

M e m o r a n d u m

To: Ray Barnes  
François Dutray  
Ed Jensen  
Bennett Katz ✓  
Carl Pascarella  
Wes Tallman

From: Dick Hagadorn  
Date: January 17, 1996  
re: Global Competitive Assessment

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The attached Global Competitive Assessment evaluates the immediate and future threats posed by global competitors. These competitive activities are international in scope, affecting all Visa Regions. They impact a broad range of Visa products, services, and the Visa brand, threatening Member revenues and profitability.

The presentation outlines the need for Visa and its Members to consider a range of responses to strengthen existing core revenue streams and markets. There is also a need to establish new products and services that reduce competitors' dominance in specific markets, such as commercial cards and travelers cheques. The potential responses include:

- Rules related to issuing and acquiring on behalf of competitors.
- Sales and marketing programs designed to educate merchants and Members about the revenue and profitability opportunities Visa offers.
- Product and system development initiatives that lead to new products or enhance existing products.

The attachment is intended as a preparatory document for our meeting next week. During the meeting I will cover an abbreviated version of the assessment highlighting key issues and actions for discussion.

If you have any questions regarding the Global Competitive Assessment, please contact me at (415) 432-3751, or Richard Bialek at (415) 432-2857.

Att.

cc: Rich Bialek  
BCG:  
Kevin Hell  
Bobbie Mehta  
Joshua Rymer

P-0541

GOVERNMENT  
DEPOSITION  
EXHIBIT  
1401

1/17/96  
MEC Memo 1/17/96



**VISA COMPETITIVE FRAMEWORK  
AND POTENTIAL RESPONSES**

**MEC Preparation Meeting**

**January 22, 1996**

## Objectives for *January 22Nd Meeting*

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Review findings and discuss recommendations for presentation at the Visa International Board Meeting in March

## Project Background and Objectives



### Project background

Discussion at the Board level regarding competitive moves by Amex, JCB and others

Commitment to the International Board to prepare a global competitive framework

- Collect competitive intelligence
- Synthesize findings
- Develop perspective on strategic intent
- Develop options for Visa response (global and regional)

Significant internal data collection and analysis already completed by US and EU Regions

### Project objectives

Prepare a framework for competitive response to be presented at the International Board in March

- Dimension the significance and immediacy of competitive developments for Visa Members
- Identify set of proposed actions for response

Assist regions to interpret findings/ data and select appropriate response

- Determine type of support required from International

## Project Approach



### Regions have shared...

- Relevant market information from ongoing studies
- Competitive perspectives on Amex and others

### Visa International Management has provided linkage with Regional Presidents, Product Managers, and Legal Counsel to...

