

**ASSIGNMENT
STRATEGIC ANALYSIS
COURSEWORK-2**

VISA: ADAPTING TO A WORLD OF FINTECH

I. Introduction

This report is a study of one of the oldest payments platform, Visa, and its strategic decisions throughout the changing world of FinTech, due to new entrants and enhancement of technology in the industry, to maintain its position in the market. This coursework glances at the historical events of the tech giant and how it overcame the challenges that came its way throughout the years. It also looks at Visa Inc.'s business strategies and innovations over the years.

II. Visa Inc.

Visa is a global financial services company based in the United States and was established by the Bank of America (BoFA) in 1958 as the BankAmericard program, which issued the first electronic-payment card of its kind. It carries out fund-transfers electronically, through its own branded credit, debit and prepaid cards, between consumers, merchants, banks and other financial institutions. It manages processing networks like VisaNet, which provide customers with fraud protection and ensured payment for businesses. Visa, Visa Electron, PLUS, and Interlink are just a few among the well-known, widely used transaction brands that the business owns, administers, and actively promotes. It licences these brands to its clientele to be used in their transaction systems.

Timeline of Visa Inc.

Year 1958-59: the bank executed "The Fresno Drop" plan, wherein unsolicited credit cards were shipped to BoFA users in Fresno in order to quickly build a network of consumers and businesses. Merchants joined as quickly as 60,000 inhabitants overnight became new cardholders. Over two million cards had been dropped across California by the end of 1959 and over 20,000 vendors had accepted the cards.

Year 1974-75: International Bankcard Company (IBANCO), a multinational corporation, was founded when licenses for issuing BankAmericard were granted in 15 countries. First debit card was launched.

Year 1977: the BankAmericard was renamed as the "Visa" card because the name implied no national identification and was easy to pronounce. IBANCO was renamed Visa International. First Visa Classic card was issued.

Year 1979: Visa pushed businesses to implement an electronic system for authorising transactions. Retail store fraud was reduced by approximately 85% thanks to Visa machines that read magnetic stripes on cards and automatically asked authorization.

Year 1990-99: Visa had fully acquired the Plus system of ATMs, the second-largest ATM network in the US. Interlink, which offered Visa an international online banking service, was bought by Visa. EMV, an industry chip card specification that ensures compatibility between all chip-enabled cards and terminals, was co-created by Visa. Card verification value (CVV) was introduced.

Year 2002: The "Verified by Visa" programme was introduced by Visa with the goal of enhancing the safety of electronic transactions by requiring a passcode (selected by the cardholder and documented with the bank that authorized the Visa card) before such purchases could be made.

Year 2008: Visa's stock price goes up by 22% and becomes the largest IPO in United States history. Visa launches Visa mobile platform.

Year 2019-20: debit cards passed cash as the number one form of payments in the USA. In order to collaborate with entrepreneurs offering banking and payment technology, Visa decided to launch an accelerator programme in the Asia Pacific region.

Year 2021: Visa announced a collaboration with First Boulevard to test the new cryptocurrency APIs from Visa, that will enable its clients to purchase, sell, hold, and exchange electronic properties.

(Tuli, K.R., 2020) (www.zippia.com, 2020)

Top Competitors of Visa:

- Mastercard
- American Express
- Paypal
- Discover
- UnionPay International

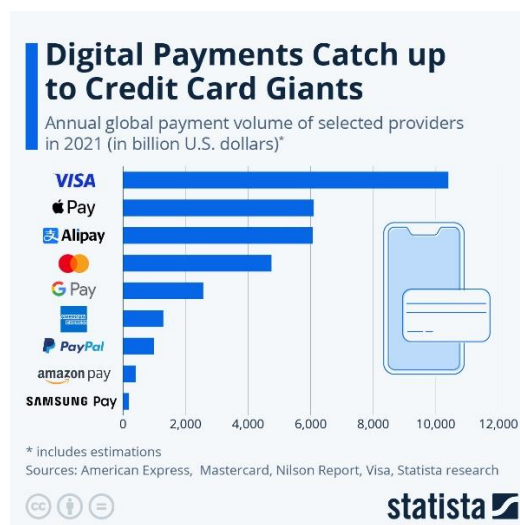


Figure 1: Annual global payment volume of selected providers in 2021
Source: <https://www.statista.com/chart/28140/biggest-payment-providers/>

