



**VISA INC**

**A thesis submitted to Anglo-American University for the degree of  
Bachelor in Business Administration**

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## **DECLARATION**

I hereby declare that no portion of the work referred to in this thesis has been submitted in support of an application for another degree, or qualification thereof, or for any other university or institute of learning.

I declare that this thesis is my independent work. All sources and literature are cited and included.

I also hereby acknowledge that my thesis will be made publicly available pursuant to Section 47b of Act No. 552/2005 Coll. and AAU's internal regulations.

Dina Meier

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## **Executive Summary**

The primary goal of this paper is to analyze the current strategy of Visa Inc., the U.S. financial payment service company, by thinking critically and with a purpose of creating strategic alternatives that make improvements and introduce a new strategy as a recommendation.

This analysis is focused and addresses the following strategic question: *Visa's profit has been unstable during the past five years and has grown only by 9%, while its revenue has been systematically increased. It is strategically important because a fast development of the industry can attract more competitors that will focus on applications and digital payment platforms that will create direct relations between users and merchants without any intermediaries. What strategy should Visa Inc. develop and maintain for avoiding a potential loss of its position of being outperformed by its main competitors and gaining a sustainable competitive advantage in cashless markets?*

This paper has analyzed the company's performance by evaluating and considering internal and external factors to the company from various perspectives. The current strategy is examined in-depth as well as its implementation in the industry, which markets and their performance is analyzed. These analyses allow this paper to include the identification and specification of the company's strengths, weaknesses, opportunities, and threats. They are considered as a basis for the further creation and analysis of the implementation of three strategic alternatives. In the result, the new strategy was created and introduced with a direct address to the strategic question as the following: *to increase revenue and strengthen its position on the market by expanding in new customer segments, i.e. individuals, businesses, banks, introducing the wide range of payment scenarios (e.g. P2P, B2B, bank-to-bank) and models (e.g. shopping payment model), and developing new partnerships, such as e-lending companies, blockchains or tech innovators, for creating new directions of revenue streams.*

## 1. Introduction

Visa Inc. (Visa) is an American multinational financial service company that provides an electronic payment network for issuing financial institutions (“consumers’ banks”), acquirers (“merchants’ banks”), and merchants. The company provides products and services, such as debit/credit cards and merchant gateway services, to operate and process transactions between its core customer segments, merchants and consumers.

Since Visa was incorporated and restructured in 2007<sup>1</sup>, the company strived to mainly connect consumers and merchants by providing innovative and secure payment solutions. It has successfully operated during this period and represented one of the originals of this industry, especially in card system platforms. However, during the past five years, the industry has been rapidly developing that transformed its trends and affected relations between the company and its customers.

One of the current trends of digital payment industry is represented by financial technology<sup>2</sup> (“fintech”) companies which provide alternative financial services that mainly or even completely based on the internet for providing products and services to their consumers. It expands the boundaries of the industry that leads to an intense and aggressive competition due to an increase the number of different types of new entrants, such as non-bank payment services, financial advisors, and e-landing. This market demonstrates a significant strategic shift from one of the main directions from card systems to alternative digital payments, such as mobile payment platforms or applications.

Visa has a very narrow focus of payments scenarios (mainly one type of payment scenarios with two of them in consideration) and product/service portfolio (related card networks). The company has faced with a lack of strategic differentiation from its competitors by focusing mainly on the payment scenario (“customer to merchant”) and operating via its card network. After 8 years of focusing on one strategy, the management of the company announced the new strategic direction which still based on the *customer-to-merchant* payment scenario but included the development of strategic partnerships with startups (e. g. Global Mobile Wallet). These startups represent the fintech industry that is considered as a key trend for the further development of the company.

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<sup>1</sup> “Visa Inc (V.N). Overview.” *Reuters*. 2018. <https://www.reuters.com/finance/stocks/company-profile/V.N>

<sup>2</sup> “Fintech”. *Investopedia*. 2018. <https://www.investopedia.com/terms/f/fintech.asp>



Although Visa has shown unstable profit growth and its annual growth slowdowns in comparison with its competitors over the last 5 years, the company's stock price is systematically growing from its incorporation.

### *1.1 Strategic Question*

Visa's profit has been unstable during the past five years and has grown only by 9%, while its revenue has been systematically increased<sup>3</sup>. It is strategically important because a fast development of the industry can attract more competitors that will focus on applications and digital payment platforms that will create direct relations between users and merchants without any intermediaries. What strategy should Visa Inc. develop and maintain for avoiding a potential loss of its position of being outperformed by its main competitors and gaining a sustainable competitive advantage in cashless markets?

## **2. Strategic Company Overview**

### *2.1. Company*

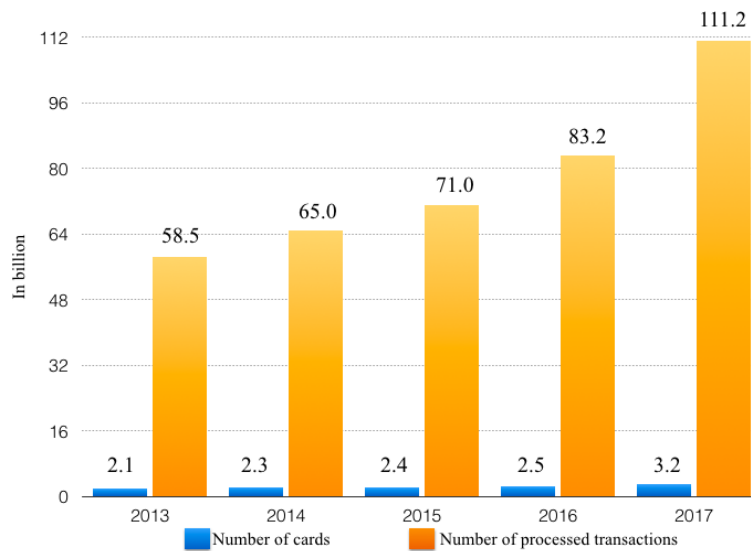
Visa was founded in 2007 and listed in NYSE in 2008. In 2014, the company launched alternative digital payment solutions (e.g. Visa Checkout) that offered the online application to easily and safely pay online for shopping on any devices by several clicks. In 2016, the company re-joined its two subsidiaries (Visa Inc. and Visa Europe) in one global company<sup>4</sup> (Visa Inc.). Currently, Visa is the largest US-based retail electronic payment network, processed more than 111 billion transactions with payments volume over USD 7 trillion. In 2017, the company provided over 3 trillion cards. The compound annual growth rate of payments volume gained only 0.141% over the last five years<sup>5</sup>.

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<sup>3</sup> "VISA Inc. C1 A". *MarketWatch*. 2017. <https://www.marketwatch.com/investing/stock/v/financials>

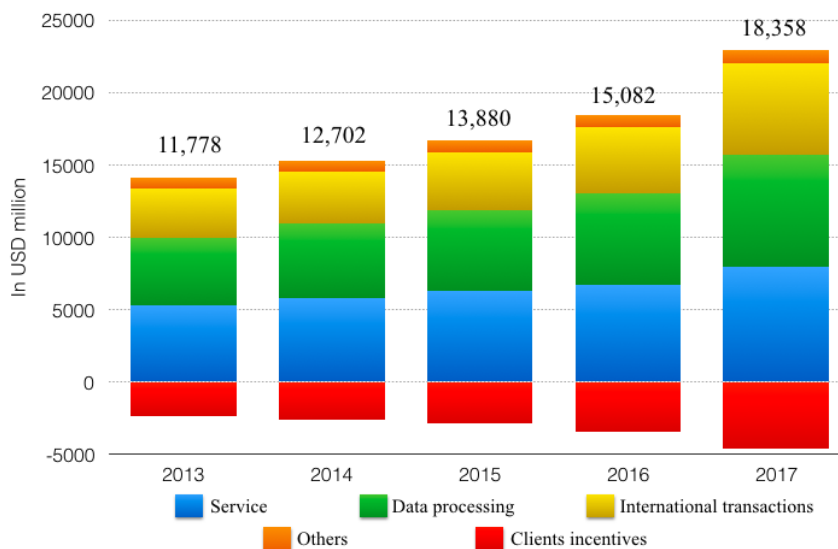
<sup>4</sup> "History of Visa". *Visa*. 2018. [https://usa.visa.com/about-visa/our\\_business/history-of-visa.html](https://usa.visa.com/about-visa/our_business/history-of-visa.html)

<sup>5</sup> "Visa 2017 Annual Report". *Visa*. 5 Oct 2018. [https://s1.q4cdn.com/050606653/files/doc\\_financials/annual/2017/Visa-2017-Annual-Report.pdf](https://s1.q4cdn.com/050606653/files/doc_financials/annual/2017/Visa-2017-Annual-Report.pdf)



**Figure 1.** This graph represents the number of cards that the company provided from 2013 to 2017 (data for the quarters ended June 30, 2017, June 30, 2016, June 30, 2015, June 30, 2014, and June 30, 2013). It also represents the number of transactions processed on Visa’s network from 2013 to 2017. **Source: Visa 2015-2017 Annual Reports**

Visa mainly focuses on the payment scenario, customer-to-merchant, and offers products and services that based on this scenario, such as Visa Advertising Solution which allows merchants to organize and manage their digital advertising campaigns. The company mainly targets two customer segments: customers (e.g. account holders, cardholders) and merchants. It is focused on the company’s revenue on processes that related to operations by customers, merchants and in between them.



**Figure 2.** This graph represents total revenues and their sub-sections in which they can be divided from 2013 to 2017. **Source: Visa 2015-2017 Annual Reports**

Visa shows the systematic annual growth in revenue over the last 5 years. The company generates revenue by operating as an intermediary between consumers (cardholders and card-

issuing financial institutions), merchants, and merchants' banks (acquires). Visa collects fees from each transaction processed and depended on payments volume through three main streams, such as providing services, data processing, and international transactions processing.

- *Providing services*

The company mainly provides services to card issuers for using its products, such as four types of cards: debit, credit, prepaid, and commercial. Visa generates revenue which based on payments volume. It means that the higher cost of Visa's products creates more revenue for the company.

- *Data processing*

The company charges microscopic fees for different operations that related to data processing for consumers, merchants and between them. There are basic data processes, such as authorization<sup>6</sup> (purchases' approval for merchants from card issuing banks), clearing<sup>7</sup> (transaction information exchanged between a card issuer and the merchant's bank after acquirer after the committed and authorized sale), and settlement (procedure simplification of exchanging funds between involved parties, especially the merchant's bank).

- *International transactions processing*

The company collects fees by providing cross-border operations and different activities that related to currency conversions. Each transaction that processed purchases from a country which differs from an origin of card-issuers.

## 2.2. Business

- *Payment scenarios*

Visa Inc. is one of the leading companies in the industry of digital payment services. The company mainly focuses on one payment scenario which is *customer-to-merchant*. This payment scenario is the traditional one for any card networks. It includes some aspects of the main activities, such as the creation of partnerships with merchants (e.g. Starbucks), due to a necessity to cover more shopping activities and increase the number of purchases via the company's digital channel (VisaNet).

There are some other payment scenarios, such as person to person (P2P), business to business (B2B), and bank to bank. By today, Visa has insignificantly participated in two of these scenarios: P2P and B2B. P2P and B2B are generated through the recently launched payment

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<sup>6</sup> "Authorized transaction". *Investopedia*. 2018. <https://www.investopedia.com/terms/a/authorized-transaction.asp-0>

<sup>7</sup> "Clearing". *Investopedia*. 2018. <https://www.investopedia.com/terms/c/clearing.asp>

platform, Visa Direct<sup>8</sup>. However, the company is still focusing on two main customer segments (merchants and issuing banks/cardholders) that are unable to attract more direct payments which related to the payment scenarios.

The company's partners and competitors (e.g. PayPal, Apple Pay) are able to provide these payment scenarios, especially focused on P2P. Visa can collect microscopic fees on transactions under the company's brand (e.g. credit- and debit- cards); however, the main revenue is received by its partners, such as PayPal.

Visa has not even developed or participated direct transactions from banks to banks that creates competitive advantages for fintech companies which represent alternative payment solutions.

- *Product/Service portfolio*

The company has faced with a difficulty to differentiate its business model from its competitors. The main products of the company are represented by credit-, debit-, prepaid and commercial cards. It leads to some problems with merchant retention due to offering a similar product/service portfolio as its competitors with a higher cost of charges<sup>9</sup>.

Since 2014, Visa has driven its digital innovations for ensuring in its leading position in the industry. One of these products is Visa Checkout which offers the easy and secure online payment platform for consumers. In 2015, integrated TrialPay and VisaNet, the company launched Visa Commerce Network that offers tailored activities for online-based merchants to organize and manage their sales and loyalty consumer programs for achieving a customer retention. In 2017, the company has decided to focus on expansion and development of "push" payments. The "push" payments are represented by account holders' initiatives as the model of person-to-person payment scenario. Visa Direct has represented these "push" payments that allow individuals or business to transfer money via three different payment scenarios: person-to-person, business-to-business, and consumer-to-merchant<sup>10</sup>.

The company actively partners with fintech companies and innovative startups. In 2017, Visa committed the partnership with Klarna ("local company") that is Swedish banking company

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<sup>8</sup> "Visa Launches Real-Time Payments In Europe". *PYMNTS.com*. 3 Nov 2017. <https://www.pymnts.com/visa/2017/visa-directs-p2p-b2c-b2b-european-payments/>

<sup>9</sup> Gibson, Kate. "Kroger threatens to ban Visa cards". CBS. 31 July 2018. <https://www.cbsnews.com/news/kroger-threatens-to-ban-visa-cards/>

<sup>10</sup> "Visa 2017 Annual Report". *Visa*. 5 Oct 2018. [https://s1.q4cdn.com/050606653/files/doc\\_financials/annual/2017/Visa-2017-Annual-Report.pdf](https://s1.q4cdn.com/050606653/files/doc_financials/annual/2017/Visa-2017-Annual-Report.pdf)

which provides consumer lending and acceptance over the European Union<sup>11</sup>. Visa also committed the collaboration and invested in Marqeta (“startup”) that issues payment cards and provides management services for processing and authorizing transactions<sup>12</sup>.

- *Presence*

Due to rapid technological development, this industry represents an aggressive and intense competition over various areas, such as Europe, America, and especially the Asia-Pacific.

*Asia-Pacific, especially China*

The industry of digital payment services has the different level of development and speed of growth by a geographical location. The Asian-Pacific area, especially China represents the most convenient and complex cashless market. It relates to the rapid technological development of a broader range of suitable digital payment platforms and applications. During the last five years, Visa Inc. has tried to gain a competitive advantage on the Asian-Pacific cashless markets; however, it has faced with the aggressive domination of local companies, such as UnionPay in China<sup>13</sup>. These results lead to difficulties for operating via the third parties. Visa has applied for the license of being able to operate without the third parties; however, due to various regulations, the company's application is still under consideration by the Chinese government. It leads to financial loss of the company's investments.

- *Payment ecosystem*

The industry of financial services and the ways in which people pay were changed dramatically over the last 10 years. The payment ecosystem represents 5 different groups, such as acquires (merchants' banks), issuers (consumers' banks), gateways (authorization of payments), ISOs/MSPs (merchants' partners with processors), and card networks (e.g. Visa Inc.).

The payment ecosystem represents the operational model which is mainly maintained by each card network companies. It is rapidly changed and developed due to the modernization and technological upgrades in this industry. Since 2016, payment companies have expanded their digital offerings via mobile platforms and applications. They have also developed e-commerce capabilities

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<sup>11</sup> “Visa 2017 Annual Report”. *Visa*. 5 Oct 2018. [https://s1.q4cdn.com/050606653/files/doc\\_financials/annual/2017/Visa-2017-Annual-Report.pdf](https://s1.q4cdn.com/050606653/files/doc_financials/annual/2017/Visa-2017-Annual-Report.pdf)

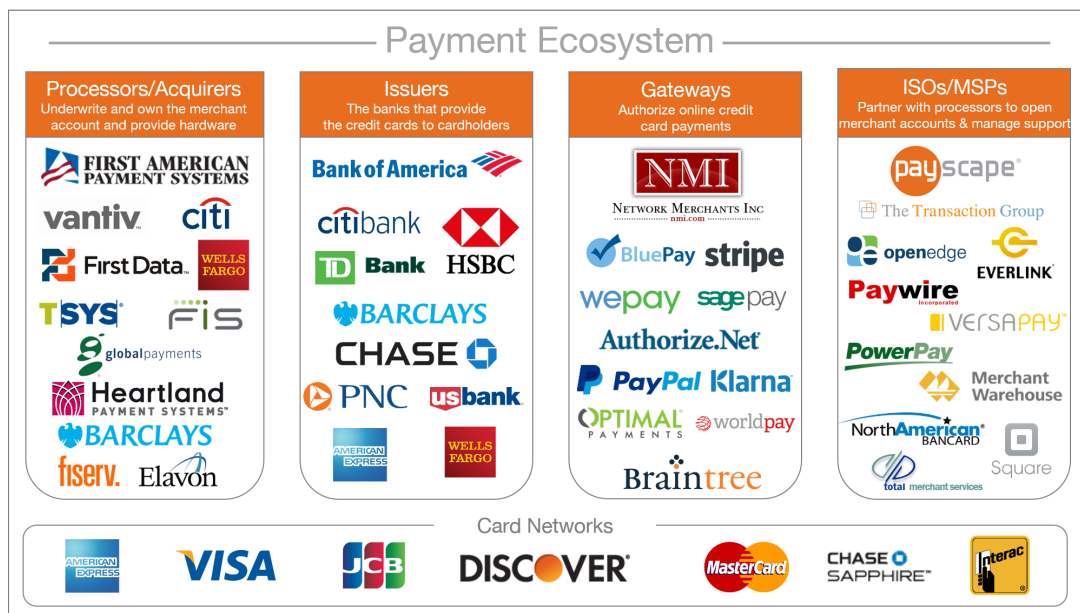
<sup>12</sup> Irrera, Anna. “Goldman-backed fintech startup Marqeta launches in Europe”. *Reuters*. 22 Oct 2018. <https://www.reuters.com/article/us-marqeta-europe/goldman-backed-fintech-startup-marqeta-launches-in-europe-idUSKCN1MV108>

<sup>13</sup> “Mastercard and Visa lose share to UnionPay in global card market”. *Finextra*. 14 Jul 2017. <https://www.finextra.com/pressarticle/70063/mastercard-and-visa-lose-share-to-unionpay-in-global-card-market>

for attracting more consumer to make purchases via various digital devices instead of traditional usage of cards<sup>14</sup>.

The rapid growth of alternative digital payments could disrupt the payment ecosystem processes due to the increase of new entrants of the industry, such as various blockchains. Blockchains represent alternative digital ways of payments with digital currency (e.g. Bitcoins) that allows consumers to avoid the intermediate parties (card networks)<sup>15</sup>. These alternatives could potentially change the process of verification by consumers and traditional card payments.

Although different countries of networks' operations can differentiate the payment ecosystem, it could create issues for companies in various cashless markets.



**Figure 3.** This graph shows a payment ecosystem with various examples of each aspect. **Source:** Pinterest<sup>16</sup>

### 2.3. Operational Business Model

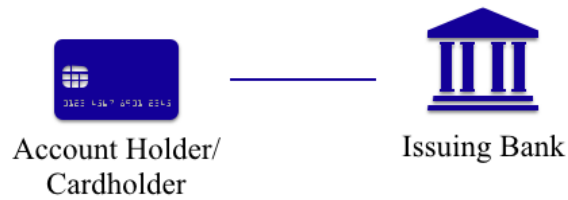
The company represents an intermediary between banks and merchants by processing transactions between cardholders and merchants. The operational business model can be divided into three different streams: consumers (account holders/card issuers), merchants (acquires/partners with processors), and card networks (gateways).

- *Consumers (Cardholders/Issuing Banks)*

<sup>14</sup> Bakker, Evan. "THE PAYMENTS ECOSYSTEM: Everything you need to know about the key players and trends in the payments industry". *Business Insider*. 15 Mar 2016. <https://www.businessinsider.com/the-payments-ecosystem-everything-you-need-to-know-about-the-key-players-and-trends-in-the-payments-industry>

<sup>15</sup> "Blockchain". *Investopedia*. 2018. <https://www.investopedia.com/terms/b/blockchain.asp>

<sup>16</sup> Wale, Animashaun. "Payment Ecosystem". Pinterest. <https://www.pinterest.com/pin/331507222549939302/>



**Figure 4.** This graph shows the consumer segment of the operational business model that includes two sub-sections: account holders/cardholders and issuing banks. **Made by the author.**

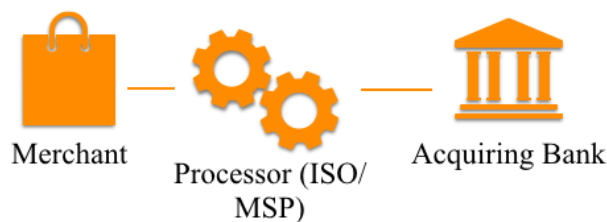
*Account holders/Cardholders*

Account holders or cardholders are represented by consumers who use their cards or accounts for purchasing products and services via terminals or online platforms. In general, they are not able to choose a specific card network because this choice depends on card-issuers' deals and partnerships.