- Obtain regional data and point of view

### Regions will receive...

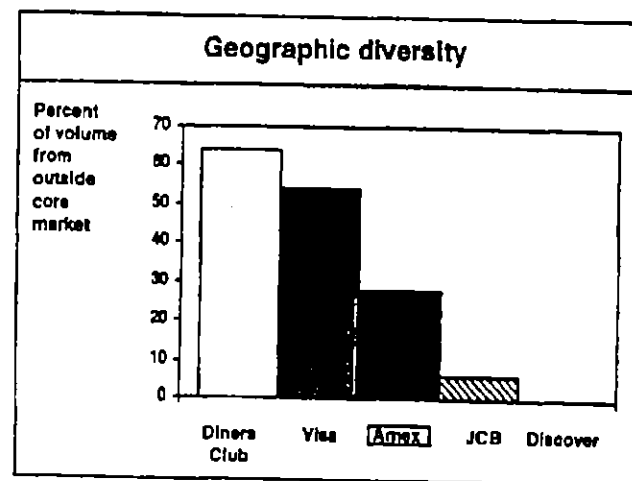
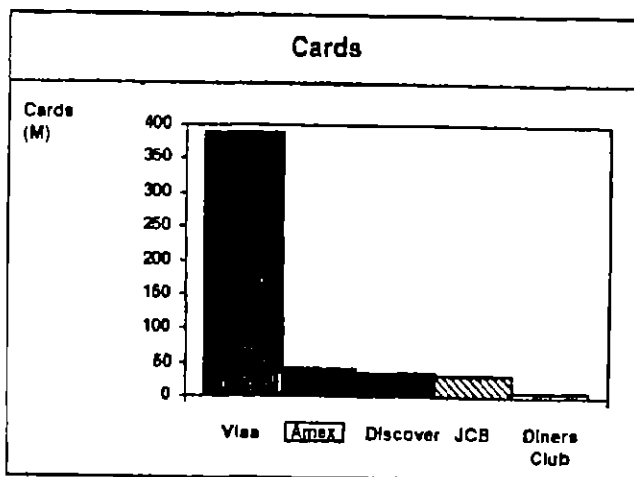
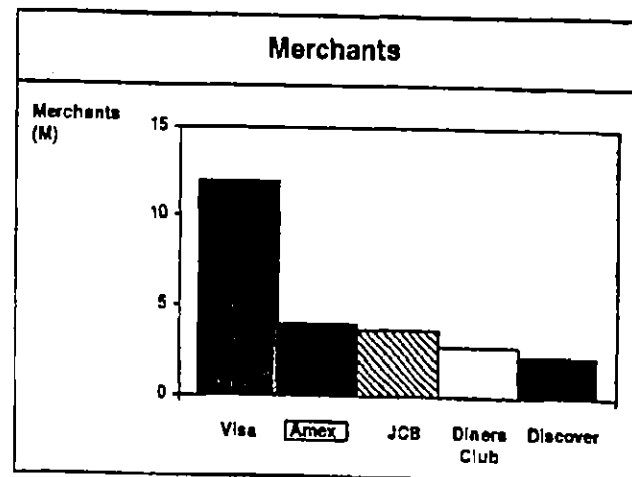
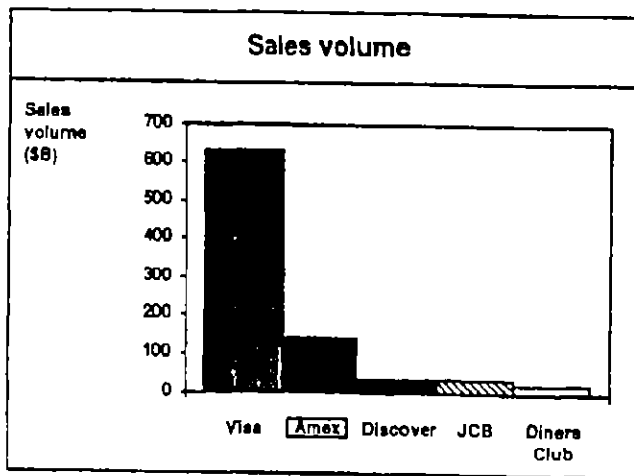
- Characterization of the competitive developments
- Potential responses/options to address the competition that can be applied in regional context

