

*MasterCard  
International*

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# Pursuing Acceptance Excellence

Global Brand Development  
July 19, 1996

P-0439

Highly Confidential Subject to Protective Order

MCJ4137445

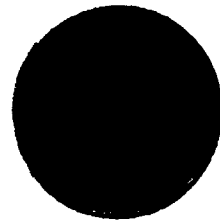
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# Executive Summary: Objectives, Overview, Topics

# Mission/Objective

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- For acceptance, the department's plans are focused on establishing a global acceptance development and relationship competency that drives market growth and brand usage, and sets strategic direction for delivering acceptance excellence worldwide through:
  - Global/regional acceptance development and market expansion (accelerate rapid displacement of cash and checks)
  - Multinational merchant acceptance development and relationship management





# Overview: Value

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- The promise of the MasterCard brand is “acceptance excellence” - i.e., secure access anywhere.
- MasterCard has an acceptance network that is second to none.
  - Yet there remains enormous untapped opportunities in both traditional and new categories
  - Corporate objective to develop unsurpassed acceptance
- Investment in acceptance supports the brand value cycle, resulting in increased utility and, ultimately, more cards in force.

# Overview: Investment

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- Both of MasterCard's global competitors are investing heavily in building acceptance:
  - American Express established a corporate priority to match bankcard acceptance in order to increase brand value
  - Visa has parity acceptance with MasterCard; however, is perceived as having greater utility
- MasterCard's current investment in acceptance is disadvantageous; regions outside the U.S. have few dedicated personnel and little or no funding for acceptance development.

# Overview: Corporate Objectives

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- \* Acceptance functions directly support five of MasterCard International's six corporate objectives.
- \* 1. Build brand preference in key geographic markets
- \* 2. Develop unsurpassed acceptance in existing and new markets categories
- \* 3. Deliver new and enhanced products and services
- \* 4. Enhance existing technology and operations services and promote development of new technology
- \* 5. Build key member preference
- 6. Improve association performance






# Overview: Current Needs

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- In addition to the goals of expanding acceptance in new and traditional segments and ensuring end-to-end quality, there are also key roles for acceptance support now in:
  - New Product Development & Commercial Product groups (fleet, premium, procurement, corporate card)
  - T&E Marketing (destination, partners)
  - Smart card platform/applications (stored value, loyalty, P.O.I. technology)
  - Electronic commerce (pilots)



## Overview: Mid-term -- Trends

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- Trends in electronic payments include expansion of
  - Remote access
  - Migrating to a smart card platform
  - Capture of information at the P.O.I.





# Overview: Mid-term -- Merchants

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- The merchant community has an increasingly important role in MasterCard International's future direction, and is demanding more influence in payments issues.
  - Today, they can be leveraged to expand acceptance, drive usage, provide data, promote awareness, and contribute to card growth.
  - In the future, they will be investors, service providers, and end users within the evolving electronics payments infrastructure.



# Overview: Future

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- The vision of the future of acceptance includes a risk of consumer and merchant confusion, when multiple payment products and services are provided at single points of interaction.





# Overview: Action Steps

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- MasterCard International needs:
  - Short term strategies to grow the market now
  - Regional investment to build an acceptance function, leveraging global initiatives
  - Further integration of acceptance development initiatives to achieve a single vision of debit/credit/stored value, loyalty, smart card, PIN, electronic commerce
  - Long term strategies to ensure seamless transition with clear identification and consistent transaction-handling



# Presentation Objectives

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In this presentation, Global Brand Development will communicate:

- The state of MasterCard's acceptance today
- Our vision for acceptance in the future
- Recommendations on delivering acceptance excellence worldwide in the near and longer terms



# Topics

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- The Development Chain
- Acceptance Financials
- Acceptance Today
- Re-Branding
- Opportunities
- Member Feedback
- Trends/Critical Issues
- The P.O.I. Vision
- Achieving the Vision
- Recommendations

The Development Chain



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# The Development Chain: Brand/Acceptance Cycle

# An Acceptance Brand

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- Primary components of building the brand include increasing awareness and building value.
  - The MasterCard brand is a promise of “acceptance excellence”.
  - The value to the consumer is secure access anywhere.
- Additional brand value can be generated by creating opportunities for expanded usage; for acceptance excellence, the cardholder needs confidence that:
  - He can use the card where he expects to
  - The system works well, consistently

*The MasterCard acceptance network is a foundation for brand utility and preference for cardholders, members and merchants.*

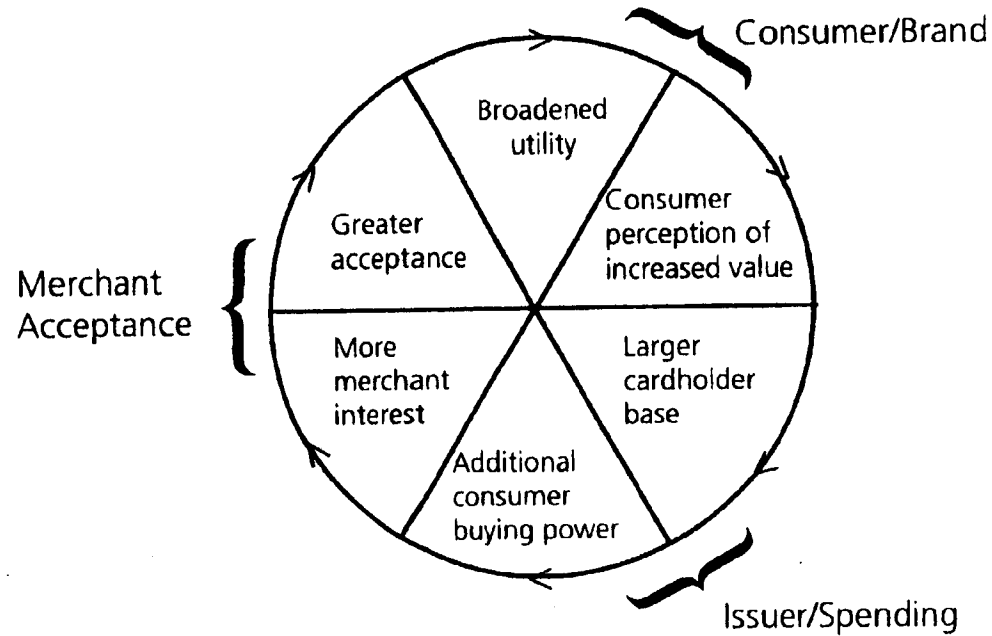


## Case Study: American Express

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- American Express' current merchant coverage lags both MasterCard and Visa.
  - The brand has a perception (and reality) of an acceptance gap.
  - This acceptance gap works against the perceived value of American Express' product offering:
    - Lower acceptance erodes both the actual and the perceived utility of the card
    - Ultimately making the card much less attractive to the consumer
    - Leading to slow new account growth and high attrition levels

# The Brand Value/Acceptance Cycle



*Greater acceptance enhances brand value for all constituents -- cardholders, merchants, acquirers, issuers -- across all products (consumer & commercial).*



# Case Study: American Express

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- To increase brand value, American Express established the priority to match the merchant coverage of the associations.
  - Both numbers and categories (beyond T&E)
  - Targeting 100% merchant coverage of U.S. spending
- Their strategies include achieving this through:
  - More flexible pricing to merchant
  - Improved speed of payment to merchant
  - Increased distribution/retention (external bankcard sales force)
  - Leveraging bankcard new market development success

*Currently, American Express' acceptance growth rate is greater than that of the bankcards (11.5% vs. 9.9%).*

# Case Study: American Express

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Further, American Express is leveraging its merchant base to improve product offerings beyond acceptance:

- Attempting to shift share via broader card programs: co-branding (hotel, entertainment, air tickets, auto companies)
- Pursuing the power to serve both merchants and cardmembers with a relationship statement
  - This provides the enhanced ability for targeted/measurable direct marketing

*American Express' ability to sustain premium merchant pricing is a competitive advantage of the value of its brand.*

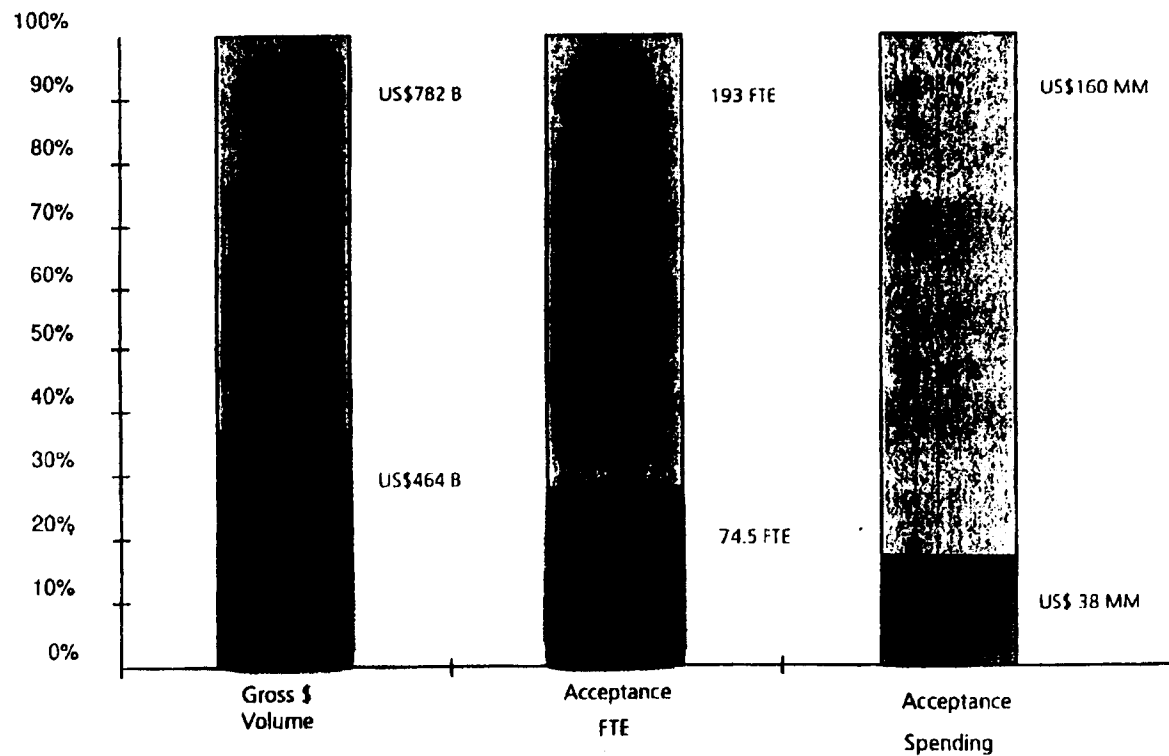
Acceptance Financials



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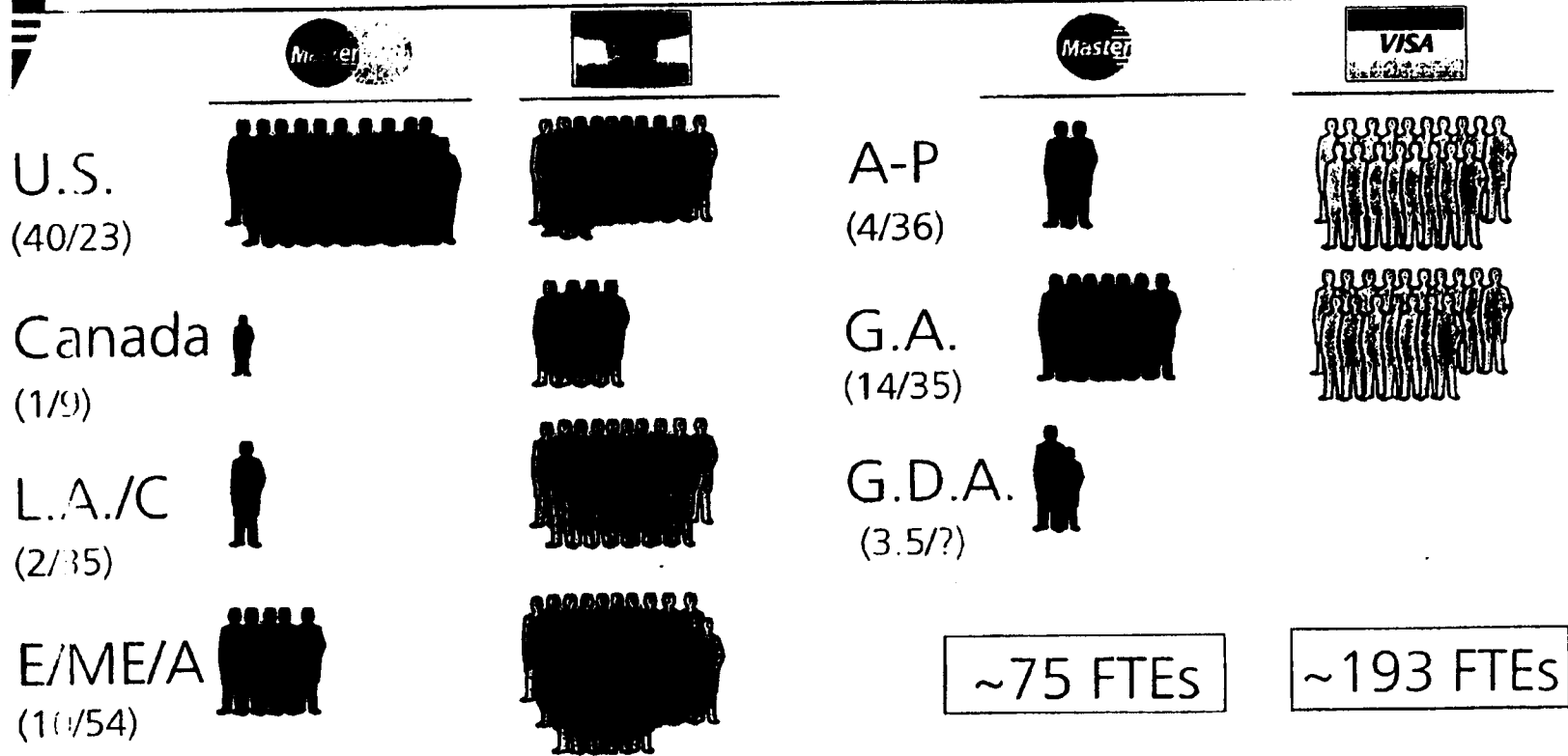
# Acceptance Financials: Revenues and Investments