*Banks (Issuing banks)*

Banks represent one of two main customers segments of the company because they provide Visa's products and services to account holders on whose transactions and operations the company is depended. Visa Inc. offers various products and services to these banks. The main ones are its cards and main network, VisaNet, through which Visa processes transactions from merchants to cardholders and vice versa. Banks can only provide cards and offerings from Visa to their account/ card- holders and pay fees for processing and operating with these products and services to Visa Inc. Also, Visa Inc. has achieved revenue by maintaining various conditions of these operations and processes, such as a fee of operating with different currencies are higher than with the same one during a payment process.

- *Merchants (Acquires/partners with processors)*



**Figure 5.** This graph shows the merchant segment of the operational business model that includes three sub-sections: merchants, processors, and acquiring banks. **Made by the author.**

*Merchants*

Merchants represent another customer segment of Visa Inc. because they can choose a company of card networks, like banks, through which they accept payments from consumers. Merchants can choose a platform or application through which all transactions are processed; however, all these platforms and applications are still based on the main network, VisaNet. Visa Inc.

makes offers directly to merchants; however, they operate through Processors and Acquiring banks that support merchants and manage their accounts.

#### *Processor/ISOs/MSPs*

Merchants can work through a partnership with processors (e.g. software, hardware) that help to create and manage merchants' accounts, through which all necessary information about transactions between merchants and cardholders are processed to merchants' banks<sup>17</sup>.

#### *Acquiring Banks (Merchants' Banks)*

Merchants' banks create and maintain merchants' accounts for processing card transactions and collecting payments after each completed purchase. Acquiring banks are responsible for processing authorization or rejection of transactions<sup>18</sup>. These decisions are based on data which received from card issuers and card networks. After the approval process, payments have been deposited on merchants' accounts.

- *Card Networks (Gateways)*



**Figure 6.** This graph shows the connection between the card network and gateways. **Made by the author.**

#### *Gateways*

Gateways represent authorized online card payments systems that can dependently (as partners with Visa Inc.) and independently (as independent networks) process transactions and operations between merchants and account holders<sup>19</sup>. Visa Inc. has created partnerships with Apple Pay and PayPal for getting a charge from each transaction that processed through its products or services that increase its revenue and expand its portfolio of account holders and merchants, especially merchants that have only online stores. Independent gateways can be considered as potential partners or competitors. Merchants and account holders that use stand-alone gateways can avoid a double charge that others need to pay to Visa and gateways' companies for processing transactions.

<sup>17</sup> "Visa 2017 Annual Report". *Visa*. 5 Oct 2018. [https://s1.q4cdn.com/050606653/files/doc\\_financials/annual/2017/Visa-2017-Annual-Report.pdf](https://s1.q4cdn.com/050606653/files/doc_financials/annual/2017/Visa-2017-Annual-Report.pdf)

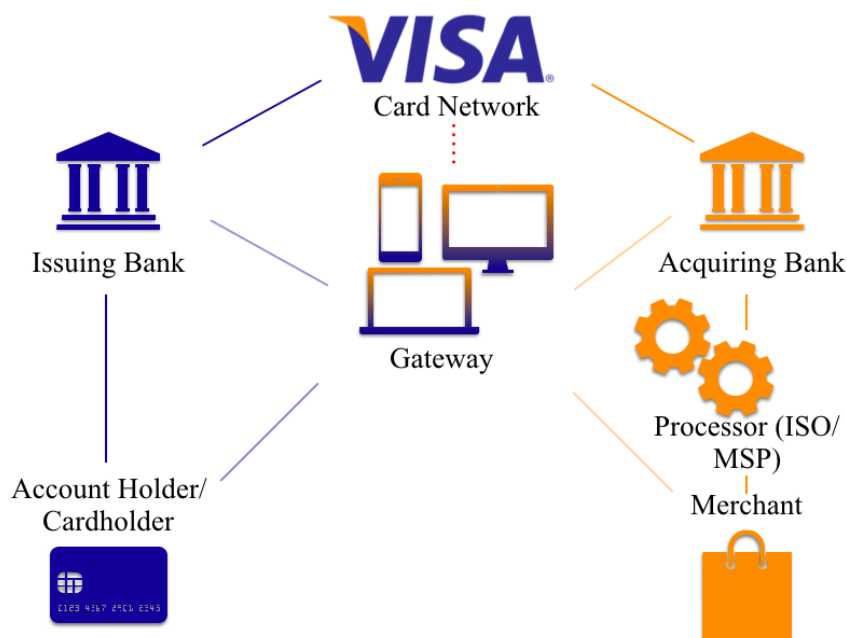
<sup>18</sup> Miteva, Ani. "Acquiring bank: definition and role in payment processing". *MYMOID*. 10 May 2018. <https://www.mymoid.com/role-acquiring-bank-payments/>

<sup>19</sup> Rouse, Margaret. "Gateway". <https://internetofthingsagenda.techtarget.com/definition/gateway>



## Card Networks

The card network is represented as an intermediary between its two main customers segments: consumers and merchants, that made and supported all activities which related to purchases between consumers and merchants (e.g. transactions and data processing).



**Figure 7.** Business Model and key aspects through which Visa Inc. has operated. Blue side represents one of Visa’s customer segments: Banks (Issuing Banks) that provide the company’s products/services to account holders. This allows Visa to get revenue by taking a fee from service support/operations of each transaction. Orange side represents another Visa’s customer segment: Merchants that provide account holders a possibility to pay for products/services by using Visa’s products/services. In the middle of the graph, there are shown some Gateways that are networks can connect other systems/applications/platforms for processing operations in between. **Made by the author.**

### 2.4. Technology and Cybersecurity

Development of convenient platforms and networks as well as a further development of security features are considered as crucial aspects for achieving a competitive advantage in the industry of digital payment services. Visa Inc. needs to develop and maintain its technological progress and security standards to increase customer retention and brand awareness. In 2018, Visa has faced with serious issues with its payment network over the Europe that led to significant adverse effects on brand awareness and customer retention. Many cardholders did not have any possibility to pay in some stores by using any cards under Visa’s brand<sup>20</sup>.

This situation demonstrates the importance of technological development and rapid support for companies in this industry. Visa Inc. has developed some of the platforms with support from its

<sup>20</sup> “Visa outage: payment chaos after card network crashes – as it happened”. *The Guardian*. 2 Jun 2018. <https://www.theguardian.com/world/live/2018/jun/01/visa-outage-payment-chaos-after-card-network-crashes-live-updates>

partners that can lead to a potential dependence on them and cause risks of losing customers, such as banks and merchants.

### 2.5. Conclusion

The financial service industry is very complex and detailed. It can be divided into several sections or directions, such as traditional card network, digital payments, and fintech. All of them is crucial for Visa's further growth and development. The company needs to consider business and operational models, payment ecosystems, payment scenarios, and models, and rapid technological progress of innovative platforms and networks.

### 3. Mission

This statement represents Visa's mission statement: "*Our mission is to connect the world through the most innovative, reliable and secure digital payment network that enables individuals, businesses and economies to thrive*".<sup>21</sup>

This mission statement can be considered partially right because it describes the company's primary purpose, how and for whom they operate. However, the description of its purpose is made in a general way. This statement focuses only on a digital payment network without any specifications or details that can differentiate the company's goal from its competitors.

The recommended mission statement for Visa Inc. is represented in Section 28. Revised Mission and Vision.

### 4. Vision

This following statement represents Visa's vision statement: "*Visa's vision is to be the best way to pay and be paid for everyone everywhere*".<sup>22</sup>

This vision statement can be considered an ineffective statement. It is too broad and short. There are vague and generic words that make it difficult to correlate this statement with its current strategy. It avoids any depth information about further direction and strategy which the company will follow in the future. Also, this vision statement does not indicate any specifications or details about how the company plans to achieve the described objective, such as "everyone" and "everywhere", and superlatives, such as "the best".

The recommended vision statement for Visa Inc. is introduced in Section 28. Revised Mission and Vision.

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<sup>21</sup> "2017 Corporate Responsibility & Sustainability Report". Visa Inc. pp. 1-3. <https://usa.visa.com/dam/VCOM/download/corporate-responsibility/visa-2017-corporate-responsibility-report.pdf>

<sup>22</sup> "2017 Corporate Responsibility & Sustainability Report". Visa Inc. pp. 1-3. <https://usa.visa.com/dam/VCOM/download/corporate-responsibility/visa-2017-corporate-responsibility-report.pdf>

## 5. Conclusion

The current position of the company can be considered as unstable and potentially failing of its leading position in the cashless market. The highly competitive environment of the industry of digital payment platforms represents some issues to which the company had faced during the last year. Visa Inc. has lost a competition with UnionPay in Chinese cashless market and, at the same time, its main global competitor, Mastercard, has won a competition in the payment space by raising its stock performance more than 43% from the beginning of 2018<sup>23</sup>.

## 6. Business Model Canvas

<b>Customer Segments</b>	<b>Multi-Sided Platforms/Markets: (1) Merchants and (2) Banks Mass market with some niche segments</b>
<b>Value Propositions</b>	<b>1.Merchants: Increase sales and a level of fast and convenient payments through different payment platforms and systems 2.Banks: Provide a convenient network for processing transactions and service support of these operations with the high level of data security</b>
<b>Channels</b>	<b>Direct: Web-sites and E-Platforms Indirect: Cardholders and Partners</b>
<b>Customer Relationships</b>	<b>Self-Service, Call Centre, Personal Assistant</b>
<b>Revenue Streams</b>	<b>Services of Payment Platforms, Data Processing, Transactional Processing Merchants: Brokerage Fees, Volume Dependent Banks: Annual Fees, Volume and Product Feature Dependents</b>
<b>Key Resources</b>	<b>Intellectual: brand, patents, data Human</b>
<b>Key Activities</b>	<b>Managing Main Platform - VisaNet Providing Security/Safety of Services Marketing Managing/Developing Key Partnerships: Startups and Tech Innovators</b>
<b>Key Partnerships</b>	<b>Strategic Alliances: Emerging Technologies Innovators Acquisitions of Particular Resources and Activities: Companies of Commerce</b>
<b>Cost Structure</b>	<b>Marketing, Personnel, IT and Emerging Technologies Primary Value-Driven Cost-Driven in smaller perspective Economies of Scope</b>

**Figure 8.** Business Model and keywords of each in nine blocks for explaining the main points of Visa's business model. **Made by the author.**

### 6.1. Value Propositions

<sup>23</sup> Rivas, Teresa. "Mastercard May Have an Edge on Visa". *BARRON'S*. 17 Sep. 2018. <https://www.barrons.com/articles/mastercard-may-have-an-edge-on-visa-1537198849>

Visa Inc. has main different customer segments that are interdependent and needed in two separated value propositions. Both of them are represented as examples of customization because they are tailored to bring the value to each specific customer segment.

- *Merchants*

The value proposition for merchants is *to increase their sales by providing fast and convenient digital payments platforms of Visa through which consumers can order and pay for products/services by using card systems and various electronic devices*. Visa Inc. creates the value by offering high-security standards for data protection and transaction processing. Its network covers more than 200 countries all over the world. Visa's direction of developing a mobile payment platform can potentially increase a number and volume of purchases for merchants by covering all smartphones' users all over the world. This aspect is crucial for any merchants because they depend on sales and consumers' orders.

- *Banks*

The value proposition for banks is *to provide a convenient network for processing transactions between merchants and cardholders and service support of these operations with the high-level of data security during transactions processing*. Visa Inc. creates value by developing and maintaining its high-security standards of a primary network and platforms that can generate a feeling of safety and protection of any personal data and information for cardholders' providers - banks. It is an important aspect because the leading modern fear of any digital payments' users is to lose personal data and money by being hacked.

## 6.2. Channels

Visa Inc. is represented as a user of both types of channels: direct and indirect, for reaching both main customer segments by delivering the value propositions.

- Direct:

- Websites

The company's websites are different in every country, where they operate and have different reward programs. These websites provide various information for merchants and banks about Visa's products, services, and other offerings. They represent information about stores and merchants that are accessible for using Visa's products/platforms and participate in reward programs.

- E-Platforms

Visa Inc. offers a possibility to merchants of accepting digital payments in more than 200 countries. The company's e-platforms allow merchants to identify all consumers' purchase. It

provides Visa Advertising Solution System through which merchants can control advertising campaigns for their products/services<sup>24</sup>.

- Indirect:

Visa Inc. has around 4,400 providers of its services and products<sup>25</sup>.

- Cardholders

Issuers, especially banks, are considered as one of Visa's main customers that provide three different types of cardholders by debit, credit, and prepaid cards. The company avoids any direct relations with cardholders. Cardholders get all support and services from their banks.

- Partners

Visa Inc. has partnerships with various associations and merchants for providing reward programs and bonuses for cardholders. For example, Starbucks has developed its membership cards via the Visa network system that can potentially increase its number of customers and purchases through specific reward programs<sup>26</sup>. These programs and relations can potentially increase Visa's revenue through an increase in a number and volume of cardholders' transactions.

### 6.3. Customer Relationships

Visa Inc. maintains and supports relations with its two customer segments: merchants and banks. The company realizes this support through two different models, such as self-service, a personal assistant and call center.

- *Merchants*

Merchants have a possibility all necessary information about Visa's offerings, products, and services on official websites and make a request for any specific questions. They can register their businesses and get support from Visa Online Networks and other platforms.

- *Banks*

Banks do have access to direct contact with the company, such as a personal assistant. However, cardholders, whose transactions are processed via Visa's main network, are supported by their specific providers, banks. However, Visa's call center is a possibility to contact for any questions of choosing an operational system in advance for merchants and banks. They and their presenters can ask any specific question through live chats on websites or contact by email.

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<sup>24</sup> "Visa Inc. - Annual Report". *Visa Inc.* 2017.

<http://d18rn0p25nwr6d.cloudfront.net/CIK-0001403161/cd6545c2-6c6e-4ba1-8dcd-52cd1521df3a.pdf>

<sup>25</sup> "Featured Service Providers: Early Adopters of PCI DSS v3.2". *U.S.A. Visa*. 19 Apr 2018. <https://usa.visa.com/splisting/splistingindex.html>

<sup>26</sup> "Starbucks Rewards™ Visa® Card". *Starbucks*. 2018. <https://www.starbucks.com/starbucks-rewards/credit-card#offer-details>

#### 6.4. Revenue Streams

Visa Inc. operates with merchants through brokerage fees that are volume dependent. Cardholders pay annual fees through its banks, which are volume and product dependent, especially on a type of cards/platforms that they use for ordering and paying. The company's revenue depends on a number and volume of transactions between merchants and cardholders. Also, its suppliers, bank, pay for Visa's products, cards, and service support of data and transaction processing<sup>27</sup>.

#### 6.5. Customer Segments

Visa Inc. covers mass market due to a wide variety of digital payments which includes traditional card payments and alternative digital payments via applications and online platforms. There can be highlighted in some niche areas that related to different payment scenarios, such as customer-to-merchants, business-to-business, and person-to-person. Since the company's beginning, the main niche sector is based on the customer-to-merchant payment scenario. The person-to-person payment scenario has been used only from 2017 due to the development of real-time payment platform, Visa Direct. It represents the company's aspiration to improve Visa's position on the digital space in fintech direction.

The company is more shown as an example of multi-sided platforms/markets with two main interdependent customer segments: merchants and banks. Banks or providers of digital payment platforms and card systems can be considered as a niche market because they are a specific provider of cardholders that operate via digital or electronic payments. They are considered as the primary way of paying in many countries all over the world, especially in China, which is approximately entirely cashless. Merchants and issuers are considered as niche markets because of a specific specialization that they have in service/product offering. Visa Inc. provides various digital payment platforms for making online and physical purchasing more accessible and faster than ordinary ways of payments with cash. It offers them to merchants for attracting more consumers that are considered as cardholders to the company and whose transactions are represented a profit for Visa Inc.<sup>28</sup>

#### 6.6. Key Resources

Visa Inc. has two main types of resources: human and intellectual, through which it operates. It is focused on various intellectual resources, such as brand, trademark, patents, and data

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<sup>27</sup> "Visa Inc. - Annual Report". *Visa Inc.* 2017.

<http://d18rn0p25nwr6d.cloudfront.net/CIK-0001403161/cd6545c2-6c6e-4ba1-8dcd-52cd1521df3a.pdf>

<sup>28</sup> Rao, Leena. "Visa to Expand Paypal-Competitor to Starbucks, Walmart, Walgreens." *Fortune.Com*, 21 Jan. 2016. *EBSCOhost*, [search.ebscohost.com/login.aspx?direct=true&db=bth&AN=112396350&site=bsi-live](http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=112396350&site=bsi-live)

because it is considered as a provider of digital financial services<sup>29</sup>. They are critical for the company because it is represented as a fast-emerging and a technological-driven company of digital payments. Human resources are considered crucial for the company because it depends on various specialists, such as IT specialists, provides the support and development of these platforms and products. These two main types of resources create a combination that maintains and support the development of Visa Inc. in the industry of digital financial services.

### 6.7. Key Partnerships

Visa Inc. has various categories of partners that are strategically important for achieving a sustainable competitive advantage and making profits. One of them is acquisitions of particular resources and activities: companies of commerce. Visa Inc. develops various directions of digital payments by creating partnerships with companies of alternatives to digital payments, such as PayPal and Klarna<sup>30</sup>; this allows Visa Inc. to track trends of new directions in the industry. The second one is strategic alliances: emerging technologies innovators. These collaborations with tech innovators can help the company in developing the convenient and usable method of paying<sup>31</sup>. It has a specific department of co-creation new platforms and emerging technologies with tech innovators and startups.

### 6.8. Cost Structure

Visa Inc. is primary a value-driven company because it has a high cost of charges in comparison with its competitors. Its cost structure can be categorized as an example of economies of scope because Visa Inc. can process 65,000 transactions per second with maintaining high-security standards from digital fraud<sup>32</sup>. Some aspects of its cost structure are crucial, such as marketing, personnel, IT and emerging technologies.

## 7. Key Activities

Visa Inc. key activities can be considered as an example of a platform/network category. The company has four main activities that create and deliver the value propositions to merchants

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<sup>29</sup> "Visa Inc. - Annual Report". *Visa Inc.* 2017. <http://d18rn0p25nwr6d.cloudfront.net/CIK-0001403161/cd6545c2-6c6e-4ba1-8dcd-52cd1521df3a.pdf>

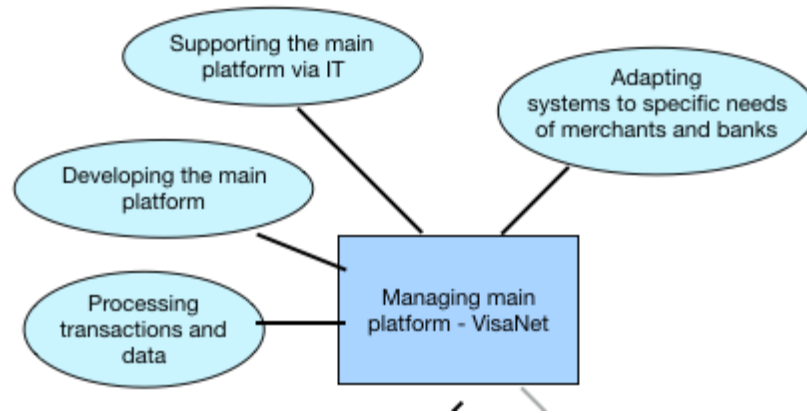
<sup>30</sup> "Visa Inc. - Annual Report". *Visa Inc.* 2017. <http://d18rn0p25nwr6d.cloudfront.net/CIK-0001403161/cd6545c2-6c6e-4ba1-8dcd-52cd1521df3a.pdf>

<sup>31</sup> Narayanan, Aparna. "Visa Invests in Hot Tech Unicorn with This Unique Twist on Payments." *Investors Business Daily*, 27 June 2017, p. 17. *EBSCOhost*, search.ebscohost.com/login.aspx?direct=true&db=bsu&AN=123831629&site=bsi-live.

<sup>32</sup> "Visa Inc." *Visa Inc. Marketline Company Profile*, 04 May 2017, pp. 1-33. *EBSCOhost*, search.ebscohost.com/login.aspx?direct=true&db=bth&AN=124274228&site=bsi-live.

and banks. These main activities have sub-man activities that create linkages between some of them.

