

# Visa Incorporated Market Research Report

## **Company/Industry Overview**

Founded in 1958, Visa Inc. (Visa) is located in the payment services industry, which consists mostly of various payment card transactions and online payment/transfer services. With a presence in over 200 countries and an annual revenue of almost \$32,7 billion dollars, Visa successfully operates globally with a large presence in the U.S. and Europe. Visa primarily generates revenue through transaction fees which are normally a percentage of the charged or transferred money amount. Visa also generates revenue through annual bank fees (fees paid by banks for the issuing Visa cards or using Visa services), data analytics, consulting services, and advertising partnerships. Visa has become an integral part of the payment services industry worldwide with over 76,000 transactions made per second.

## ***Competitor Environment***

Mastercard is Visa's biggest competitor as it is the most similar in structure, service, and size. Mastercard follows the same business model as Visa with only slight differences in how fees are charged and some service options. Both companies partner with other financial institutions to promote and sell Visa or Mastercard brand cards/services for public and commercial use. Mastercard had a total annual revenue of almost \$25.1 billion dollars with over 65,000 transactions made per second in 2023. Mastercard's main strategy is to match Visa as closely as possible to maintain the "duopoly" that both companies share over the payment services industry.

While Discover or American Express also are similar competitors, PayPal aligns closer to Visa in terms of size and constitutes a bigger threat. With over 426 million users in 2023 and counting, PayPal cannibalizes Visa's transaction fee revenues as a substitute for online transactions. A partnership agreement between Visa, Mastercard, and PayPal stopped a "transaction war" in 2016, but PayPal users (even if they are using a Visa card) still bypass Visa fees when purchasing online. PayPal has also recently developed new ways to pay at brick-and-mortar stores through its phone app and other technology as a substitute for a physical card. PayPal's main strategy is to capitalize on new technology (Fintech etc.) and people-to-people markets that Visa and others tend to underserve.

### ***New Markets/Substitutes***

Visa has estimated that there are currently around six billion mobile devices in the world with the ability to be "tapped" with a Visa card. Visa's tap-to-pay system has only captured around 65% of the estimated six billion devices which leaves 35% market share left to acquire. New or updated technologies such as tap-to-pay are big drivers of Visa's potential markets and global reach. New AI fraud detection systems, wider use of data tokens (removes personal information from transactions), more people-to-people transaction options, etc. are some of the ways Visa is reaching new markets and consumers while also enhancing current services. Second and third-world countries also present potential unreached markets with millions of people as each country moves towards digital.

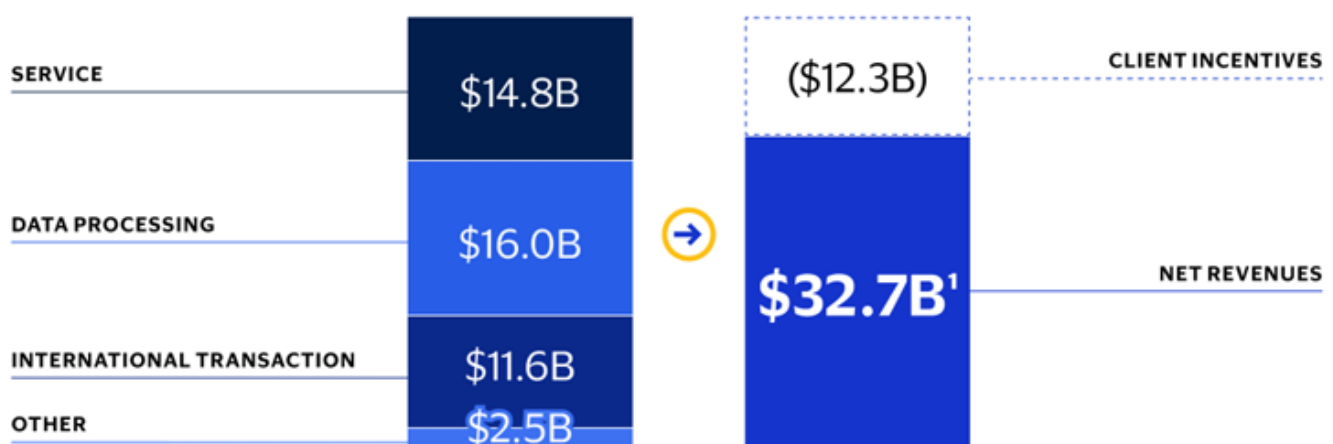
Visa competes against several different competitors who offer similar services such as MasterCard, American Express, Discovery, PayPal, Cash App, Venmo, etc. While not all of these companies offer payment cards, all of them service the same general markets as direct substitutes or specialize in specific consumer segments. However, Visa still maintains its status as industry leader and as a global powerhouse while most of its smaller rivals are confined to the U.S.

## Revenue & Cost Drivers

### *Revenue Drivers*

- Consumer payments
- Value added services
- New flows (money movement)

Consumer payments are directly related to how many consumers are using Visa's products/services which generates transaction fee revenue. Although Visa's core products are its payment cards, most of its revenue comes from data processing, a large portion of which



(Source: Visa 10K 2023)

is included in the new flows revenue driver. Value added services such as consultation, identity protection, issuing solutions etc. supplement all four of Visa's streams of revenue. The state of the economy and people's ability to spend has the biggest impact on Visa's revenue streams as Visa is almost entirely dependent on consumers making transactions.