### Regions will choose and propose which approach(es) are most applicable

- Goal is to provide information for decision making

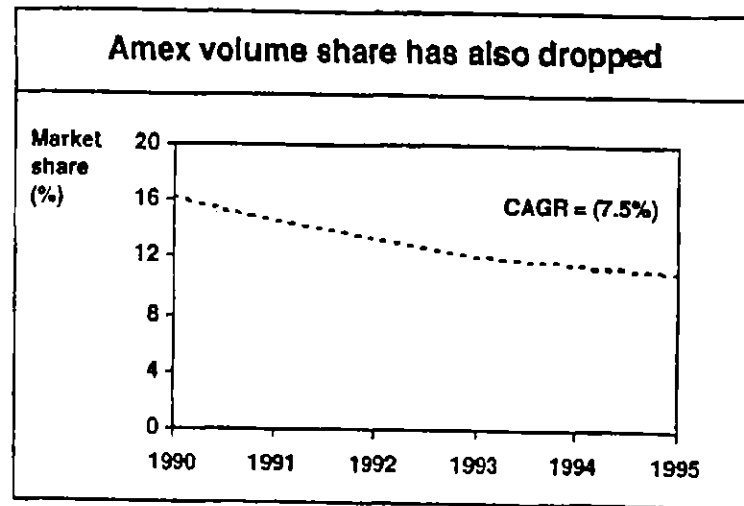
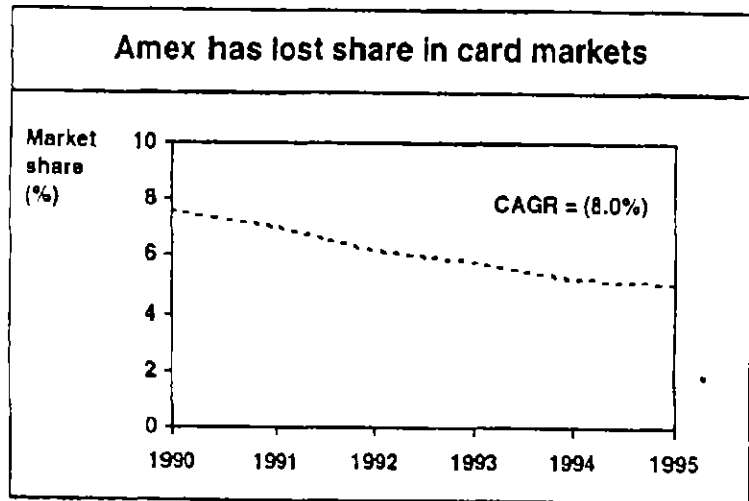
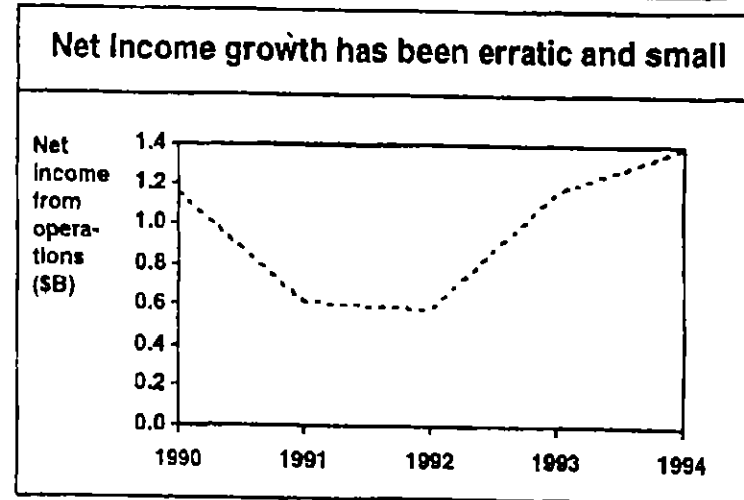
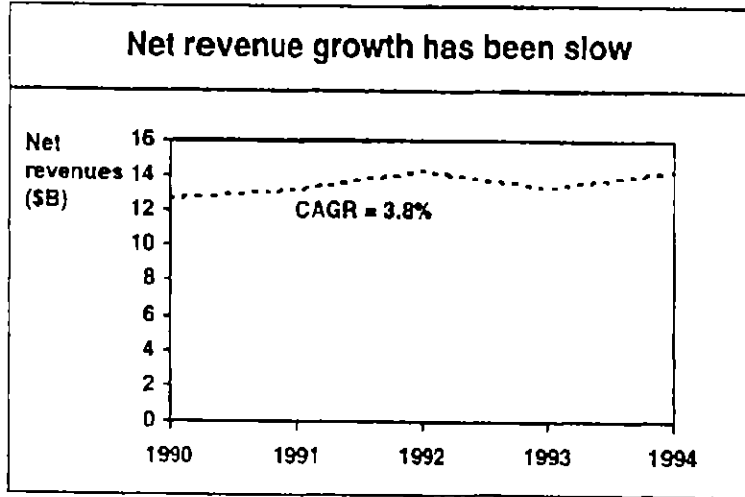
**Recommendations will include global initiatives for approval  
at the Visa International Board**