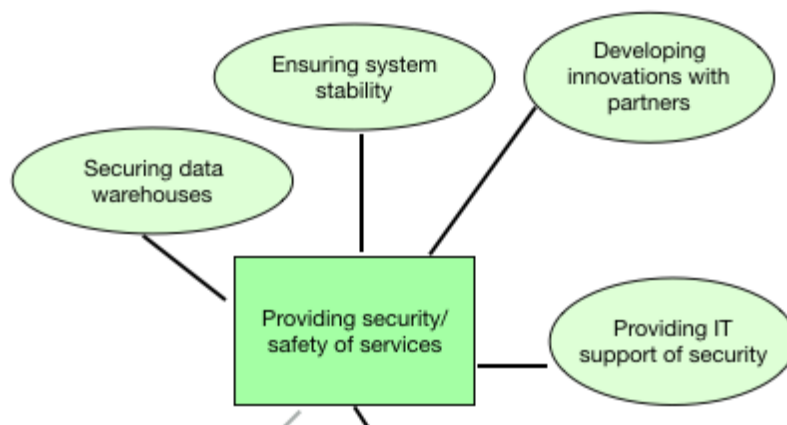
- *Managing and operating through the main platform - VisaNet*



**Figure 9.** The main activity: *managing main platform - VisaNet*, and its four sub-activities. **Made by the author.**

Visa Inc. operates through its main network, VisaNet, that allows the company to **process transactions and data** between merchants and cardholders via processing and supporting digital payments over 200 countries<sup>33</sup>. It can **adjust a network to specific requirements of merchants and banks** for increasing their range. The company connects merchants and cardholders through its main customers, banks, that operate by Visa’s main network. Visa develops and manages its main network by **a support of IT specialists**. By partnering with startups, such as Stamplay<sup>34</sup>, the company **develops its platforms** with combining Stamplay’s and Visa’s APIs for offering a larger and more complex global network.

- *Providing high-security standards*



<sup>33</sup> “VisaNet - the technology behind Visa”. *Visa Inc.* 2012. <https://usa.visa.com/dam/VCOM/download/corporate/media/visanet-technology/visa-net-booklet.pdf>

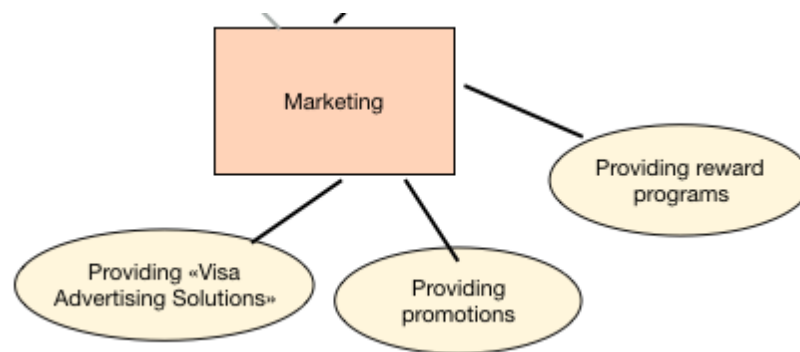
<sup>34</sup> “Winners take home Visa’s The Everywhere Initiative prize”. *Visa.* 2018. <https://usa.visa.com/visa-everywhere/innovation/three-startups-partner-with-visa.html>



**Figure 10.** The main activity: *providing high-security standards*, and its four sub-activities. **Made by the author.**

Visa Inc. provides high-security standards of its products/services and other offerings. This activity creates a feeling of safety and data protection that is crucial in the modern digital payment industry by **securing data warehouses**. Visa **develops innovations with partners** or acquires startups, such as CyberSource, for improving and offering security solutions for merchants. In 2015, it launched a specific security solution, Decision Manager Replay, that allows merchants to analyze risks of digital fraud by using historical data and transactions<sup>35</sup>. The company develops and maintains strict rules and high-quality security standards for protecting personal data and information<sup>36</sup>. Merchants and banks can face some difficulties in reaching and maintaining these standards. However, Visa Inc. **provides IT support** and services for retaining these standards for all Visa's networks. The company creates the value by **ensuring system stability** and creating a feeling of using high-quality services/products.

- *Marketing*



**Figure 11.** The main activity: *marketing*, and its three sub-activities. **Made by the author.**

Visa Inc. considers marketing and its channels as one of the most crucial aspects of its advancements and attractiveness. It advertises its brand, products, services, and other offerings by **providing reward programs** for cardholders and **promotions** for merchants. For example, Visa Inc. had created a special offer for fans of Super Bowl that made a trip to this event in 2010<sup>37</sup>; this action has established the value to banks and merchants that participated in this event. **Visa advertising solutions** is a specific marketing offer for merchants that allows them to control their

<sup>35</sup> "Visa Inc. - Annual Report". *Visa Inc.* 2017.

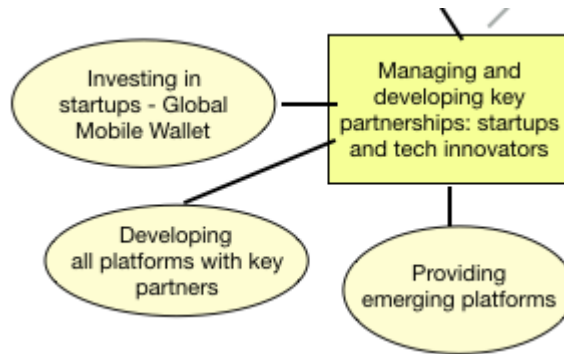
<http://d18rn0p25nwr6d.cloudfront.net/CIK-0001403161/cd6545c2-6c6e-4ba1-8dcd-52cd1521df3a.pdf>

<sup>36</sup> Vijayan, Jaikumar. "New Credit Card Security Rule Takes Effect." *Computerworld*, vol. 39, no. 27, 04 July 2005, pp. 8-9. *EBSCOhost*, search.ebscohost.com/login.aspx?direct=true&db=bth&AN=17532491&site=bsi-live.

<sup>37</sup> "Vendor Briefs." *ISO & Agent Weekly*, vol. 6, no. 38, 21 Oct. 2010, p. 13. *EBSCOhost*, search.ebscohost.com/login.aspx?direct=true&db=bth&AN=66210300&site=bsi-live.

online and mobile marketing campaigns and reward programs with some bonuses or discounts for cardholders.

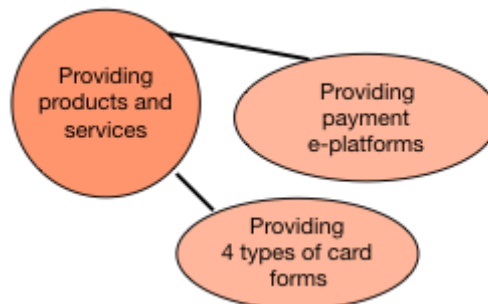
- *Managing and developing key partnerships: startups and tech innovators*



**Figure 12.** The main activity: *managing and developing key partnerships: startups and tech innovators*, and its three sub-activities. **Made by the author.**

Visa Inc. develops and maintains its relations with two main categories of partners: startups and tech innovators. It considers the creation of robust and prosperous partnerships as one of the crucial business activities. Visa **invests in startups**, such as Global Mobile Wallet and Behalf. For example, Behalf is Israeli startup that focused on the support of small businesses by providing working capital solutions<sup>38</sup>. Visa’s aim of this partnership is to expand globally in fintech by focusing on small businesses. Its success and profits depend on these relations because startups and tech innovators, on whose innovative **emerging technologies are depended on Visa's platforms development**. Visa Inc. creates partnerships with tech innovators and startups for following trends and **developing its current platforms/network**. It creates a value of being innovative and convenient for its merchants and banks. The company makes offerings and supports startups, such as Global Mobile Wallet, that develops electronic payment platforms, and these startups decide what they can offer to their clients.

- *Providing products and services*



<sup>38</sup> “Visa Invests In Israeli Startup Behalf”. *PYMNTS.com*. 7 Aug 2018. <https://www.pymnts.com/visa/2018/behalf-israel-startup-fintech-investment-smbs/>

**Figure 13.** The sub-main activity: *providing products and services*, and its two sub-activities. **Made by the author.**

This is a sub-main activity that creates a linkage between two main activities: Managing the main platform - VisaNet and Managing key partnerships - banks and tech innovators, that are considered as primary drivers of the company's revenue. Visa Inc. offers various payment platforms to banks and multiple platforms and programs for merchants. **Providing 4 types of card forms** are represented by debit-, credit-, prepaid and commercial cards. All of them are operated via the main network and processed purchases between merchants and consumers. **Providing payment e-platforms**, such as Visa Direct, that are focused on processing traditional and “push” payments.

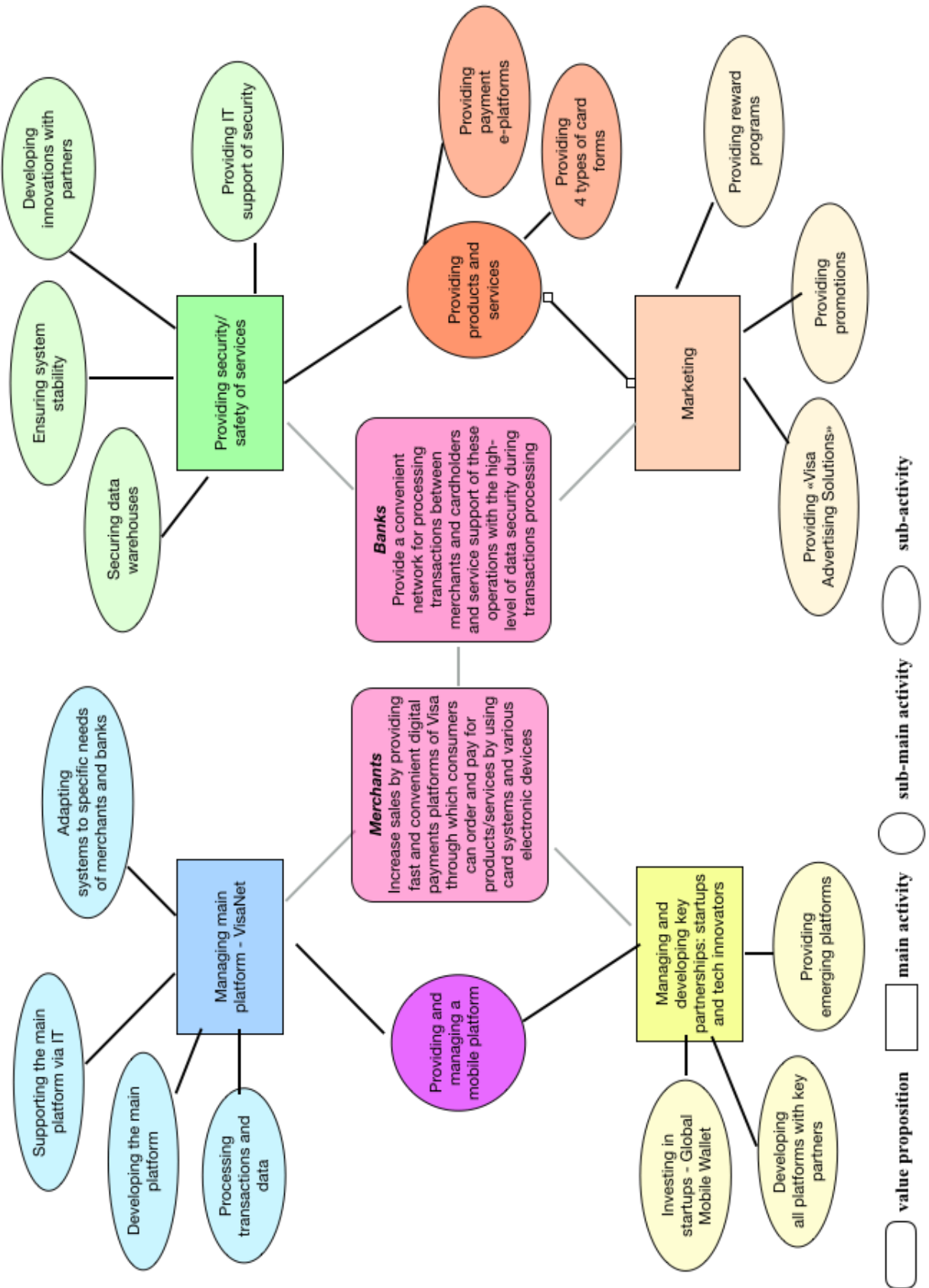
- *Providing and managing a mobile platform*



**Figure 14.** The sub-main activity: *providing and managing a mobile platform*. **Made by the author.**

This is a sub-main activity that creates linkages between three main activities: managing the main network, providing high-security standards, and developing and maintaining key partnerships. It is crucial as one of the fastest developing direction in the industry of digital payment platforms. It covers the Asia-Pacific that is considered as a leader of the cashless markets. It creates value by creating a possibility to expand a range of banks and merchants and increase a number and volume of transactions between merchants and cardholders with covering all smartphones' users.

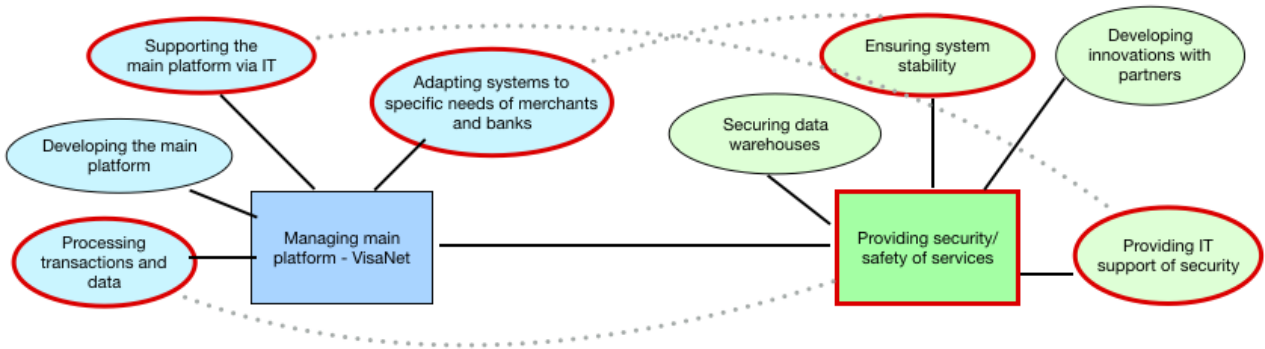
## 8. Current Activity Map



**Figure 15.** This is Visa’s activity systems map graphical representation. It shows Visa’s main activities, sub-main activities, and sub-activities, as well as the interconnections among them. **Made by the author.**

### 9. Strategic Fit/Competitive Advantage

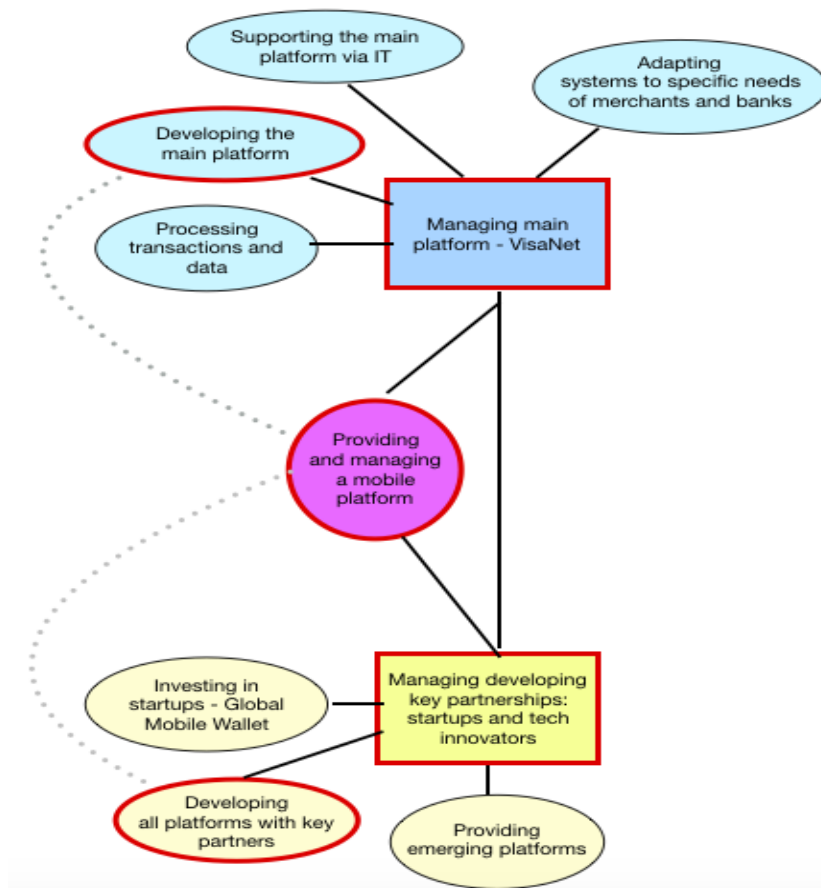
The company has some fits across its main activities that are important for tailoring value chains and delivering value to its cardholders/merchants.



**Figure 16.** The first strategic fit between two main activities: Managing the main platform and Providing security/safety of services. **Made by the author**

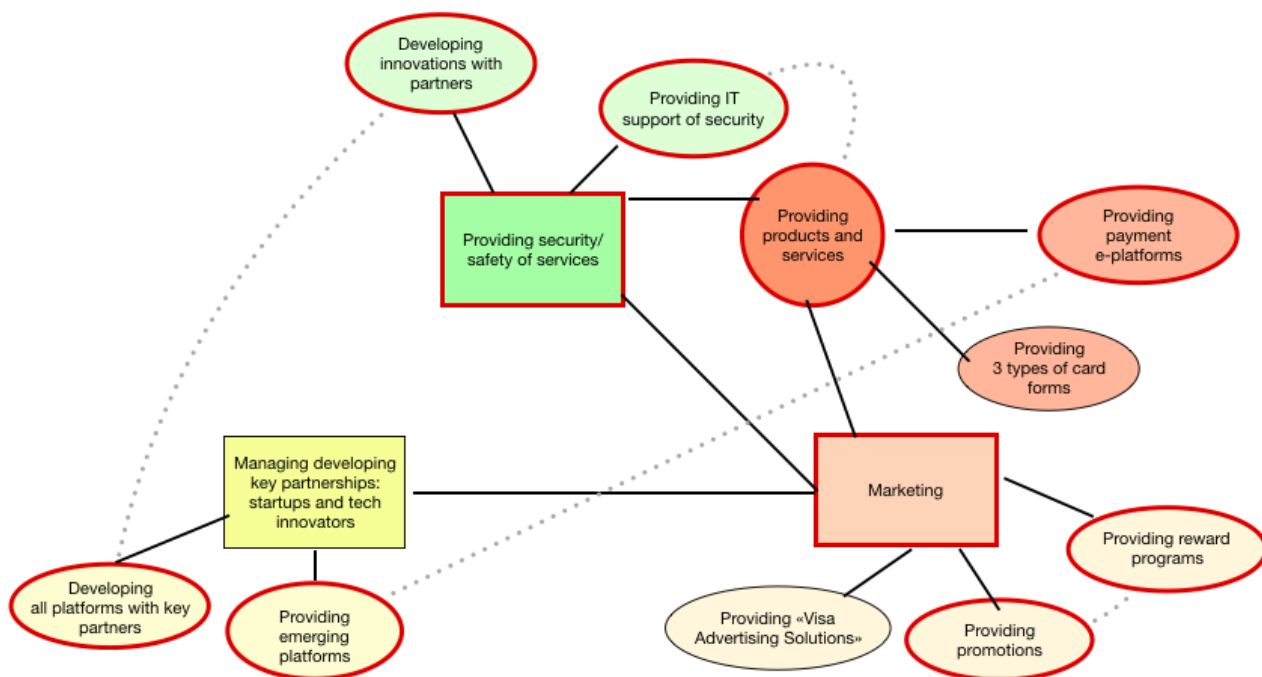
There is a strategic fit between two main activities: managing the main platform and providing high-security standards. Visa Inc. operates through its main network/platform - VisaNet, that processes all transactions and data between merchants and cardholders. The main fear of any consumers in the digital industry is to be hacked. Visa Inc. has created a trustworthy in the high-quality protection of personal data and information.

This fit is created by operating its main platform, VisaNet, which processes all transactions and operations of Visa’s products between merchants and banks, that is necessary to be ensured in systems stability and supported via IT services. It is considered as a strategic fit because all processes with Visa’s products and services are managed through its main network, VisaNet, that should be protected on a higher possible level. All operations of Visa’s products and services are dependent on this network.



**Figure 17.** The second strategic fit between two main activities and one sub-main activity: Managing the main platform, Managing/developing key partnerships: startups and tech innovators, and Providing and managing a mobile platform **Made by the author**

The next fit is between managing the main network and managing/developing key partnerships. It is a crucial linkage because Visa has developed its technologies through other parties as startups and tech innovators. These relations help the company to build and improve its main network through which all transactions are processed. These relations are considered crucial for achieving success in this fast-developing industry of digital payment platforms. The central linking between them is a sub-main activity: providing and managing a mobile platform that is a main and most fast developed direct of the digital payment industry.



