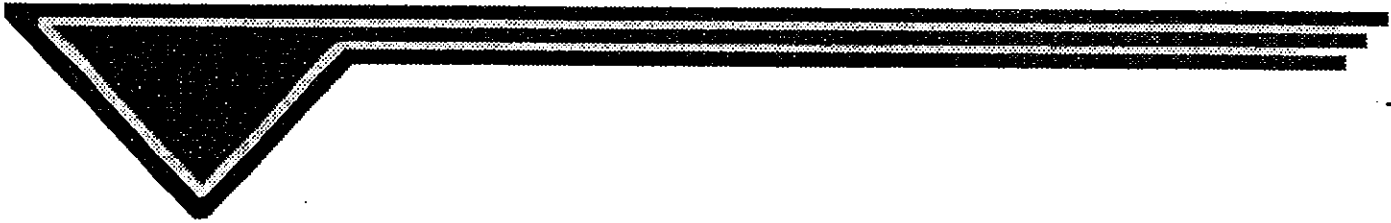


Visa Intl
Long Range
Plan



Visa International Competitive Strategy Proposal

2 June 1993

P-0051

Visa International Competitive Strategy Proposal

Introduction



- **Market situation requires Visa to change its competitive strategy**
- **Today's proposal lays foundation for new strategy**
- **The Board will be asked to:**
 - **Approve the general approach to Visa's competitive strategy, in particular the six strategic concepts**
 - **Direct the Regional Boards to prepare complementary and supportive actions for review in October**

Visa International Competitive Strategy Proposal

Market Situation



- Duality has led to undifferentiated commodities
- Industrial company co-branding has added pressure on profits
- MasterCard needs share to stay competitive
- In some markets, new entrants add little incremental value to existing Members
- Deposit access products emerging in many markets
- Acquiring business is threatened with migration to third parties

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Market Situation



- **Duality has led to undifferentiated commodities**
 - **Duality originally pursued to increase market acceptance**
 - **Brands are interchangeable today**
 - **Pricing is increasingly based on cost, thereby putting profit margins at risk**
 - **Legislating non-duality is not a fix**
 - **A more fundamental fix is needed – differentiating Visa relative to other brands to make it more attractive**

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Market Situation



- **Industrial company co-branding has added pressure on profits**
 - **Compete with banks and increasingly redefine cardholder value proposition**
 - **Have different profit and strategic objectives, competitive tools and freedoms**
 - **Create core-type features on non-reciprocal basis**
 - **MasterCard rule concessions further weaken banks' role**
 - **Differentiating Visa makes Members and brand more competitive**

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Market Situation



- **MasterCard needs share to stay competitive**
 - **Accommodates industrials in ways Visa Members are unwilling to do**
 - **Adopted an Acquirer Acceptance Development Fee in its Asia Pacific region**
- **In some markets, new entrants add little incremental value to existing Members**
 - **Shift share only, do not create new customers**
 - **Diminish value of existing Members' investment**

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Market Situation



- **Deposit access products emerging in many markets**
 - **Deposit access products likely to dictate payment system**
 - **Members have an opportunity to establish ownership and control and protect current profits**
 - **Reduced unit costs in shared cost environment create higher levels of Member profitability**
 - **Visa is a bank owned and controlled system**

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Market Situation



- **Acquiring business is threatened with migration to third parties**
 - **Begins with mature, dual markets, but will extend to all countries**
 - **Members lose control of POS to third parties**
 - **Differentiation at point of acceptance made difficult**
 - **Third parties dictate terms of card acceptance and ultimately gain control of payment system**

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Market Situation Implications



- **Current market conditions require a change in Visa's competitive strategy**
 - **Doing nothing will diminish Member profits and control of the payment system**
 - **Taking a utility approach will produce the same results**
 - **Differentiation strategy appears most attractive to improve Member profitability, to ensure Member control of the payment system and to increase competitive advantage**

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Strategic Concepts



- Service Differentiation
- Ownership Value
- Brand Preference
- Mature Market Compensation
- Membership Protection
- Acquiring Business

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Competitive Strategy Characteristics



- **Directional, not absolute**
- **Evolutionary, not disruptive**
- **Sooner, not later**

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Competitive Strategy Scope



- **Strategies apply to all levels: global, Regional and national**
- **Actions generally limited to inter-Regional activity**
- **Regions must create complementary plans**
- **Regional/national organisations may go faster**

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Differentiation Strategy



- Provide system-to-system competition to complement Member-to-Member competition
- Enable value based pricing, not cost based pricing
- Differentiate at all levels of the value chain
- Value to all parties: Cardholders, Merchants and Members



Member Profitability!