# Acceptance Resources



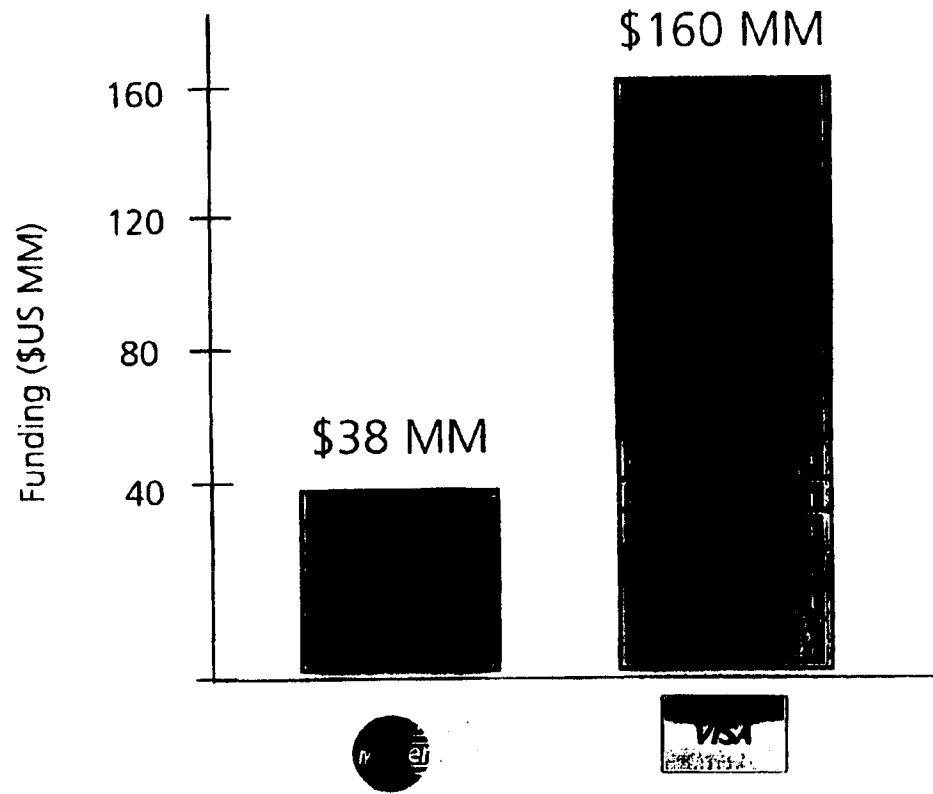
Source: Finance, Visa Estimates

# Resource Allocation: FTEs





# Resource Allocation: Funding



# Resource Allocation

Estimated Dedicated Acceptance Resource Allocation

	MasterCard		VISA	
	FTEs	\$MM	FTEs	\$MM
<b>United States</b>			24.0	
Debit	35.0	20.0		
<b>Canada</b>	5.0	3.0	9.0	
<b>Latin America/Caribbean</b>	1.0	0.2	35.0	
<b>Middle East/Asia</b>	2.0	1.6		
<b>Europe</b>	0.5	0.5	54.0	
MasterCard	1.5	1.6		
Europay (DR, CR)	8.0	1.5		
<b>Asia/Pacific</b>		4.0	36.0	
Greater China	1.0			
Southeast Asia	1.0			
Australia	2.0			
<b>Global Acceptance</b>			35.0	
Development	10.0	2.9		
Relations	4.0			
<b>Global Debit</b>	3.5	2.0		
<b>TOTAL</b>	~75 FTEs	~\$38 MM	~193 FTEs	~\$160 MM



# Acceptance Spending

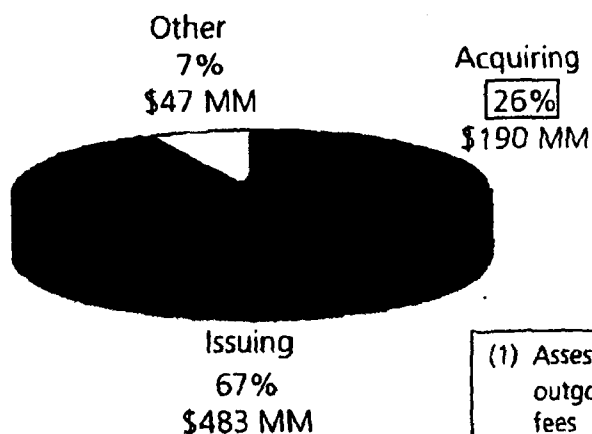
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- MasterCard shares with Visa a global merchant base that is second to none.
  - Yet Visa's ubiquity is perceived as superior
- MasterCard's acceptance investment is disadvantageous relative to Visa.
  - FTEs: 75 to Visa's 193
  - Funding: \$38 MM to Visa's \$160 MM
- MasterCard's resource commitment is also disproportionately lower versus its overall market share relative to Visa.

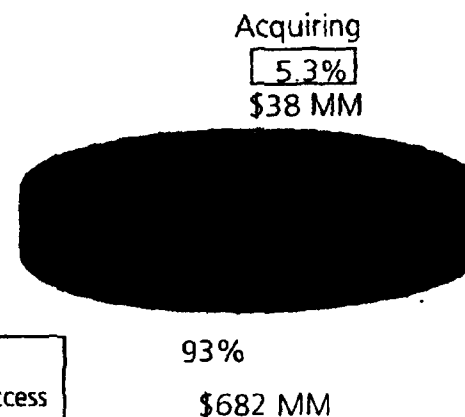
# Acquiring Revenues vs. Investment

MasterCard's investment in acceptance is also disproportionate relative to acquiring revenues generated (26% to 5.3%).

Acquiring Share of Revenues (1)



Acquiring Share of Investments (2)



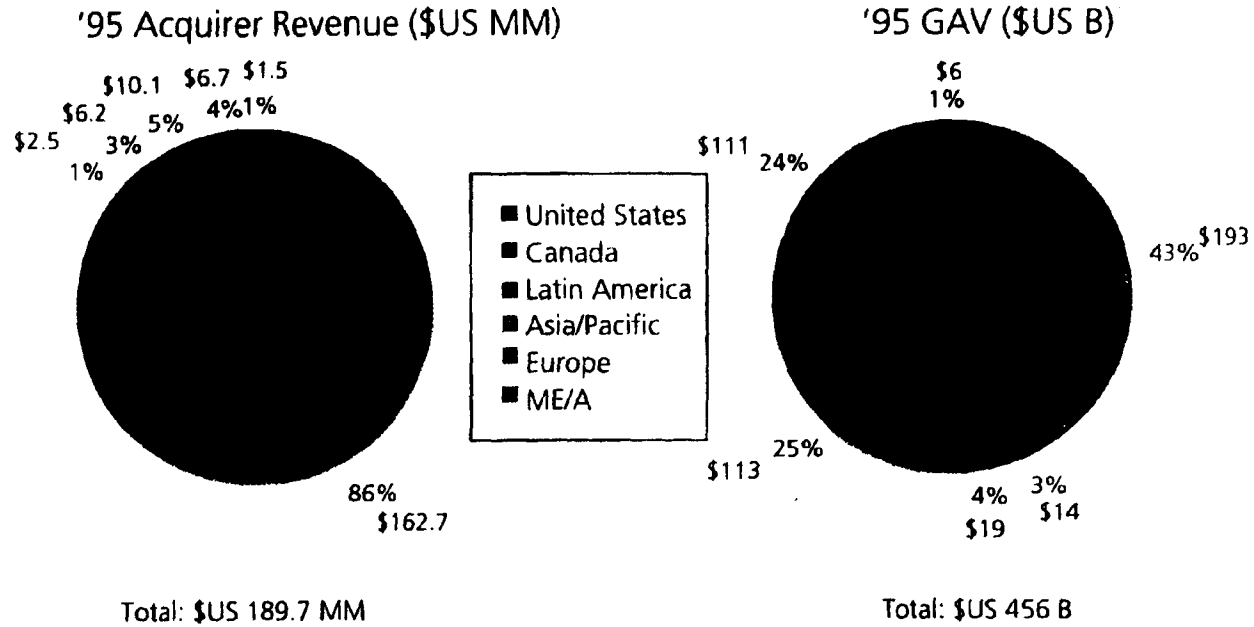
(1) Assessment on worldwide outgoing interchange and access fees  
 (2) Estimated feedback

Source: Finance, 1995 Annual Report



# Acquiring Revenues/Volume

There is an imbalance across the regions of acquirer revenues relative to volume (e.g., U.S. is 86% of revenues, yet only 43% of volume).



Acceptance Today



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# Acceptance Today: Regional Growth, Market Penetration, and Consumer Perceptions



# Compound Growth: Merchant Locations

Region	Merchant Locations	
	4Q'95	5 Year CAGR
Asia Pacific	3,750,173	11.5%
Canada	532,815	2.5%
Europe	3,063,777	8.7%
Latin America	1,477,303	13.2%
Middle East/Africa	217,471	12.1%
United States	3,151,417	3.5%
Worldwide	12,192,956	8.2%



# Compound Growth: Cash Disbursement Locations

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Region	Cash Disbursement Locations	
	4Q'95	5 Year CAGR
Asia Pacific	19,500	3.3%
Canada	4,300	14.5%
Europe	140,000	8.3%
Latin America	12,000	4.2%
Middle East/Africa	11,000	11.9%
United States	96,000	9.0%
Worldwide	282,800	8.2%

# Compound Growth: ATMs

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Region	ATMs	
	4Q'95	5 Year CAGR
Asia Pacific	9,741	114.1%
Canada	7,587	34.0%
Europe	130,119	70.2%
Latin America	8,155	43.8%
Middle East/Africa	3,500	n/a
United States	102,456	16.1%
Worldwide	261,558	36.0%

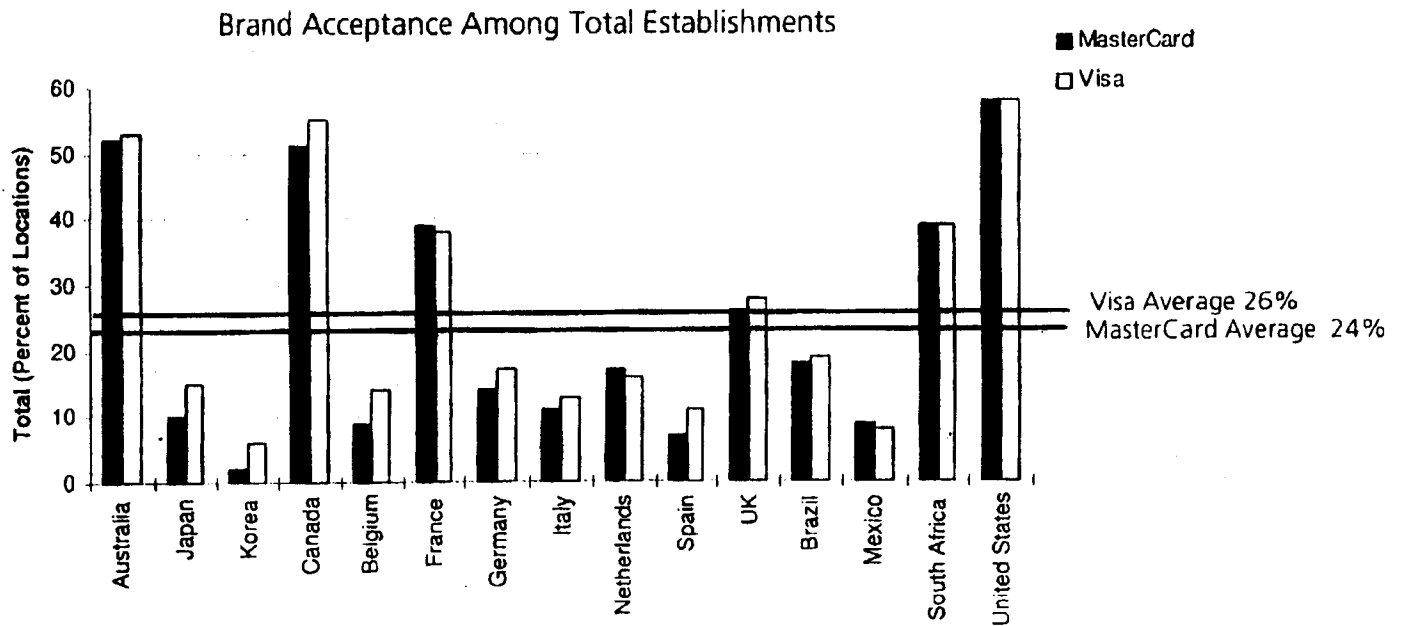
# Compound Growth: Total Acceptance

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Region	Total Acceptance	
	4Q'95	5 Year CAGR
Asia Pacific	3,779,414	11.6%
Canada	544,702	2.8%
Europe	3,333,896	9.6%
Latin America	1,497,458	13.2%
Middle East/Africa	231,971	12.5%
United States	3,349,873	3.9%
Worldwide	12,737,314	8.6%

# Merchant Perception: Claimed Acceptance

Mirroring EFMA acceptance information, MasterCard and Visa have similar acceptance, based on merchant audits.

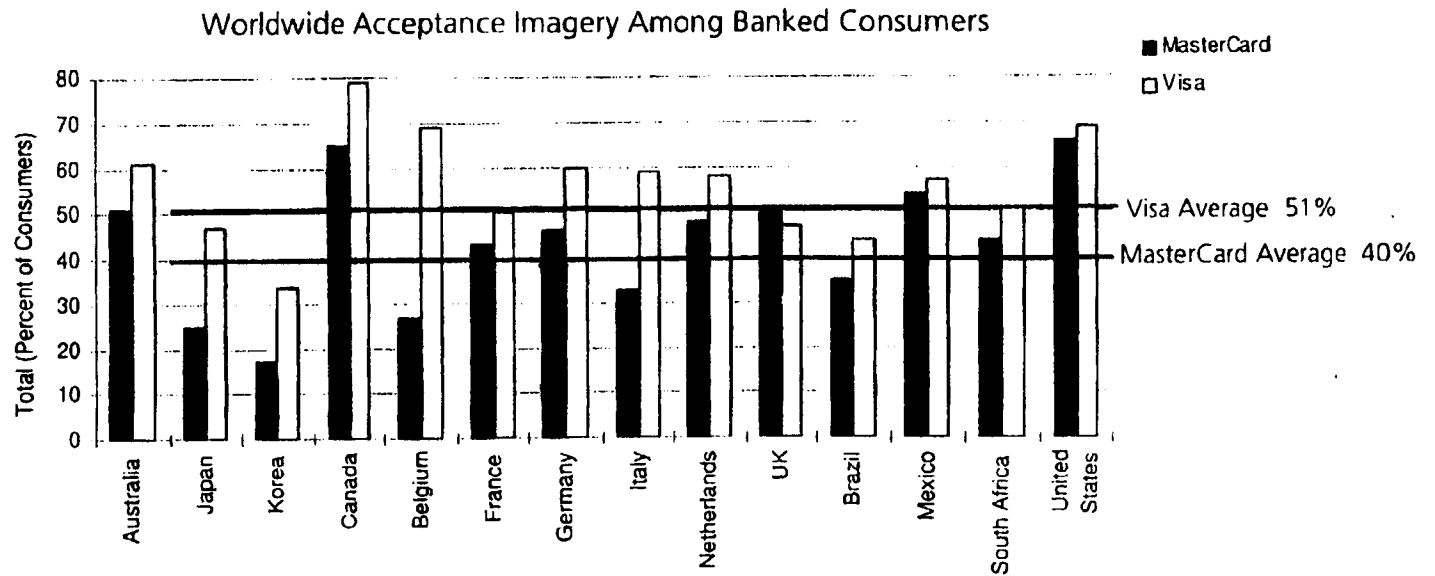


Q: Auditor asks merchant if they accept MasterCard and Visa

Source: 1995 Global Merchant Audit

# Consumer Perception: Acceptance

Though its acceptance network is essentially the same as MasterCard's, Visa is perceived as having stronger worldwide acceptance.