Value Creation

Visa Inc. and Mastercard Inc. run a duopoly where they both set the rules and decide the prices for the industry. Visa is a transactional platform. Through a secure connection, it approves electronic transactions to combat fraud. Because of this, Visa benefits all parties involved. (RS, 2015)

Account holders: easy & cashless payments, fraud protection and security, rewards programs

Merchants: helps in cash management, encourages online shopping, faster transactions, higher spends

Banks: interchange fees, defaulter fees

Pricing Strategy

Visa Inc. is a publicly traded company that operates a complex and multifaceted business model, with a number of different pricing strategies depending on the specific products and services it offers. A few examples are:

- Credit and debit card fees: interchange fees charged from the merchant for processing transactions made with its credit/debit card.
- Digital payment services: Visa Checkout, Visa Direct are priced on subscription or transaction-based model.

Threats for Visa

Some challenges that Visa may face are:

Competition: Visa operates in a highly competitive industry, and it may face challenges from other payment processing companies that are seeking to gain market share. This could involve competing on factors such as fees, security, convenience, or the range of products and services offered.

Technological change: The payment processing industry is subject to rapid technological change, and Visa may face challenges in adapting to new technologies or staying ahead of competitors in this area. For example, the company may need to invest in new technologies such as mobile payment systems or blockchain-based platforms in order to remain competitive.

Regulatory challenges: Payment processing companies are subject to a variety of regulations, and Visa may face challenges in complying with these regulations or navigating changes to the regulatory landscape. For example, the company may need to adapt to new rules or guidelines related to data privacy, financial stability, or consumer protection.

Economic conditions: Visa performance may be affected by economic conditions, such as changes in consumer spending or credit availability. For example, the company may face challenges during periods of economic downturn, when consumers may be less likely to make purchases using credit cards.

Cybersecurity threats: Payment processing companies, including Visa are vulnerable to cybersecurity threats, such as data breaches or cyber-attacks. These threats could pose significant challenges for the company in terms of protecting customer data and maintaining trust in its payment processing network.

Externalities:

Externalities refer to the unintended consequences of an economic transaction or activity that affect third parties. Externalities can be positive or negative, and they can have an impact on a variety of stakeholders, including individuals, businesses, governments, and the environment. For example, a change in consumer protection policies by the government can affect the operations of Visa Inc.

III. Analysis**Network Effect**

The additional value that an existing user receives when a new user enters the network is known as a network effect. It can be of two types:

-Direct Network Effect: where the value of a product or service increases for an existing user with an increase in the number of users. Example: the value for a phone user would increase only when more people join the network.

-Indirect Network Effect: where the value for a product or service increases for one user group (eg: customer) with an increase in the number of a different user group (eg: merchant) and vice versa. (CFI Team, 2019)

Visa Inc. profits from an indirect network effect since increase in the number of merchants accepting payments through Visa cards will increase the value for the customers using visa cards for payments. Today, we can see the exponential expansion of the services of Visa globally and the trust it has gained from its users. The indirect network effect is the best for Visa since it has set up such a network that involves banks to issue the cards, consumers to use them and merchants to accept them at the point of sale. For this platform, the indirect network effect is the most significant factor, making every additional Visa cardholder more attractive to merchants. Merchants can also draw in further new cardholders through their brand. Furthermore, when Visa cards gain popularity amongst cardholders and merchants, more banks would be interested in gaining the license to issue Visa cards. (Johnson, 2018)