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Sources Of Visa Differentiation



- Superior brand strength and recognition
- Greater market share
- Global scope
- Global Delivery Systems scope
- Integrated and centralised systems architecture
- Superior risk management
- Profitable deposit access products

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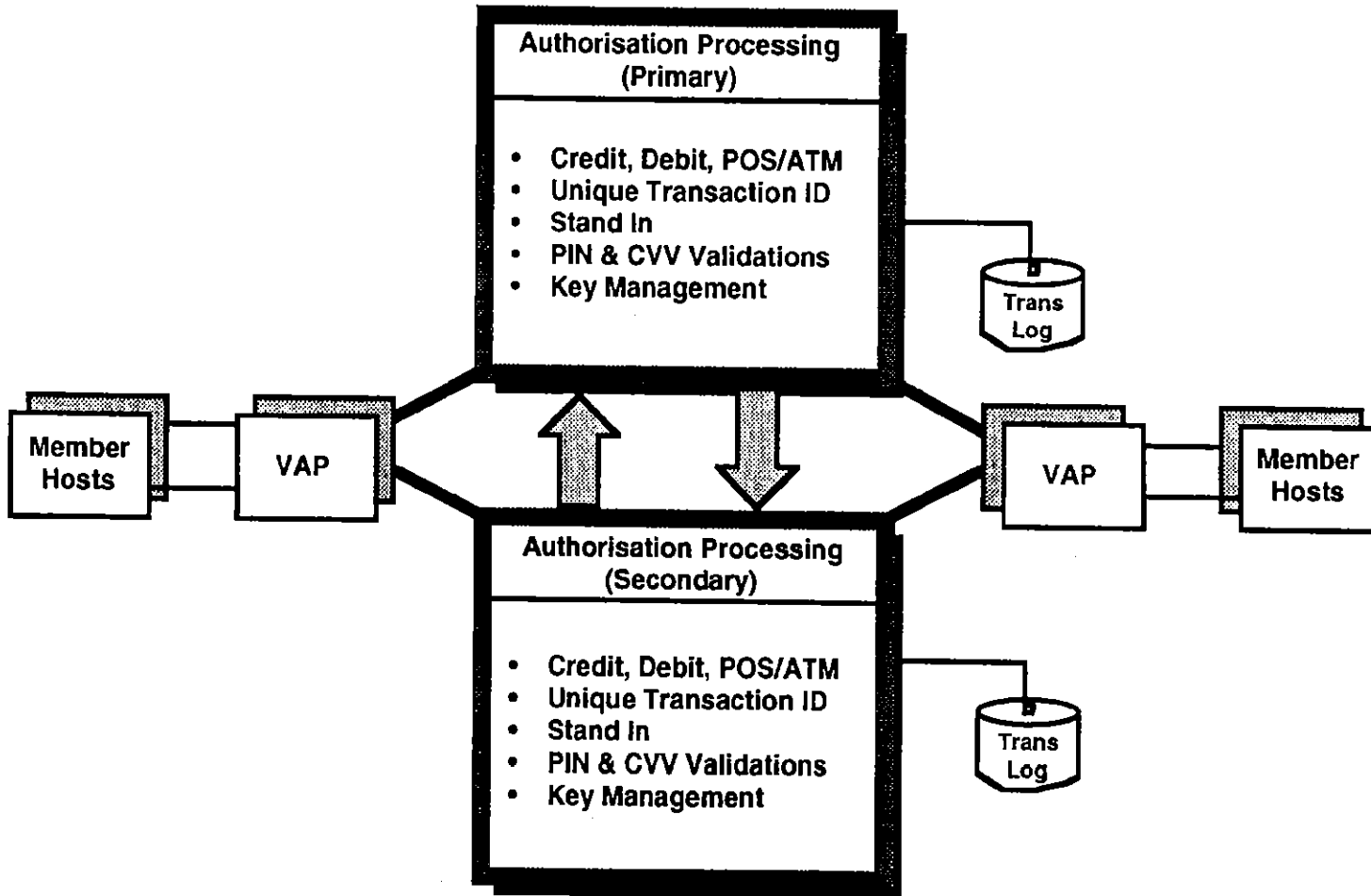
Techniques For Creating Differentiation