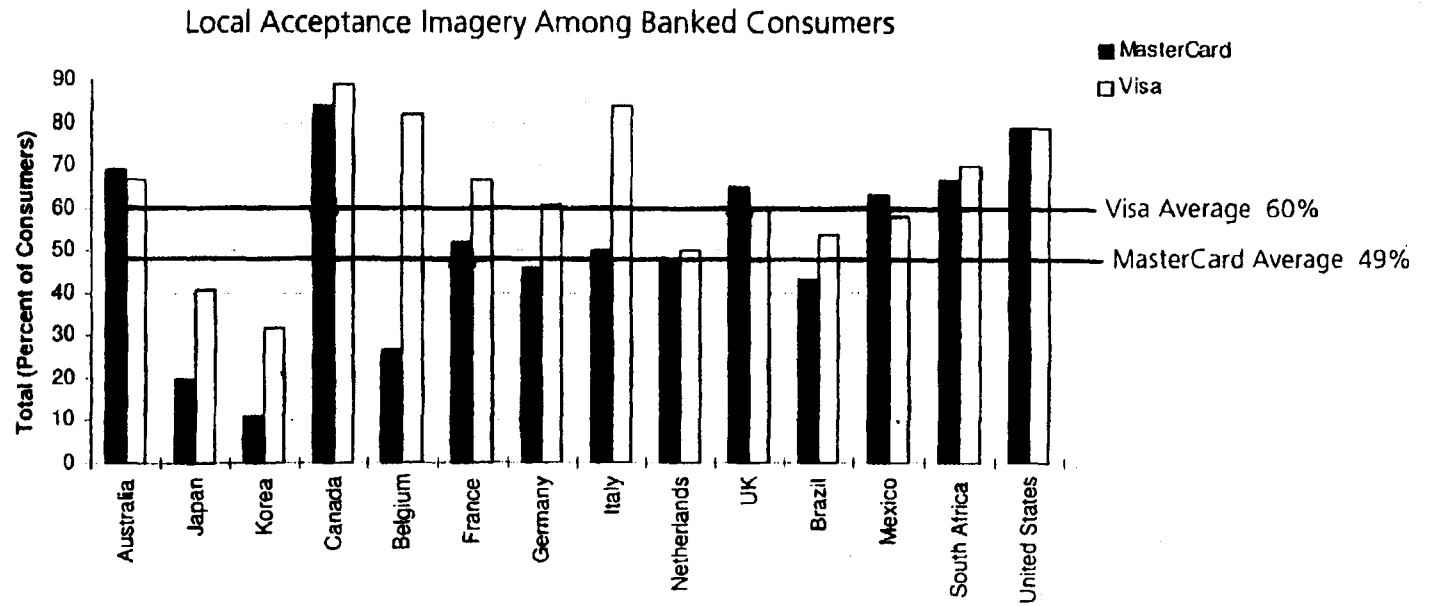


Q: % banked consumers who feel that the statement "has wide acceptance throughout the world" describes the brand well (4&5 on a 5 pt. scale)

Source: 1995 Global Brand Awareness Study

# Consumer Perception: Acceptance

Visa is also perceived to have stronger local acceptance than MasterCard.

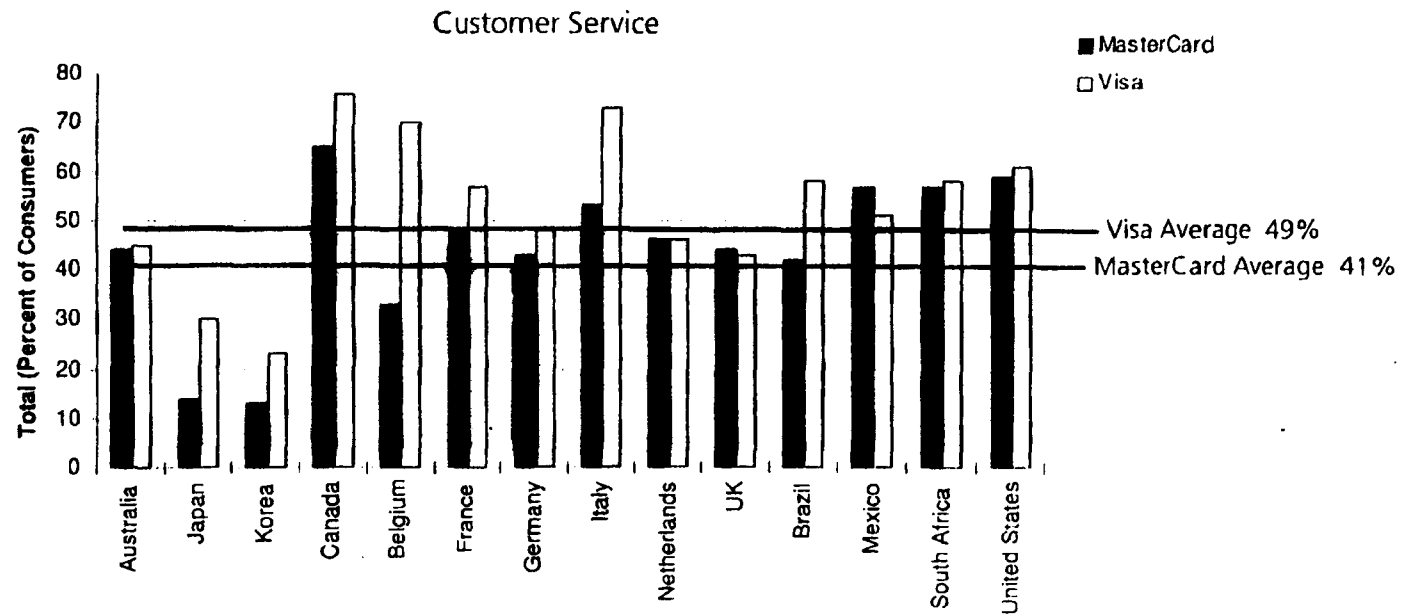


Q: % banked consumers who feel that the statement "has wide acceptance throughout <country>" describes the brand well (4&5 on a 5 pt. scale)

Source: 1995 Global Brand Awareness Study

# Consumer Perception: Customer Service Quality

Similarly, customer service imagery is stronger for Visa than for MasterCard.

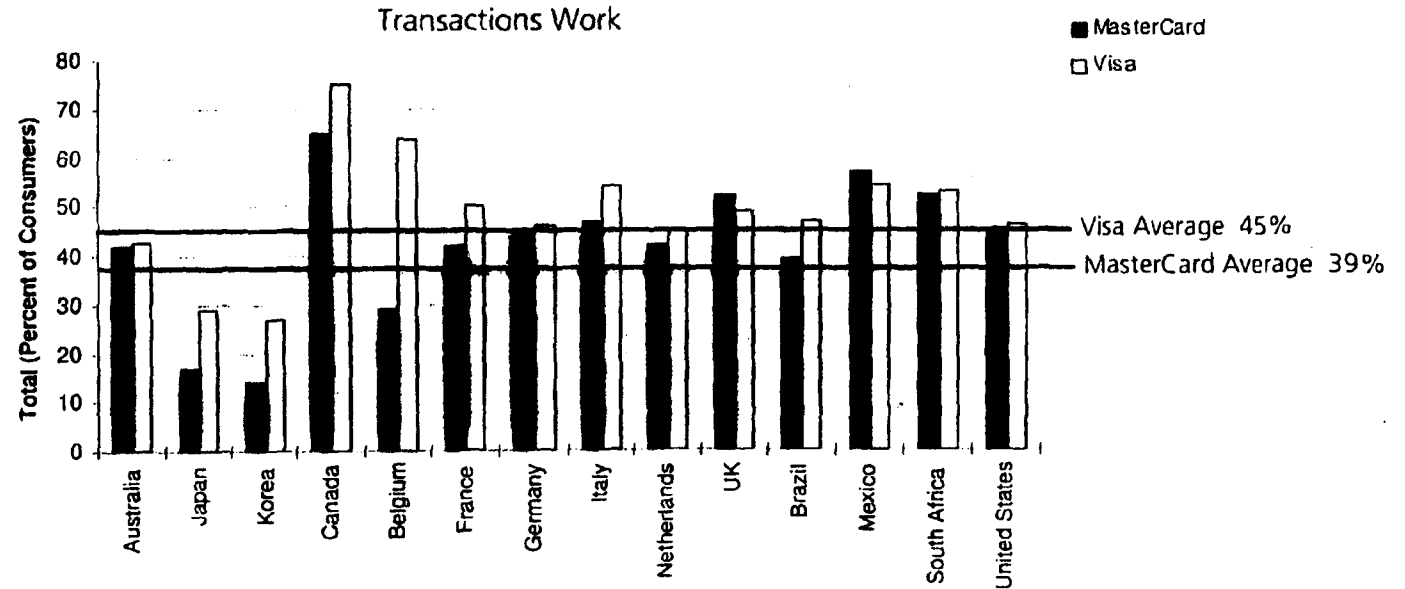


Q: % banked consumers who feel that the statement "offers prompt and dependable customer service" describes the brand well (4&5 on 5pt. scale)

Source: 1995 Global Consumer Tracking Study

# Consumer Perception: Transaction Quality

Visa is perceived to have stronger POI service quality than MasterCard.



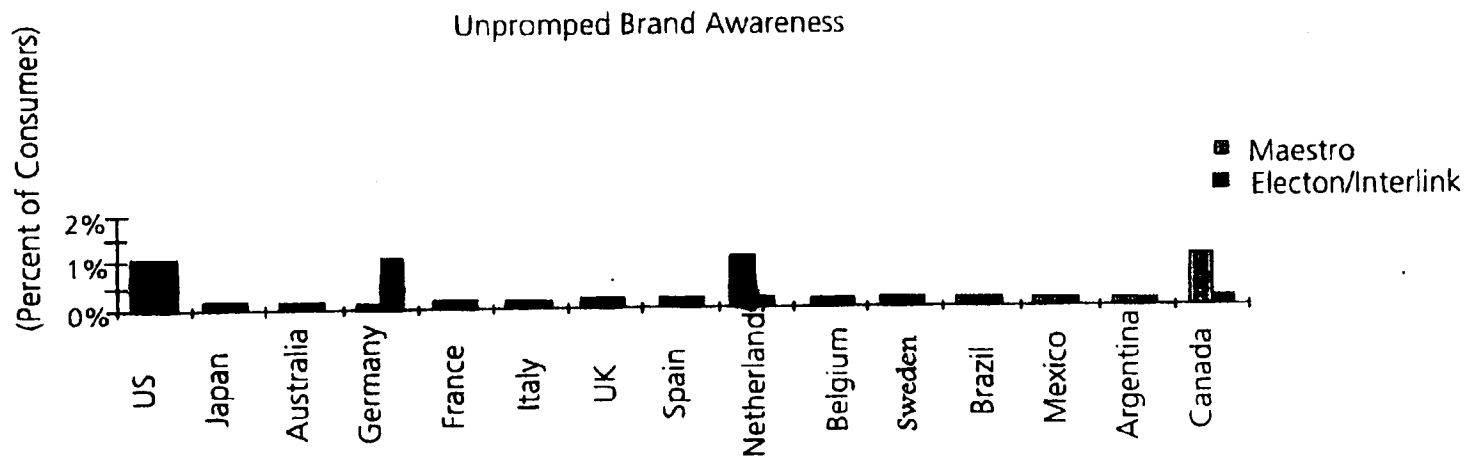
Q: % banked customers who feel that the statement "transactions always go through" describes the brand well (4&5 on 5 pt. scale)

Source: 1995 Global Consumer Tracking Study



# Awareness: P.O.S. Debit Brands

There is virtually no awareness of global on-line P.O.S. debit brands. However, Visa recently announced an overbranding strategy that will drive greater acceptance perception for Visa.



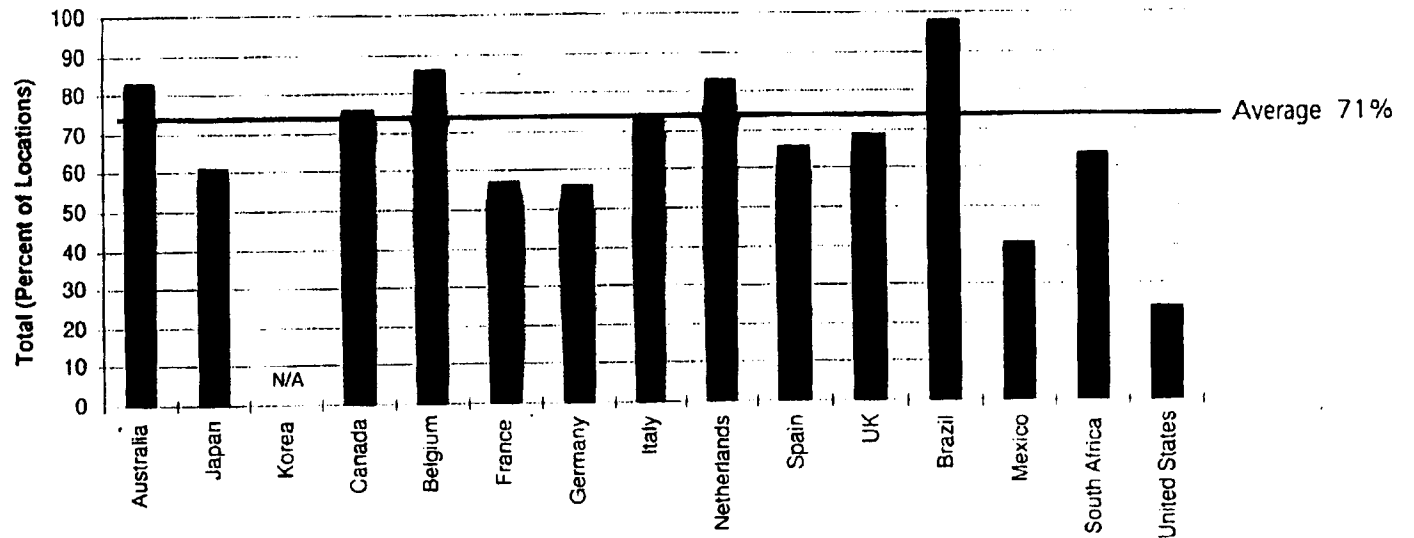
Re-Branding

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# Acceptance Excellence: Re-Branding and Quality

# Re-Branding: Current Signage

Merchants Displaying Current MasterCard Brand Mark Among Merchants Displaying MasterCard Signage\*

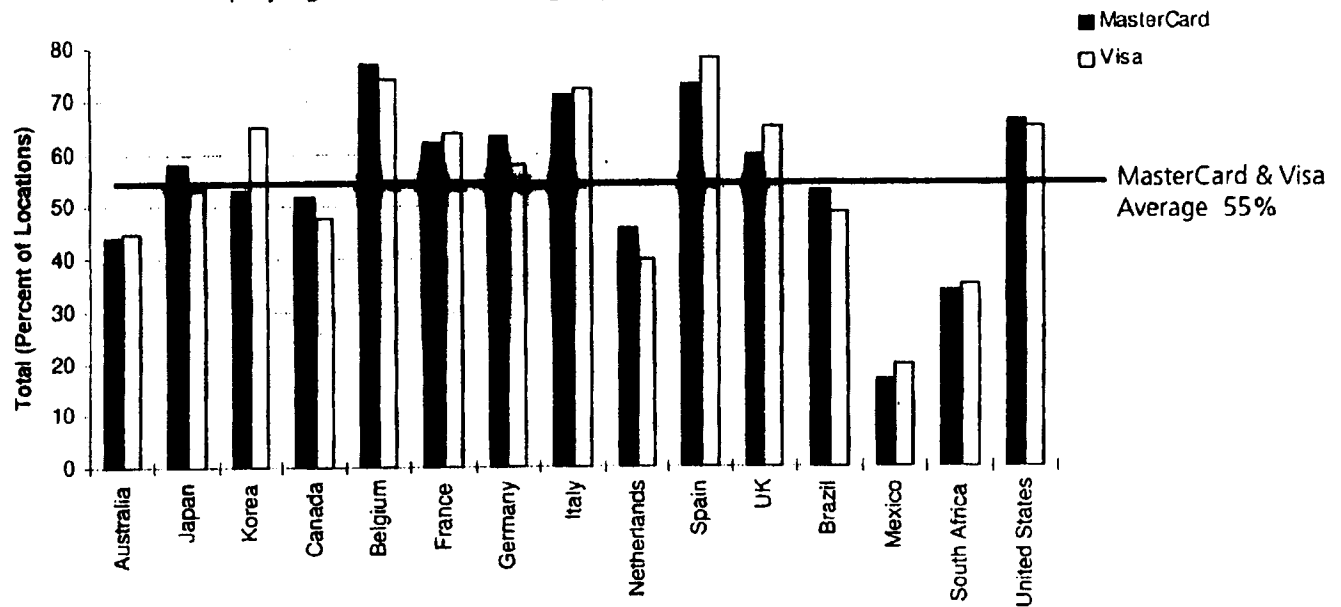


\* Includes Interior and Exterior Signage  
Source: 1995 Global Merchant Audit

# Re-Branding: Current Exterior Signage

MasterCard and Visa also have a similar signage presence. Levels need to be improved among accepting locations.