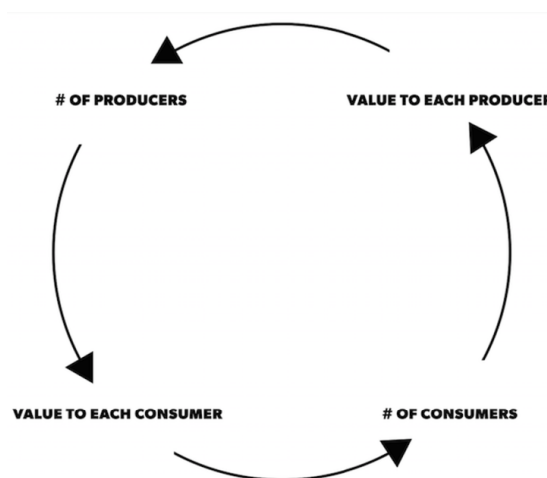


Figure 2: "Positive feedback loop" between consumers and producers

Source: <https://www.applicoinc.com/blog/network-effects/>

Strategy to Strengthen the Network Effect

Visa Inc. is a financial services company that operates a global payment processing network. One way that Visa could strengthen its network effect is by continuing to expand the number of merchants and financial institutions that accept Visa cards as a form of payment. This would make it more convenient for consumers to use Visa cards, as they would be able to use them in more places.

In addition to expanding its merchant network, Visa could also focus on increasing the number of Visa cardholders. This could involve offering incentives or rewards to encourage more people to sign up for Visa cards or partnering with banks and other financial institutions to offer co-branded credit or debit cards.

Another way that Visa could strengthen its network effect is by improving the functionality and features of its payment processing network. This could involve investing in new technologies, such as mobile payment systems or blockchain-based platforms, to make it easier and more convenient for consumers to make payments using Visa cards.

Finally, Visa could also consider partnering with other companies or organizations to expand its reach and create new opportunities for growth. For example, it could work with airlines, hotels, or other travel-related businesses to offer special discounts or rewards to Visa cardholders.

Visa has already taken the following strategic steps to strengthen the network effect:

1. Visa is integrating more FinTechs onto a platform that transforms the card network into a network-independent payment technology provider to support open banking. Visa's goal is to simplify the use of APIs to connect financial institutions with merchants and regulated third-party payment service providers. (Arnfield, 2019)
2. It started referral programs to attract more customers and increase the *switching cost* for customer. Switching cost is the cost a customer incurs by switching to a different service provider.
3. It has collaborated with First Boulevard in 2021, which focuses on building generational wealth for the Black community, to access and integrate cryptocurrencies.
4. Visa has partnered with the new FinTech start ups globally. Visa holds a large market share in the Indian market and with the emergence of competitors providing Unified Payments Interface (UPI) services, Visa collaborated with them to make them a *complementor* instead. (Visa Inc., 2020) Complementors are companies that manufactures good or provides services that complement the products or services of another organization.
5. It came up with the tap-and-pay feature that would require you to only tap the Visa card at the physical point of sale to make payments, hereby reducing physical contact.

A strong network leads to increased customer retention and loyalty, which in turn increases

the revenue and profitability over the long term. This will also create barriers for potential rivals to enter the market and hence maintain their market position. Finally, strong indirect network effects can also lead to increased bargaining power for the company where it may be able to negotiate more favourable terms with suppliers or partners because of the value that its product or service provides.