# Outside of Mastercard, Amex Represents Visa's Most Significant Global Competitor



Note: 1994 data  
 Source: Nilson reports  
 RB.1/15/96.MEC\_Draft

## Recent Amex Performance: Slow Growth And Loss of Share to Visa and Others



Source: Nilson Reports; Amex annual reports  
RB.1/15/96.MEC\_Draft

## However, Amex Has Aggressive Growth Goals

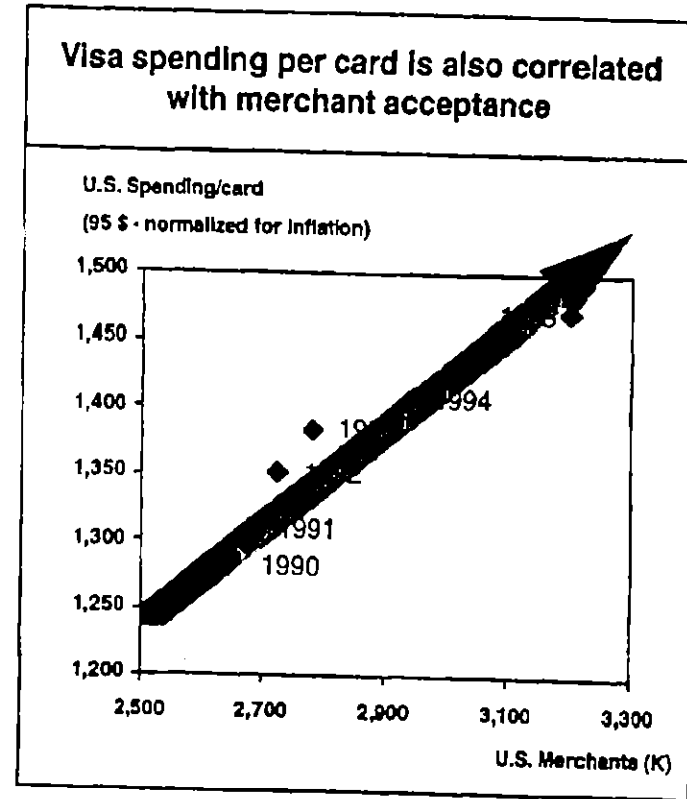
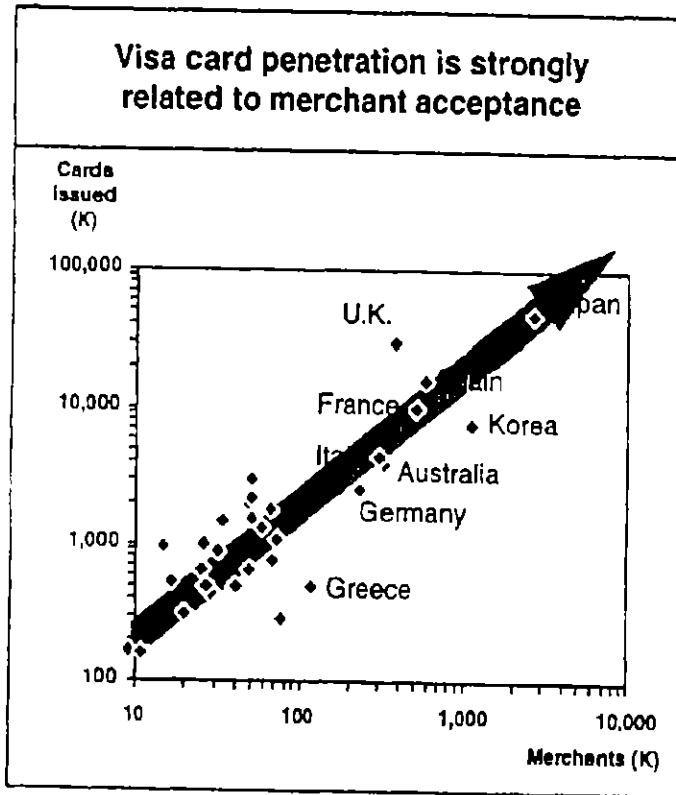


### Amex stated strategy and goals

Financial goals	Other strategic goals
<p>Triple interest bearing receivables to \$30B by 2000</p> <p>Grow EPS 12-15% annually</p> <ul style="list-style-type: none"><li>• Two-thirds from revenue growth</li><li>• One-third from margin improvement</li></ul> <p>Achieve an 18-20% ROE</p>	<p>Improve card utility by increasing merchant coverage</p> <ul style="list-style-type: none"><li>• Grow beyond traditional merchants and geographies</li></ul> <p>Grow beyond traditional charge card business</p> <ul style="list-style-type: none"><li>• Offer portfolio of consumer charge and credit products with defined value propositions</li></ul> <p>Leverage cost cutting and reorganization initiatives to achieve superior economics</p> <p>Defend dominant position in the corporate and TC markets</p> <p>Develop new products and services for electronic distribution channels</p>



# Acceptance Is an Important Part of Visa's Franchise and Brand Strength (I)



**Acceptance is a critical competitive advantage for Visa**

Source: Nilson Reports, Visa Statistics  
RB.1/15/96.MEC\_Draft

## Acceptance Is an Important Part of Visa's Franchise and Brand Strength (II)



**1994 Image Tracking Study confirms the importance of domestic and international acceptance to cardholders**

- **Based on survey in France, UK, Germany, Italy, and Spain  
Attributes ranked on a scale of 1 to 5, 5 being highest**
- **Domestic and international acceptance ranked #1 and #3 most important card attributes, scoring very high**
- **International cash access also ranked high, #6 and #7**

Rank	Card attribute	Average score
1	Domestic acceptance	4.38
2	Rapid emergency card replacement	4.36
3	International acceptance	4.32
4	Rapid cash advance if card lost	4.28
5	Travel and emergency services	4.22
6	International cash access (banks/service bureau)	4.22
7	International cash access (ATMs)	4.22
8	Insurance on card purchased goods	3.76
9	Car rental insurance	3.66
10	Competitive Interest rates	3.64