### Cost Drivers

- Gateway financial institutions (processing fees)
- Security
- Regulation/litigation
- Client incentives
- Labor
- Marketing
- General Costs (includes currency fluctuations)

Cost drivers such as processing fees, labor, marketing, currency fluctuations, etc. are generally variable as they are linked to the volume of consumer activity. Security and regulation/litigation, while still somewhat variable, are more fixed in nature as they are more dependent on Visa's network infrastructure rather than consumer activity.

	For the Years Ended September 30,			% Change <sup>(1)</sup>	
	2023	2022	2021	2023 vs. 2022	2022 vs. 2021
	(in millions, except percentages)				
Personnel	\$ 5,831	\$ 4,990	\$ 4,240	17 %	18 %
Marketing	1,341	1,336	1,136	— %	18 %
Network and processing	736	743	730	(1 %)	2 %
Professional fees	545	505	403	8 %	25 %
Depreciation and amortization	943	861	804	9 %	7 %
General and administrative	1,330	1,194	985	11 %	21 %
Litigation provision	927	868	3	7 %	NM
<b>Total operating expenses<sup>(2)</sup></b>	<b>\$ 11,653</b>	<b>\$ 10,497</b>	<b>\$ 8,301</b>	<b>11 %</b>	<b>26 %</b>

(Source: Visa 10K 2023)

Client incentive costs are a special case as they do qualify as an expense, but are fees paid to financial institutions to push Visa services and grow payment volume. This is separate from marketing as it does provide a direct, tangible benefit to Visa in terms of revenue and transaction volume.

## S.W.O.T. Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"><li>• <b>Global Presence:</b> Visa is the global leader in the payments services industry with a presence in over 200 countries</li><li>• <b>Financial Resilience:</b> Visa's ability to generate income and enhance profitability gives it more leverage than similar companies.</li><li>• <b>Brand Recognition:</b> Globally recognized for trustworthy card transactions and payment services.</li><li>• <b>Industry Leader:</b> Has more than a 50% market share of the payment service industry.</li></ul>	<ul style="list-style-type: none"><li>• <b>Overreliance on Banks:</b> Visa relies heavily on banks and other financial institutions to promote and sell its services.</li><li>• <b>Dependence on Economic Cycles:</b> Economic conditions heavily influence Visa's bottom line as more or fewer people buy and sell using Visa's services.</li><li>• <b>High Operating Costs:</b> Operating expenses in 2023 were over \$11.6 billion dollars to maintain Visa's network.</li><li>• <b>Currency Fluctuations:</b> Visa transacts several different currencies some of which are more volatile which can lead to unexpected losses.</li></ul>
Opportunities	Threats
<ul style="list-style-type: none"><li>• <b>Emerging Technologies:</b> New technology such as crypto, contactless payments, biometric payments etc. are new innovations that can be harnessed.</li><li>• <b>Increased Electronic Payments:</b> More consumers, especially Gen Z, are moving to electronic methods of payment which can increase Visa's revenues and customer base.</li><li>• <b>Unreached Markets:</b> Several second and third-world countries will need payment services as they modernize and move towards a more cashless society.</li><li>• <b>Diversification of Services:</b> Visa can potentially add new financial services and become a "one-stop shop" for other financial services besides transactions.</li></ul>	<ul style="list-style-type: none"><li>• <b>Regulatory/Legal:</b> The payment service industry is highly regulated and laws are changed or added frequently.</li><li>• <b>Cybersecurity/Fraud:</b> Cyber-attacks, data breaches, and fraud are constant threats to the Visa network which not only lead to financial losses, but loss of consumer trust.</li><li>• <b>Consumer Behavior:</b> Consumer spending behavior has a direct effect on Visa's bottom line. Less spending equals less revenue.</li><li>• <b>Intense Competition:</b> While Visa is the industry leader, there are several payment service companies that service the same market base that Visa serves.</li></ul>

## PESTLE Analysis

Political	Economical	Social
<ul style="list-style-type: none"> <li>Government regulation (foreign &amp; domestic)</li> </ul>	<ul style="list-style-type: none"> <li>Increased digital payments</li> </ul>	<ul style="list-style-type: none"> <li>Visa cards are widely known and used</li> </ul>
<ul style="list-style-type: none"> <li>Federal Reserve System monetary/fiscal policy</li> </ul>	<ul style="list-style-type: none"> <li>Exchange rate volatility</li> </ul>	<ul style="list-style-type: none"> <li>Younger tech-savvy generations rely more on digital services</li> </ul>
<ul style="list-style-type: none"> <li>Foreign government stability/foreign wars</li> </ul>	<ul style="list-style-type: none"> <li>Recent recessionary downturns decrease spending</li> </ul>	<ul style="list-style-type: none"> <li>Impact of Covid-19 drives consumers to cashless transactions</li> </ul>
Technological	Legal	Environmental
<ul style="list-style-type: none"> <li>New contactless and mobile payment options</li> </ul>	<ul style="list-style-type: none"> <li>Anti-Money Laundering (AML) regulations</li> </ul>	<ul style="list-style-type: none"> <li>Increased use of digital services to reduce carbon footprint</li> </ul>
<ul style="list-style-type: none"> <li>Improvements in data security such as end-to-end encryption and AI fraud detection</li> </ul>	<ul style="list-style-type: none"> <li>Counter-Terrorism Financing (CTF) regulations</li> </ul>	<ul style="list-style-type: none"> <li>More companies are developing sustainable environmental practices</li> </ul>
<ul style="list-style-type: none"> <li>Blockchain and crypto</li> </ul>	<ul style="list-style-type: none"> <li>Anti-trust legislation</li> </ul>	<ul style="list-style-type: none"> <li>RE100 initiatives for companies to go 100% renewable energy</li> </ul>

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