Merchants Displaying Exterior Brand Signage Among Merchants Accepting Brand



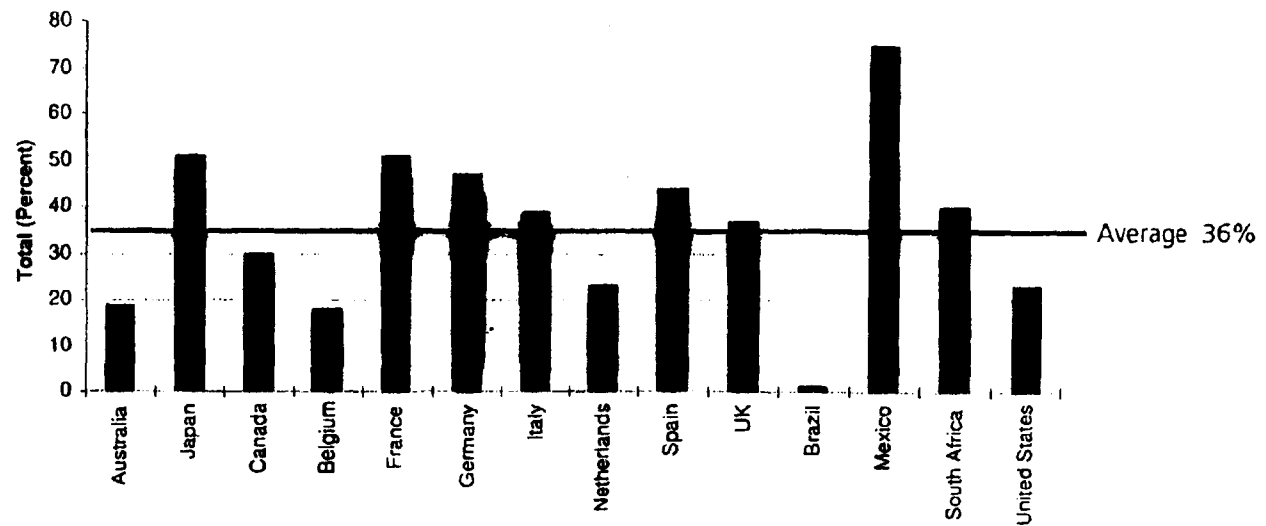
Q: Auditor notes all payment card brand logos displayed on front door or window

Source: 1995 Global Merchant Audit

# Re-Branding: Logo Conversion

"Redecalization" is not easy to achieve, as evidenced by the presence of MasterCard's pre-1991 logo. A systematic approach to redecalization is needed.

Merchants Displaying Old MasterCard Brand Mark Among Merchants Displaying MasterCard Signage: Exterior



Q: Auditor notes all payment card brand logos displayed on the front door or window.

Source: 1995 Global Merchant Audit

# Re-branding: Current Status

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- New mark approved; proceeding with new mark “negative testing” and art work development
- Scenarios for Eurocard decal provided
  - Generic work plans and approach discussed with Europay; requires finalization
  - Europe re-branding will account for 25% of signage among our total acceptance network
    - And seven of the eleven largest markets with partner brand issues
- Other key markets to be prioritized for P.O.I. re-branding include:
  - Mexico
  - Korea
  - Argentina
  - Brazil



# Re-branding: Criteria

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- Criteria for re-branding include prioritizing efforts in line with:
  - Partner brand elimination opportunities (i.e., Brazil)
  - Brand-building markets (i.e., Argentina)
  - Key initiatives (i.e., World Cup promotions)

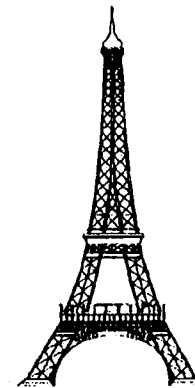




# Re-Branding: Strategies

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- Strategies include:
  - Focusing initially on key destination cities
  - Targeting high volume markets and merchant categories (i.e., T&E, Retail)
  - Other conversions to take place as part of longer-term total conversion cycle
    - U.S., etc.
    - Non-scrape & peel categories (i.e., petroleum signage)



# Re-branding: Funding

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- Funding approaches to be defined, each having varying success rates
  - Mandates *with Special*
  - Promotions
  - Budget allocations
  - Investment by membership
  - ? TBD



# Acceptance Excellence vs. End-to-End Quality Standards

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“Acceptance excellence” currently being defined (with Europay).  
End-to-end quality standards defined, and include:

- Acceptance penetration
  - Signage
  - Conditional acceptance
  - Brand preference
  - P.O.I. service quality
- 
- Emergency services
  - Fraud
  - Issuer customer service
  - Merchant service/education
  - Personal information management

*Franchise Management: measures and enforcing compliance*

*Global Acceptance and regions: develop and improve the business*

Opportunities

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# Opportunities: Consumer Spending and Merchant Categories

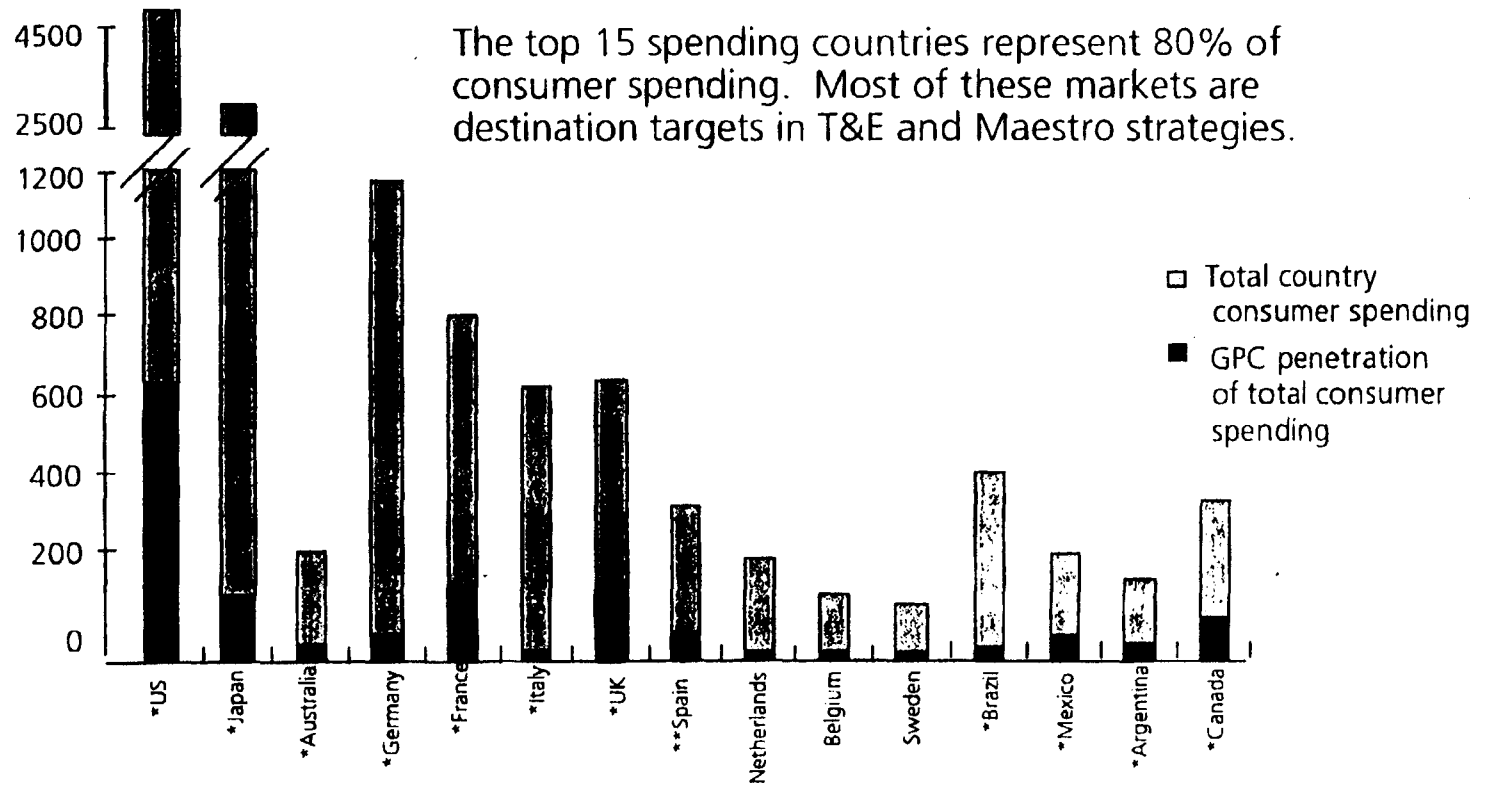
## Opportunities: Overview

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- MasterCard's current acceptance penetration represents only a fraction of the total US\$ 11.7 trillion spending at merchant locations in the top 15 markets alone.
- Current usage levels are also relatively low.

*Penetration and usage can be increased, even in "established" merchant categories and developed regions.*

# Market Potential

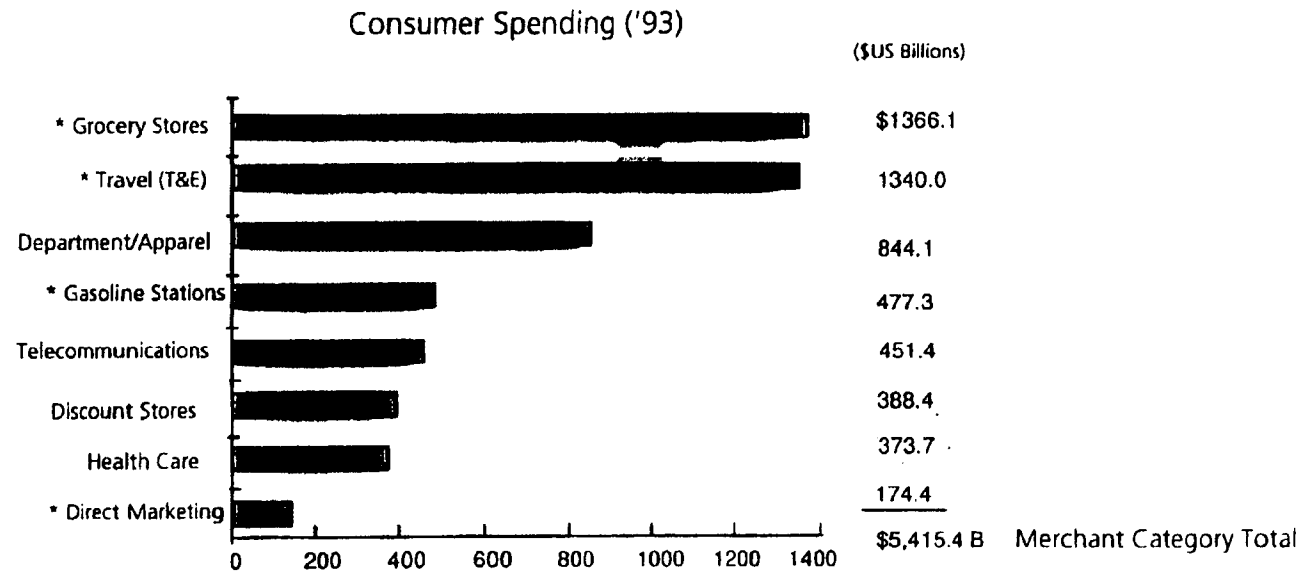


Destination target markets (global\*); (regional\*\*)

Source: 1995 International Country Overviews

# Consumer Spending

Eight key merchant categories represent over 40% of consumer spending in the top 15 spending markets.



\* Targeted in 1997 Plan



# Worldwide Category Spending ('93)

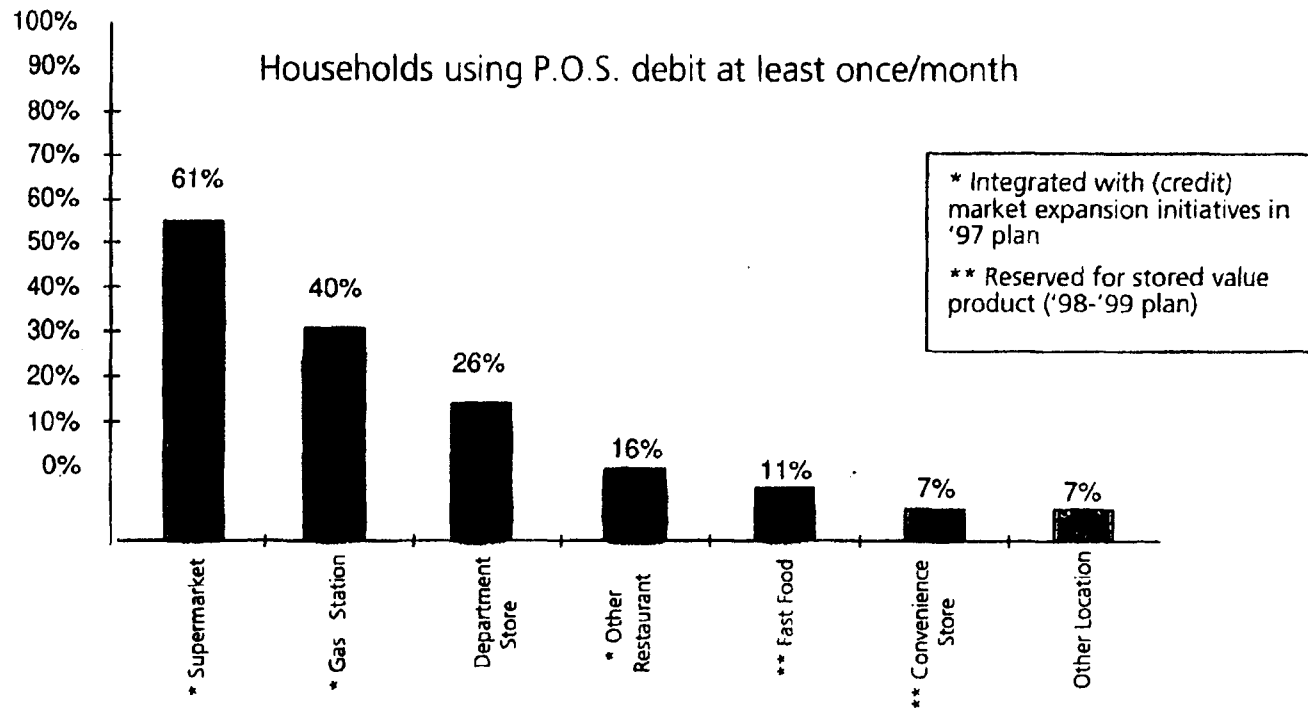
Programs targeting these merchants segments can result in significant growth in most regions.