Source: Visa, 1994 Image Tracking Study

RB.1/5/96.MEC\_Draft

## Amex Also Benefits Where Its Merchant Share Is High (I)



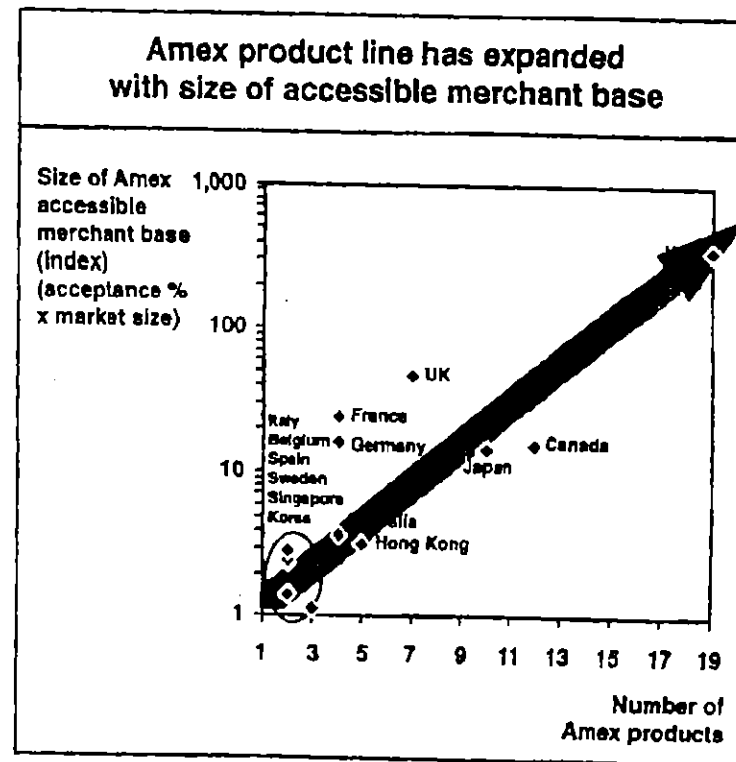
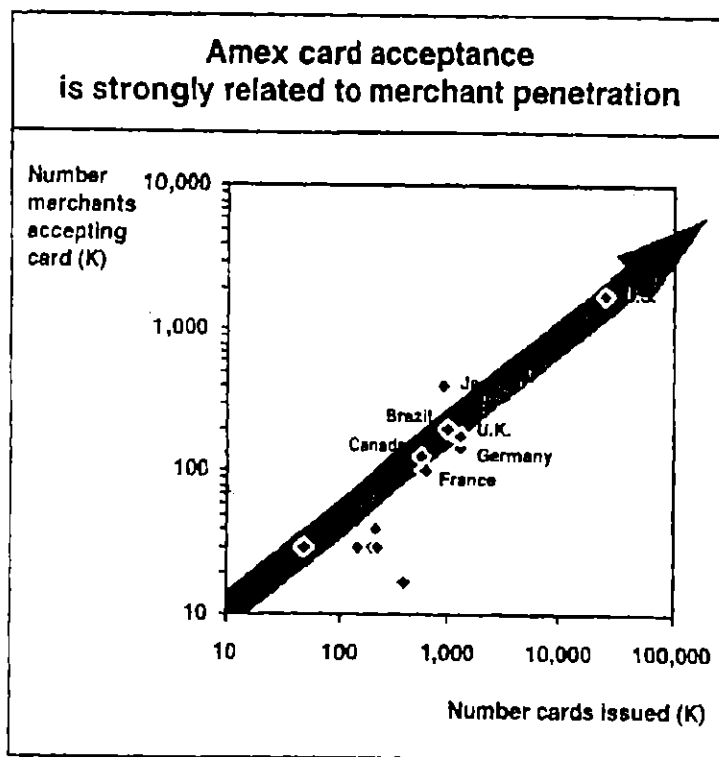
	Amex market share (%)			Amex volume (\$)/card
	Merchants	Cards	Volume	
U.S.	60	6.2	16.5	4,000
Non-U.S.	23	3.3	6.2	3,618

High merchant share in the U.S. market is related to higher card and volume share

