, boosting acceptance, and enhancing engagement. Their development into different payment ecosystems such as tokenisation and working closely with fintech firms.

**New Flows:** Visa's expansion into new business areas such as business-to-business (B2B), business-to-consumer (B2C), government-to-consumer (G2C), and peer-to-peer (P2P), among others, represents a significant opportunity for growth by driving additional transactions and processing volume through Visa's network. Visa's expansion into B2B flows continues to be enormous, with nearly $1.5 trillion in payments volume this year. Their strategy in B2B is centred on card-based payments, cross-border payments, and accounts receivable and payable payments.

**Value Added Services:** Visa's value-added services (VAS) enable both our traditional clients and new partners to provide their customers with secure, reliable, and convenient payment experiences. For Visa, where new flows mean more volume, VAS means more yield on that volume. VAS generated $6 billion in revenue in 2022, and more than half of Visa's clients used five or more value added services. Their strategy for future growth is threefold: 1) deepening penetration of existing products, 2) expanding their suite of value-added products and solutions, and 3) expanding VAS's geographical footprint.

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.

**Key Cost Drivers:**

Personnel expenses include salaries, employee benefits, incentive compensation, share-based compensation, and contractor expenses. (Variable)

Marketing expenses include expenses associated with advertising and marketing campaigns, sponsorships, and other related promotions of the Visa brand. (Variable)

Network and processing expenses mainly represent expenses for the operation of our processing network, including maintenance, equipment rental and fees for other data processing services. (Variable)

Professional fees mainly consist of fees for consulting, legal and other professional services. (Variable)

Depreciation and amortization expenses include amortization of purchased and internally developed software, as well as depreciation expense for property and equipment. Also included in this amount is amortization of finite-lived intangible assets primarily obtained through acquisitions. (Fixed)

General and administrative expenses consist mainly of card benefits, facilities costs, indirect taxes, travel and meeting costs, foreign exchange gains and losses and other corporate expenses incurred in support of our business. (Variable/Fixed)

Litigation provision represents litigation expenses and is an estimate based on management’s understanding of the litigation profile, the specifics of each case, advice of counsel to the extent appropriate and management’s best estimate of incurred loss.

• Personnel expenses increased primarily due to higher number of employees and compensation, reflecting Visa’s strategy to invest in future growth, including acquisitions. The increase also included expenses incurred as a result of steps taken to support employees in Russia and Ukraine.

• Marketing expenses increased due to higher spending in various campaigns, including the FIFA World Cup 2022TM and the Olympic and Paralympic Winter Games Beijing 2022, and client marketing.

• Professional fees increased primarily due to consulting fees related to technology and other corporate projects.

 • General and administrative expenses increased due to higher usage of travel related card benefits, higher travel expenses, the suspension of operations in Russia and deconsolidation of Russian subsidiary and the inclusion of expenses from acquisitions, partially offset by a one-time charge of indirect taxes in the prior year.

• Litigation provision increased primarily due to additional accruals of $861 million related to the U.S. covered litigation.

Strengths:

Visa currently has the largest market share in its market segment for a payment processing company. It has a low credit risk exposure due to the nature of its open loop network. Visa has a strong global brand presence, allowing it to easily partner and expand its business. Has a large clientele base that can be used to promote and deploy new products.

Weakness:

Weak transaction system has revealed inefficiencies in protecting the system from fraudulent payments. Visa is heavily reliant on B2B sales and thus on its clients to purchase its financial services. Significant operating expenses for research and development to create new innovative products.

Opportunity:

Use digital innovation to develop new products to facilitate the ever-changing needs of their consumer. Digital wallets and an online ecosystem to facilitate payments. Payment processing for digital currencies.

Threats:

Due to its global nature, the company will perpetually be susceptible to exchange rate risk. Emerging digital payment platforms that provide advantageous interest rates have the potential to entice a portion of its clientele. There is intense competition from PayPal and MasterCard.

**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

**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

**Political:** Visa Inc. operates in more than a dozen countries and is exposed to various types of political environment and political system risks. To be successful in such a dynamic Credit Services industry across multiple countries, it is necessary to diversify the systematic risks of the political environment.

**Economic**: Although elements such as competition have an influence on the competitive advantage of the company. Visa Inc. may employ economic indicators specific to the industry (e.g., consumer spending, growth rate, credit services industry growth rate) and the country (e.g., inflation) to predict not only the sector's but also the organization's growth trajectory.

**Social:** The culture and practises of a society have an influence on the organisational culture within a given environment. The formulation of marketing messages for consumers in the Credit Services industry and the comprehension of market customers by Visa Inc. are significantly influenced by the attitudes and beliefs held by the general populace.

**Technological:** Visa should conduct technological analysis of the industry as well as the rate at which technology disrupts that industry. Slower speeds provide more time, whereas faster speeds of technological disruption may provide a firm with little time to adapt and remain profitable.

**Environmental:** Visa should carefully evaluate the environmental standards that are required to operate in those markets before entering new markets or starting a new business in an existing market.

**Legal:** Several countries lack the requisite legal framework and institutions to adequately safeguard an organization's intellectual property rights, which may result in obstacles for Visa in the event of legal action.

**Competitive environment:**

The global payments industry is constantly evolving. Existing and emerging competitors compete with Visa's network and payment solutions for consumers, as well as financial institutions and merchant participation. Consumer habits are shifting as technology and innovation drive growth opportunities in ecommerce, mobile payments, blockchain technology, and digital currencies. These advancements are allowing new entrants to emerge, many of which deviate from traditional network payment models. In some countries, the changing regulatory landscape is fostering local networks or allowing for more processing competition. Visa competes with all other forms of payment. Paper-based payments, primarily cash and checks, as well as all forms of electronic payments, are included.