(\$US B)	Total	U.S.	Total Non-US	A-P	Can	L.A./C	E/ME/A
Grocery Stores	\$1,367	\$371	\$996	\$284	\$37	\$63	\$612
Petroleum	477	134	343	80	11	37	215
Direct Marketing*	174	70	104	40	6	3	55
Restaurants	648	183	465	162	15	38	250
<b>TOTAL</b>	<b>\$2,666</b>	<b>\$758</b>	<b>\$1,908</b>	<b>\$566</b>	<b>\$69</b>	<b>\$141</b>	<b>\$1,132</b>

\* Continued high growth

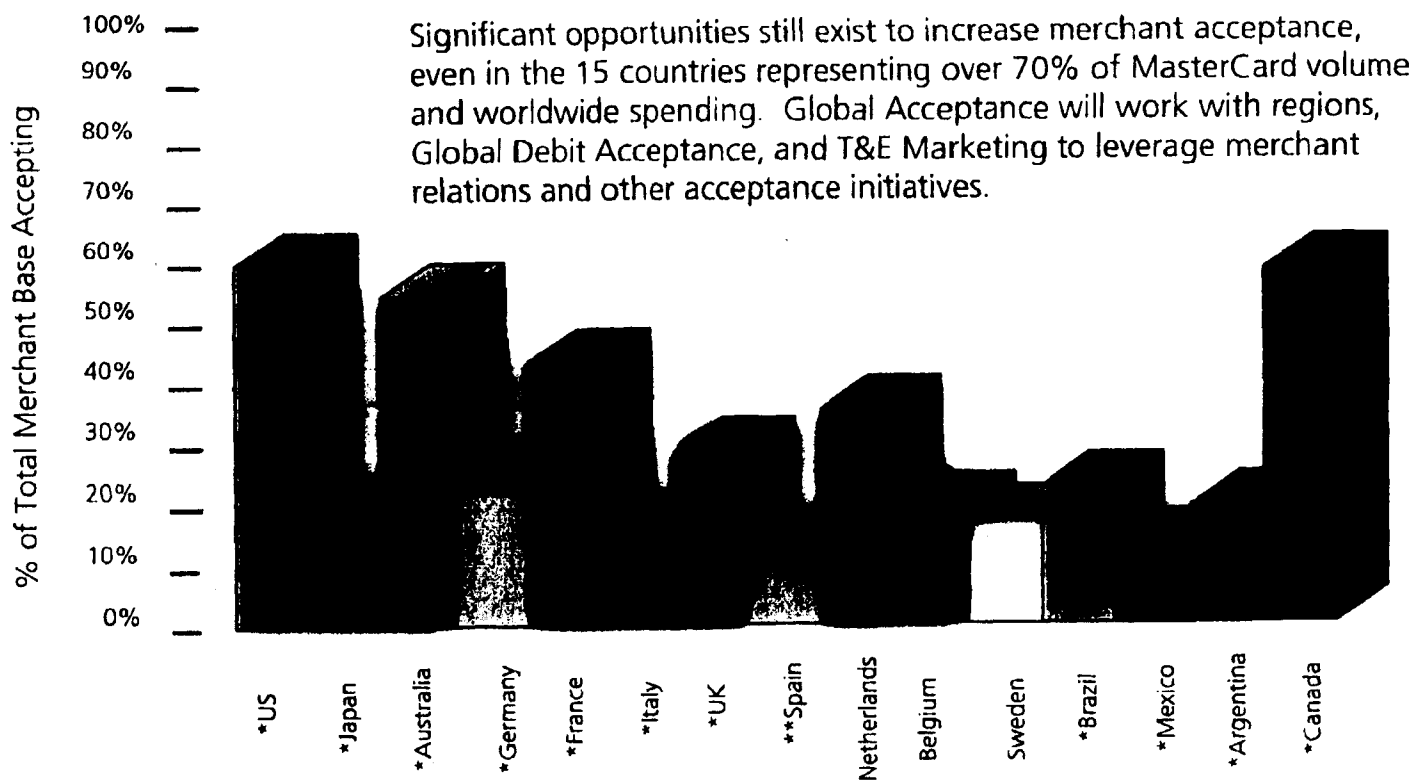
# Debit Card Usage

Initiatives targeting certain merchant segments for regional development will integrate debit and credit functionality; small ticket categories are reserved for stored value.



Source: Payment Systems

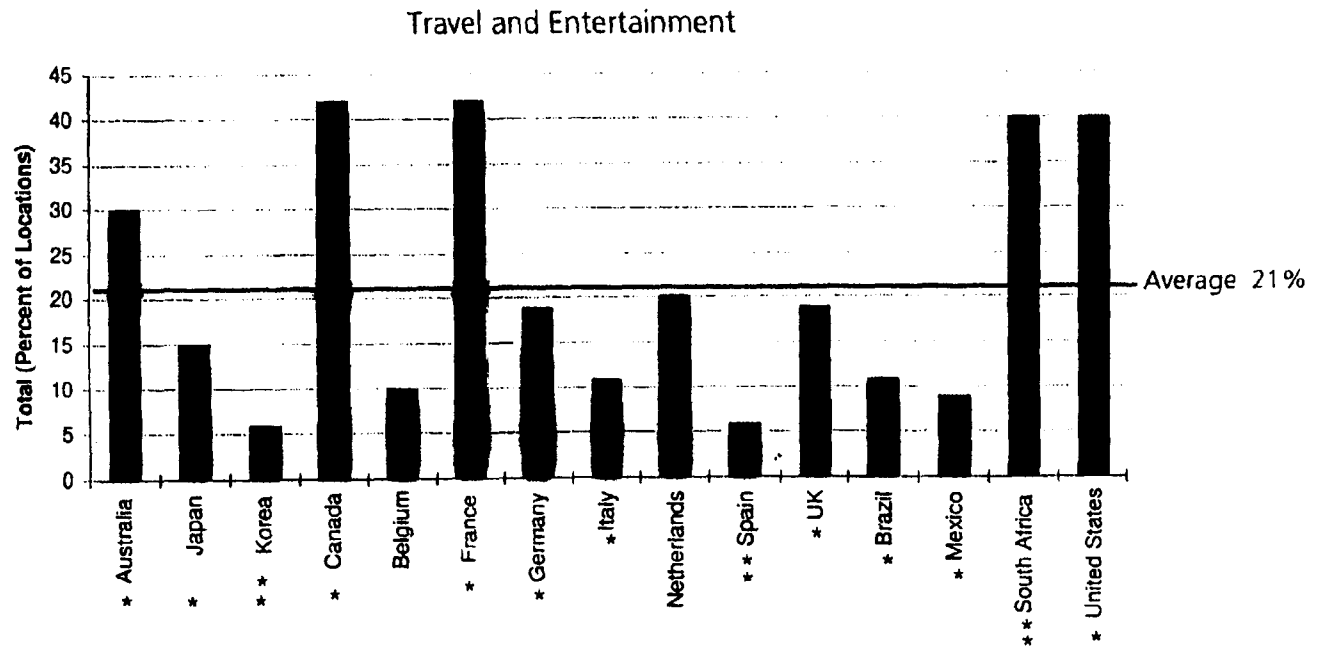
# Destination Market Acceptance



Destination target markets (global\*); (regional\*\*)

# Claimed Merchant Acceptance

There is significant opportunity to increase penetration in "established" merchant categories, even in the T&E categories in MasterCard's targeted destination markets.

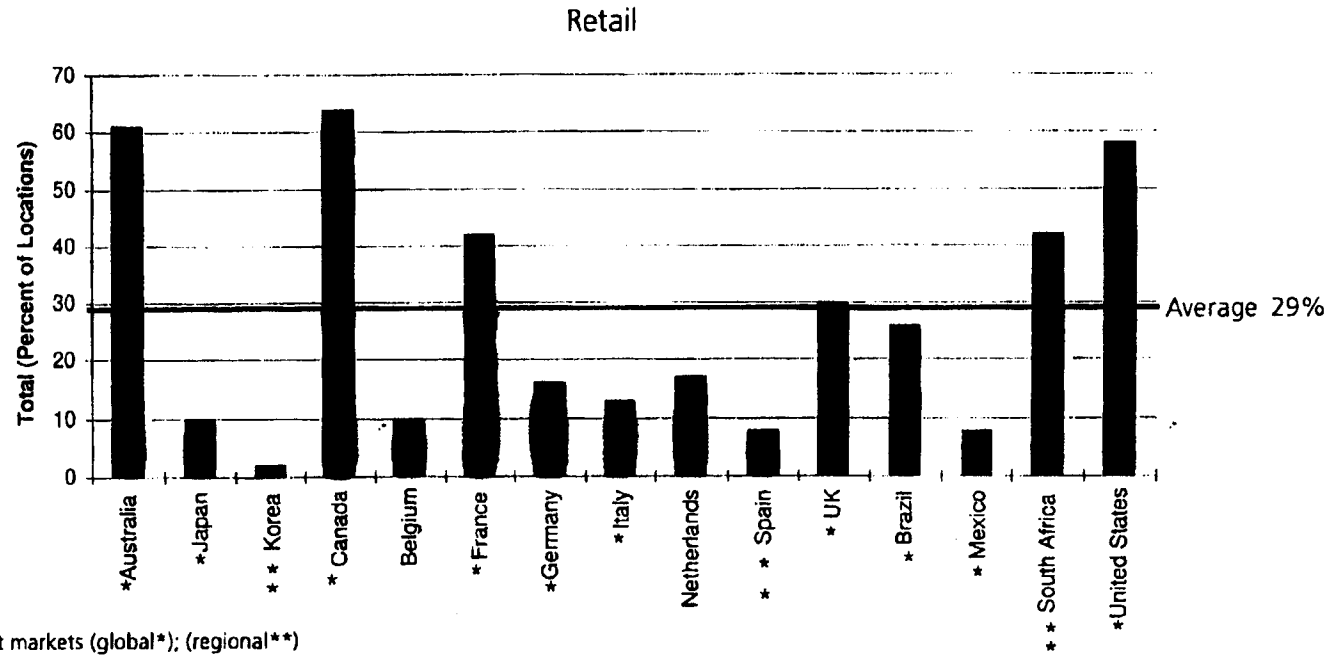


Destination target markets (global\*); (regional\*\*)

Source: 1995 Global Merchant Audit

# Claimed Merchant Acceptance

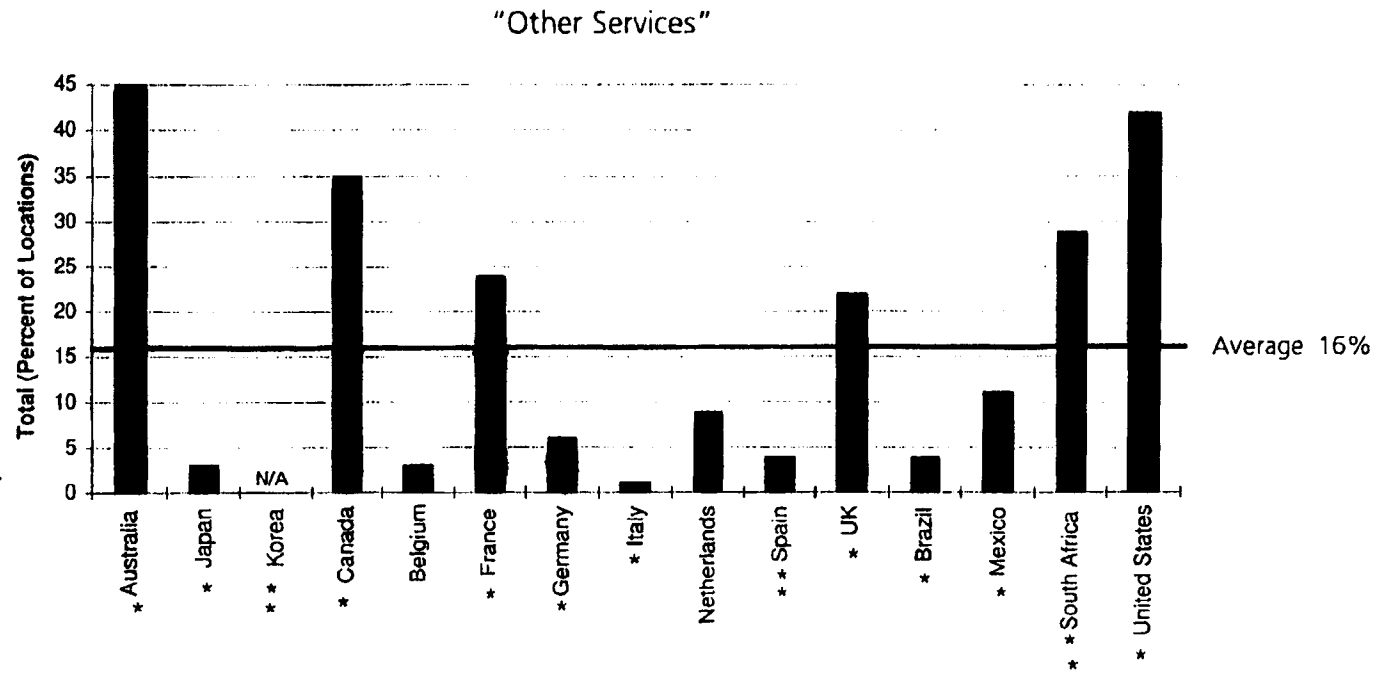
Acceptance in "Retail" is MasterCard International's strongest category, yet there is still room for growth - even in developed countries. Merchant relations and regional initiatives can be focused to achieve growth in destination markets.



