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Global Competitive Assessment

P-0540

GOVERNMENT
DEPOSITION
EXHIBIT
1403

MEC Meeting
4/22/96

RB.4/16/96.MEC

V\F0481596

Global Competitive Assessment



- The Visa International Board of Directors has requested that Visa Management:
 - Further define the competitive response recommendations presented at the March Board Meeting
 - Evaluate the impact of by-laws limiting Member card issuance and merchant solicitation for American Express and other competitors

Global Competitive Assessment

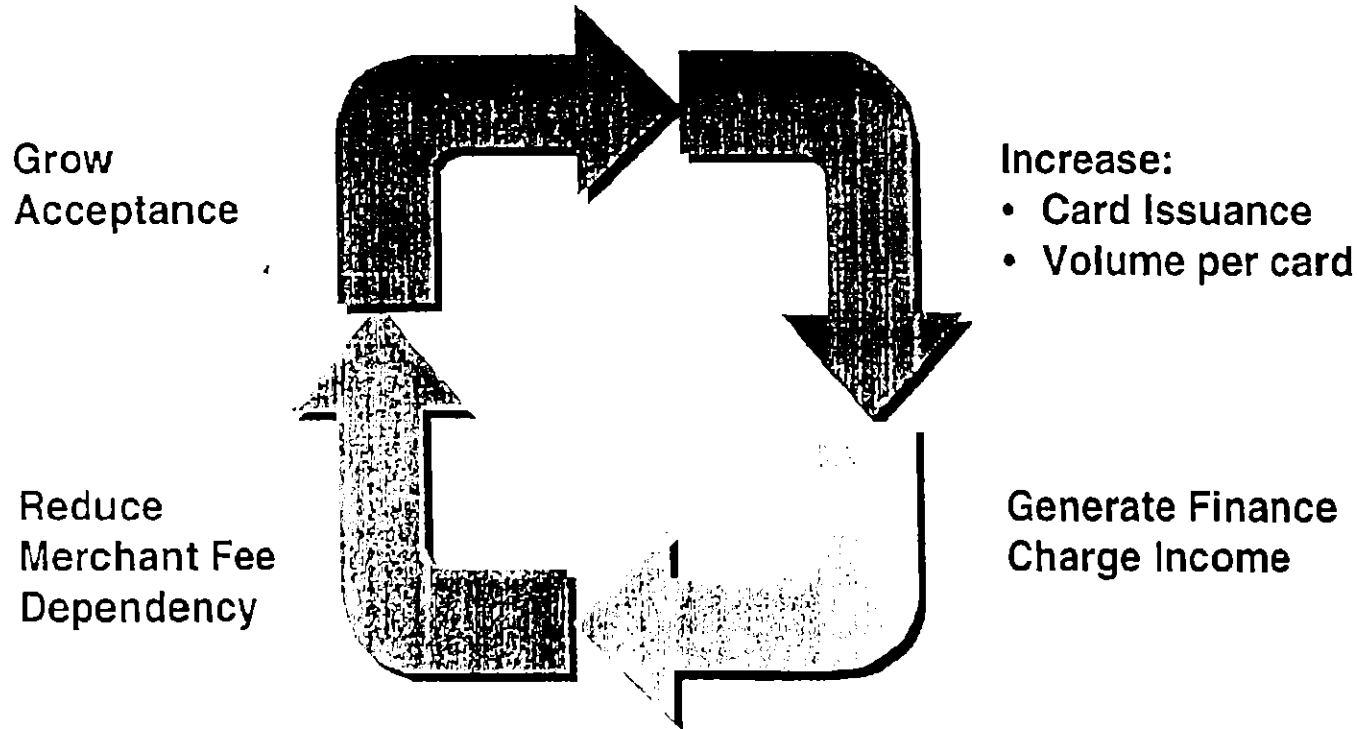


- Today we need to:
 - Review and discuss recommended course of action
 - Gain MEC decision for final recommendations
 - Determine next steps required to prepare for June Board Meetings