**Area of competition:**

Global or Multi-Regional Networks: Mastercard, American Express, Discover, JCB, and UnionPay are a few examples. These competitors may be more concentrated in specific geographic regions, such as JCB in Japan and Discover in the United States or may hold a dominant position in specific countries.

Local and Regional Networks: These networks, which are present in many countries, are frequently supported by government influence or mandate. They are sometimes owned by financial institutions or payment processors. These networks typically focus on debit payment products and may have widespread local acceptance as well as well-known brands.

Alternative Payments Providers: These providers, such as closed commerce ecosystems, BNPL solutions, and cryptocurrency platforms, frequently have a primary focus on enabling payments through ecommerce and mobile channels; however, they are expanding or may expand their offerings to the physical point of sale. These businesses may process payments through in-house account transfers between parties, electronic funds transfer networks such as the ACH, global or local networks such as Visa, or some combination of the foregoing. In some cases, these entities can be both a partner and a competitor to Visa.

Main Competitors (Strategy and Performance):

**Mastercard**

When comparing Visa and Mastercard transaction volume data, Visa Payment volume is 82% greater than Mastercard's. This increased volume of payments provides Visa with a larger transaction fee revenue. The reason for this is their well-established brand and competitive edge within the market. Mastercard Net revenue of $22.2B was up 18% from the previous year, Net income of $9.9B up 14% and a diluted Eps of $10.22 up 17%, ROA 29.36%, ROE of 170.45%. It is evident from Mastercard’s performance metric that they achieve excellent return on equity however it should be noted that the reason for impressive ROE results is due to MasterCard having shareholder equity of $6.3B.

Strategy: By implementing a combination of inorganic and organic strategic initiatives, Mastercard aims to expand its core payments network, diversify its customer base and geographic presence, and develop new capabilities. They are implementing this strategy by focusing on three key strategic areas. Expanding payment network: Mastercard is currently prioritising the expansion of their fundamental payments network to facilitate payment flows for various entities such as governments, corporations, and consumers. This will afford these parties the flexibility and choice to conduct transactions across multiple payment rails, including but not limited to real-time payments, crypto, and cards. Furthermore, Mastercard guarantees the safety, security, and seamlessness of all transactions. Extending services. Mastercard's services contribute to the overall progress of the payments ecosystem and benefit its clientele. For e-commerce merchants, these services consist of cyber and intelligence solutions, analytics and insights, consulting, marketing services, loyalty programmes, processing, and payment gateways. Their services contribute to the acceleration of overall financial performance by facilitating revenue growth in payments and new network opportunities as they deliver value. Embrace new network opportunities. As Mastercard constructs and manages new adjacent network capabilities to facilitate payments and commerce, it generates fresh prospects for the integration and development of services. Their strategy entails utilising their open banking solutions to facilitate the secure and effortless exchange of consumer-permissioned data between institutions and individuals. This will be achieved through dependable access, transmission, and management of consumer data, which will be utilised for various purposes such as opening new accounts, securing loans, enhancing credit scores, and empowering consumers with control over money movement and personal finance management. Enabling digital identity solutions to ensure that payments across consumers, businesses, devices, and virtual entities are secure.

**American Express:**

American Express reported a $7.5 billion (-7.4% YOY) net profit. The decrease in net income reflected credit reserve builds and net losses in Amex Ventures strategic investment portfolio in the current year, compared to sizeable credit reserve releases and significant net gains in the prior year. In comparison to the previous year, global network volumes increased by 21% this year. Billed business, which accounted for 86% of total network volumes and is the most important driver of their financial results, increased 23% year on year, demonstrating their continued ability to acquire, engage, and retain high-spending, premium Card Members. Year over year, U.S. Consumer billed business increased by 24 percent, reflecting continued strength in spending trends among premium U.S. consumer Card Members. T&E spending momentum remained strong throughout the year, while year-over-year Goods & Services spending growth slowed towards the end of the year after the high pandemic recovery growth rates experienced earlier in the year. Inflation was a minor contributor to strong billed business growth, while the continued strengthening of the US dollar against most major currencies in which they operate had a negative impact on their international billings. Total revenues excluding interest expense increased by 25% year on year, reflecting strong growth across all revenue lines. Discount revenue, the largest revenue line, increased by 25% year over year, owing primarily to continued growth in Card Member spending volumes through 2022. Net card fees increased 17 percent year over year in 2022, as new card acquisitions reached record levels and Card Member retention remained high, demonstrating the impact of our premium value proposition investments. Service fees and other revenues increased 36% year on year, owing in part to increased travel-related revenues. Net interest income increased by 28% year on year, primarily due to an increase in Card Member loans. Provisions for credit losses increased year over year, reflecting a reserve build of $617 million versus a reserve release of $2.5 billion the previous year, and are expected to rise further in 2023. While delinquency and net write-off rates increased throughout the year, these metrics remained strong, owing to the premium nature of their customer base, risk management capabilities, and risk actions taken throughout the year.

Strategy: American Express seeks to expand its operations by focusing on four strategic imperatives: First, they intend to expand their premium consumer leadership by continuing to provide membership benefits that cover their customers' everyday spending, borrowing, travel, and lifestyle needs, expanding their roster of business partners around the world, and developing a variety of experiences that attract high-spending customers. Second, they aim to strengthen their position in commercial payments by evolving their card value propositions, differentiating their corporate card and accounts payable expense management solutions, and designing innovative products and features for our business customers, such as financing, banking, and payment solutions. Third, they are committed to strengthening their global, integrated network by increasing merchant acceptance, offering merchants fraud protection services, marketing insights and connections to higher-spending Card Members, and collaborating with network partners to offer expanded products and services. Finally, they want to capitalise on their distinct global position by exploring new ways to leverage their differentiated business model and global presence.

**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.