Source: Nilson Reports

RB.1/15/96.MEC\_Draft

## Amex Also Benefits Where Its Merchant Share Is High (II)



Source: Nilson Reports; American Express annual reports; Visa documents

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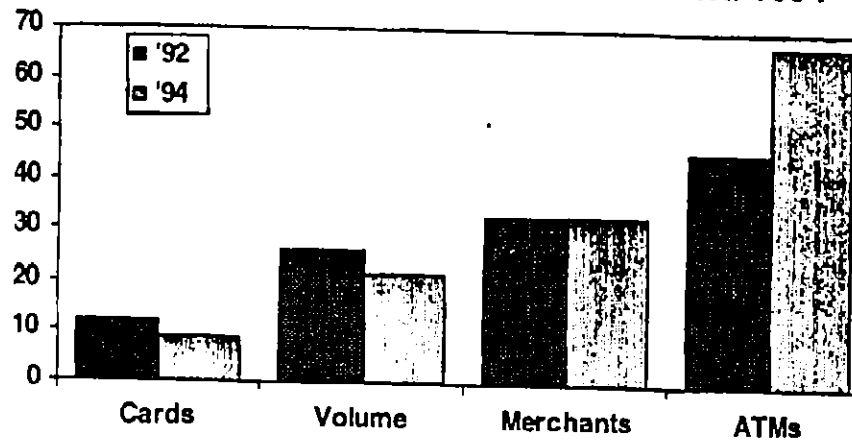
# Amex Is Growing Acceptance Faster Than Any Other Measure



## Holding Merchant Share and Rapidly Gaining ATM Access

Amex share relative to Visa in 1992 and 1994

Share relative to Visa (Amex/Visa) (%)



CAGR (1991-94) (%)<sup>1</sup>

Amex	0	6	7	53
Visa	12	15	7	27

Absolute Value in 1994

Amex	36M	\$141B	3.9M	141K
Visa	391M	\$631B	12.0M	210K

In 1994 Amex grew merchant acceptance from 3.3 million to 3.9 million - an 18% annual growth rate

<sup>1</sup>CAGRs are 1991-94 for cards and volume, 1992-94 for merchants and ATMs

## **It Is Critical for Visa to Defend Acceptance Advantage Against All Competitors**



**Acceptance is a critical competitive advantage for Visa**

- **Visa has developed broadbased POS/ATM acceptance network**
- **Visa brand has come to represent acceptance ubiquity**
  - **"Everywhere you want to be"**

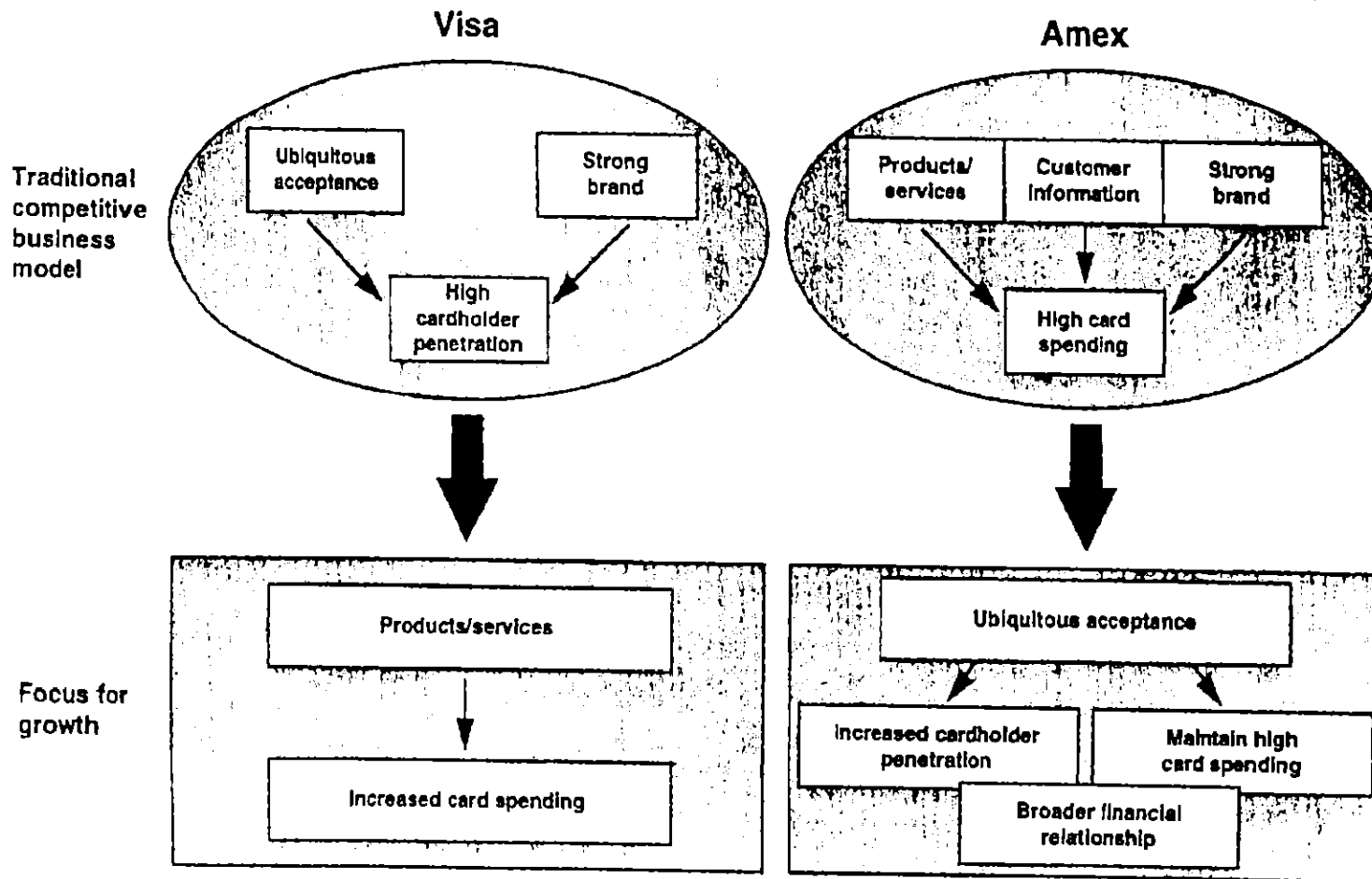
**Competitors (e.g., Amex, JCB, etc.) threaten to rapidly erode acceptance advantage through partnerships with Visa member banks**