Global Competitive Assessment



Acceptance Is Central to Amex Strategy



Acceptance Drives Volume, Revenue and Income

Global Competitive Assessment



Visa Response to American Express Strategy

American Express Strategy	Visa Response	Responsibility
Acceptance	Increase Acceptance Advantage <ul style="list-style-type: none"> • ATM Promotion • Merchant Acceptance/ Education • Key Merchant Program • Travel Agent Continuity Program • Member Education 	International/Regions Regions Regions International/Regions Regions
Grow Cardholder Base	Consumer Advertising	Regions
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Commercial Card Dominance	Commercial Market Strategy <ul style="list-style-type: none"> • Business Card • Corporate Card • Purchasing Card 	Int'l Development/ Regions Implement
Franchise Visa Membership	By-Law Reform <ul style="list-style-type: none"> • Issuing • Soliciting Merchants 	International/Regions

Global Competitive Assessment

Visa Response to Acceptance



No ATM Acquirer Incentive

- Implementation issues
- Business impact questionable
 - Amex likely to match incentive in high volume locations
 - Amex unlikely to match at low/no volume locations

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Visa Response to Acceptance



ATM Promotion

- Develop an ATM advertising campaign in each region
 - Expand Visa/PLUS ATM network
 - Promote Visa card ATM usage

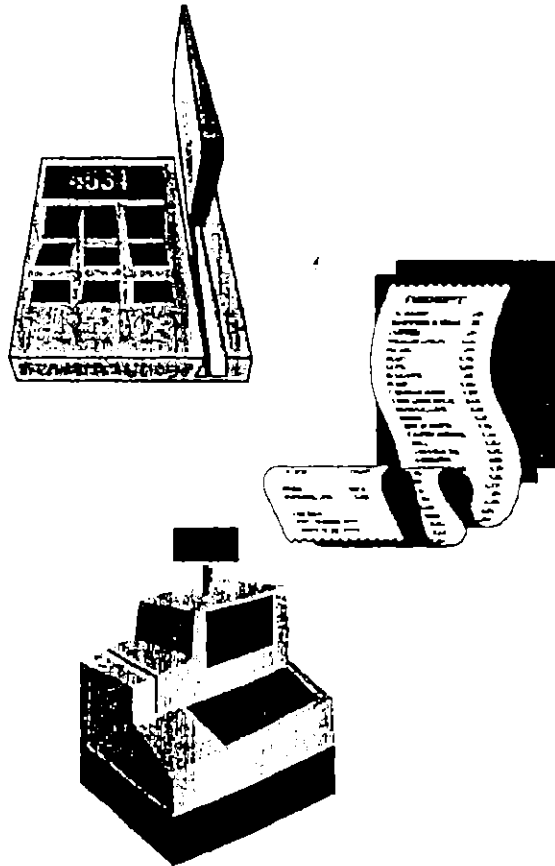
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Visa Response to Acceptance



Merchant Acceptance/Education campaign



Objective:

- Increase Visa's Share of Acceptance within Total Merchant Universe

Execution:

- Create Programs for Exclusive Bankcard Acceptance
- Communicate Visa Profit Story to Merchants
- Increase Traditional/Promotional Signage at the Point of Purchase

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Visa Response to Acceptance



Key Merchant Program

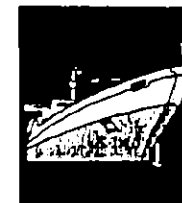
Objectives:

- Incent Key T&E Merchants to Grow Visa Volume
- Develop Long Term Partnerships



Execution:

- Key T&E Merchants Eligible for Fund Use for Visa Business Building Initiatives
- Share-Tracking Performed by Objective Third Party



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Visa Response to Acceptance



Travel Agent Continuity Program



Objectives:

- Generate Incremental T&E Volume
- Build Long-Term Goodwill and Preference for Visa

Execution:

- Travel Agency Incentive Program with Top 10 Agencies
- Automatically Track Airline Volume for Each Agency Location Via Base II

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Visa Response to Acceptance



Member Education Programs



Objective:

- Educate Members of Competitive Challenge Posed by American Express

Execution:

- Visit Top 100 Members
- Develop/Distribute White Paper/Video on Competitive Initiative

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Visa Response to Card Growth



Consumer Advertising



Objective:

- Enhance Support of Core Brand Message

Execution:

- TV, Key Local Market Radio, Newspapers and Magazines
- "With a Visa Airline Co-Branded Card, You Can Earn Miles at Millions More Places than You Can with the Delta/Optima Card"

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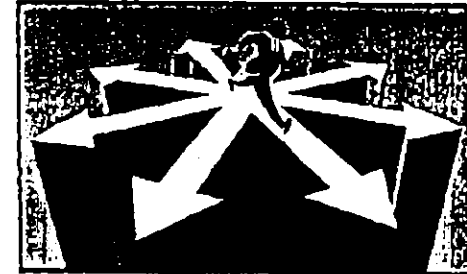
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Visa Response to Expense Reduction



POS Gateway Policy

- Current Situation
 - U.S. Gateway - 1995 Volumes



- Visa switched 71.6 Million transactions to Amex
- Amex switched 4.0 million transactions to Visa

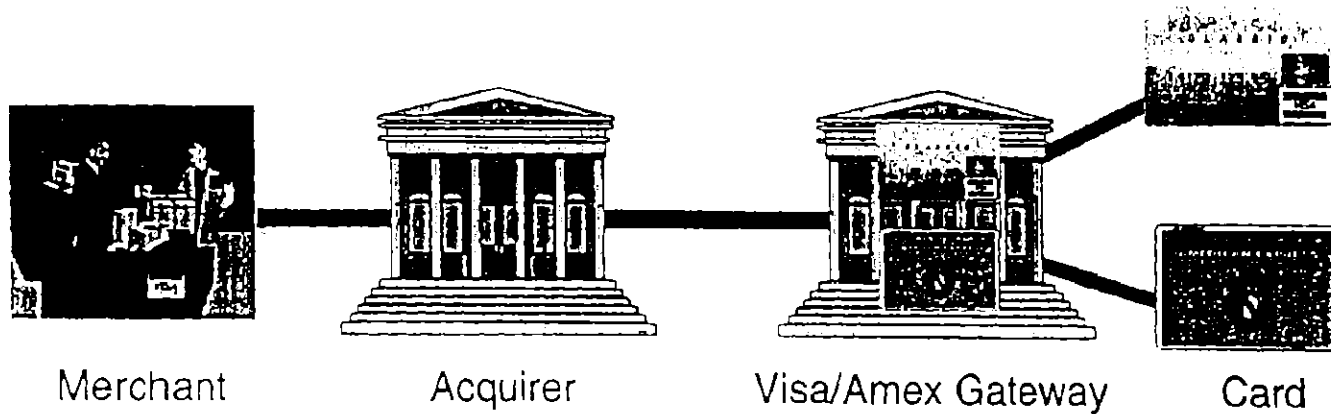
- No other regional gateways

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Visa Response to Expense Reduction



■ Current U.S. Gateway Transaction Flow



- Positions Visa as key support service for Visa Member Acquirers

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Visa Response to Expense Reduction



POS Gateway Policy - Recommendations

- Retain U.S. gateway, continue to monitor volumes/trends
- Do not extend gateway beyond U.S.
 - Merchants require single switch solution
 - Third party processors emerge offering gateway solution
- Continue Board review/approval before new gateways established

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Visa Response to Expense Reduction



ATM Gateways

■ Current Situation

- U.S. ATM Gateway via PLUS
- International Board permitted international ATM gateway 10/95
- No International ATM gateways have been approved to date

■ Recommendation

- Maintain U.S. ATM Gateway
- Do not activate International ATM gateway at this time

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Global Competitive Assessment

Visa Response to Travelers Cheque



Visa TravelMoney

- Endorse Visa TravelMoney Business Strategy and Marketing Plan
 - Accelerate issuance of VTM through a specific international ATM/IRF fee - June Boards
 - Build Distribution:
 - Sign-up Visa Travelers Cheque Distributors to sell Visa TravelMoney
 - Recruit additional major distributors in each region beyond current Visa Travel Cheque distributors
 - Present distribution strategy to June MEC
 - Promote/Market

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Visa Response to Commercial Card



Visa's Three Product Commercial Card Strategy Gives Members a Winning Formula That Takes Aim at Companies of All Sizes