- **Create global service enhancements**
- **Establish exclusive third party alliances**
- **Accelerate development of new products and services**
- **Utilise VisaNet's broad scope and centralised architecture**
- **Establish de facto standards**
- **Exploit Visa's deposit access service advantages**

Visa International Competitive Strategy Proposal

Visa's Centralised Authorisation Processing



Highly Confidential -- Outside Counsel Eyes Only

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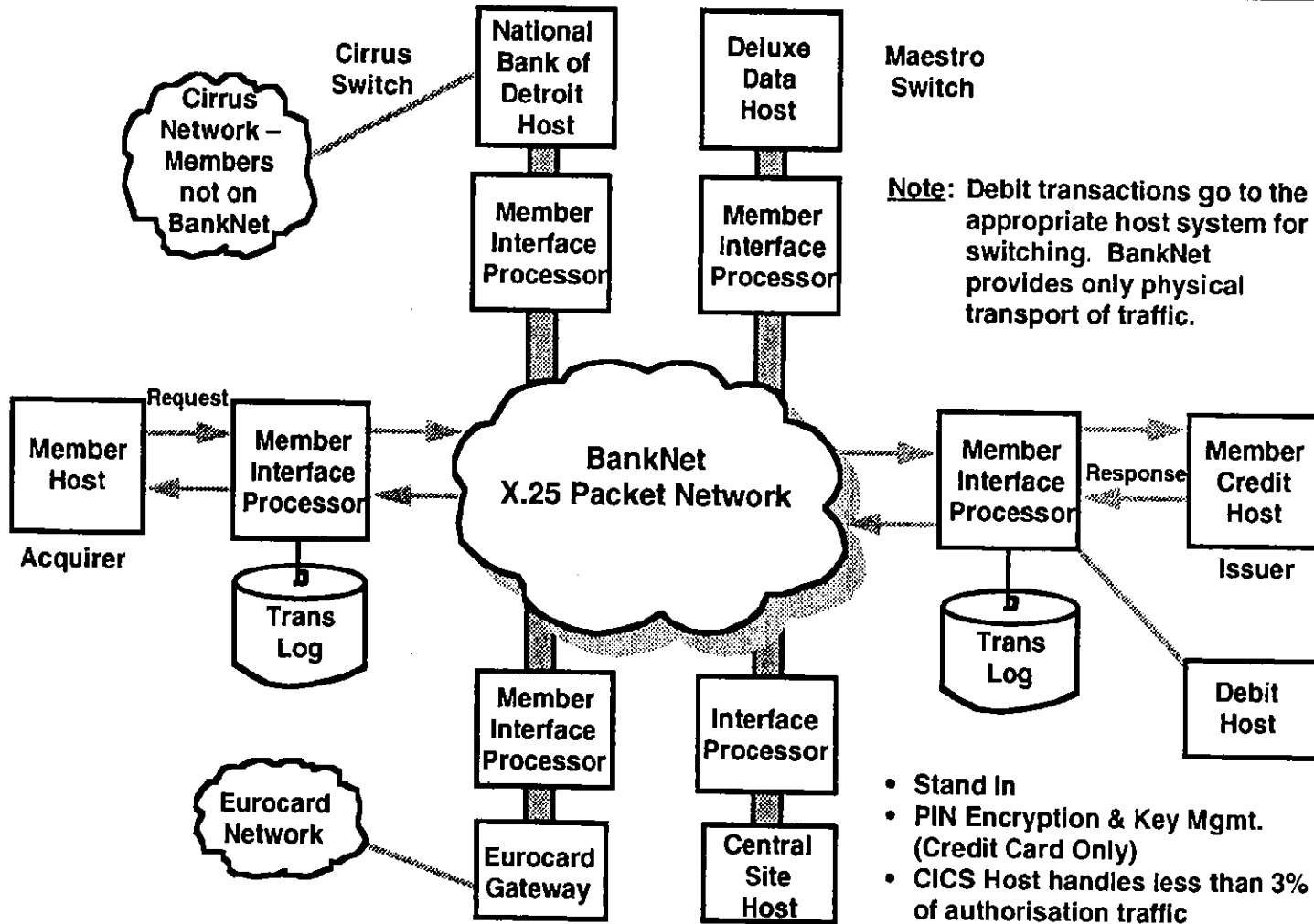
Visa's Centralised Authorisation Processing