**Figure 18.** The third strategic fit between three main activities and one sub-main activity: Providing security/safety of services, Managing/developing key partnerships: startups and tech innovators, Marketing, and Providing products and services. **Made by the author**

The third fit is between marketing and managing/developing key partnerships. It is essential because all reward programs are considered and defined by banks that directly provide them to cardholders. Cardholders can ask banks for operating through a specific network that can affect a number and volume of processed transactions.

This fit is created by focusing on marketing activities that are significantly important for creating a brand awareness that affects a creation and development of partnerships between the company and various startups/innovators and offerings of Visa’s products and services. All these activities are also protected from a risk of digital fraud by providing security/safety of products and services that is represented one of the main aspects of a marketing campaign, which can attract more partners and increase revenue by providing more products and services.

All these activities are supported value propositions of Visa Inc; however, these activities without these fits cannot deliver value and bring competitive advantages to the company.

## 10. Current Strategy and Porter’s 5 Tests of Strategy

### 10.1. Current Strategy

The current strategy of Visa Inc is to increase the number and volume of cashless transactions between cardholders and merchants through the development of modern and convenient digital payment platforms and networks, such as a global mobile wallet, which can cover all smartphones' users all over the world.

Visa Inc. profit, in the majority, depends on a number and volume of transactions between merchants and cardholders. Visa Inc. has changed its direction from focusing on cards to more convenient digital payment platforms, such as a global mobile wallet, for attracting as much as possible consumers for merchants. The company regards marketing channels as the development of reward programs that potentially can increase merchant and cardholder acquisitions. It offers high-level of security for data processing and a possibility to adapted platforms to specific requirements. The company has a high level of advancement for overcoming its main competitors in this area because its payment network covers all central regions of infrastructure all over the world, such as the Americas, Europe, Asia-Pacific, the Middle East, and Africa<sup>39</sup>.

#### *10.2. Porter's Test #1: A Distinctive Value Proposition*

Visa Inc. has a partially distinctive value proposition. It has faced with an intense and aggressive competition in the industry that makes a differentiation between them less remarkable and more difficult. Visa Inc. is a recognizable payment network by maintaining its high-security standards and various reward programs that can attract more potential consumers to merchants. It can affect merchants' sales through a possibility to order and pay for products/services via convenient and fast payments through its main network. However, Visa Inc. has lost its benefits by offering similar products and services as one of its main competitors, MasterCard, with a higher cost of charges.

#### *10.3. Porter's Test #2: A Tailored Value Chain*

Visa Inc. has a tailored value chain. It adapts all its main activities for offering convenient digital payment platforms through which merchants and banks can operate quickly and immediately without any issues. The company supports the high-security standards that can protect data and information during transaction processing between these two customer segments. Visa Inc. focuses on four main activities, such as managing the leading network, providing high-level security of services, marketing, managing key partnerships: banks and tech innovators, and one sub-main activity, which is developing and providing relations with startups, such as Global Mobile Wallet.

#### *10.4. Porter's Test #3: Trade-Offs Different from Rivals*

Visa Inc. has some trade-offs that differentiate it from rivals. The company creates a trade-off between a possibility to provide a payment network with high-security standards and digital payment platforms that use cryptocurrency, which can be invisible for checking processes and

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<sup>39</sup> "Most Popular Credit Card By Country: Visa, Mastercard Or Amex". Merchant Machine. 2017. <https://merchantmachine.co.uk/visa-mastercard-amex/>



illegal in some countries, such as China<sup>40</sup>. However, Visa Inc. has the higher cost of charges than one of its main competitors, MasterCard. This aspect leads to a loss in revenues with a rejection of using its payment network by some companies, such as Kroger which is one of the largest supermarket chains in the United States<sup>41</sup>.

#### *10.5. Porter's Test #4: Fit across the Value Chain*

Visa creates fits across its value chain. The company's principal activities reinforced each other that allows the company's business model to have this fit. It leads to the efficient support of the business and operating models that based on the main activities and their relations. The sub-main activities and other sub-activities effectively impact on the resource usage and explain processes of the main activities in details.

#### *10.6. Porter's Test #5: Continuity over Time*

Visa Inc. had the continuity overtime during the last ten years. They succeed from a repetition of the primary strategy that allowed them to focus on issuers as providers to cardholders, from whose transactions the company had generated a profit. It allowed the company to increase its overall returns of shareholders by 130%<sup>42</sup>. Recently, cashless markets have been more shifted from transactions through cards, especially credit cards, to various convenient digital payment platforms, such a mobile payment platform. The current CEO, Alfred Kelly Jr., has reacted to these changes by deciding to focus on a younger generation of smartphones' users that prefer to order and pay via their mobile wallet<sup>43</sup>.

## **11. Conclusion**

Visa Inc. creates a business module with a primarily focused on a development its main network, VisaNet, through which the company process all transactions and information. The company has performed all activities with a fit of this one for achieving effective relations with both customer segments. Visa Inc. has demonstrated the development of its current strategy. It has shifted its main direction from focusing on a traditional card system to mobile payments. It is a

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<sup>40</sup> Bajpai, Prableen. "Countries Where Bitcoin Is Legal & Illegal (DISH, OTSK)". *Investopedia*. <https://www.investopedia.com/articles/forex/041515/countries-where-bitcoin-legal-illegal.asp>

<sup>41</sup> Gibson, Kate. "Kroger threatens to ban Visa cards". *CBS*. 31 July 2018. <https://www.cbsnews.com/news/kroger-threatens-to-ban-visa-cards/>

<sup>42</sup> Oyedele, Akin and Reuters. "Visa's CEO is resigning and says he can no longer spend the time in San Francisco to do the job well". *Business Insider*. 17 Oct 2016. <http://uk.businessinsider.com/visa-ceo-charlie-scharf-resigns-2016-10>

<sup>43</sup> "Global Mobile Wallet Market Business Strategies: Apple Inc., Dwolla Inc., Visa Inc., MasterCard Inc." *MarketWatch*. 22 Jun 2018. <https://www.marketwatch.com/press-release/global-mobile-wallet-market-business-strategies-apple-inc-dwolla-inc-visa-inc-mastercard-inc-2018-06-22>

significant aspect for the further development of the company. Porter's five tests demonstrate that the current strategy can be valuable to both customer segments, banks, and merchants.

## 12. Financial Analysis

### 12.1. Revenue and Net Income Analysis<sup>44</sup>

In million US dollars - Visa Inc	2015	2016	2017
Revenue	13,880	15,082	18,358
Total Operat. Expense	4,816	7,199	6,214
Net Income	6,328	5,991	6,699

There are the revenue results for the last three years of the company's operations. The revenue increased by around \$4,478 million to \$18,358 million in 2017 that is a demonstration of 32% increase from the end of 2016. Results show the stable positive growth for the last three years.

This increase in revenue has happened due to a merging process of Visa Europe and Visa of the United States during the last two years. However, the company has an unstable profit due to this situation because of an increase in operating expenses, especially "Visa Europe Framework Agreement loss". It was equal to \$1,877 million without which the company would demonstrate a stable growth in net income during the past three years.

Visa Europe Framework Agreement loss	—	1,877	—
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### 12.2. Long term and Solvency Ratios

Visa Inc.	2015	2016	2017
Debt/Equity	0.32	0.95	1.08
Net Tangible Assets	6,034,000,000	-15,983,000,000	-16,557,000,000
Modified Debt/Equity	1.58	-1.95	-2.13

The main weakness is considered as entirely negative net tangible assets during the last two years that could be caused by significant repurchasing of a stock. It has demonstrated that shareholders do not have any tangible value in the company.

<sup>44</sup> "Visa Inc. - Annual Report". Visa Inc. 2017.

<http://d18rn0p25nwr6d.cloudfront.net/CIK-0001403161/cd6545c2-6c6e-4ba1-8dcd-52cd1521df3a.pdf>

It can be considered as a negative sign of possible threats to Visa’s position on the market while one of its main competitors, Mastercard, had demonstrated the positive number as net tangible assets for the last three years.

In thousand US dollars <sup>45</sup>	2017	2016	2015
<b>Net Tangible Assets</b>	<b>1,313,000</b>	<b>3,178,000</b>	<b>3,334,000</b>

These results have demonstrated a significant change in relations with stakeholders during the past two years. Stakeholders have lost all their tangible value due to this period and a case with emerging Visa Europe.

### 12.3.Profitability

Visa Inc.	2015	2016	2017
Profit Margin	45%	40%	36%
Gross Margin	78%	78%	79%

Results of profit margins are pretty stable in its decline over the past three years. It demonstrates that a company is still profitable and has a certain level of control over its costs in comparison with its competitors, especially Mastercard.

#### Profitability

Profit Margin	<b>33.81%</b>
Operating Margin (ttm)	<b>55.46%</b>

Mastercard has achieved around 34% of Profit margin during the last twelve month that is still less than Visa's results. However, they demonstrate how close Mastercard is to a Visa's position on the market.

Results of gross margin demonstrate how significant is an impact from Cost of Goods Sold to overall costs for Visa In. Primarily, it is critical in comparison with a result of its main competitor, Mastercard, that has achieved around 56% of gross margin during the last twelve months. It demonstrates a significant advantage of Visa over Mastercard in the industry. Visa Inc. has generated strong sales prices that are relative to its cost of goods sold, which are this cost to make or acquire products.

2017	Visa Inc	Mastercard
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<sup>45</sup> "Mastercard". Yahoo! Finance. <https://finance.yahoo.com/quote/MA/balance-sheet?p=MA>

Profit Margin	36%	34%
Gross Profit	79%	56%

#### *12.4. Market-based Measures*

Visa Inc	2015	2016	2017
Book/Market	0.16	0.15	0.10
Price/Earnings	30.31	33.04	39.67
Dividend Yield	0.07	0.07	0.06
Stock Price	High: 79.01	High: 82.70	High: 112.59

A low rate of Book/Market ratio has demonstrated a healthy interest in this part of the market, especially in technologies.

Visa Inc. has consistently high P/E ratio with a stable growth during the past three years. It is essential because it is an indicator of over-valuation that confirms the correct work of a company. These aspects can affect stock prices.

These aspects have demonstrated enough level of confidence in Visa's management strategy. P/E ratios are much higher than average at 32-33 that is considered as an indicator of over-valuation. These results can be considered as signs that corrections are in work. It is one of the most critical ratios because it may affect stock prices.

During September of 2018, Visa Inc. has achieved a stock price of \$160 per share that is significantly higher than during the past three years. However, its main competitor, Mastercard, has reached a stock price of \$260 per share that was raised by more than 40%.

2018	Visa Inc.	Mastercard
Stock Price	\$160	\$260
Difference	+20%	+40%

#### *12.5. Stock Performance Analysis*



**Figure 19.** The graph represents the stock performance of Visa Inc. for the last five years, from 2014 to 2018. It can be seen from the graph that starting from 2014 till 2017, Visa’s shares were growing unstably with some drops in value. In the beginning of 2017, Visa Inc. has started to demonstrate a more stable growth of its share price. It has achieved a pick of share price, \$150 per share, in September of 2018. However, the graph shows that Visa’s current stock performance is not stable. **Source: Finance.yahoo.com**

Visa Inc. has demonstrated a quite stable growth of stock prices during the last and a half year, from 2017. There are some small drops during this period. The cost has started to overgrow from July of 2014. It had offered a price of \$ 51 per share. However, the further growth was unstable and periodically dropped by \$10-20 during a month. After the company has merged Visa Europe as a part of Visa of the United States, the stock price became more stable and proliferated from a cost of \$78 per share to \$160 per share.



**Figure 20.** The graph represents the stock performance of Mastercard for the last five years, from 2014 to 2018. It can be seen from the graph that starting from 2014 until July of 2017, Mastercard’s shares were growing unstably with some drops in value. In July of 2017, Mastercard has begun to demonstrate more stable and swift growth of its share price. It has achieved a pick of share price, \$260 per share, in September of 2018. The graph shows that Mastercard’s current stock performance and advantages over Visa’s performance. **Source: Finance.yahoo.com**

The main Visa's competitor, Mastercard, has demonstrated a pretty similar situation on a stock market during the past five years. However, the growth of its cost has started on July of 2016; there is much more significant and rapid movements from the price of \$88.56 per share to \$260 per share during September of 2018. It has demonstrated a stronger position on the market than Visa has for today. Mastercard can potentially overcome Visas performance and profit due to its weaker position on the market with the much less significant increase over the past five years.

### **13. Conclusion**

Visa Inc. has demonstrated a stable growth of its revenues over the last three years. This aspect is confirmed by a fact of the historical increase in its market share prices during this period. Visa Inc. has consistently high P/E ratio with a stable growth during the past three years. It is essential because it is an indicator of over-valuation that confirms the correct work of a company. These aspects can affect stock prices. The company has no any inventory in its account; however, the cash conversion period is unstable during the last three years. The main weakness is considered as entirely negative net tangible assets over the previous two years that could be caused by significant repurchasing of a stock. It has demonstrated that shareholders do not have any tangible value in the company. It shows a sort of poor management in the company with a current result of price-to-book ratio - 12.17, while MasterCard has achieved 43.32 as a price-to-book ratio and positive number in net tangible assets according to yahoo finance. It confirms a weaker position of the company in the industry during the past three years. Also, Visa Inc. had demonstrated that from 2015 to 2016, they had paid more in dividends that were expected. They also decreased paid in capital. It means that the company has tried to achieve more value to its shareholders than they had in reality.

### **14. External Analysis**

#### *14.1. Industry Overview*

The industry of financial services is divided into several sections, such as banks, non-banks payment services, financial advisors, and e-landing, that occupied the cashless markets. It has a wide range of companies that provide support and services for traditional card systems, which focused on the customer-to-merchant payment scenario, and independent applications and platforms that are directly operated via various payment scenarios (e.g. customer-to-merchant, bank-to-bank, business-to-business, and person-to-person).

The industry of digital payment platforms and fintech represents the rapid growth of its development and changes. During the past decades, this industry trends and innovative technologies had rapidly developed and upgraded. It is happening because of the fast growth and expansion of

cashless markets all over the world. These facts cause intense competition for current companies and the possibility of entering the market for new rivals, such as blockchains, that provide alternative digital payments. Intense and aggressive competition can cause a potential loss of merchants and issuers for Visa, on whose relations and transactions/data processing, the company depends.

### *Technology*

The development of emerging technologies is one of the most critical aspects of digital payment platform industry. They can affect the development of further trends in the industry. The traditional card system is based under the strong pressure of other innovative payment platforms, such as mobile applications that are independent and processed transactions directly from account holders to merchants. The development of these technologies leads to an expansion of a variety of merchants. It can increase a company's profit by increasing the number of processed transactions.

There are some specific examples of innovative progress in the industry. In Denmark, people can donate to a church collection box using mobile payments. Mobile applications process the majority of transactions through a QR code system that allowed to avoid a directed usage of a card.<sup>46</sup> These aspects are important because they can affect a company's profit by increasing or decreasing the number of processed transactions.

### *Regulations*

Some countries have rapidly changed regulations about digital payment platforms during the past five years. However, not only countries create these new regulations, banks and merchants are also involved in the development of these regulations in a list of rules by each company. There is one of the most recent examples that banks have created for increasing their profits with companies of digital payment services.

Banks have cut the costs of these transactions that lead to some changes in their politics. Many banks have closed ATMs and branches with an explanation of changes in consumers' preferences. However, the primary goal is to increase a volume and number of Visa's and others' processed transaction for increasing banks' profits of cutting costs from each transaction<sup>47</sup>.

## *14.2. The Asian-Pacific markets, especially the Chinese cashless market*

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<sup>46</sup> Bech, M. L., Faruqui, U., Ougaard, F. and Picillo, C. "Payments are a-changin' but cash still rules". *BIS*. 11 Mar 2018. [https://www.bis.org/publ/qtrpdf/r\\_qt1803g.htm](https://www.bis.org/publ/qtrpdf/r_qt1803g.htm)

<sup>47</sup> Scott, Brett. "The cashless society is a con – and big finance is behind it". *The Guardian*. [https://www.theguardian.com/commentisfree/2018/jul/19/cashless-society-con-big-finance-banks-closing-atms?utm\\_source=pocket&utm\\_medium=email&utm\\_campaign=pockethits](https://www.theguardian.com/commentisfree/2018/jul/19/cashless-society-con-big-finance-banks-closing-atms?utm_source=pocket&utm_medium=email&utm_campaign=pockethits)

There are differences in any regulations and laws by each country that can affect the business of digital payment service companies in various direction. Chinese cashless market is a significant example of these regulations that changed and can affect companies of digital payment services, such as Visa and Mastercard, their strategies, and further development.

Until the summer of 2016, the Chinese government has strict regulations against operations of foreign digital payment companies on its domestic market by processing local transactions. It was significantly crucial because the Asia-Pacific, especially China, is a driven force of the industry with a perspective of gaining additional \$1.1 billion by foreign companies on Chinese domestic market until 2025<sup>48</sup>. However, Visa Inc. and other companies had lost their opportunities to compete with local companies more than ten years ago because of these regulations.

China has planned to tighten regulations over mobile payments platforms and applications that can potentially provide an opportunity for these companies of competing on the Chinese domestic market. It is a significant opportunity because mobile payments are covered more than 80% of overall transactions over China<sup>49</sup>. These regulations could increase a minimum level of security standards<sup>50</sup> that will potentially create issues for companies that provide independent mobile applications for processing payments directly in between account holders and merchants.

## **15. Competitive Environment**

The company competes over the world because it is an international company of digital payment platforms. The highest level of competition covers three main areas of the cashless markets: the Asia-Pacific, Europe, and the United States. Visa has faced with some controversial aspects in the highly competitive environment of the industry. By today, several competitors also represent Visa's partners, especially in fintech direction of the industry.

### *15.1.Key Competitors*

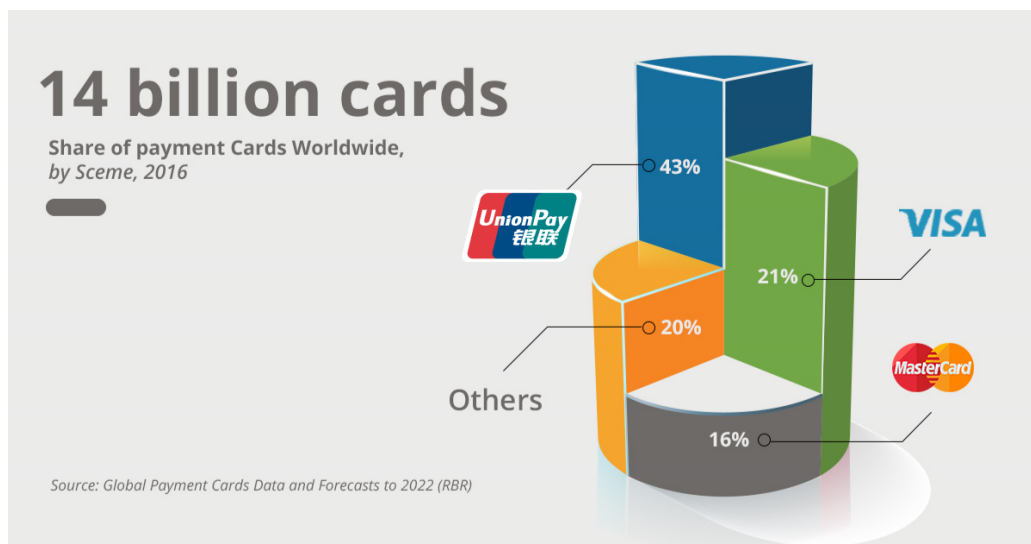
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<sup>48</sup> Grove, Eric. "BankThink Do Visa and MasterCard Have a Chance in China?" *American Banker*. 6 May 2015. <https://www.americanbanker.com/opinion/do-visa-and-mastercard-have-a-chance-in-china>

<sup>49</sup> Yang, Yuan. "Why millennials are driving cashless revolution in China." *Financial Times*. 17 Jul 2018. <https://www.ft.com/content/539e39b8-851b-11e8-a29d-73e3d454535d>

<sup>50</sup> Wang, Yue. "China Tightens Regulation Over Mobile Payment Apps -- What's Next For Tencent and Ant Financial?" 1 Mar 2018. *Ebscohost*. <http://web.a.ebscohost.com.ezproxy.lib.cas.cz/bsi/detail/detail?vid=5&sid=960a6ba8-3c01-45c7-b0b2-cebb29c963e7%40sessionmgr4006&bdata=JnNpdGU9YnNpLWxpdmU%3d#AN=127114449&db=bsu>





**Figure 21.** The graph represents the rates of market shares on a global scene from 2014 to 2016. It can be seen from the graph that UnionPay has achieved an absolute leading position, which represents in a twice higher number of market shares than Visa and Mastercard independently. **Source: Comparehero.my**<sup>51</sup>

### *UnionPay*

UnionPay is a private Chinese company that provides platforms and networks for processing transactions between merchants and banks. It covers the majority of the Asia-Pacific that creates a significant advantage in competition because the Asia-Pacific, especially China, that can be considered as a capital of the cashless markets. UnionPay has achieved an incredible volume of transactions in an amount of 14.95 trillion dollars in 2017 in this industry<sup>52</sup>. This strong advantage can potentially help the company to overcome Visa Inc. and Mastercard Incorporated not only on the domestic cashless market but even on the global stage on which UnionPay has started to operate actively from the previous year.