Destination target markets (global\*); (regional\*\*)

Source: 1995 Global Merchant Audit

# Claimed Merchant Acceptance



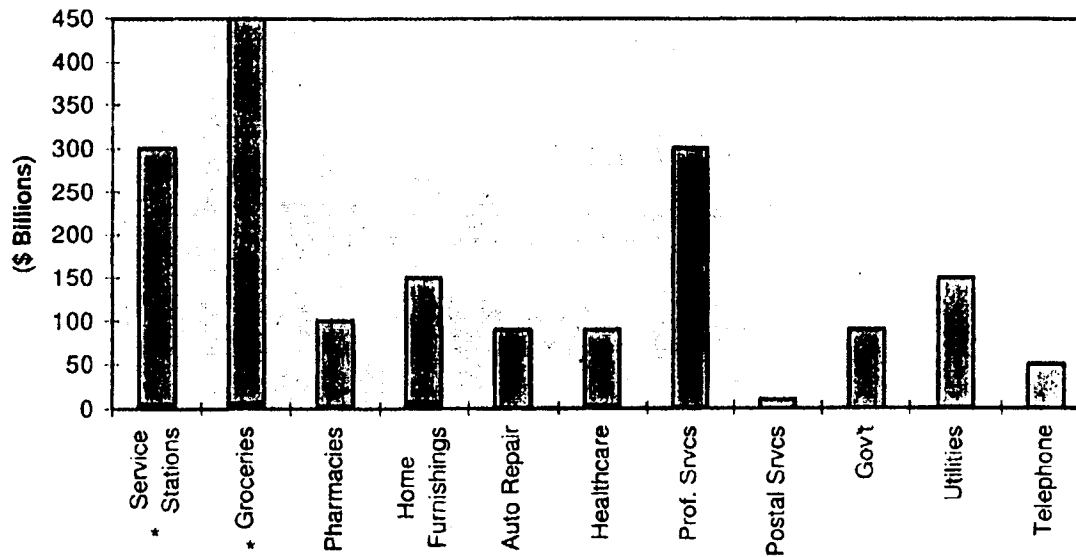
Destination target markets (global\*); (regional\*\*)

Source: 1995 Global Merchant Audit

# Acceptance Penetration

Opening new categories can generate substantial incremental volume and increase utility and brand value.

U.S. Region "Untapped Categories" (\$1,780B)



Categories	1995 MCI Vol (\$B)
Service Stations	5
Groceries	6.8
Pharmacies	2.3
Home Furnishings	7.6
Auto Repair	0.3
Healthcare	3.5
Prof. Svcs	1.3
Postal Svcs	0
Gov't	0
Utilities	0.6
Telephone	0

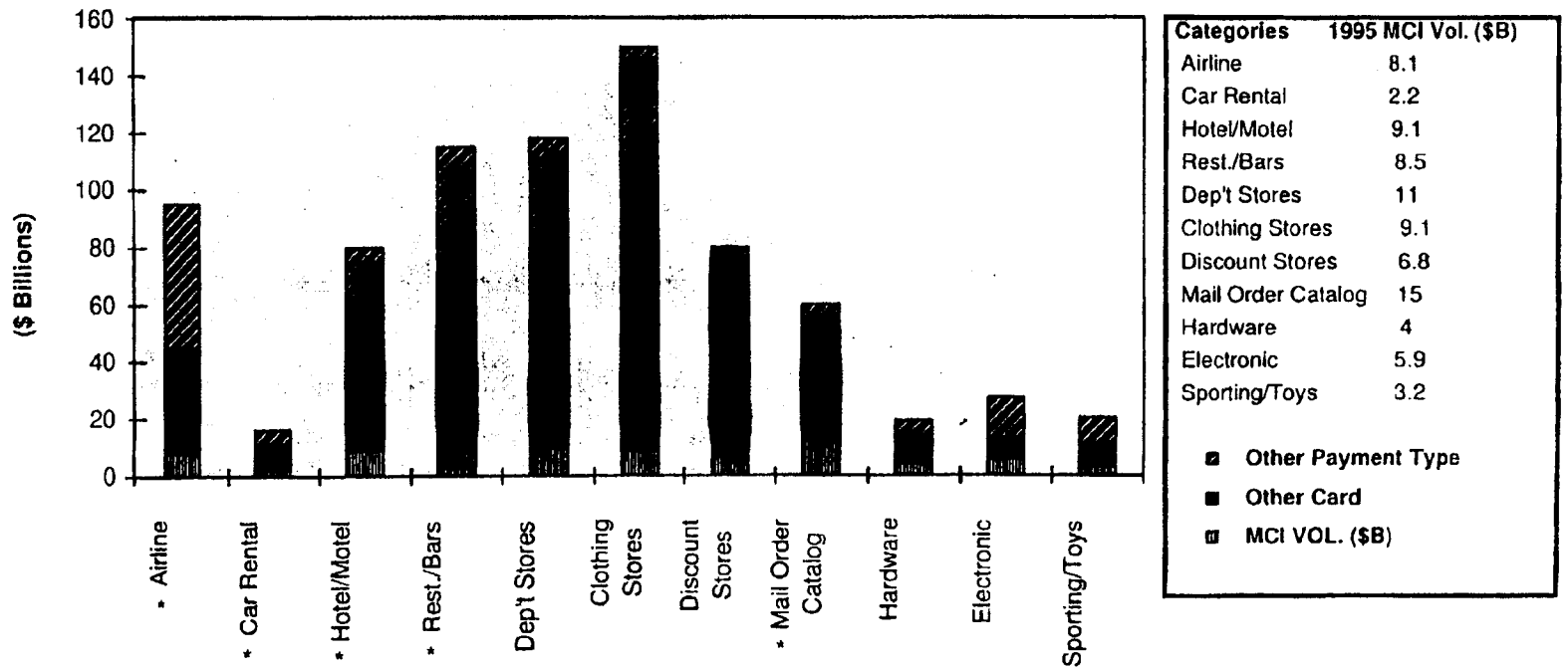
TOTAL SPEND  
 CARD

\* Targeted in global '97 plans

# Acceptation Penetration

Even in the most developed regions' highest usage categories, substantial growth opportunities exist in both penetration and usage.

"U.S. Region Mature Categories" (\$800B)



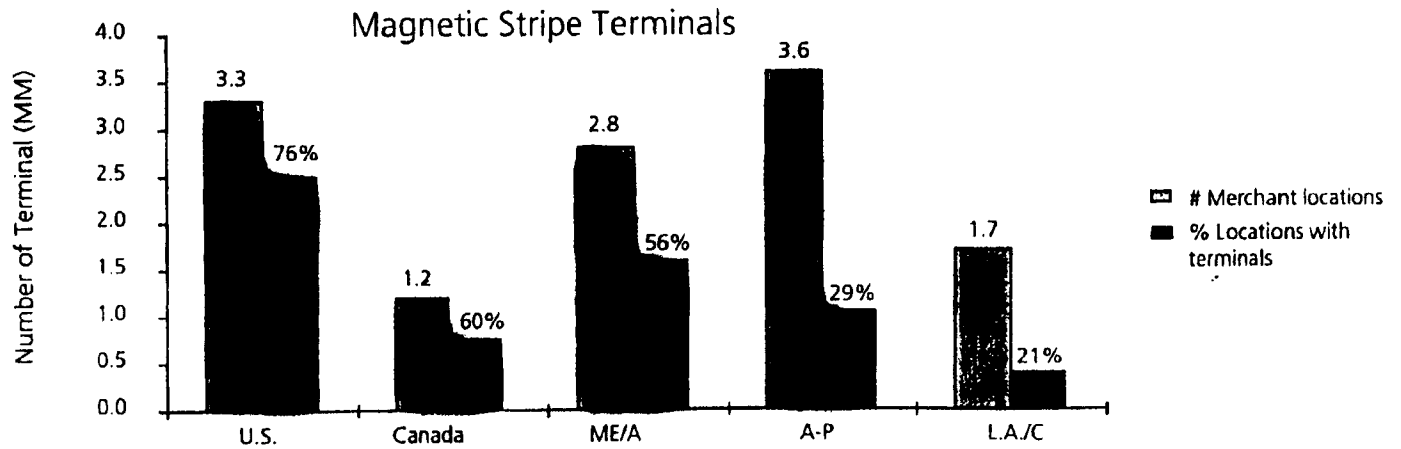
\* Targeted in global '97 plans



# Opportunities: Terminals

More than half the merchant base is not yet electronic; none are EMV - compliant, smart card-ready.

- 6.0 million merchant locations have magnetic stripe terminals.
- 6.7 million merchant locations are still paper-based.

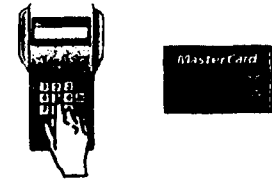


Source: MasterCard Terminalization Share Research (11/95)


# Opportunities: Terminals

Most regions listed "terminalization" as a near term priority

- Specific initiatives are already underway
  - Korea
  - Latin America: fraud-related & IEI
- Additionally, the two vendors with the largest global market share of terminals have entered agreements with MasterCard International for increased terminal deployment at discounted rates to the membership (VeriFone, Hypercom).
- MasterCard International can continue to support the membership through concentrated expansion.



*Need to consider timing for EMV-compliant smart card terminals (e.g., VeriFone PIN pad re-deployment)*



# Opportunities: Development

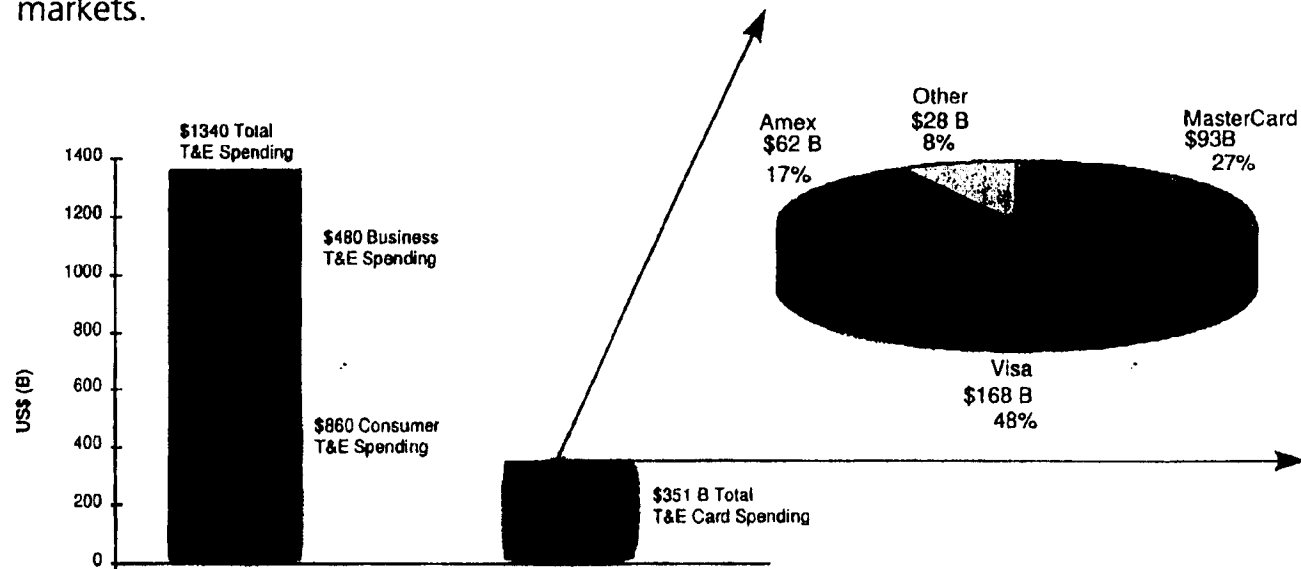
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Global Acceptance Developments' category targets (in T&E and Maestro destination markets)

- Supermarkets: large underpenetrated market, everyday usage, debit (and stored value)-friendly (for credit integration), PIN usage
- Direct Marketing (MO/TO): large category, continued high growth potential, strong average ticket size, credit-friendly (remote services), substantial consumer and business interest
  - Electronic commerce: enables increased security and faster global reach
- Petroleum: large category, consumer and business use, target for every product provided by MasterCard (credit, debit and stored value-friendly, consumer and commercial card), visible, everyday usage
- Restaurants: everyday usage, consumer and business use, large underpenetrated category, visible

# Opportunities: Relations

Global Acceptance Relations' category targets: Air, Hotel, Car Rental, Cruise Lines --  
 Untapped T&E spending exceeds US\$ 980B, or 74% of total T&E spending, and represents approximately 9% of the untapped consumer spending. Merchant and acquirer relations will be leveraged to achieve growth in penetration and usage in MasterCard and Maestro destination markets.

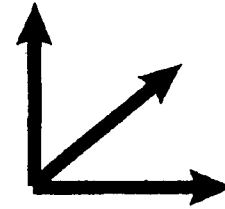


Source: T&E Marketing Plan

# Opportunities: Summary

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- Global acceptance plans focus on accelerating the displacement of cash and checks (for consumer and business payments), via integrated product acceptance strategies and turnkey marketing programs designed to:
  - Grow existing categories
  - Expand non-traditional segments
  - Develop acceptance for newer products (debit, stored value, procurement, fleet)
- With the regions, Global Acceptance will focus business development efforts on T&E and Maestro destination markets, across a variety of everyday and travel use categories.





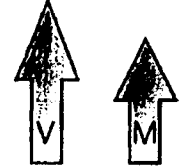
# Opportunities: Summary

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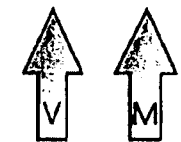
- Sustainability of preference is a question.
- By growing the overall market vs. battling for share, MasterCard can:
  - Generate incremental revenue
  - Provide greater access to cardholders (building brand value)
  - Establish itself as the leader
- By allowing Visa to assume acceptance development leadership, MasterCard's gap in acceptance perception is increasingly disadvantageous, weakening the company's position.

# Acceptance Development Leadership

Today, though acceptance is at parity, Visa has perceived greater utility.

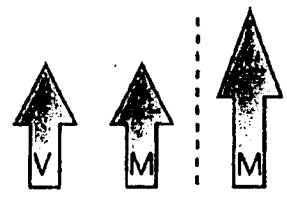


Perception



Reality - equal

If MasterCard leads acceptance development, perception of MasterCard utility increases (as does Visa's in short term).



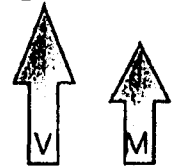
Short Term Long Term

Perception

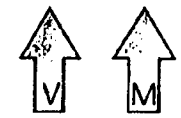


Reality - equal

If MasterCard follows Visa in acceptance development, perception of gap increases, even though reality of acceptance remains equal.