- High volume hosts; either can handle all volume
- Authorisation process can use detailed transaction data real time
- Stand-in available for all transactions
- Unique transaction ID provides ability to tie authorisation transactions to clearing messages

Visa International Competitive Strategy Proposal

MasterCard's Distributed Authorisation Processing



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MasterCard's Distributed Authorisation Process



- No real time view of total authorisation picture
- Multiple hosts providing similar functions (MasterCard/Cirrus/Maestro/Eurocard)
- No implemented ability to move debit traffic peer-to-peer
- Any issuer or acquirer options must be distributed to MIPs (Member Interface Processors)
- Limited growth potential at central site (CICS, etc.)
- No unique transaction ID capability
- BBN packet switches which provide X.25 network are very old technology with limited throughput

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Differentiation Examples



- Merchant brand preference
- Preferred customer partnerships
- Risk control services
- Information services
- Consumer and Business Financial Reporting

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Merchant Brand Preference Incentives



- **Develop differentiated “favoured merchant programmes” for supportive merchants**
- **Offer guaranteed payment programme to PS/2000 compliant merchants**
- **Reward merchants for Visa volume in excess of normal expectations with lower interchange fees**
- **Provide Acquirers and key merchants with merchant and consumer information**

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Preferred Customer Partnerships



- Enhance preferred customer programmes of broad based merchants via customised payment services
- Induce customer to select Visa as preferred payment means
 - Free upgrades to consumer
 - Lower fees and tailored payment services to merchant
- Disadvantage MasterCard due to their lesser ability to tailor systems and service delivery

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Risk Control Services



- **Leverage Visa's authorisation architecture, greater share and technological leadership to provide superior risk management services**
 - **Magnetic stripe anti-counterfeit measures, e.g., CVV**
 - **Fraud pattern recognition and detection measures, e.g., RIS, TAS, neural network logic**
 - **Account Tracking Service to better track, list and block fraudulent accounts and activity**

Visa International Competitive Strategy Proposal Information Services



- **Enable Members to obtain and provide more valuable marketing information**
 - Geographic usage comparisons
 - Purchase pattern data
 - Market segment comparisons
- **Exploit Visa's advantage relative to MasterCard**
 - Greater volume and market share
 - Integrated credit, debit and ATM systems
 - Greater scope allows reporting of all activity worldwide

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Consumer And Business Financial Reporting



- Provide consumers and businesses with electronic access to transaction data and financial reporting services
- Leverage proliferation of hardware and software solutions available to consumers and businesses
- Take advantage of Visa's unique position of direct systems involvement in both credit and debit

Visa International Competitive Strategy Proposal

Ownership Value Strategy Objectives



- Create potential to compensate owners for prior investments
- Motivate greater Member brand preference and behavior consistent with vested interest
- Create potential for equity value and capital appreciation

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Ownership Value Strategy Characteristics



- **Every financial institution becomes either direct Proprietary Member of Visa International or agent of Proprietary Member**
- **Does not affect existing national organisation rights**
- **Create and track notional ownership shares (options) proportional to accumulated amount of Service Fees paid by each Proprietary Member**
- **Issue new shares (options) only to Contributing Proprietary Members as additional Service Fees paid**
- **Some restrictions on purchase of shares (options)**