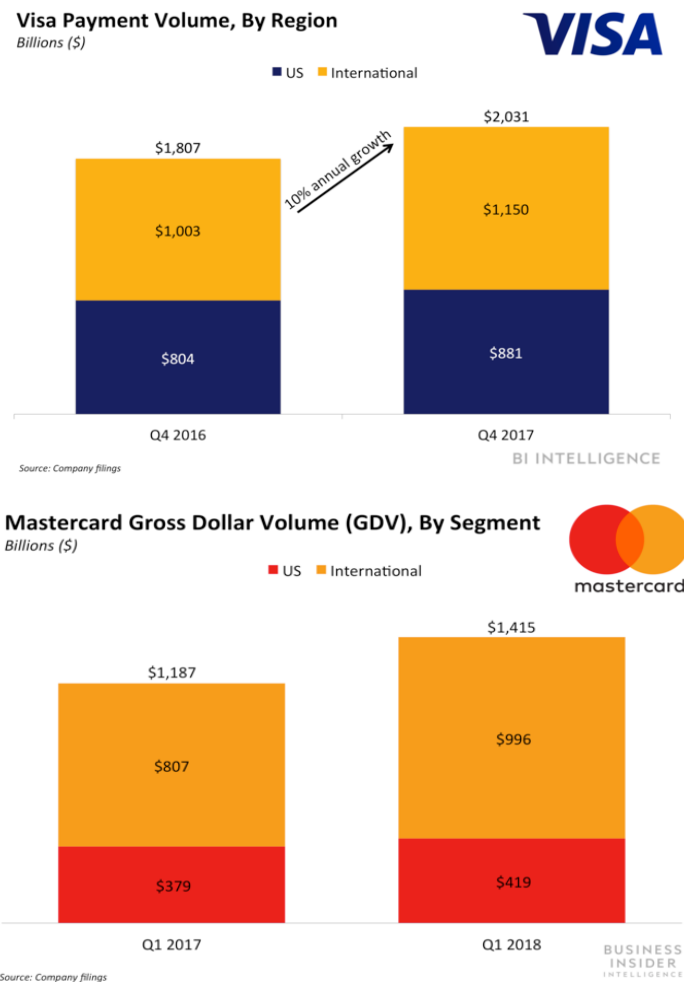
### *Mastercard*

Mastercard Incorporated is an American company of digital payment platform industry. It has started to operate more than fifteen years ago; however, the company has achieved significant benefits during the past five years in the markets. It covers the same areas as Visa Inc. on the global cashless market, such as the Asia-Pacific, Europe, the United States, and others. Mastercard represents various products, such as different types of cards and platforms/networks that process transactions between merchants and cardholders. These aspects lead to intense and substantial competition between Mastercard and Visa. Mastercard provides less expensive costs of charges to

<sup>51</sup> Shen, Ooi Chia. "UnionPay – The Leading Global Payment Network". *CompareHero*. 28 Jan 2018. <https://www.comparehero.my/blog/unionpay-leading-global-payment-network>

<sup>52</sup> "The transaction volume for UnionPay reached 14.95 trillion US dollars in 2017". *UnionPay International*. 6 Feb 2018. <http://www.unionpayintl.com/en/mediaCenter/newsCenter/companyNews/3533.shtml>

merchants by processing transactions<sup>53</sup>. It makes its services more attractive to some merchants than Visa’s services. It can potentially lead to an increase of merchants that can positively affect its revenues and profits.



**Figure 22.** These graphs represent differences between Visa and Mastercard payment volume for the last 2 years. Visa has shown an annual growth by 10% while Mastercard has represented an annual growth by 20%. **Source: Visa.com and Mastercard.com**

### 15.2. Competitive Analysis

Visa Inc. has faced with an intense and aggressive competition inside the industry of digital payment platforms, especially during the last three years. Recently, this market has been shifted its main direction from card systems to mobile payment platforms. Visa Inc. has failed its campaign of breaking into the Chinese cashless market during the last years.

The company has even faced with a loss of some strategically important merchants, such as the U.S. grocery retailer - Kroger, that announced a rejection of using Visa cards and platforms for

<sup>53</sup> Running, Thomas K. "IS VISA OR MASTERCARD CHEAPEST ABROAD?" *Nomad Gate*. 30 May 2017. <https://nomadgate.com/visa-vs-mastercard-exchange-rate/>

paying processes because of its high costs of charges<sup>54</sup>. Visa's competitors with similar products/ services and more reasonable prices can achieve a significant advantage for overcoming the company's profit.

Mastercard has shown a significant advantage and a possibility to overcome Visa Inc. by stable growth of its stock price during the last one and a half years. Its stock price has raised by more than 43% over this period<sup>55</sup>. The company has achieved a volume of transactions in an amount of 1.4 trillion dollars in 2017<sup>56</sup>. It continues to grow that creates a threat to Visa's position on the cashless market.

Visa Inc., Mastercard, and UnionPay are covered around 80% of the global market of digital payment platform companies. However, some competitors compete for the less 20% of the market. They are represented by companies, such as American Express, JCB, and companies, such as Diners Club International and Discover. American Express is considered as the third competitor of Visa Inc. with its volume of transactions of 1.26 trillion dollars in 2017<sup>57</sup>. JCB has annually achieved only a volume of transactions in an amount of 237 billion dollars<sup>58</sup>. Discover/Diners Club International has achieved much less amount of transactional volume that equals to 55 billion dollars in 2017<sup>59</sup> that make these companies less competitive in this industry. These amounts represent less than one-fifth of its rivals' transactional volumes that make their positions on the market less stable and beneficial in comparison with three main leaders of the market.

### *15.3.Strategic Group Map*

There is a strategic group map that was created with a goal to find out and analyze the closest competitors of Visa Inc. There were identified two interdependent forces, such as the volume and number of transactions, and the number of banks/merchants that provide these transactions. All of these driven forces are very important for this specific industry. The following

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<sup>54</sup> Gibson, Kate. "Kroger threatens to ban Visa cards". CBS. 31 July 2018. <https://www.cbsnews.com/news/kroger-threatens-to-ban-1-visa-cards/>

<sup>55</sup> Rivas, Teresa. "Mastercard May Have an Edge on Visa". *BARRON'S*. 17 Sep 2018. <https://www.barrons.com/articles/mastercard-may-have-an-edge-on-visa-1537198849>

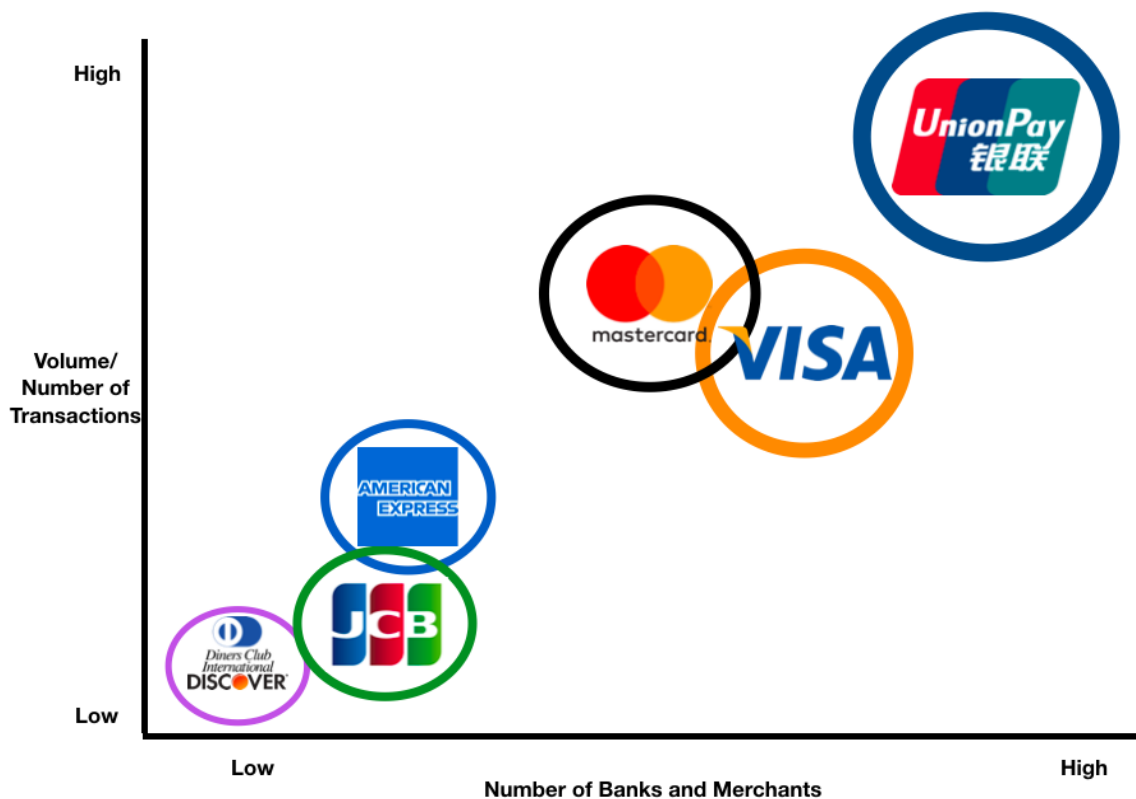
<sup>56</sup> Samson, Adam. "MasterCard earnings, sales jump on higher transaction volumes". *Financial Times*. 2017. <https://www.ft.com/content/a79926ca-3fe0-3c34-958b-bd275ad94ff3>

<sup>57</sup> "A Closer Look At Our \$105 Price Estimate For American Express". *Forbes*. 20 Feb 2018. <https://www.forbes.com/sites/greatspeculations/2018/02/20/a-closer-look-at-our-105-price-estimate-for-american-express/#2c68cc8b1735>

<sup>58</sup> "Corporate Overview". *JCB*. 2017. <https://www.global.jcb/en/about-us/company/overview/>

<sup>59</sup> "Discover Financial Services Reports Fourth Quarter Net Income of \$387 Million or \$0.99 Per Diluted Share". *Business Wire*. 24 Jan 2018. <https://www.businesswire.com/news/home/20180124006230/en/>

strategic group map includes some critical competitors of Visa Inc. that are (1) UnionPay, (2) MasterCard, (3) other companies, such as American Express, JCB, Diners Club International, and Discover.



**Figure 23.** There is a strategic group map that was created with a goal to find out and analyze the closest competitors of Visa Inc. There were identified two interdependent forces, such as the volume and the number of transactions, and the number of banks/merchants that provide these transactions. All of these driven forces are very important for this specific industry. **Made by the author.**

This industry has a high rate of competition. Companies have faced with the intense competition and issues of differentiating their products and services from their competitors. Visa Inc. has faced with various issues during the last couple of years. The company has achieved a volume of transactions in an amount that is over 2 trillion dollars in 2017<sup>60</sup>. However, it has lost the value of its stock price in comparison with its competitors, especially Mastercard. The company has even faced with some serious issues with its main system that blocked any transactions through it during one day. It causes negative effects on the company’s reputation as one of the most convenient and safety digital payment network<sup>61</sup>. These facts placed Visa on the third position on the strategic group map.

<sup>60</sup> Toplin, Jaime. “Visa’s payment volume hit \$2 trillion in Q4”. *Business Insider*. <http://www.businessinsider.com/visas-payment-volume-hit-2-trillion-in-q4-2018-2>

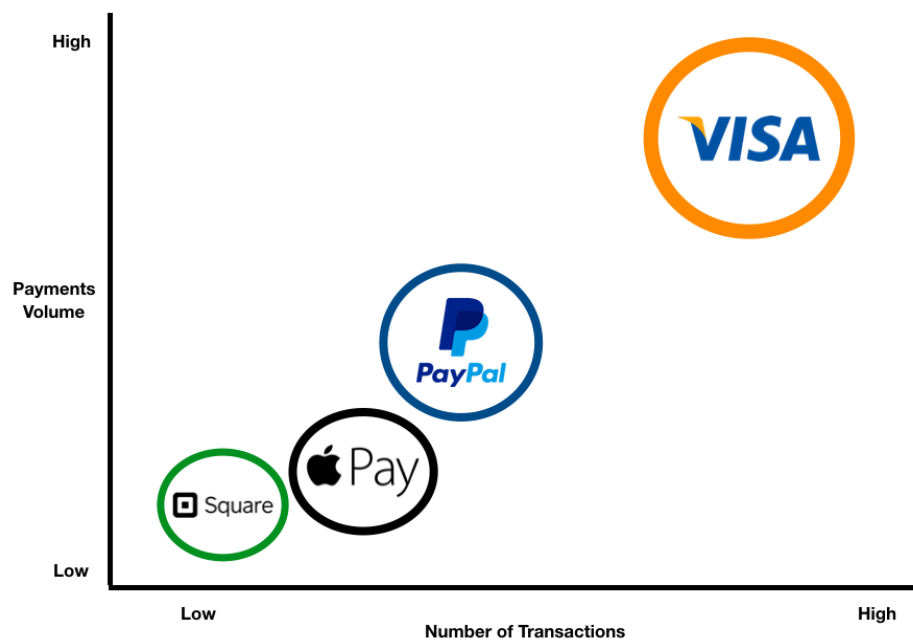
<sup>61</sup> Scott, Brett. “The cashless society is a con – and big finance is behind it”. *The Guardian*. [https://www.theguardian.com/commentisfree/2018/jul/19/cashless-society-con-big-finance-banks-closing-atms?utm\\_source=pocket&utm\\_medium=email&utm\\_campaign=pockethits](https://www.theguardian.com/commentisfree/2018/jul/19/cashless-society-con-big-finance-banks-closing-atms?utm_source=pocket&utm_medium=email&utm_campaign=pockethits)

All these facts are a reason for Visa Inc. to continue its development and improvement of its strategy that needs to help the company to achieve a sustainable competitive advantage.

*Partners and competitors at the same time*

There is a strategic group map that was created with a goal to find out and analyze the closest fintech competitors of Visa Inc that are partners and competitors at the same time. However, they are significantly far from Visa and its position on the market. Due to this fact, these companies were not considered in the competitive analysis as key competitors because they are more represented as partners. They can be considered only as potential competitors in fintech direction of the industry.

There were identified two interdependent forces, such as payments volume and number of transactions. All of these driven forces are very important for this specific industry. The following strategic group map includes some critical competitors (e.g. partners) of Visa Inc. that are (1) PayPal, (2) Apple Pay, (3) Square.



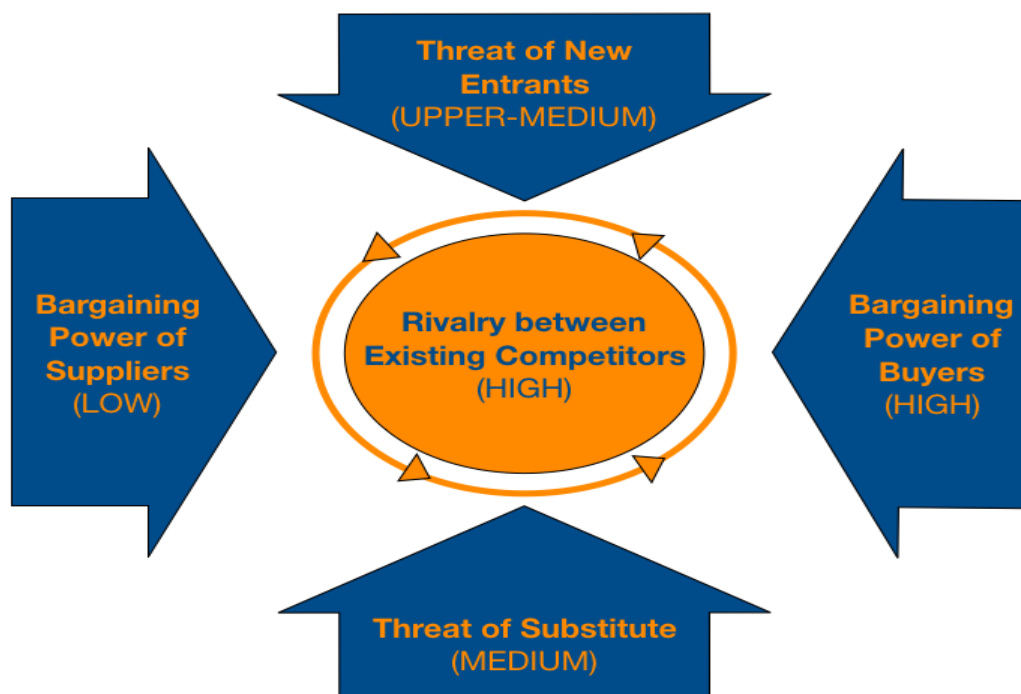
**Figure 24.** There is a strategic group map that was created with a goal to find out and analyze the closest competitors of Visa Inc that are partners at the same time. There were identified two interdependent forces, such as payments volume and number of transactions. All of these driven forces are very important for this specific industry. **Made by the author**

Due to the intense competition, these partners are considered as competitors at the same time. Visa has achieved the number of transactions that equals to 111.2 billion with payments

volume of USD 7.3 trillion in 2017<sup>62</sup>. PayPal represents 2.24 billion<sup>63</sup> of processed transactions with the total payments volume that equals to USD 132.52 billion<sup>64</sup> in 2017. Apple Pay achieved payments volume of USD 49.3 billion over 120 million of transactions in the United States in 2017<sup>65</sup>. Square collected USD 403 million of payments volume that were represented by around 100 transactions<sup>66</sup>.

This strategic group map analysis demonstrates the fact that all these partners can be considered as potential competitors in the industry of digital payments. However, Visa’s position is significantly higher and stronger than its partners. These facts placed Visa on the first position on the strategic group map.

## 16. Porter’s 5 Forces



**Figure 25.** There is a visualization of Porter’s 5 forces, their relations to each other and exact level to which an industry of digital payment platforms has faced. **Made by the author**

<sup>62</sup> “Visa 2017 Annual Report”. *Visa*. 5 Oct 2018. [https://s1.q4cdn.com/050606653/files/doc\\_financials/annual/2017/Visa-2017-Annual-Report.pdf](https://s1.q4cdn.com/050606653/files/doc_financials/annual/2017/Visa-2017-Annual-Report.pdf)

<sup>63</sup> “PayPal’s net number of payments from 1st quarter 2014 to 3rd quarter 2018 (in millions)”. *Statista*. 2018. <https://www.statista.com/statistics/218495/paypals-net-number-of-payments-per-quarter/>

<sup>64</sup> “PayPal’s total payment volume from 1st quarter 2014 to 3rd quarter 2018 (in billion U.S. dollars)”. *Statista*. 2018. <https://www.statista.com/statistics/277841/paypals-total-payment-volume/>

<sup>65</sup> “Apple Pay - Statistics & Facts”. *Statista*. 2018. <https://www.statista.com/topics/4322/apple-pay/>

<sup>66</sup> Yeung, Ken. “Square grew transactions 39% to \$50 billion in 2016”. *VB*. 22 Feb 2017. <https://venturebeat.com/2017/02/22/square-grew-transactions-39-to-50-billion-in-2016/>

### *16.1. Bargaining Power of Buyers*

The industry of digital payment services has faced with a high rate of buyers' bargaining power. There are considered two main customer segments, merchants and banks, as buyers.

Companies' profits depend on relationships between their two main customer segments, merchants and banks, which provide these services to cardholders. Merchants are charged by a number and volume of each processed transaction between them and cardholders. It means that companies' profits depend on merchants' sales and sustainable competitive advantage. Merchants would like to attract as much as possible consumers due to an expansion of platforms which are acceptable for ordering and paying. Banks can choose a more beneficial offering by its costs and conditions that increase the rate of banks' bargaining power from digital payment companies' points of view.

There are some difficulties with getting a substitute for these digital payment platforms/networks due to their high level of companies' advancement and expansion to international banks and merchants. Merchants could face with a high expense of using these platforms due to their low sales or generation of low profit by a high cost of charges by these companies of digital payment platforms.

### *16.2. Bargaining Power of Suppliers*

This industry has a low rate of suppliers' bargaining power.