Company Size

Product Response

Small

Visa Business: Integrated Payment/Finance Resource
Packaged with Members' Small Business Products

Middle/Large

Visa Corporate
Combines Acceptance
Advantage with
Sophisticated Information
Technology

Visa Purchasing
Specialized Authorization
Controls, Billing and
Reporting to Support
Purchasing/Payables
Re-engineering

Multi-national

Enhanced Issuer Jurisdiction Flexibility

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Visa Response to Commercial Card



Visa Business Card

Reposition to Small Business Market

Amex

- Standalone Product
- Charge
- T&E Positioning
- 75 Countries/
31 Currencies
- Remote Service

Visa

- Business Banking Relationship
- Revolving Credit
- General Business Resource
- 60 Countries/Currencies
- Local Service

Achieve Competitive Superiority Through Local Market Focus
and Greater Small Business Relevance

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Visa Response to Commercial Card



Visa Corporate

Launch Globally, Targeted at Mid-to-Large Corporations

Amex

- Product Leader
- Travel Agency Tie-in
- 31 Currencies/
Remote Servicing
- Higher Discount Rates

Visa

- Specialized Processing Options
- Enhanced MIS/InfoSpan
- Unsurpassed Acceptance
- Closer Payables Integration
- Local Currency and Servicing
- Close Revenue Disparity

Win Through Migration from Travel Management
Orientation to Financial Process Management

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Visa Response to Commercial Card



Visa Purchasing Card

Aggressively Expand Distribution Globally to Maintain Leadership Position In Low Value Business-to-Business Purchases

Amex

- Shoring Up U.S. Position
- Export of US Product
- Modification of U.S. System
- English Language MIS

Visa

- Rapid International Deployment
- Locally Tailored Global Product Design
- Investment In Processing Platforms
- Multi-Language MIS

Pre-empt Amex Market Entry Through Rapid Expansion

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Visa Response to Commercial Card



Servicing Multi-national Companies with Visa Commercial Card Products

- Multi-national issuance of VISA Corporate and Purchasing Card products will be restricted to multi-national commercial organizations
- Multi-national Corporations are defined as those organizations with operations and subsidiaries situated in more than one country (excluding franchise representatives)

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Visa Response to Commercial Card



Servicing Multi-national Companies with Visa Commercial Card Products

- Cards can only be issued to the employees of the designated Multi-national Company
- Customers, suppliers, friends and relatives of employees and other non-employee affiliated individuals are ineligible for cards issued under this rule
- There must be a written contract between the Issuer and the Multi-national Company whose employees receive the cards specifying the commercial purpose of the cards

Global Competitive Assessment Commercial Card Proposed Solution



Commercial Card Multi-national Programs - Principles

- Restricted to Employees of Recognized Multi-nationals
- Issuers Approved/Registered by Visa
- Requires Commercial Card Multi-national Issuance BIN
- Issuers Must Comply with Local Laws and Visa Rules
- Visa Regions Determine Appropriate Interchange Rate For Domestic Transactions (Either Local or International)
- Service Fee Payable at Local Rate to Region Wherein Cards are Issued
- International Chargeback Rules Apply
- Effective June 1996 – Corporate Cards
June 1997 – Purchasing Cards

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Visa Response to Franchise



Issuing By-Law

- What
 - Prohibit Visa Members from Issuing competitor branded cards
- Why
 - Promotes inter-system competition
 - Protects Visa Membership brand and product equity
- How
 - U.S. by-law in effect
 - Canada - Amend existing by-laws by naming Amex, Discover, JCB as competitors
 - AP, CEMEA, EU, LA - Require Visa International by-law

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Global Competitive Assessment

Visa Response to Franchise



American Express Strategy - Acceptance

- Rapid growth in acceptance
- Achieve acceptance parity
- Use already developed industry capability
 - Visa Member capacity/ability:
 - To select
 - To solicit
 - To sell
 - To sign
 - To service

Global Competitive Assessment

Visa Response to Franchise



American Express Acceptance Objective

"Our objective is virtual parity with bankcard networks. To achieve this, we have expanded the team of external sales agents who sell both American Express Cards and bankcards to merchants. In fact, this year several major bank partners agreed to acquire merchants for us, despite the fact that they issue competing cards as well. It clearly makes economic sense for them to do so."