- **Expanded franchise agreements covering issuing and acquiring**
- **Sales/marketing agreements**

**The result is that competitors free ride on Visa infrastructure/relationships**

**Must be cautious not to give away key competitive advantage**

# Amex and Visa Have Different Competitive Business Models



# ...Driven by Different Competitive Strengths



## Four Critical Competitive Dimensions

	1. Acceptance	2. Brand	3. Products/ services	4. Cardholder penetration
Amex				
Visa				
Mastercard				
Implications for Amex strategy	Aggressively build acceptance ubiquity	Leverage brand Internationally	Innovate new products/services to increase customer penetration	Increase customer penetration while maintaining high card spending
Sources of Amex strength/ leverage	Closed-loop information processing	Strong brand	Closed-loop system Strong, centralized product management	Product/services High merchant discount



## Recent Amex Growth Initiatives Reinforce Their Strengths and Build Against Weaknesses



### Grow acceptance/issuance

### Maintain product advantage

Recent bank and merchant agreements	Recent Product Releases	New technologies/channels
<p>1/95 – Banco Commercial Portuguese/ Portugal</p> <ul style="list-style-type: none"> <li>• Issuance of green and gold charge cards</li> </ul> <p>2/95 – Bank of Hapoalim/Israel</p> <ul style="list-style-type: none"> <li>• Issuance of bank/Amex co-branded credit cards</li> </ul> <p>5/95 – Alpha Credit Bank/Greece</p> <ul style="list-style-type: none"> <li>• Issuance of revolving green and gold credit cards</li> </ul> <p>9/95 – Hilton Hotels</p> <ul style="list-style-type: none"> <li>• Optima/Hilton Honors program co-branded credit card</li> </ul> <p>12/95 – AmerBank SA/Poland</p> <ul style="list-style-type: none"> <li>• Issuance of revolving green and gold credit cards</li> </ul> <p>1/96 – Delta Airlines</p> <ul style="list-style-type: none"> <li>• Optima/Delta Skymiles program co-branded credit card</li> </ul>	<p><b>Consumer credit products</b></p> <ul style="list-style-type: none"> <li>• Optima True Grace (10/94)</li> <li>• Personal Choice-U.S. (1994-5)</li> <li>• Green Amex Credit Card in UK, Canada, and Hong Kong (94-95)</li> </ul> <p><b>Segmented charge cards</b></p> <ul style="list-style-type: none"> <li>• Senior citizens (1994)</li> <li>• College students</li> </ul> <p><b>Corporate card products</b></p> <ul style="list-style-type: none"> <li>• Executive Corporate (1991)</li> <li>• Purchasing Card (1993)</li> </ul> <p><b>Enhanced membership rewards</b></p> <ul style="list-style-type: none"> <li>• Rewards Plus Gold (1994)</li> </ul>	<p><b>Stored value cards</b></p> <ul style="list-style-type: none"> <li>• Amex Campus Funds</li> <li>• FirstClass Phonocard</li> </ul> <p><b>Chip cards</b></p> <ul style="list-style-type: none"> <li>• Cooperation with Mastercard to develop technical standard</li> </ul> <p><b>ExpressNet on AOL</b></p> <ul style="list-style-type: none"> <li>• Card services, reservations, on-line shopping</li> </ul> <p><b>On-line commerce initiatives</b></p> <ul style="list-style-type: none"> <li>• Agreements with Cybercash, Netscape, First Virtual Holdings, and Open Market</li> </ul> <p><b>Virtual bank</b></p> <ul style="list-style-type: none"> <li>• Includes payments, credit, financial services, home banking via Quicken</li> </ul>