Companies, such as Visa and Mastercard, do not have any specific suppliers on relationships with whom they can depend. However, gateway companies as Apple Pay and PayPal can be considered as suppliers by some aspects. They provide more potential revenue to companies in this industry by offering double charges for cardholders and merchants, who have platforms or cards of these companies and they reflect on cardholder/merchant accounts in banks. However, it is difficult to say that these gateway companies are suppliers in a traditional meaning because these companies also can be independent of card system companies, such as Visa or Mastercard, and connect account holders directly. It means that they can replace Visa or Mastercard and they need to be considered as competitors instead of suppliers. So it means that suppliers do not have a significant level of bargaining power that can affect positions of these companies.

### *16.3. Threat of New Entrants*

The industry of digital payment services has faced with an upper-medium rate of new entrants' threats.

Companies have increased their profits due to expansion with expanding the number of cardholders and merchants, and transactions between them. New entrants could face with various difficulties of being expanded because one of the primary customer segments is banks, which provide cardholders, that have specific governmental requirements by each country. It could obstruct relationships between merchants and banks' clients, cardholders, on whose transactions between companies' profits depended. Well-known and advancement companies with products and services have already achieved a position on the cashless markets and earned a reputation that could create difficulties for new entries to compete with these giant and well-known brands.

The industry is represented as a fast-moving industry. It grows quickly as well as the development of innovative technologies of digital payment networks, platforms, and even applications. Existing competitors can face with a fast-developing platform for digital processing payments, such as various independent applications and platforms that work directly between cardholders and merchants. It could overcome an issue of time-consuming that can appear due to a development a network for processing transactions for banks. Independent platforms and applications, such as blockchains, can be less expensive for merchants because they can charge less. However, they are less expanded for today.

#### *16.4. Threat of Substitutes*

This industry has a medium rate of substitutes' threat.

Using cash for paying can be considered as a substitute. It means that cash can be used without any cards or digital transactions. However, it also creates difficulties to pay at online stores by cash. This method is inconvenient due to the lack of physical presence of this type of stores.

There are applications, such as independent mobile payment platforms, that can be considered as a substitute. It means that these independent direct platforms do not need to use cards because they can be directly connected to accounts in banks. However, they have not had the same level of expansion yet as companies in this industry. These applications have only been developing as a future alternative.

#### *16.5. Rivalry between Existing Competitors*

The industry of digital payment services has faced with a high rate of in a competition between existing competitors.

Some companies provide and offer similar products and services that create difficulties to differentiate them. However, they try to attract as much as possible merchants and banks by giving different conditions and prices of their products and services. It is a fast-moving industry because it depends on the development of emerging technologies on which companies are based. It increases a



level of competition due to a possibility to track and following trends and provide them to customers as quickly as possible.

## 17. Conclusion

Today, the industry of digital payment services has faced with an aggressive competition that creates difficulties for new entrants with card system networks to entry. However, companies with various mobile payment platforms and independent applications can be developed due to an expansion in a specific area, such as a country. It increases the attention of existed competitors on their main customers: merchants and cardholders.

## 18. Critical Success Factors



**Figure 26.** The graph represents Visa’s critical success factors that include (1) successful relationships with banks, (2) attraction and development partnerships with startups and tech innovators, (3) efficient brand expansion, and (4) affordable price for merchants. They are critical for the company due to its importance in an industrial development. **Made by the author.**

### *18.1. Successful Relationships with Banks*

The first Visa’s critical success factor is one of its customer segments, banks, with whom the company has signed contracts for processing cardholders’ transactions. Banks are interested in the most beneficial conditions, such as affordable cuts of costs, and criteria, such as fast-merged technological trends - mobile platforms, for operating with transactions and clients’ data. Visa Inc. offers various conditions to banks that can be specified by some criteria, such as a number of account holders and a volume of their potential transactions. The company is a well-known brand

for its technological solutions in a card system, such as various types of systems that support the main network via processing operations<sup>67</sup>.

### *18.2. Attract and Develop Partnerships with Startups and Tech Innovators*

The second Visa's critical success factor is an attraction and development of relationships with startups and tech innovators from whom the company can get new emerging technologies, such as digital payment platforms/applications, and co-operate with existing platforms for increasing a number and volume of transactions. The last two aspects have represented the company's revenue. Visa Inc. has developed a specific program for creating and supporting relations with FinTech startups, such as Contis and Jaja that represent digital banking and mobile platforms<sup>68</sup>.

### *18.3. Efficient Brand Expansion*

The third Visa's critical success factor is an efficient level of the company's brand expansion that affects a number of merchants and cardholders whose transactions are processed via the company's main network. Visa has operated in around 200 countries; however, only 123 countries consider Visa Inc. and its brand as one of the most appropriate for operations<sup>69</sup>. This factor is dependent on some criteria, such as a level of infrastructure development and convenience of a payment method. Visa Inc. has a reputation as one of the leading digital financial services on the global stage.

### *18.4. Affordable Price for Merchants*

The fourth Visa's critical success factor is offering affordable prices for one of its main customer segments, merchants, from whose relations with consumers the company's profit depends. Merchants, especially giant retailers - food/grocery retailers, are interested in gaining as much as various possible ways of payment acceptance that can be attractive for their consumers by some criteria, such as simplicity, convenience, and safety. However, the central aspect that affects all these criteria is a price of these digital financial services. Visa Inc. has faced with some issues of losing merchants during the last couple of years. One of these examples is the U.S. grocery retailer - Kroger, that announced a rejection of using Visa cards and platforms for paying processes because

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<sup>67</sup> "Visa Inc. - Annual Report". *Visa Inc.* 2017.

<http://d18rn0p25nwr6d.cloudfront.net/CIK-0001403161/cd6545c2-6c6e-4ba1-8dcd-52cd1521df3a.pdf>

<sup>68</sup> "Visa Announces Fast-Track Access to its Network and \$100m Investment for European FinTechs". 6 Apr 2018. <https://investor.visa.com/news/news-details/2018/Visa-Announces-Fast-Track-Access-to-its-Network-and-100m-Investment-for-European-FinTechs/default.aspx>

<sup>69</sup> "Most Popular Credit Card By Country: Visa, Mastercard Or Amex". *Merchant Machine.* 2017. <https://merchantmachine.co.uk/visa-mastercard-amex/>

of its high costs of charges<sup>70</sup>. The further development of mobile platforms/applications could lead to a shift in the industry that would be much more beneficial for merchants whose processed transaction fees could be significantly decreased. In the United States, third parties could lose around \$43 billions by 2020 from merchants' side<sup>71</sup>.

## **19. Core Competencies**

Visa Inc. has not had any core competencies that could provide a unique value to its customer segments. In the majority, the company's competitors of card network industry, such as Mastercard and American Express, have faced with the same situation of the lack of core competencies. These companies have the same or similar strategies and business models that cannot wholly differentiate themselves from each other.

Visa Inc. has a lot of similar or same aspects with one of its main competitor, Mastercard. They have the same business model that is represented these companies as an intermediary between cardholders' banks and merchants' banks. Both of them has operated through the primary network which processes transactions between cardholders and merchants. They have developed their partnerships with the same startups and tech innovators, such as the Global Mobile Wallet and Apple Pay.

Visa Inc. and Mastercard have a small difference in some insignificant or substituted aspects as a list of merchants, who provide reward programs, and a price of charges that represent a difference in 0.1% less from each transaction by Mastercard in comparison with Visa<sup>72</sup>.

This aspect can be considered as a critical factor that can affect Visa's future revenue and profit. The company needs to develop a core competency because it has stuck in the market with a low level of growth in 6% during the last five years. However, during the same period, Mastercard has demonstrated 29% of growth in the industry<sup>73</sup>.

## **20. Conclusion**

Visa's critical success factors are represented by following: successful relationships with banks, affordable price for merchants, attraction and development of partnerships with startups and

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<sup>70</sup> Gibson, Kate. "Kroger threatens to ban Visa cards". CBS. 31 July 2018. <https://www.cbsnews.com/news/kroger-threatens-to-ban-visa-cards/>

<sup>71</sup> Surane, J. and Canon, C. "Why China's Payment Apps Give U.S. Bankers Nightmares". 23 May 2018. <https://www.bloomberg.com/graphics/2018-payment-systems-china-usa/>

<sup>72</sup> Running, Thomas K. "IS VISA OR MASTERCARD CHEAPEST ABROAD?" Nomad Gate. 30 May 2017. <https://nomadgate.com/visa-vs-mastercard-exchange-rate/>

<sup>73</sup> Rivas, Teresa. "Mastercard May Have an Edge on Visa". BARRON'S. 17 Sep 2018. <https://www.barrons.com/articles/mastercard-may-have-an-edge-on-visa-1537198849>

tech innovators, and efficient brand expansion. Visa Inc. does not have any core competencies due to the fact that all companies of this industry do the same or similar strategy for achieving competitive advantages.

## 21. SWOT

<i>Strengths</i>	<i>Weaknesses</i>
<ol style="list-style-type: none"> <li>1. Ability to quickly adapt platforms to rapid changes due to technological progress</li> <li>2. Occupying one of the leading positions on the global market</li> <li>3. Effective partnerships with developers of innovative digital payments platforms and applications</li> </ol>	<ol style="list-style-type: none"> <li>1. Lack of differentiation in payment scenarios due to poor strategic management</li> <li>2. Inefficient pricing model that results in a loss of merchants due to poor financial management</li> <li>3. Lack of strategic vision by focusing on one payment model - customer-to-merchant that results in a slowdown in growth of market share</li> </ol>
<i>Opportunities</i>	<i>Threats</i>
<ol style="list-style-type: none"> <li>1. Expand the product and service portfolio by developing innovative independent payment platforms as well as mobile ones</li> <li>2. Increase the level of market shares and profits by offering a wider variety of payment scenarios that expands the company's payment ecosystem</li> <li>3. Expand the company's level of advancement by developing and expanding partnerships with startups and gateways</li> </ol>	<ol style="list-style-type: none"> <li>1. Rapid changes and strictness in regulatory, such as data privacy and technological security standards, over various cashless markets</li> <li>2. Significant growth of independent, innovative payment platforms over cashless markets</li> <li>3. Growth of <i>digital</i> fraud</li> <li>4. Expansion of new entrants, such as blockchains, that increase the number of alternative cashless payments</li> </ol>

### 21.1 Strengths

1. *Ability to quickly adapt platforms to rapid changes due to technological progress* (see for details 2. *Strategic Company Overview p.8-16*)

This is a strength because merchants and banks do not want to wait while companies will update their products and services for following to or being as current trends. Visa Inc. can quickly react and update their products and services based on current trends.

2. *Occupying one of the leading positions on the global market* (see for details 15. *Competitive Environment p39-45*)

This is a strength because Visa Inc. has achieved the second position with 21% of global payment card market share. There are only two companies that can be considered as key competitors at this market. Mastercard that has achieved 16% and UnionPay with 45% of global payment card market share. All other payment card companies have reached only 20% in the overall<sup>74</sup>.

3. *Effective partnerships with developers of innovative digital payments platforms and applications* (see for details 2. *Strategic Company Overview p.8-16*)

<sup>74</sup> Dyke, D. V. "Visa challenges UnionPay in China". BusinessInsider. 21 Aug 2017. <https://www.businessinsider.com/visa-challenges-unionpay-in-china-2017-8>

This is a strength because Visa Inc. has increased its level of accessibility and attractiveness by creating partnerships with various gateways. They are different direct mobile payment platforms and applications that do not need a physical card for processing transactions between account holders and merchants. Various companies offer these applications. Partnerships with them can be further expanded as Apple Pay and PayPal. These partnerships have increased the company's revenue and profit by around 9% during the last quarter of 2017<sup>75</sup>.

### 21.2 Weaknesses

1. *Lack of differentiation in payment scenario due to poor strategic management* (see for details

2. *Strategic Company Overview p.8-16*)

This is a weakness because Visa Inc. is focused only on one main payment scenario which processes payments between merchants and consumers (account holders/cardholders). The company's competitors, such as Mastercard, PayPal, and UnionPay, represent a wider variety of payment scenario, such as consumer to consumer and B2B, through which they operate, increase their profits and range of clients. This aspect can be considered as the loss of merchants and banks with cardholders that could operate without third parties and significantly affect Visa Inc. profits in Europe<sup>76</sup>.

2. *Inefficient pricing model that results in a loss of merchants due to poor financial management* (see for details 12. *Financial Analysis p.33-37*)

This is a weakness because Visa Inc. has a higher price for data and transaction processing for merchants than its main competitor, Mastercard. The difference equals 0.1% per processed transactions; however, merchants with a significant number of consumers, especially retailers, prefer to pay less even for only 0.1%. It can affect Visa's revenue and profit that could help Mastercard to overcome Visa Inc.

3. *Lack of a strategic vision that results in a slowdown in growth of market share* (see for details 12. *Financial Analysis p.33-37*)

This is a weakness because Visa Inc. has reached an increase of 6% for the last five years while one of its main competitors, Mastercard, has reached a growth of 27% for the same period. Mastercard has also demonstrated the most significant increase during the last two years while Visa Inc. has stuck in its development at the market for the same period.

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<sup>75</sup> Andriotis, A. "Strong Card Spending Lifts Visa's Revenue and Profit". The Wall Street Journal. 1 Feb 2018. <https://www.wsj.com/articles/visas-revenue-and-profit-rise-1517525236>

<sup>76</sup> Toplin, Jaime. "Visa's payment volume hit \$2 trillion in Q4". *Business Insider*. <http://www.businessinsider.com/visas-payment-volume-hit-2-trillion-in-q4-2018-2>

### 21.3 Opportunities

1. *Expand a product and service portfolio by developing innovative independent payment platforms as well as mobile ones (see for details 8. Key Activities p.22)*

This is an opportunity because the industry has developed in this direction during the last couple of years. The Asia-Pacific, especially China, has processed around 85% of all transactions via independent mobile platforms and applications, such as WeChat. These platforms and applications could represent a further direction of the whole industry because China is a leader in these markets.

2. *Increase a level of market shares and profits by offering a wider variety of payment scenario that expands the company's payment ecosystem (see for details 14. External Analysis p.37-38)*

This is an opportunity because Visa can focus on developing and expanding its operations by using a variety of payment scenario as its competitors. For example, one of the main competitors of Visa, China Union Pay, focuses on shopping payment scenario between merchants and consumers. The company operates through the third parties outside of China and the Asian-Pacific markets. Only the Chinese market has attained \$8.4 trillion for the last five years. According to researchers of the Nilson Report, purchasing products and services by cards will achieve a volume of \$32.59 trillions to 2026 only in Asia-Pacific<sup>77</sup>.

3. *Expand a company's level of advancement by developing and expanding partnerships with startups and gateways (See for details 7. Key Activities p.22)*

This is an opportunity because Visa Inc. could increase its revenue and profit by processed more transactions via various applications and mobile platforms as Apple Pay and PayPal. Visa Inc. could cover more markets and satisfy merchants and banks with cardholders by increasing the number of possible types of payments.

### 21.4 Threats

1. *Rapid changes and strictness in regulatory, such as data privacy and technological security standards, over various cashless markets (see for details 14. External Analysis p.37-38)*

This is a threat because Visa Inc. has faced with the rapid changes and regulatory tightening that lead to a wide variety of issues with getting access to other cashless markets, such as the Asia-Pacific. The company has applied for a license of operating in China without any intermediaries in the mid of 2016; however, this license is still in consideration by the Chinese government. On the other hand, the European Union has made stricter their regulations in data privacy and security

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<sup>77</sup> The Nilson Report. [https://nilsonreport.com/publication\\_chart\\_and\\_graphs\\_archive.php?1=1&year=2018](https://nilsonreport.com/publication_chart_and_graphs_archive.php?1=1&year=2018)

areas in 2018. It leads to a necessity to change Visa's business model in Europe and impossibility to use or share personal information with the company's partners without any permissions from a client's side.

2. *Significant growth of independent innovative payment platforms over cashless markets* (see for details 14. *External Analysis p.37-38*)

This is a threat because independent innovative payment platforms and applications could potentially significantly affect costs in this industry. China and India have processed more than 80% of all transactions via mobile platforms and applications that have led to a loss of Visa's market shares in India<sup>78</sup>. The Chinese cashless market can be considered as a complete potential loss due to these mobile applications and its local card payment monopolist, UnionPay.

3. *Growth of digital fraud* (see for details 14. *External Analysis p.37-38*)

This is a threat because Visa Inc. works through digital payment networks, platforms, and applications. This factor can negatively affect potential merchants and consumers that could deny the usage of digital payment platforms and applications on a regular basis. According to Experian's research, there are 63% of consumers who had abandoned digital transactions because of a risk of digital fraud in 2017<sup>79</sup>.

4. *Expansion of new entrants, such as blockchains, that increase the number of alternative cashless payments* (see for details 16. *Porter's 5 Forces p.45-47*)

This is a threat because Visa Inc. works in the industry of digital payment services, which has rapidly developed and expanded to increase the number of alternative cashless payments. Blockchains are considered as the new entrants of this industry with the rapid growth in quantity. It increases the number of alternative cashless payments that can potentially decrease some of the transactions between merchants and consumers. This can attract more clients in payment scenario from a consumer to a consumer.

## 22. Conclusion

SWOT analysis represents some main Visa's strengths, such as an ability of quick adaptation to technological progress, one of the leading positions on the global market of this industry, and effective partnerships with innovators. The company's weaknesses are represented by the lack of differentiation in payment scenarios, the inefficient pricing model for merchants, and the

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<sup>78</sup> Rodrigues, Jeanette. "Move Over, Mastercard. Upstarts Gain in Hot India Payments Space". *Bloomberg/Quint*. <https://www.bloombergquint.com/business/2018/03/25/move-over-mastercard-upstarts-gain-in-hot-india-payments-space>

<sup>79</sup> "The 2018 Global Fraud and Identity Report". *Experian Information Solutions, Inc.* <https://www.experian.com/assets/decision-analytics/reports/global-fraud-report-2018.pdf>



lack of strategic vision by focusing on one payment model - customer-to-merchant. Visa Inc. has also necessary considered some of the external aspects as these opportunities: the expansion of product/service portfolio, the expansion of the company's payment ecosystem, and the expansion of the partnership portfolio. The company has faced with external threats, such as the rapid changes and strictness in regulatory, the growth of independent innovative payment platforms over cashless markets, the growth of digital fraud, and the expansion of new entrants in the industry, such as blockchains. Visa Inc. needs to consider and analyze these aspects for achieving competitive advantages and delivering value for its customer segments.

### 23. TOWS Matrix

	Strengths	Weaknesses
<p><b>Opportunities</b></p> <ol style="list-style-type: none"> <li>Expand the product and service portfolio by developing innovative independent payment platforms as well as mobile ones</li> <li>Increase the level of market shares and profits by offering a wider variety of payment scenario that expands the company's payment ecosystem</li> <li>Expand the company's level of advancement by developing and expanding partnerships with startups and gateways</li> </ol>	<p><b>1(S), 3(S) + 1(O), 2(O)</b>            Visa could improve customer awareness and increase revenue by <b>introducing a variety of product/service portfolio</b>, such as innovative digital payment platforms and payment ecosystems (e.g. working with companies' expenses)</p> <p><b>2(S) + 2(O), 3(O)</b>            Visa could expand in <b>new customer segments</b> (e. g. individuals, banks, businesses) by introducing a variety of payment scenarios due to the accessibility to a wide range of merchants and banks.</p> <p><b>1(S), 3(S) + 3(O)</b>            Visa could increase revenue and brand awareness by <b>developing effective partnerships with innovators and startups</b> for adapting service/product portfolio due to a rapid digital modernization in this industry</p>	<p><b>1(W) + 1(O), 3(O)</b>            Visa could strengthen its position of market shares by <b>introducing alternative payment scenarios</b> (e. g. B2B and peer to peer) <b>by using a variety of innovative digital payments platforms</b>, such as independent mobile applications</p> <p><b>2(W), 3(W) + 1(O)</b>            Visa could increase revenue and level of merchant loyalty by <b>providing a compelling pricing model for merchants and increasing a level of seamless payments</b> that are crucial for a payment scenario between merchants and consumers</p>
<p><b>Threats</b></p> <ol style="list-style-type: none"> <li>Rapid changes and strictness in regulatory, such as data privacy and technological security standards, over various cashless markets</li> <li>Significant growth of independent, innovative payment platforms over cashless markets</li> <li>Growth of <i>digital</i> fraud</li> <li>Expansion of new entrants, such as blockchains, that increase the number of alternative cashless payments</li> </ol>	<p><b>1(S), 3(S) + 1(T), 3(T)</b>            Visa could strengthen customer relationships and grow market shares by <b>providing high security standards and developing innovative security features</b> with an ability to quickly adapt payment platforms for various conditions and threats at the cashless market</p> <p><b>3(S) + 2(T), 4(T)</b>            Visa could create an access to various innovative directions in the industry that results in a revenue growth by creating <b>partnerships with local companies of independent innovative payment platforms and different blockchains</b></p>	<p><b>3(W) + 1(T), 2(T), 3(T)</b>            Visa could minimize financial losses and increase revenue by <b>developing innovative security features with partners</b> that prevent an expansion of customers' fear of digital fraud</p>

### *23.1.Strategic Alternative 1*

**1(S), 3(S) + 1(O), 2(O) and 1(S), 3(S) + 3(O) and 3(S) + 2(T), 4(T)**

*Increase revenue by **creating and developing partnerships with innovators and local companies/startups** of independent innovative payment platforms that allow Visa to expand an access to various cashless markets over the world and **introduce a wider variety of product and service portfolio**.*

Visa's product and service portfolio is mainly based on one specific payment scenario, customer-to-merchant, that creates difficulties to differentiate itself from its competitors in the card network section of the industry. The company should develop cooperation with innovators for improving innovative and convenient payment solutions by providing new platforms (e.g. direct mobile applications for transferring money directly) or services (e.g. analytic tools for businesses' and merchants' expenses consideration). These new offerings could attract more clients in the current (customer-to-merchant) and other payment scenarios, such as business-to-business.