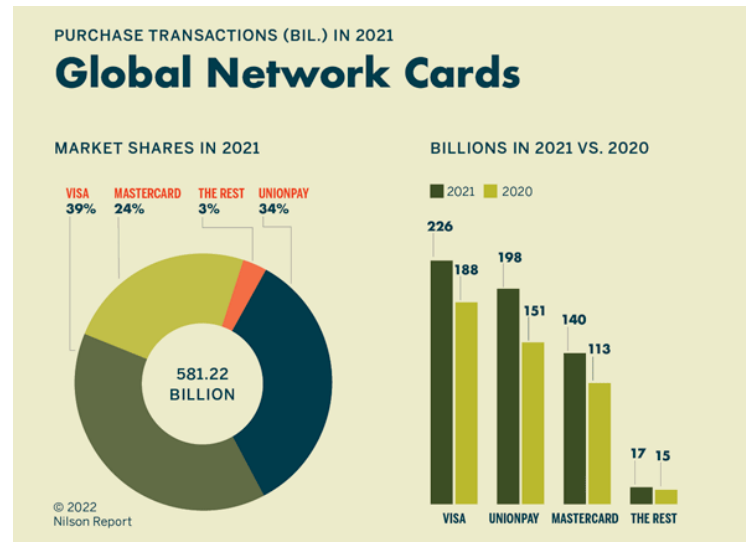


Figure 3: Visa's and Mastercard's debit routing practices

Source: <https://www.insiderintelligence.com/content/ftc-reportedly-expands-debit-card-routing-probe-consider-mastercard-visa-tokenization>

Innovations by Visa Inc.

Visa Inc. has made several innovations in the financial industry. The company continues to invest in and develop new technologies to improve the payment experience for consumers and merchants around the world. Some examples of these innovations include:

- Visa Checkout: a digital payment service that allows customers to make online purchases without having to enter their payment and shipping information each time they shop.
- Visa Direct: a real-time payment platform that enables consumers, businesses, and governments to send and receive funds instantly, regardless of location.
- Visa Token Service: a security feature that replaces sensitive account information, such as card numbers, with a unique digital identifier (a "token") that can be used for online and mobile transactions.
- Visa B2B Connect: a blockchain-based platform that enables banks to process business-to-business (B2B) transactions in a secure and efficient manner.

- Visa Ready Program: a certification program that helps device manufacturers, software developers, and other technology companies integrate their products with Visa's payment system.

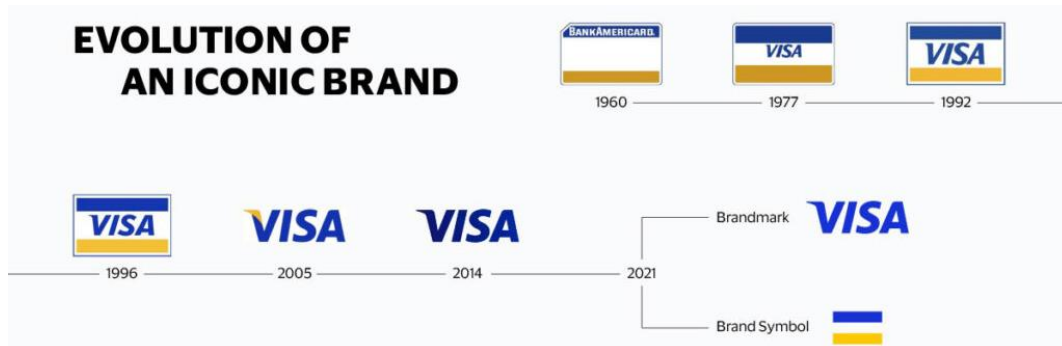


Figure 4: Visa brand modifications

Source: <https://navidor.com/visa-brand-modifications-highlights-calendar-useful-tips-merchants-usa/>

IV. Conclusion

Visa Inc. is a global financial services company that operates a payment system and provides credit, debit, prepaid, and gift cards to consumers and businesses. The company was founded in 1958 as BankAmericard and later rebranded as Visa in 1976. Over the years, Visa has grown to become one of the most recognized and trusted brands in the financial industry, with a presence in more than 200 countries and territories worldwide. One of the key factors behind Visa's success has been its focus on innovation and technology. The company has consistently invested in new technologies and platforms, such as mobile payments and e-commerce, to stay ahead of the curve and meet the changing needs of its customers. In recent years, Visa has also made a push into emerging markets, such as Asia and Africa, to expand its reach and take advantage of the growing demand for electronic payments in these regions. Overall, the journey of Visa Inc. has been one of continuous growth and evolution, as the company has adapted to the changing landscape of the financial industry and embraced new technologies to remain a leader in the world of payments and financial services.

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