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Brand Preference Strategy Objectives



- **Move membership and ownership towards non-duality by making Visa the superior brand**
- **Create vested interest in Visa brand, not disenfranchise existing Visa programs**
- **Build vested interest by Members to obtain their support for ongoing and increasing service differentiation**

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Brand Preference Strategy Approach



- **Deposit access programmes generally non-dual today**
 - Build brand preference via differentiation, ownership value, and pricing
 - Reinforce with regulation at Region's option
- **Credit programmes often dual**
 - No mandated roll back
 - Instead, build brand preference

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Brand Preference Strategy Pricing Criteria



- **Members become Direct Members of Visa International**
- **Members receive Contributing Member pricing if:**
 - **Visa share of Member's portfolio is $\geq 60\%$**
 - **Favorable trend in or share shift**
 - **Observed trend if Visa share is $< 60\%$ but $\geq 40\%$**
 - **Actual achievement of committed objectives if Visa share is $< 40\%$**
 - **Dominant issuance of a Visa owned debit mark or**
- **Members not meeting these criteria are User Members**

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Brand Preference Strategy Pricing



- **Implement incremental service fees for User Members 2 years after classification of Membership**
 - 4 basis points on issuing volume
 - 2.5 basis points on acquiring volume
- **Incremental fees used to help fund differentiation**

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Mature Market Compensation Strategy Qualification Criteria



- **Acceptable level of Visa membership and usage in the country**
 - **80% of country's consumer deposits in Visa Contributor Members**
 - **Visa is 60% of combined Visa and competitors' bank card sales volume**
 - **Visa Card sales volume greater than 5% of consumer personal consumption expenditure**

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Mature Market Compensation Strategy Qualification Criteria



- **Any Visa national organisation (Article 16 structure) must be capable of:**
 - **Representing Visa interests**
 - **Supporting Visa policies and programmes**
- **Charter Members request mature market designation and receive approval from Visa International**
- **Qualification conditions sustained on an annual basis to retain mature market designation**

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Mature Market Compensation Strategy Approach



- **If a New Member seeks entry:**
 - **Assess them higher fees to reimburse Charter Members for value of their Visa investment and market development**
 - **Add new Member fee differential to applicable fees, and set at, say, 100% of Contributor Charter Member fees**
 - **Disburse fee differentials to Charter Members**
- **New Members become Contributor Charter Members after 5 consecutive years as Contributor**

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Membership Protection Strategy



- **Take reciprocal actions where MasterCard's rules threaten Visa Members' participation in the acquiring business**
- **Make Visa Contributing Members whole at the expense of MasterCard dominant Members**
- **Do not generate any additional net revenues to Visa**

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Acquiring Business Strategy Objectives



- **Develop programmes to protect Members' interests at the point of sale**
- **Assist Issuers with financial incentives to help them maintain a presence in the acquiring business**

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Acquiring Business Strategy Approach



- **Continue to develop Visa systems and services related to the point of sale**
- **Initiate service fees on Contributor Members' acquiring volume if it exceeds issuing volume by some (e.g., 2X to 4X) factor**
- **Region hosting Member's acquiring activity establishes fee of not less than 1.25 basis points (1/80th of 1%) applied to all acquiring volume**
- **For User Members, fee becomes 2.5 basis points applicable to all acquiring volume**

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Competitive Strategy Member Benefits



- Protection against profit erosion from undifferentiated products and services competing for share in maturing markets
- Preservation of Members' control of the payment system
- Greater competitive advantage for Visa Members who support the brand relative to Members who only use the brand
- Increased interchange fee income

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Next Step



- **September 1993 Executive/Planning Committee Meeting**
 - **FY 1993/94 Financial Plan**
 - **Specifics for Competitive Strategy**
 - **Review of Visa Cost Structure**
 - **Market Development Funding**
 - **Board Role and Management Structure**

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Other Actions



- **October 1993 Board Meeting**
 - Review and approve complementary Regional plans
- **April 1994**
 - New interchange fees begin
- **April 1995**
 - Contributor/User fees begin