The threat that Visa has faced to is a significant growth of local startups and companies that provide independent digital payment platforms over a local country. It is suggested Visa Inc. to create and develop partnerships with these companies for increasing its revenue and achieve an access to local cashless markets, such as India. Partners (e.g. OneDeck) can receive benefits from this cooperation by being a part of Visa's global chain or collecting commission fees via the collaboration with Visa.

### *23.2.Strategic Alternative 2*

**2(S) + 2(O), 3(O) and 1(W) + 1(O), 3(O) and 2(W), 3(W) + 1(O)**

*Increase revenue and strengthen the company's position on the market by expanding in **new customer segments** (e.g. individuals, banks, business) with the **introduction of a wide range of payment scenarios and providing affordable conditions** for each sector (e.g. compelling pricing model for merchants and more seamless payments) that are crucial for their specific payment scenario.*

Visa should expand to new customer segments (e.g. individuals, businesses, banks) by providing an access to additional payment scenarios (e.g. person-to-person, business-to-business, banks-to-banks) that are crucial aspects of business and operational models in fintech direction of the industry. The majority of Visa's competitors of card networks is mainly focused on the same payment scenario, customer-to-merchant, as well as Visa. However, some of them offer additional payment models for attracting more potential clients, especially merchants and account holders. For example, Union Pay's significant and rapid growth is related to the shopping payment model that is

focused on creating partnerships and convenient platforms for “shoppers” (consumers/account holders) in any physical and online stores over the world. The goal is to make the shopping experience easy and attractive for consumers by providing various special offerings (e.g. discounts, gifts, special prices, etc.). Visa should develop specific payment models for current (e.g. shopping payment model) and future customer segments (e.g. working with small businesses’ expenses).

Visa should also attract more clients of the current and new customer segments by providing affordable conditions of the company’s offerings. For example, Visa lost one of its main merchants, Kroger, because of inefficient pricing model with the most expensive cost of charges over the card network companies in the U.S. and Europe. Merchants’ main strive is to receive the compelling pricing model and increase the number of seamless payments. It leads Visa to the necessity to develop a constant price for charges that could be based on a market sector (e.g. luxury goods, grocery store, etc.), its geographical location (e.g. the U.S., Russia, Germany, etc.) and currency (e.g. USD, RUB, EUR, etc.). These aspects could help Visa to receive more revenue (depends on the market sector, its geographical location and currency used) and attract more potential merchants, especially in grocery chains, by providing affordable prices.

### *23.3.Strategic Alternative 3*

***1(S), 3(S) + 1(T), 3(T) and 3(W) + 1(T), 2(T), 3(T)***

*Strengthen customer relationships and prevent an expansion of customers’ fear of **digital fraud** that minimizes a loss of clients and increases revenue by **developing innovative security features with partners**, which increases a level of high-security standards and accelerates a level of platforms’ adaptation to various conditions and threats at the cashless market.*

Visa Inc. can significantly strengthen customer relationships with merchants and banks and prevent an expansion of customers’ fear of digital fraud by overcoming its main weaknesses and threats and using its main strengths and opportunities. One of these threats is a rapid growth of digital fraud that results in a loss of potential clients due to an expansion of customers’ fear of digital fraud. It is suggested to develop various innovative security features such as 3-D security features, which based on human physical features as fingerprints, face and smile recognition<sup>80</sup>.

By using two main strengths, such as an ability to quickly adapt platforms to rapid changes due to technological progress and effective partnerships with IT specialists and developers of innovative digital payments platforms/applications, Visa Inc. can prevent one of the main customers’ fears of being hacked in an industry of digital financial services.

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<sup>80</sup> Perez, Eduardo. “Visa leads the way in elevating third party security”. *Visa Inc.* 2018. <https://usa.visa.com/visa-everywhere/security/working-together-to-strengthen-security.html>

## 24. Current Strategy Restated

Visa's current strategy is *to increase a number and volume of cashless transactions between cardholders and merchants through the development of modern and convenient digital payment platforms and networks, such as a global mobile wallet, which can cover all smartphones' users all over the world.*

The current strategy of Visa Inc. has proven itself as profitable and effective. However, it is not enough effective for further development and differentiation of the company from its competitors in the next 5 years. It has complicated Visa's position at the market.

## 25. Strategic Question Restated

The main aim of the analysis, which was conducted in this paper, was to answer the following strategic question: *Visa's profit has been unstable during the past five years and has grown only by 9%, while its revenue has been systematically increased<sup>81</sup>. It is strategically important because a fast development of the industry can attract more competitors that will focus on applications and digital payment platforms that will create direct relations between users and merchants without any intermediaries. What strategy should Visa Inc. develop and maintain for avoiding a potential loss of its position of being outperformed by its main competitors and gaining a sustainable competitive advantage in cashless markets?*

## 26. Recommended Strategy

The recommended strategy for Visa Inc. to strengthen its position and achieve competitive advantages is to following: *to increase revenue and strengthen its position on the market by expanding in new customer segments, i.e. individuals, businesses, banks, introducing the wide range of payment scenarios (e.g. P2P, B2B, bank-to-bank) and models (e.g. shopping payment model), and developing new partnerships, such as e-lending companies, blockchains or tech innovators, for creating new directions of revenue streams.*

The expansion in new customer segments will create new directions of revenue streams. Visa has the innovative and developed networks and platforms for processing transactions and data, partners with tech innovators for adapting these platforms to specific payment scenarios, such as person-to-person or bank-to-bank. The company maintains and develops high security standards and features for protecting all types of processes and activities. The main changes will be done in the payment ecosystem, product and service portfolio, and payment models. All of these activities can be restructured and updated for developing effective payment scenarios on which the company

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<sup>81</sup> "VISA Inc. C1 A". *MarketWatch*. 2017. <https://www.marketwatch.com/investing/stock/v/financials>

can base its strategic and operational models.

The introduction of the wide range of payment scenarios, such as person-to-person, business-to-business, and banks-to-banks, is a critical aspect for being able to attract potential clients from the new customer segments. Visa will provide new products and services, such as working with expanses of small businesses and connect banks' transactions directly to each other. The company can charge fees from each transaction that based on new payment scenarios that will create additional revenues by using the current principles of the operational business model (e.g. data and transaction processing, data security, innovations, etc.).

In addition, Visa will create specific payment models, such as shopping payment model that will satisfy specific needs and desires of clients, such as merchants and "shoppers" (consumers/account holders) in this case. The shopping payment model will allow the company to increase its revenue by increasing merchants' sales and "shoppers" loyalty with using various special offerings (e.g. discounts, special price, etc.). It can cover travelers by providing these special offerings during their trips and shopping experiences outside their native countries. It can significantly increase revenue by focusing of international transactions or currency conversions of travelers' purchases.

Partnering with new companies or startups will potentially expand new payment scenarios to other sectors of Visa's acquisitions or investments. Visa Inc. has recently started to operate with startups, such as Stamplay and MSG.AI, for developing a project of global mobile wallet<sup>82</sup>. This project can be used for expanding various payment models, such as shopping payment model, that will allow Visa to cover digital transactions without cards or with alternative payment solutions, such as blockchains and cryptocurrency.

All these changes will potentially help Visa Inc. to overcome a lack of differentiation level between itself and its competitors and achieve competitive advantages that will increase the company's revenue and market shares. Visa Inc. will differentiate itself from one of its main competitors, Mastercard, and make its profit dependent on new customer segments and additional payment scenarios.

## **27. Revised Mission and Vision**

### *27.1. Revised Mission*

The revised mission for Visa is: *to connect clients between and inside each customer segment (e.g. individuals, businesses, banks, merchants) and support them by providing fast, easy*

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<sup>82</sup> "Winners take home Visa's The Everywhere Initiative prize". *Visa Inc.* 2018. <https://usa.visa.com/visa-everywhere/innovation/three-startups-partner-with-visa.html>

*and convenient networks for data and transaction processing and offering product/service portfolio which satisfies clients' strives and needs with the level of security.*

The revised mission of Visa reflects the recommended strategy, new strategic approach, and the company's core value. It supports various concepts that are strategically valid as a part of the recommended strategy. This statement indicates the company's central concept of intermediary service ("to connect") clients with new payments scenarios that expands Visa's customer segments ("between and inside each customer segment (e.g. individuals, businesses, banks, merchants)"). This mission statement states that the company will strengthen its leading position via convenient digital payment networks and operations which based on upgraded and expanded payment models. Based on the payment scenarios and models, the company will attract and cover more clients (e.g. transactions, payment volume, etc.) in several markets by using the same or similar operations.

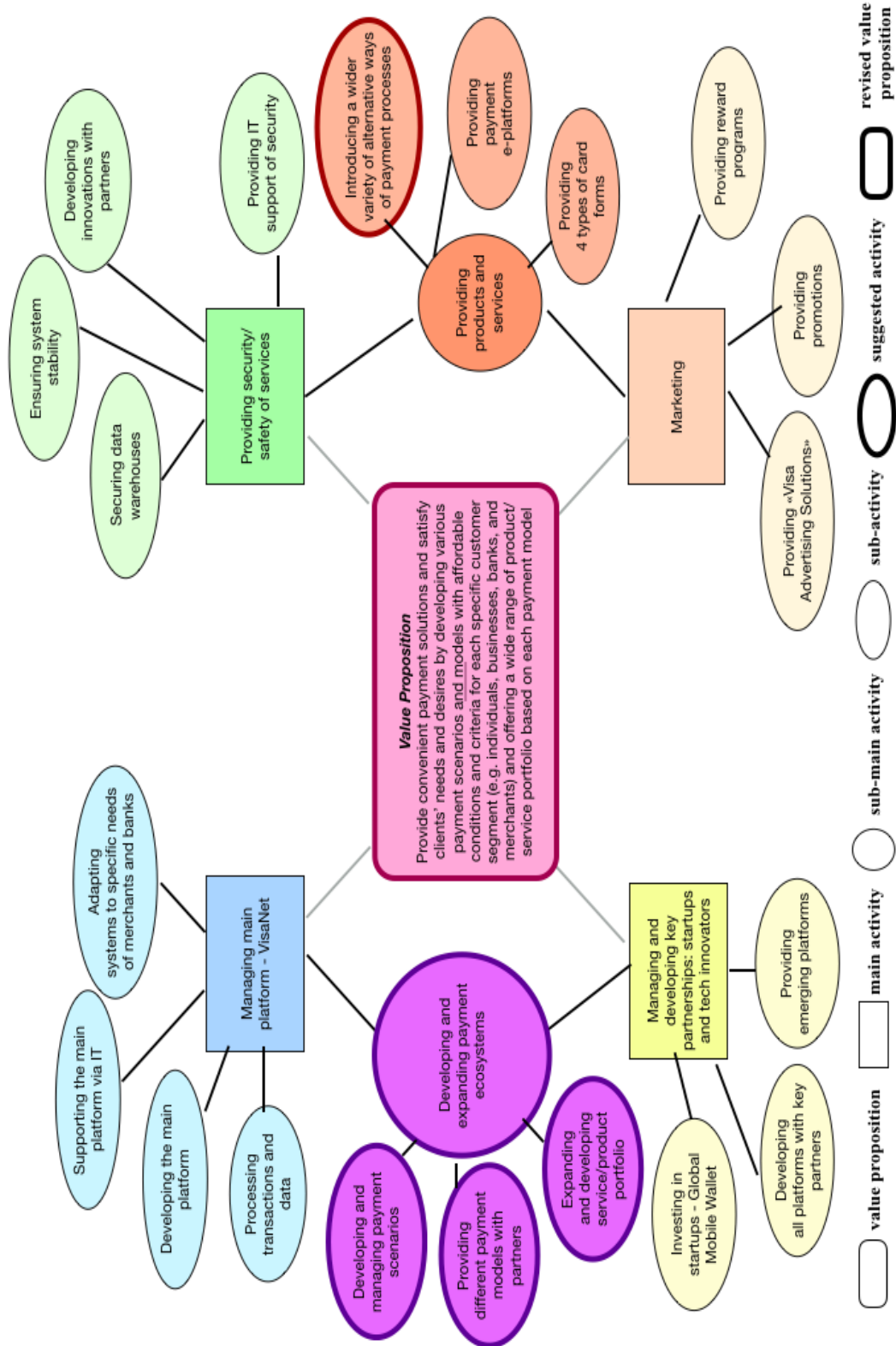
### *27.2.Revised Vision*

The revised vision for Visa is: *to transform the traditional business model of card network company via the development and expansion its payment scenarios and models for becoming the most affordable digital payment solution for each customer segment: individuals, businesses, bank, and merchants, over any areas of the company's operated infrastructure.*

The revised vision of Visa reflects the recommended strategy, new strategic approach, and the company's corporate value. It demonstrates the company's future direction of development and its ambitious plan to change the company's current position on the market. This statement focuses on the differentiation from its competitors' offerings (e.g. traditional card network companies - Mastercard). It indicates the company's strategic view for further growth and success by expanding its customer segments and developing new payment scenarios that based on the current operational model and the payment ecosystem.

## 28. Suggested Activity System Map

### 28.1. Revised Activity Map





**Figure 27.** This is a suggested Visa's activity systems map graphical representation. It shows current and suggested Visa's main activities, sub-main activities, and sub-activities, as well as the interconnections among them. **Made by the author.**

- *Revised Value Proposition*

The revised value proposition would include 4 customer segments (e.g. individuals, businesses, banks, and merchants) and 4 key aspects: providing convenient payment solutions, satisfying clients' (all 4 customer segments) needs and desires, developing various payment scenarios and models with affordable conditions and criteria for each specific customer segment, and offering a wide range of product/service portfolio based on each payment model.

These aspects represent the combination of value propositions for each customer segment.

*Suggested customer segments*

The value proposition for **individuals** is to *provide a convenient and innovative network and payment solutions for transferring money from person to person*. The value proposition for **businesses** is to *offer payment solutions, models and product/service portfolio for developing competitive advantages and securing data/transactions by using analytic tools*.

*Current customer segments*

The value proposition for **merchants** is to *increase sales by providing fast and convenient digital payments platforms of Visa through which consumers can order and pay for products/services by using card systems and various electronic devices*. The value proposition for **banks** is to *provide a convenient network for processing transactions between merchants and cardholders and service support of these operations with the high-level of data security during transactions processing*.

- *New activity map*

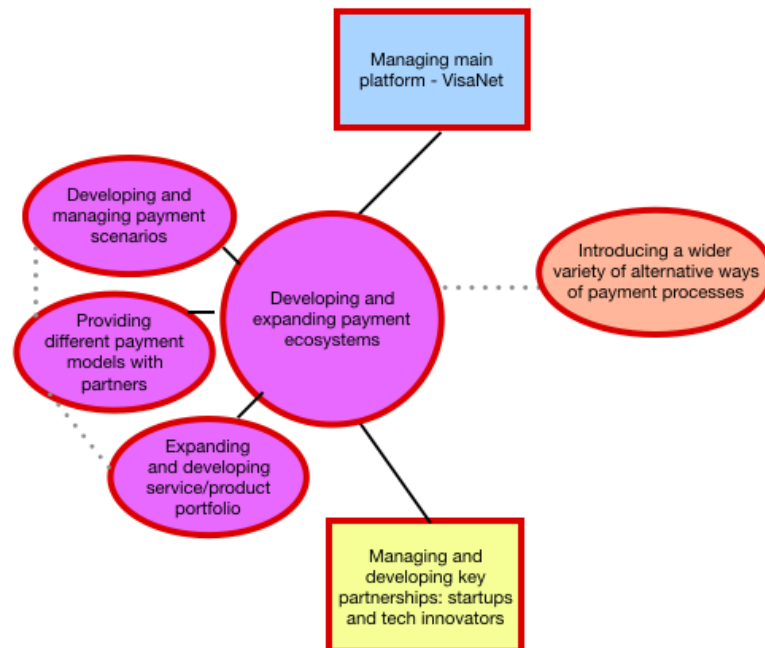
The suggested activity map for Visa Inc. includes a new sub-main activity and four new sub-activities that are directly connected to the recommended strategy with the new strategic approach. These new activities state as follows:

**Developing and expanding payment ecosystems** is the sub-main activity that reflects the new strategy of expanding customer segments (e.g. individuals, businesses, banks, merchants) with using three new sub-activities. The first one is **developing and managing payment scenarios** that expands the company's main focus from the payment scenario between customers and merchants to others, such as person-to-person, business-to-business, and bank-to-bank. All of these payment scenarios is based on the current activities related to the main network, such as data and transaction processing, IT support, etc.). It means that the company will need to identify specific clients' preferences from each customer segment on which the tech and management team could be based

for facilitating the next sub-main activity: **providing different payment models with partners**. It means that Visa will analyze its market and customer segment for providing the most affordable payment models with partners, such as the shopping payment model. The management team will need to analyze various retail markets that covered by the company’s infrastructure and satisfied specific conditions or needs of its clients, such as merchants and consumers. This model will focus on “shoppers” and travelers that will increase partners’ revenue (merchants’ revenue) due to special offerings, such as discounts or special prices, for using Visa’s products or services by making purchases. The last sub-main activity of this sector is **expanding and developing service/product portfolio**. It means that the company will need to analyze clients’ preferences and needs for operating via these payment scenarios and models. One of the suggested services can be focused on the payment scenario of business-to-business that will work with a client’s company expenses which can be analyzed via analytic tools of historical data and transaction processing.

**Introducing a wider variety of alternative ways of payment processes** is the sub-activity of the current sub-main activity: *providing products and services*. It reflects to the new strategy by considering alternative payments that based on the suggested payment scenarios and models. The management team will need to analyze the market and new entrants, such as blockchains with cryptocurrency, which could be considered as alternative payment methods.

- *Strategic fit*



**Figure 28.** The new strategic fit between two main activities, sub-main activity and sub-activity. **Made by the author.**

The new four proposed activities create the strong strategic fit between each other and strengthen the current strategic fit between two main activities: managing main platform - VisaNet and managing and developing key partnerships: startups and tech innovators. It means that the company will focus on the payment ecosystems which development depends on the main network and key partnerships with tech innovators or startups of alternative payment solutions (e.g. blockchains - Bitcoins). The current activities support the new strategy by refocusing on payment ecosystem, payment scenarios, and models on which development all further products and services will be based.

All of these new activities are crucial and necessary for the implementation of the recommended strategy. This creates a possibility to differentiate its business model from its main competitors, such as Mastercard and American Express.

## **29. Porter's 5 Tests Comparison**

Porter's 5 tests comparison analyzes the new suggested strategy from 5 different perspectives which will be crucial for understanding a clear picture of the new strategic implementation and differentiation from Visa's competitors.

### *29.1. Porter's Test #1: A Distinctive Value Proposition*

The new activities create the new value proposition that will combine new key pillars and aspects for value-adding to the new strategy. The new value proposition is to *provide convenient payment solutions and satisfy clients' needs and desires by developing various payment scenarios and models with affordable conditions and criteria for each specific customer segment (e.g. individuals, businesses, banks, and merchants) and offering a wide range of product/service portfolio based on each payment model.* It clearly indicates the new strategic directions of the business that will generate additional revenue streams. It will allow Visa to differentiate itself from card network companies, such as Mastercard and American Express, which are Visa's key competitors. The new value proposition passes the first Porter's test.

### *29.2. Porter's Test #2: A Tailored Value Chain*

The new strategy passes the second Porter's test. The new suggested activities create the strong strategic fit that complete the value chain of new customer segments (e.g. individuals, businesses, banks, merchants) and new channels (e.g. payment ecosystems, payment scenarios and models). It suggests the company to expand customer segments for increasing revenue and its streams. The implementation of these strategic alternatives (four new activities) leads to a completely tailored value chain of Visa Inc. by supporting the new value propositions with the new

activities. It can help the company to achieve a competitive advantage over some of its competitors, such as Mastercard, and sustainability of the company's position on the market.

#### *29.3. Porter's Test #3: Trade-Offs Different from Rivals*

The new strategy passes the third Porter's test. It correlates to the company's new focus on the development and expansion of its customer segments by developing payment scenarios and models on which product/service portfolio will be based. These aspects can allow Visa to introduce a wider variety of alternative ways of digital payments that can be considered as a crucial aspect of differentiation between companies in this industry.