Harvey Golub
CEO and Chairman American Express
Letter to Shareholders 1995 Annual Report 2/26/96

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Visa Response to Franchise



Acceptance Remains the Central Competitive Issue and Is the Basis of Visa Member Market Leadership

- Visa Brand Equity = Superior Acceptance ●
- Visa Brand Essence = Superior Acceptance
- Visa Name = Acceptance
- **Effective Use of Acceptance = Reliability, convenience, accessibility, globality: Brand Power in Payment Systems ●**

Global Competitive Assessment

Visa Response to Franchise



Canada -
"Visa. The only
card you need."

EU/CEMEA -
"Visa. Making life easier."

US -
"Visa. Its
everywhere
you want to be."



AP -
"Visa. The
world's most
preferred card."

LA -
"Visa is
the card."

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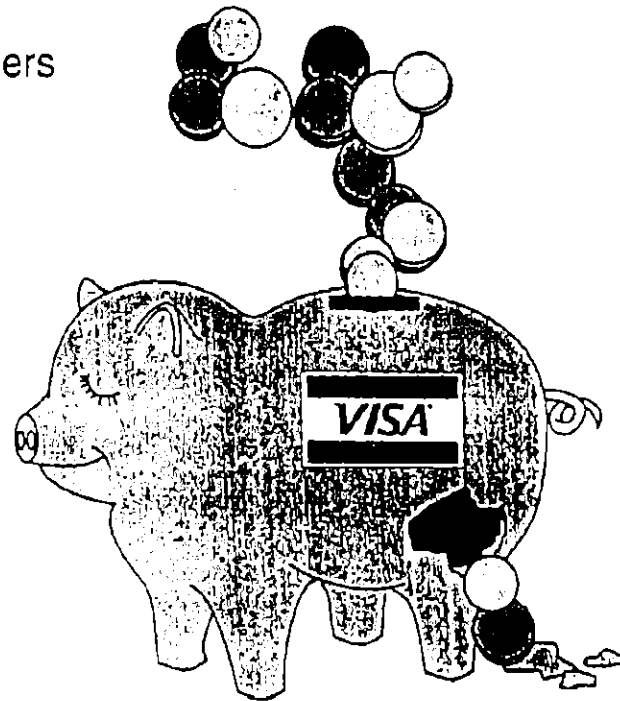
Visa Response to Franchise



Individual Visa Issuers Contribute to Brand Equity

Individual Visa Issuers
Investing in Visa

- Products
- Brand
- Marketing
- Network



Visa Membership Brand Equity

Franchise Agreements:
Individual Banks Reduce
Value of Membership's
Brand Position



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Visa Response to Franchise



What If Amex Achieved Acceptance Parity?

Current acceptance: Visa 12 million,
Amex 4.3 million,
7.7 million Visa advantage

Reduction in gap	Total	Partial (50%)
Amex volume/new merchant	7.7MM	3.9 MM
Volume shift to Amex: all brands	\$20 M	\$20 M
Visa Members volume loss (50% market share)	\$154 B	\$78 B
Visa Members income loss (1% return on sales)	\$770 MM/year	\$390 MM/year
■ Visa market share loss	5.0%	2.5%

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Merchant Solicitation

- What it is:
 - The selection, soliciting, selling and signing of existing Visa merchants on behalf of competitors
- What it is not:
 - Acceptance of American Express or other competitor through the use of a Visa terminal or acquirer gateway to process American Express or other competitors' transactions
- What it means:
 - Amex or other competitors can not FREE RIDE on Visa Membership's acceptance investment; instead they must develop their own sales force, target merchant lists, merchant underwriting capability, negotiating and contracting capability

Global Competitive Assessment

Visa Response to Franchise



Merchant Solicitation By-Law - for Discussion

- What
 - Prohibit Visa Members or their agents from soliciting or signing up Visa merchants on behalf of competitor brand,
- Why
 - 2- Preserves inter-system competition
 - Prevents competitor "free-ride" on Visa Membership investment in merchant sales capabilities and merchant relationships
- How
 - Adopt by-law in all regions

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