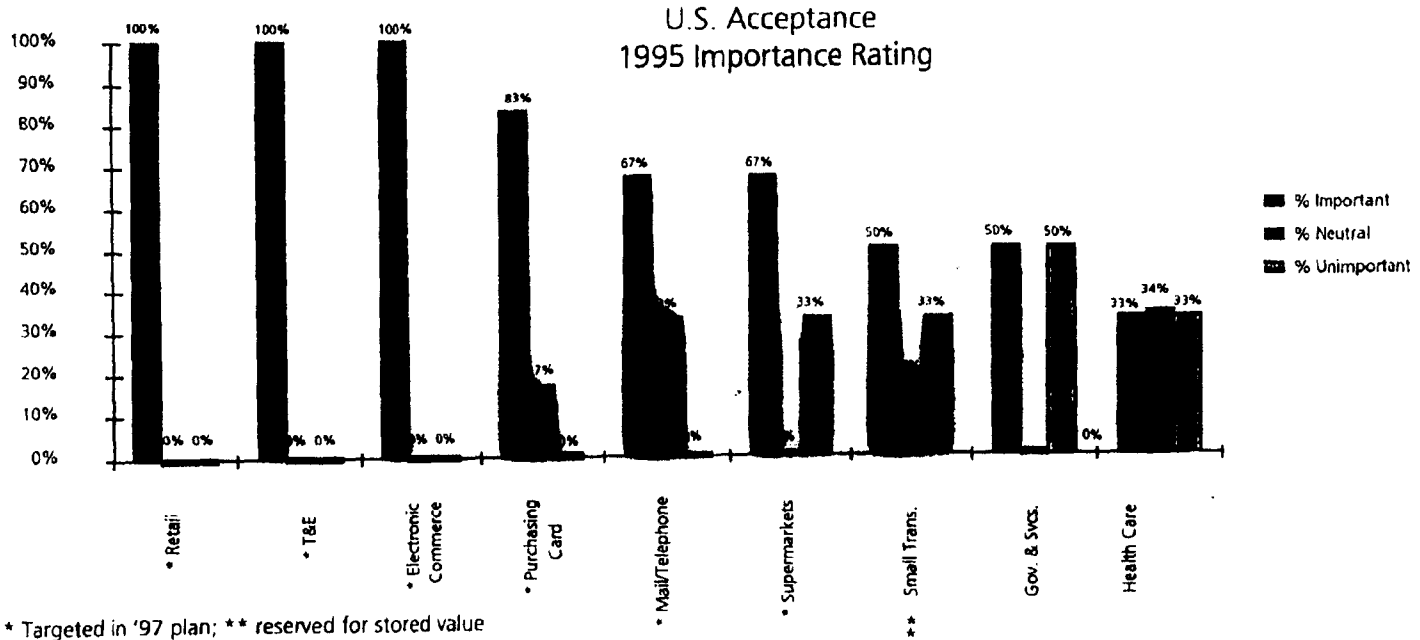
Perception



Reality - equal, or less

# Acceptance Importance

If the U.S. Region is representative, members believe acceptance in new technologies, new products, certain new markets, and traditional major merchant categories are important areas of focus.



Source: 1995 Global Quality Member Survey



# Acceptance Development

When MasterCard allocates resources to acceptance development, member perceptions improve.

% Satisfied with MasterCard's Acceptance Development					
	U.S.	A-P	ME/A	L.A./C	CAN
Overall	78	32	33	88	50
T&E	24	45	40	100	N/A
Small Tickets	25	17	40	42	
Supermarkets	87	36	40	67	
Health Care	66	36	20	60	
Retail	50	36	20	86	
Government	63	8	0	25	

U.S. - Interchange, usage, sales, and co-branding programs (Supermarkets)

L.A./C - VeriFone deployment (Retail, T&E)

Source: 1995 Global Member Quality Survey

Trends/Critical Issues




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# Trends and Critical Issues

Member Feedback


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# Member Feedback: Importance and Satisfaction Ratings



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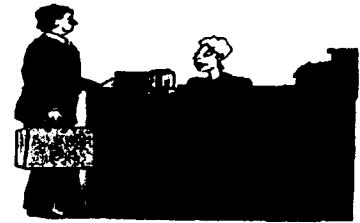
# Trends:

Remote Services,  
Smart Card Platform,  
P.O.I. Information

# Trends: Merchant Influence

The value of the merchant is increasingly important as MasterCard expands its products and services. For example, merchants are commercial entities that -- relative to MasterCard -- are:

- Payment Acceptors
  - Credit
  - Debit
  - Stored value
  - Procurement
- Usage Generators
  - Promotions
  - Preference
  - Destination partners
- Value Partners
  - Co-Branding
  - Loyalty
- Technology Investors
  - Smart card systems
  - Information (consumer and business)
- Service Quality Providers
- Commercial Products Clients/Vendors
  - Corporate card
  - Procurement services



# Trends: Enabling Technologies

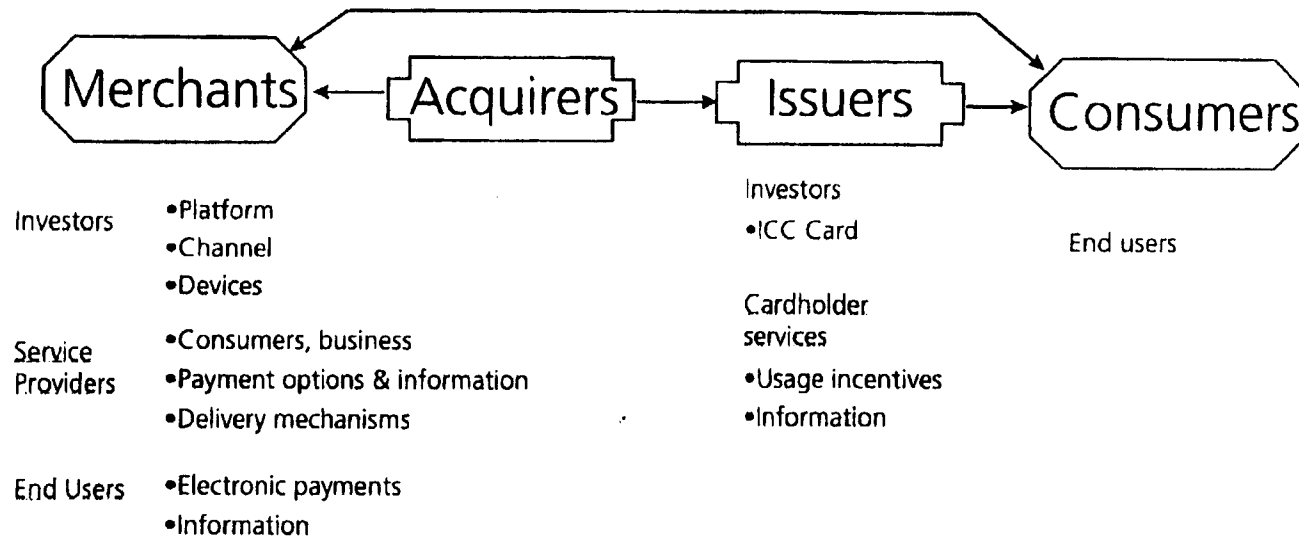
TECHNOLOGIES	Consumers/Business Users	ENABLE Merchants
<p><b>Smart card platform</b></p>	<p>Payment options Usage incentives Increased security</p>	<p>Integrated electronic payments options Value added services; incremental revenues Operational efficiencies/cost reductions Increased security Marketing information</p>
<p><b>Expanded delivery channels</b> (Internet, EDI, In-flight commerce, ITV)</p>	<p>Remote access (Increased security) Commercial MIS Global procurement viability</p>	<p>Remote delivery Incremental revenues Operational efficiencies (Increased security) MIS</p>
<p><b>Customer-activated devices</b> (CATs, customer-select key pads, vending machines, ATMs, load/balance terminals, PCs, GSMs)</p>	<p>Remote access to services Payment options Increased security Remote access to accounts/funds</p>	<p>Remote delivery Integrated electronic payments options Incremental revenues Operational efficiencies Increased security</p>

*Increased use of cards as payment vehicles of choice  
(displacing cash/checks)*



# Trends: Shift in Value Chain

As a growing importance in the evolving value chain, merchants will demand greater influence in payment industry issues.



*Shift in power of decision-making to the P.O.I.  
(Merchant: services provided; Consumers: option chosen)*



# Critical Issues

---

## Needs

- Redefine non-face-to-face ("MO/TO")
- Realign liabilities
- Reassess interchange/pricing
- Integrate operating policies



## To address

- Secure remote environment
- Expanded P.O.I. (methods of access, merchant markets)
- Enhanced services (more options/cardholder interaction)
- Introduction of PIN for MasterCard at the P.O.I.
- Broadened product set into new markets (stored value in small tickets, procurement in wholesale)
- Increased P.O.I. information



# Critical Issues

---

- P.O.I. information opportunities are enabled by technology trends. MasterCard needs an overall strategy, as:
  - Loyalty program definition underway
  - Global commercial product MIS requirements/delivery mechanism being redefined
  - *Ownership, usage, capture, delivery not determined*
  - *Total opportunity not addressed/assigned*



# Critical Issues

---

- MasterCard needs to put management processes in place to ensure a seamless transition to this new environment.
  - ✓ Payment options and value added services available
  - ✓ Consumers understand access and capability
  - ✓ Secure and safe environment established
  - ✓ Infrastructure in place to make it work

*Results in payment utility expansion: new products, additional markets, expanded channels, value added services, useful information*

The P.O.I. Vision

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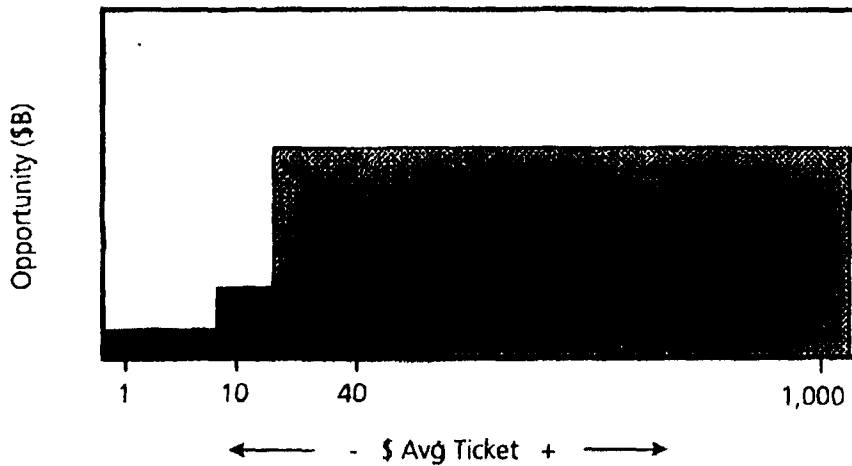


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# The Vision: Multiple Applications at More Points of Interaction

# Impact of Platform Upgrade

Today: Segregated Acceptance

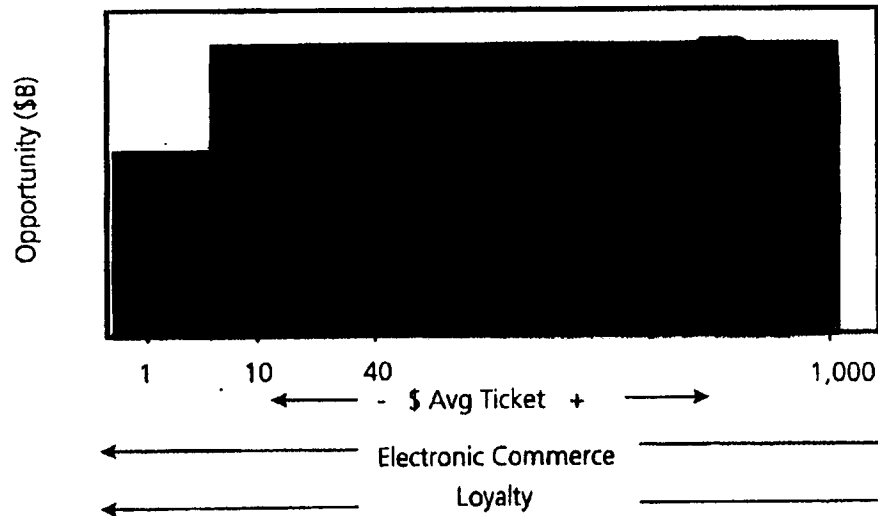


- SV as Standalone:
  - Fast food
  - Supermarket
  - Petroleum
  - Convenience stores
- DR w/on-line PIN
  - Supermarkets
  - Petroleum
  - (Multi-lane retail)
  - (Drug store)
  - (Counter-pay restaurants)
- CR Only
  - Air, Hotel, Car, Retail
  - MO/TO
  - Recurring Charges

\* Illustrative purposes only, not to scale 79

# Impact of Platform Upgrade

Future: Chip/PIN/Customer-select: expansion and integrated acceptance



- SV in High Cash Trx
  - Restaurants
  - Multi-lane
  - Retail
- DR Off-Line PIN
  - Restaurants
  - Retail
  - Car, Hotel
- CR Off-Line PIN
  - MO/TO, elec. comm. (insurance, utilities)
  - Government
- Air (kiosks, counter)

\* Illustrative purposes only, not to scale 80





# The Implications of PIN(/CVM)

---

- In general, will decrease costs within system for both issuers and acquirers
- Issuers
  - Secure credit self-select often not available (remote; debit in-branch)
  - Concern of PIN consolidation; increased fraud risk
  - Concern of card consolidation; ensure retention of profitable accounts
  - *Timing critical: CAM required (re: mag stripe/ATM fraud)*
- Merchants
  - PIN can be effective and efficient at the P.O.I.
  - Willingness to support/promote if investment balanced with liabilities/costs
  - *Timing critical: one time equipment/training investment*
- Cardholders
  - Do not know credit card PINs; did not self-select and do not remember
  - Concerns of privacy and safety
  - *No information on behavioral impact to date; biometrics not addressed*

# Transition Years

## Consumer



- What key do I push?
- Which account did this hit?
- When do I use my PIN?
- I have too many PINs and can't remember any of them!
- Can I get loyalty points here?
- Why is this taking longer than the last guy?

## Payment Vehicles



Mag stripe - Credit & Debit

Signature

Chip: Potential

- Credit
- Debit
- Stored Value
- Loyalty

PIN



- What card in which device?
- Where do I sign?

## Remote



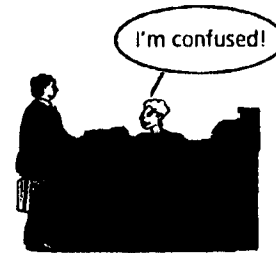
Cable TV Set-Top



CATs (petrol pump?)

- Is the message secure?
- Is a PIN used?
- Can I use my DDA account?
- Do I need a card?
- Do I swipe or insert the card?

## Merchant Location



- What payment types can we accept?
- When do I ask for PIN?
- Do we take this card?
- How do I add loyalty?
- What if the chip card is broken?

## Network



How much information? Payments



Payments; Information?



?