#### *29.4. Porter's Test #4: Fit across the Value Chain*

The new strategy passes the fourth Porter's test. The new strategy suggests four new activities that are focused on strengthening the current and new strategic fits and completion of the value chain. It affects the development and expansion of the current business model that will cover four customer segments (e.g. individuals, businesses, banks, merchants) and generates new revenue streams by effectively developing payment scenarios and models.

#### *29.5. Porter's Test #5: Continuity over Time*

The new strategy passes the fifth Porter's test. The new strategy will expand customer segments that will allow the company to strengthen its position in the fintech direction of the industry. It will allow Visa to differentiate itself from traditional card network companies, such as Mastercard, and to continue this strategy over time by providing new payment models that based on payment scenarios. The new strategy covers various direction of the digital payment industry that has faced with potential growth.

### **30. Strategy Justification and Implementation**

The recommended strategy can be implemented to support Visa Inc. to achieve a competitive advantage and differentiate itself from its competitors (traditional card network companies, such as Mastercard and American Express) in the industry with the aggressive and intense competition. It is directly addressed to the strategic question: *The actual Visa's profit has been unstable during the past five years and has grown only by 9%, while its revenue has been systematically increased. It is strategically important because a fast development of the industry can attract more competitors that will focus on applications and digital payment platforms that will create direct relations between users and merchants without any intermediaries. What strategy should Visa Inc. develop and maintain for avoiding a potential loss of its position of being outperformed by its main competitors and gaining a sustainable competitive advantage in cashless markets?*

The new strategy directly correlates with the current industry trends over various markets. By efficient implementation of new strategic approaches and activities, Visa Inc. can strengthen its competitive advantage.

### *30.1.Risk*

The new strategy creates the **medium level** of potential risk. The new activities that are necessary for implementing the new strategy can require average investment in this industry due to the possibility to be based on the main network and its current processes (e.g. data and transaction processing, IT support, data security, etc.). However, the expansion in new customer segments will need a large investment in marketing and advertising that will increase this type of expenses. Development of new payment models and scenarios may require new products and services that will need to be developed. It creates a necessity of tech innovator teams or partnerships with tech innovators which will need some investments, time and even licenses (e.g. legal procedures for making patents). There may be a risk of failure the high security standards of products and services that Visa provides. As the result, the main risk is focused on potential disruption of the crucial processes by using the current activities and attributes than on the necessary amount of investments.

### *30.2.Practicality*

The new strategy will start its implementation from the expansion of customer segments. It leads to the necessity to conduct marketing research to understand targeted clients' preferences and expectations in the industry of digital payments. Visa will start with developing and expanding its payment scenarios due to restructuring the current payment ecosystem that is mainly based on customer-to-merchant payment scenario. The company partially participates in B2B and P2P payment scenarios by its recently launched Visa Direct which is a real-time online payment platform. The company will expand these two suggested scenarios and the current one (customer-to-merchant) by introducing several payment models (e.g. shopping payment model). It will lead to the development of product/service portfolio that will include several services that focused on B2B, such as working with the company's expenses. Finally, Visa will focus on the new payment scenario, bank-to-bank, that will be based on the current partners' portfolio (banks are the current customer segment). It will strengthen the company's position on the market and potentially increase its revenue and market shares.

### *30.3.Financial Feasibility*

This strategy was created with a consideration of various criteria as well as financial ones. Visa Inc. is a profitable company that can allow itself some investments. The company can develop

this strategy with partners, such as tech innovators and tech startups (e.g. Stamplay), in which Visa has already invested.

The company should start with payment scenarios (e.g. person-to-person, business-to-business) and models (e.g. shopping payment model) which are currently developed or processed. It will allow Visa to wait for additional investments or profits that could be used for the implementation of the new strategy. It could help to avoid potential disruptions of the current operations, activities, and processes.

#### *30.4. Stakeholders' Impact*

The new strategy may attract existing and new clients of the new customer segments (e.g. individuals, businesses, banks, merchants) by providing a wide range of alternative payment solutions (e.g. payment scenarios and models). The current clients (e.g. merchants and banks) and partners (e.g. startups, local companies and tech innovators) will appreciate the cooperation and additional products/services that can positively affect their revenue streams.

Visa's employees will appreciate new directions of development and growth that could create new positions and roles.

By implementing effective and efficient communication with shareholders, Visa could encourage them in the necessity of investment. The company's shareholders will appreciate new revenue streams and sources that will potentially differentiate the company's business from its competitors. This will cause a potential strengthening of its position on the market and growth in the market shares. The new strategy reflects the new industry trends that will lead to a possibility to achieve and strengthen its competitive advantage.

### 31. Final Conclusion

The new recommended strategy was based on three strategic alternatives that based on various potential opportunities and strengths in the industry, and states as following: *to increase revenue and strengthen its position on the market by expanding in new customer segments, i.e. individuals, businesses, banks, introducing the wide range of payment scenarios (e.g. P2P, B2B, bank-to-bank) and models (e.g. shopping payment model), and developing new partnerships, such as e-lending companies, blockchains or tech innovators, for creating new directions of revenue streams.* This recommended strategy was constituted to address the following strategic question: *Visa's profit has been unstable during the past five years and has grown only by 9%, while its revenue has been systematically increased. It is strategically important because a fast development of the industry can attract more competitors that will focus on applications and digital payment platforms that will create direct relations between users and merchants without any intermediaries. What strategy should Visa Inc. develop and maintain for avoiding a potential loss of its position of being outperformed by its main competitors and gaining a sustainable competitive advantage in cashless markets?*

One new sub-main activity and four new sub-activities directly relate to the recommended strategy. They were demonstrated in the suggested activity map as following: (sub-main activity) *developing and expanding payment ecosystems*, (sub-activity #1) *developing and managing payment scenarios*, (sub-activity #2) *providing different payment models with partners*, (sub-activity #3) *expanding and developing service/product portfolio*, and (related sub-activity to the current sub-main activity) *introducing a wider variety of alternative ways of payment processes.*

There were considered the Porter's analysis of the new recommended strategy. This strategy partially passes all five tests. A comparison with a current strategy of Visa Inc, which passes completely only two tests and partially passes other three, the new strategy demonstrates significantly better results with a possibility to strengthen its competitive advantage.

The recommended strategy directly correlates with the strategic question. It is created to be more effective in the aggressive and intense industry with the rapid development of innovations and platforms. This strategy has the medium risk of its implementation; however, it can lead to a

significant increase in revenue and the rate of market shares, which can be positively considered by stakeholders.

## 32. Appendix

### 32.1 Brief History

Visa Inc. was originally created in 1958 by Bank of America with using another name of its charge card: BankAmericard, in the United States. It became independent as National BankAmericard in 1960. The company internationally expanded in operations in 1974. It renamed as “Visa” only in 1976 and, two years later, other subsidiaries renamed under “Visa” brand. However, as an independent global corporation, Visa Inc. was founded in 2007<sup>83</sup>.

Visa Inc. is a well-known company in an industry of financial payment services that process digital payments. This industry represents as one of the most fast-moving and -developing directions in the modern business world. Visa Inc covers around 200 countries by offering different products and services and providing platforms that process transactions between merchants and their consumers. It is one of leading companies in this industry with a growth of the volume of cards and transactions through its central platform, VisaNet, that is enabled to process 65,000 transactions per second with maintaining high-security standards from digital fraud<sup>84</sup>. Alfred F. Kelly took over the role of CEO of Visa Inc. on December 1, 2016 after the previous CEO, Charlie Scharf<sup>85</sup>, left the company. Visa Inc. is considered as one of the most popular card payment companies in 123 countries over the world<sup>86</sup>. This aspect allows the company to attract more potential customers, such as merchants and banks.

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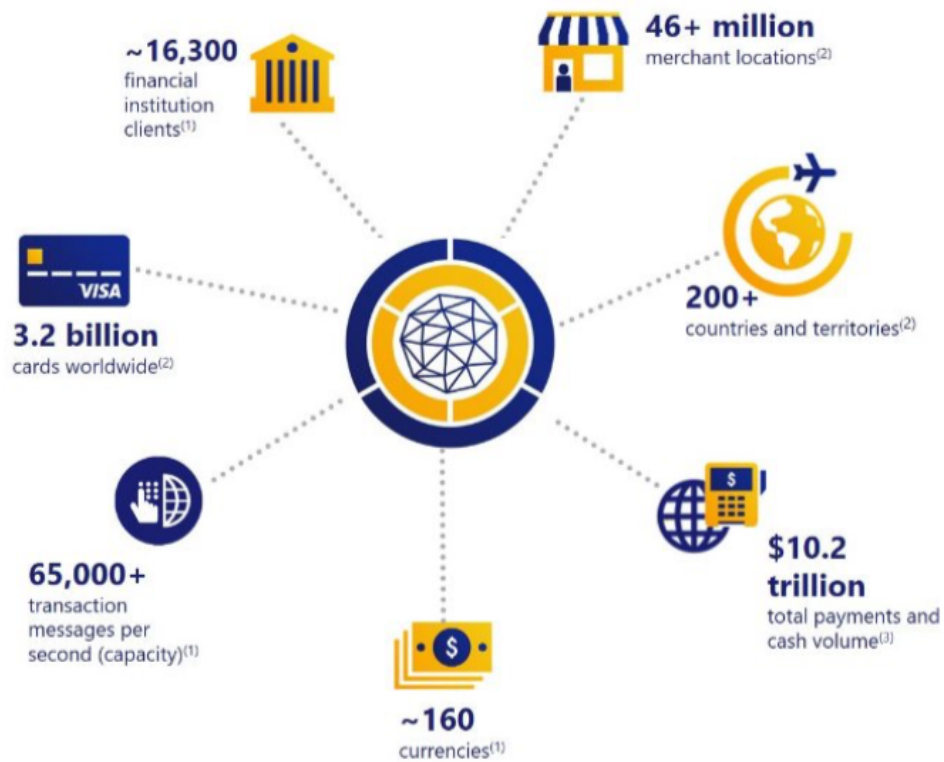
<sup>83</sup> “History of Visa”. *Visa Inc. Our business*. N.d. [https://usa.visa.com/about-visa/our\\_business/history-of-visa.html](https://usa.visa.com/about-visa/our_business/history-of-visa.html)

<sup>84</sup> "Visa Inc." Visa Inc. Marketline Company Profile, 04 May 2017, pp. 1-33. *EBSCOhost*, search.ebscohost.com/login.aspx?direct=true&db=bth&AN=124274228&site=bsi-live.

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**Figure 29.** Visa Network and main aspects in which the company operates and develops its activities. **Source:** Visa.com

### 32.2 Business Model Canvas



**Figure 30.** Visa's Business Model Canvas. **Made by the author.**

### 32.3 Income Statement

#### VISA INC. CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended September 30,		
	2017	2016 <sup>(1)</sup>	2015
	(in millions, except per share data)		
<b>Operating Revenues</b>			
Service revenues	\$ 7,975	\$ 6,747	\$ 6,302
Data processing revenues	7,786	6,272	5,552
International transaction revenues	6,321	4,649	4,064
Other revenues	841	823	823
Client incentives	(4,565)	(3,409)	(2,861)
<b>Net operating revenues</b>	<b>18,358</b>	<b>15,082</b>	<b>13,880</b>
<b>Operating Expenses</b>			
Personnel	2,628	2,226	2,079
Marketing	922	869	872
Network and processing	620	538	474
Professional fees	409	389	336
Depreciation and amortization	556	502	494
General and administrative	1,060	796	547
Litigation provision (Note 19)	19	2	14
Visa Europe Framework Agreement loss	—	1,877	—
<b>Total operating expenses</b>	<b>6,214</b>	<b>7,199</b>	<b>4,816</b>
<b>Operating income</b>	<b>12,144</b>	<b>7,883</b>	<b>9,064</b>
<b>Non-operating (Expense) Income</b>			
Interest expense	(563)	(427)	(3)
Other (Note 4 and Note 11)	113	556	(66)
<b>Total non-operating (expense) income</b>	<b>(450)</b>	<b>129</b>	<b>(69)</b>
Income before income taxes	11,694	8,012	8,995
Income tax provision (Note 18)	4,995	2,021	2,667
<b>Net income</b>	<b>\$ 6,699</b>	<b>\$ 5,991</b>	<b>\$ 6,328</b>
<b>Basic earnings per share (Note 14)</b>			
Class A common stock	\$ 2.80	\$ 2.49	\$ 2.58
Class B common stock	\$ 4.62	\$ 4.10	\$ 4.26
Class C common stock	\$ 11.21	\$ 9.94	\$ 10.33
<b>Basic weighted-average shares outstanding (Note 14)</b>			
Class A common stock	1,845	1,906	1,954
Class B common stock	245	245	245
Class C common stock	14	19	22
<b>Diluted earnings per share (Note 14)</b>			
Class A common stock	\$ 2.80	\$ 2.48	\$ 2.58
Class B common stock	\$ 4.61	\$ 4.09	\$ 4.25
Class C common stock	\$ 11.19	\$ 9.93	\$ 10.30
<b>Diluted weighted-average shares outstanding (Note 14)</b>			
Class A common stock	2,395	2,414	2,457
Class B common stock	245	245	245
Class C common stock	14	19	22

<sup>(1)</sup> The Company did not include Visa Europe's financial results in the Company's consolidated statements of operations from the acquisition date, June 21, 2016, through

Figure 31. Visa's Income statement from the Annual Report 2017. Source: Visa.com

## 32.4 Balance Sheet

### VISA INC. CONSOLIDATED BALANCE SHEETS

	September 30, 2017	September 30, 2016
(in millions, except par value data)		
<b>Assets</b>		
Cash and cash equivalents	\$ 9,874	\$ 5,619
Restricted cash—U.S. litigation escrow (Note 3)	1,031	1,027
Investment securities (Note 4):		
Trading	82	71
Available-for-sale	3,482	3,248
Settlement receivable	1,422	1,467
Accounts receivable	1,132	1,041
Customer collateral (Note 10)	1,106	1,001
Current portion of client incentives	344	284
Prepaid expenses and other current assets	550	555
Total current assets	19,023	14,313
Investment securities, available-for-sale (Note 4)	1,926	3,931
Client incentives	591	448
Property, equipment and technology, net (Note 5)	2,253	2,150
Other assets	1,226	893
Intangible assets, net (Note 2 and Note 6)	27,848	27,234
Goodwill (Note 2 and Note 6)	15,110	15,066
Total assets	\$ 67,977	\$ 64,035
<b>Liabilities</b>		
Accounts payable	\$ 179	\$ 203
Settlement payable	2,003	2,084
Customer collateral (Note 10)	1,106	1,001
Accrued compensation and benefits	757	673
Client incentives	2,089	1,976
Accrued liabilities (Note 7)	1,129	1,128
Current maturities of long-term debt (Note 8)	1,749	—
Accrued litigation (Note 19)	982	981
Total current liabilities	9,994	8,046
Long-term debt (Note 8)	16,618	15,882
Deferred tax liabilities (Note 18)	5,980	4,808
Deferred purchase consideration	1,304	1,225
Other liabilities (Note 7)	1,321	1,162
Total liabilities	35,217	31,123
Commitments and contingencies (Note 16)		
<b>Equity</b>		
Preferred stock, \$0.0001 par value, 25 shares authorized and 5 shares issued and outstanding as follows:		
Series A convertible participating preferred stock, none issued (Note 2 and Note 13)	—	—
Series B convertible participating preferred stock, 2 shares issued and outstanding at September 30, 2017 and 2016 (Note 2 and Note 13)	2,326	2,516
Series C convertible participating preferred stock, 3 shares issued and outstanding at September 30, 2017 and 2016 (Note 2 and Note 13)	3,200	3,201
Class A common stock, \$0.0001 par value, 2,001,622 shares authorized, 1,818 and 1,871 shares issued and outstanding at September 30, 2017 and 2016, respectively (Note 13)	—	—
Class B common stock, \$0.0001 par value, 622 shares authorized, 245 shares issued and outstanding at September 30, 2017 and 2016 (Note 13)	—	—
Class C common stock, \$0.0001 par value, 1,097 shares authorized, 13 and 17 shares issued and outstanding at September 30, 2017 and 2016, respectively (Note 13)	—	—
Treasury stock (Note 13)	—	(170)
Right to recover for covered losses (Note 3)	(52)	(34)
Additional paid-in capital	16,900	17,395

Accumulated income	9,508	10,462
Accumulated other comprehensive income (loss), net:		
Investment securities, available-for-sale	73	36
Defined benefit pension and other postretirement plans	(76)	(225)
Derivative instruments classified as cash flow hedges	(36)	(50)
Foreign currency translation adjustments	917	(219)
Total accumulated other comprehensive income (loss), net	878	(458)
Total equity	32,760	32,912
Total liabilities and equity	\$ 67,977	\$ 64,035

See accompanying notes, which are an integral part of these consolidated financial statements.

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Figure 32. Visa's Balance sheet from the Annual Report 2017. Source: Visa.com

### 32.5 Cash Flow Statement

VISA INC. CONSOLIDATED STATEMENTS OF CASH FLOWS			
For the Years Ended September 30,			
	2017	2016	2015
(in millions, except noted otherwise)			
<b>Operating Activities</b>			
Net income	\$ 6,699	\$ 5,991	\$ 6,328
Adjustments to reconcile net income to net cash provided by operating activities:			
Client incentives	4,565	3,409	2,861
Fair value adjustment for the Visa Europe put option	—	(255)	110
Share-based compensation (Note 15)	235	221	187
Excess tax benefit for share-based compensation	—	(63)	(84)
Depreciation and amortization of property, equipment, technology and intangible assets	556	502	494
Deferred income taxes	1,700	(764)	195
Right to recover for covered losses recorded in equity (Note 3)	(209)	(9)	—
Charitable contribution of Visa Inc. shares (Note 13 and Note 18)	192	—	—
Other	50	64	24
Change in operating assets and liabilities:			
Settlement receivable	94	391	378
Accounts receivable	(54)	(65)	(19)
Client incentives	(4,628)	(3,508)	(2,970)
Other assets	(252)	(315)	(41)
Accounts payable	(30)	43	(13)
Settlement payable	(176)	(302)	(552)
Accrued and other liabilities	465	277	118
Accrued litigation (Note 19)	1	(43)	(432)
Net cash provided by operating activities	9,208	5,574	6,584
<b>Investing Activities</b>			
Purchases of property, equipment, technology and intangible assets	(707)	(523)	(414)
Proceeds from sales of property, equipment and technology	12	—	10
Investment securities, available-for-sale:			
Purchases	(3,238)	(10,426)	(2,850)
Proceeds from maturities and sales	5,012	9,119	1,925
Acquisitions, net of \$2.8 billion cash received from Visa Europe (Note 2)	(302)	(9,082)	(93)
Purchases of / contributions to other investments	(46)	(10)	(25)
Proceeds / distributions from other investments	4	6	12
Net cash provided by (used in) investing activities	735	(10,916)	(1,435)

	2017	2016	2015
<b>Financing Activities</b>			
Repurchase of class A common stock (Note 13)	(6,891)	(6,987)	(2,910)
Treasury stock—class C common stock (Note 13)	—	(170)	—
Dividends paid (Note 13)	(1,579)	(1,350)	(1,177)
Proceeds from issuance of senior notes (Note 8)	2,488	15,971	—
Debt issuance costs (Note 8)	(15)	(98)	—
Payments from U.S. litigation escrow account—U.S. retrospective responsibility plan (Note 3 and Note 19)	—	45	426
Cash proceeds from issuance of common stock under employee equity plans	149	95	82
Restricted stock and performance-based shares settled in cash for taxes	(76)	(92)	(108)
Excess tax benefit for share-based compensation	—	63	84
Net cash (used in) provided by financing activities	(5,924)	7,477	(3,603)
Effect of exchange rate changes on cash and cash equivalents	236	(34)	1
Increase in cash and cash equivalents	4,255	2,101	1,547
Cash and cash equivalents at beginning of year	5,619	3,518	1,971
Cash and cash equivalents at end of year	\$ 9,874	\$ 5,619	\$ 3,518
<b>Supplemental Disclosure</b>			
Series B and C convertible participating preferred stock issued in Visa Europe acquisition (Note 3)	\$ —	\$ 5,717	\$ —
Deferred purchase consideration recorded for Visa Europe acquisition (Note 2)	\$ —	\$ 1,236	\$ —
Income taxes paid, net of refunds	\$ 3,038	\$ 2,842	\$ 2,486
Interest payments on debt	\$ 489	\$ 244	\$ —
Accruals related to purchases of property, equipment, technology and intangible assets	\$ 50	\$ 42	\$ 81

See accompanying notes, which are an integral part of these consolidated financial statements.

Figure 33. Visa's Cash flow statement from the Annual Report 2017. Source: Visa.com

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