Information; No payments

Achieving the Vision



# Achieving the Vision



# Brand Acceptance Goals

---

- Widespread acceptance across variety of products
- High MasterCard brand awareness
- Clear identification of what products/applications accepted at which points of interaction
- Efficient, convenient, reliable transactions
- Seamless handling at the point of interaction



# Merchant Support

---

- Smart Card/PIN platform: value proposition
  - Cost reductions via operational efficiencies, reduced chargebacks (45%<#, 37%<\$), and additional payment options
  - Incremental revenues via value added services
  - Improved customer service/relations via broader options and programs

*Willing to invest/support/promote, provided:*

- *Overall payment costs are reduced, and liabilities adjusted*
- *Industry ensures cardholders educated/aware*
- *One time equipment investments to chip/PIN*
- *Incentive program established; migration plan reasonable*



# Global Acceptance Strategies

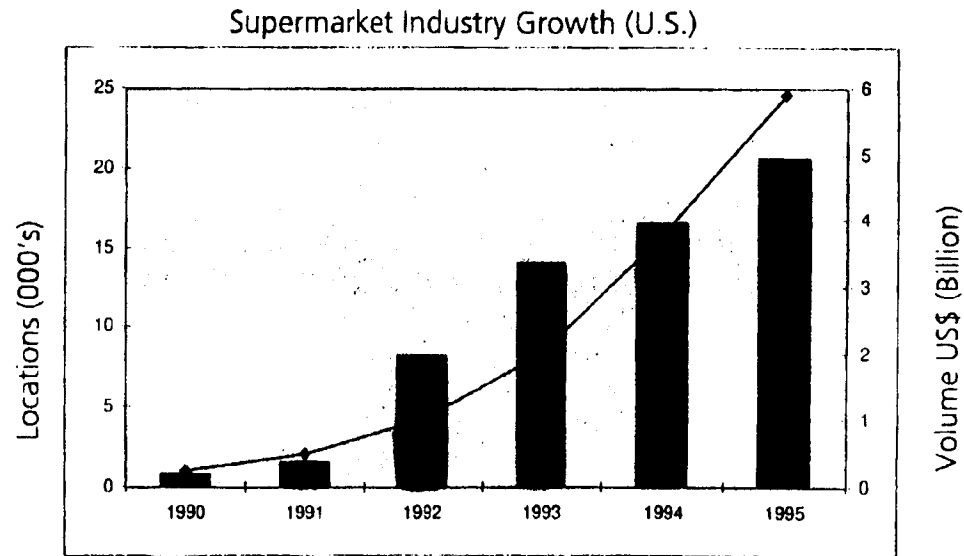
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Short term - capitalize on opportunities:

- Increase penetration/access, focusing on T&E and Maestro destination markets (global and regional)
  - Enlarge traditional market penetration
    - Strengthen merchant relations
    - Implement responsive/balanced operating policies
    - T&E:
      - Global: air, hotel, cruise (destination)
      - Regional: petrol, restaurants
    - Retail: direct marketing
  - Develop new markets in regions: supermarkets (/warehouse clubs)
  - Grow new product acceptance in traditional and underpenetrated categories (fleet, procurement, stored value)
  - Expand access (electronic commerce, CATs)

# New Market Development

Investment in market development can focus acquiring sales initiatives to achieve MasterCard International's goals.



MasterCard Investment:*	0.2MM	1MM	2.1MM	5.1MM	4.9MM	3.6MM
Supermarket Assessment:*	0	0	2.0MM	4.0MM	5.7MM	8.9MM
Net:	(0.2MM)	(1MM)	(0.1MM)	(1.1MM)	0.8MM	5.3MM +3.7MM

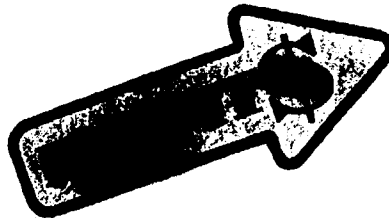
\* Estimated



# Global Acceptance Strategies

---

- Support usage/preference/issuance
  - Leverage targeted, established multinational categories to implement preference programs (promotions partners)
  - Target certain merchants as clients or co-branders for commercial products
  - Expand co-branding partnerships via merchant community
  - Work with merchants in regions to support T&E and Maestro destination strategies
    - Refine operating policies for multinational categories (Oct. IOC)
    - Conduct bi-annual acceptance rep forums



# Global Acceptance Strategies

---

- Develop and implement integrated, global acceptance strategies
  - Communicate to the organization
  - Establish P.O.I. steering committee

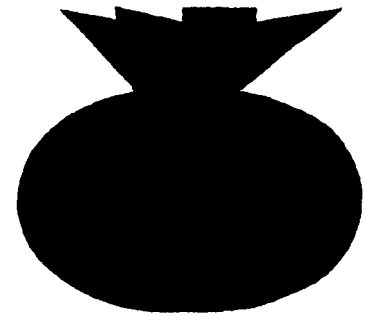


# Short Term Strategies: Pursue Acquirer Revenue Opportunities

---

In addition to reallocating existing funds, MasterCard International can pursue other opportunities for revenue-generation from the acquiring business, including:

- Redistribution of currency markup
- Outgoing interchange fees
- Supermarket, other new market development fees
- Authorization services for computerized central reservation services (air; future: hotel, car)
- Multinational category transaction fee
- Global transaction fee (e.g., airline, electronic commerce)



# Short Term Strategies: Get Needed MIS

---

- All transactions through system
- Acceptance market share (vs. cards, cash, checks) - debit/credit (/stored value, procurement, fleet, etc.)
- Major merchants - by region, country, industry - # locations, volume, share, ownership (corporate/franchise)
- Major acquirers & interests - third parties, countries, major industries/merchants
- Technological complexity - #'s of devices, types
- Acquirer/merchant volume – trx, \$, % - by MCC, fraud, c/bs
- Universal merchant identification





## Mid-term Strategies/Needs

---

- Dedicate resources to begin working on mapping to the future P.O.I.
  - Empower/authority to influence P.O.I. direction (short term and long term)
  - Integrate initiatives across organization
- Develop P.O.I. strategies in conjunction with product strategies
  - e.g., chip debit/credit task forces currently separate
- Ensure plans address products, platforms, channels

*Not accounted for in '97 plan*



# Longer Term Needs

---

- Regarding the platform migration to smart card technology, preparation for the future requires deliberate management/work plans.
  - Identify what we know and do not know
  - Create timelines, milestones
  - Launch communication to constituencies to be prepared
  - Manage the transition years

*Consistency at the P.O.I. is necessary, or the process may not work well after billions of dollars invested.*

# Achievable Results

---


- MasterCard becomes the established leader in payment systems
- Costs reduced throughout system
- Seamless acceptance, minimal disruption to consumer
- Increased value of the brand



*Risk: Disenfranchisement, wreck brand, lose what we have*







---

Proposed 1996-97  
Roles/Structure:  
Global vs. Regional



# Proposed Roles

---

## Regions

- Begin to build acceptance function
  - May consider deploying an individual in Global Acceptance Development for a year of training
  - May consider a global resource in the region temporarily to help establish unit/plans
- Establish acquirer relations
- Assess market needs/priorities
- Develop targeted categories (leverage Global initiatives) in specified global and regional destination markets
- Ensure quality improvements; promote “terminalization”
- Provide smart card pilot support



# Proposed Roles

---

## Global Acceptance Development

- Support regions in underpenetrated market development/expansion (focusing on destination markets)
  - '96-'97 develop turnkey marketing materials, education, incentive program (supermarkets, petroleum, restaurant, direct marketing)
- Product and platform acceptance development (merchant/acquirer impact assessment and acceptance strategies)
  - Chip technology & applications
  - Electronic commerce pilots
  - Fleet and procurement acceptance development
- Creation of global templates for acceptance quality, measurements, and planning
- Working with:
  - Chip Team
  - Electronic Commerce
  - Global Deposit Access
  - Global Product Development
  - Global Corporate & T&E Marketing
  - U.S. Acceptance (New Markets)
  - Franchise Management
  - Regions



# Proposed Roles

---

## Global Acceptance Relations

- Work with specific established multinational categories and key cross-border acquirers to achieve the following (focusing on destination markets)
  - Increase preference
  - Generate incremental volume
  - Build acceptance of new products
  - Manage acceptance business policies/ operations (e.g., “global transaction”)
  - Develop new revenue streams
  - Increase information compliance
  - Cross-sell issuing programs
  - Prepare for smart card platform
- Working with:
  - U.S. Acceptance (Established Categories)
  - T&E Marketing
  - Global Promotions
  - Franchise Management
  - Global Product Management



## Recommendations

- Jump start acceptance now
- Map the way to the future

Appendix



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# Appendix



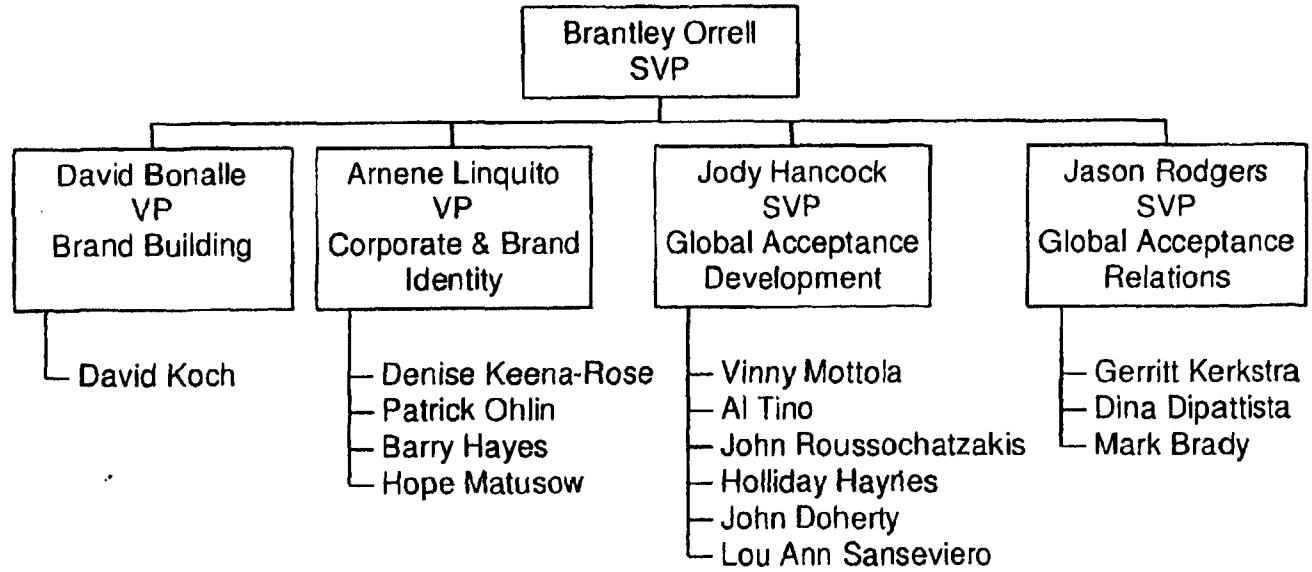
# Sources Used

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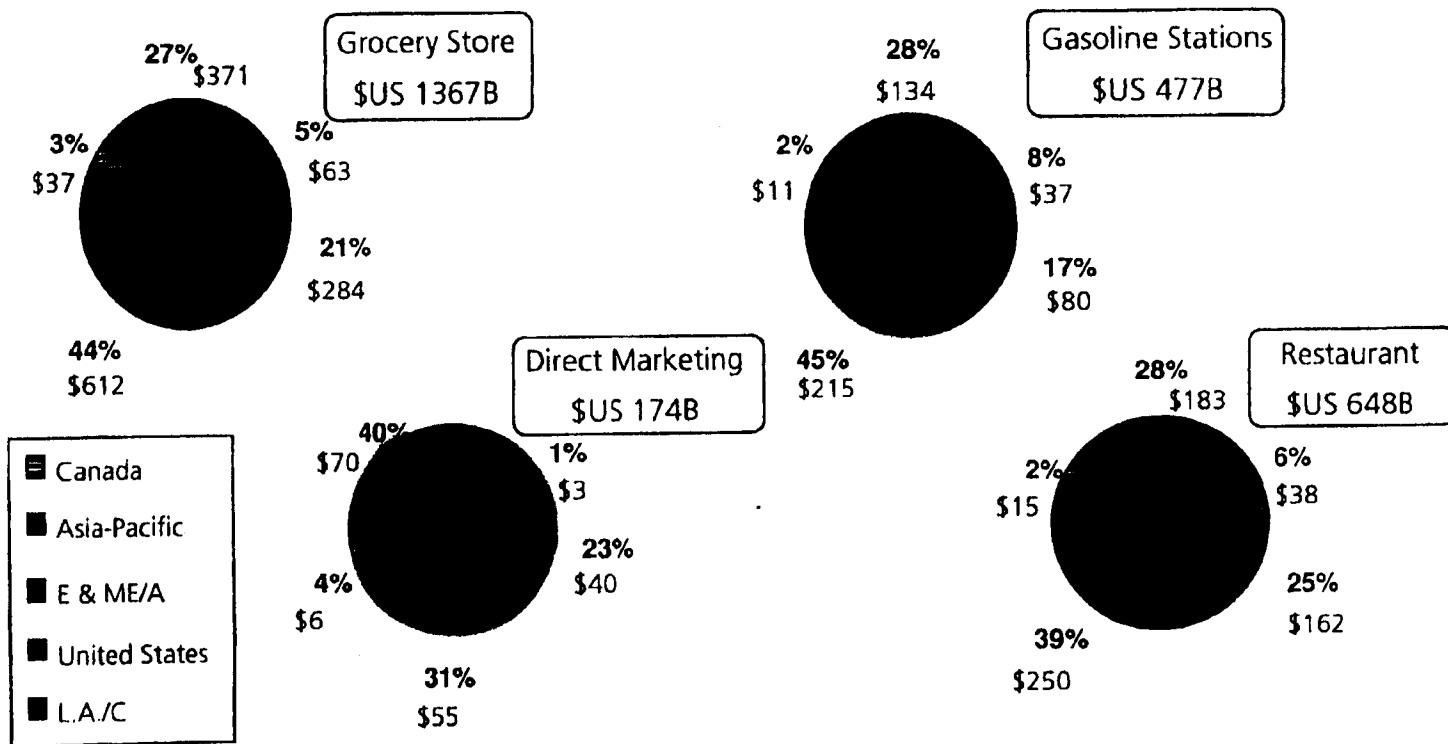
1. Brand Development Study
2. Merchant Audit
3. Key Statistics ('97 Planning)
4. VeriFone Terminal Study
5. Multinational Merchant Plan
6. Quality Member Survey
7. Business Plans - Region/Corporate



# Global Brand Development



# Worldwide Category Spending ('93)





# Roles vs. Other Organizations

---


- U.S. Acceptance
  - T & E Airlines, Hotel, Car Rental, Cruise Lines (U.S.-based) - relationships, forums, tools, programs
  - Catalog expansion outside the U.S.
  - Supermarket funding in U.S. vs. in other regions
  - Electronic Commerce expansion outside the U.S.
- T & E Marketing: merchant/corporate participants, destination strategies
- Global Debit Acceptance: new markets in regions
- Commercial Card Products: cross-border clients
- Procurement Cards: acceptance development
- Co-Branding: merchant participants
- Chip: acceptance strategies and pilots
  - Policy development (seamless transition from magnetic stripe, and consistent handling of payment options)
- PIN/biometrics study



# Regional Needs (Reflected in Global Acceptance Plan)

---

- New Market Development - A-P, L.A./C, Canada
- Maestro Acceptance - GDA, L.A./C, ME/A, A-P, Europay
- New Channels - A-P, ESG, L.A./C
  - Electronic Commerce expansion/education
- Chip-Related - Chip, L.A./C, A-P, Canada, ME/A, ESG
  - CVM (PIN, biometrics)
  - Chip implementations
  - Stored value pilots
  - Loyalty development
  - Integrated policy/practice development
- Acceptance excellence plans - ME/A, L.A./C, Franchise Management, Europay
  - Global Member Survey
  - “Terminalization” - paper to electronic
  - End-to-end Quality - Franchise Management; Member Survey
- Products - A-P, Global Marketing, Canada
  - Enhanced product set (fleet, procurement)
  - Purchasing



# Corporate Needs (Reflected in Global Acceptance Plan)

---

- T & E - L.A./C, Global Marketing
  - Destination marketing
  - Corporate strategy
- Branding - Canada, Europe
- Co-Branding - U.S.
  - New partners
  - Business development
- Sponsorships
- MCU
- Operations - U.S.
  - Interchange
  - Data Delivery
- Technology/Connectivity - A-P
  - Processing center
  - Wireless networks