Source: American Express Global Business Strategy - Nov. 3, 1995; press releases; Amex Milestones

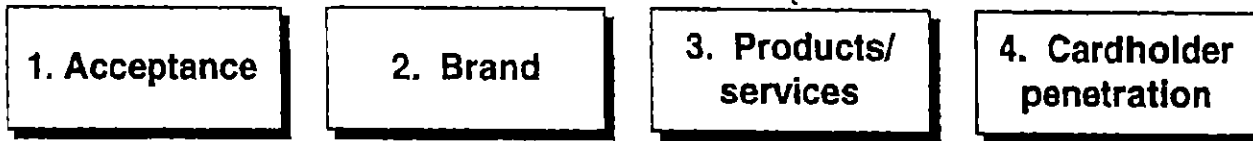
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## American Express' Current Position Provides Insight Into to Likely Competitive Initiatives



Observation	Amex Competitive Priorities	Focus for Visa response
<p>Amex overly dependent on U.S. revenues</p>	<p>Grow non-U.S. markets</p> <p>Protect core U.S. market</p>	<p>Address Amex free riding in issuance/acceptance activities</p> <p>Promote Visa acceptance advantage</p>
<p>Corporate charge cards represent large share of card revenues</p>	<p>Grow consumer credit business</p> <p>Protect/grow corporate business</p>	<p>Strengthen Visa Gold product offering</p> <p>Enhance Visa corporate product offering</p>
<p>Over half of Amex card revenues comes from merchant fees</p>	<p>Grow card fee and interest income</p> <p>Protect premium merchant discount</p>	<p>Strengthen Visa Gold product offering</p> <p>Enhance and promote merchant value proposition</p>
<p>Travelers Cheques are important source of Amex revenues</p>	<p>Protect/grow travelers cheques and other alternatives to plastic spending</p>	<p>Strengthen Visa Travel Money</p>

# Competitive Imperatives to Protect Brand Value for Membership



Competitive Imperatives for Visa Membership	Promote & protect acceptance advantage	Continue to invest in the brand	Build Amex-type product/service capabilities	Increase spending levels per card
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Visa Membership sources of strength	Acceptance ubiquity	Strong brand	Revolving credit products	Broad cardholder base
Visa Membership areas of vulnerability	Decentralized information processing	—	Decentralized product/service development	Lower card spending levels
Focus for Visa, Membership competitive response	Limit competitors free riding in acquiring/issuing activities	Protect brand through continued investment	Defend credit product line	Protect traditional cardholder base
• Defensive				
• Offensive	Develop information capabilities	—	Improve Visa competitive product offering	Increase cardholder volume/spending

# Limitations on Both Acquiring and Issuing Will Form a Key Aspect of Visa Membership Competitive Response



Preliminary

<b>Recommended changes to Visa bylaws</b>
<p>Limit ability of competitors to enter into agreements with Member banks for acquiring or issuing competitors products</p> <ul style="list-style-type: none"><li>• Acquiring is high priority</li></ul>

<b>Bylaw Requirements</b>
<p>Limitations to apply equally to all competitors</p> <p>Limitations to apply to all relationships established after October 1995</p> <p>Limitations to apply in all regions...</p> <p>...but not necessarily in all markets (e.g., developed versus emerging markets may be treated differently)</p>

# Specific Recommendations on Issuing And Acquiring Limitations



**Preliminary**

Market type	Acquiring		Issuing
	Marketing/sales to vendors	Transaction/gateway processing	
Emerging	Recommend limitation on marketing and sales activities on behalf of competitors <ul style="list-style-type: none"> <li>• Marketing to merchants</li> <li>• Selling merchant lists to competitors</li> </ul> Must extend to ISOs	Not recommended/advised	Recommend international adoption of U.S.-like rule limiting issuing activities on behalf of competitors
Developed	Requires further legal consideration and testing with regulatory groups		

**Recommendations vary by market type, regions to define "emerging" and "developed" markets**

Note: Recommendations have had preliminary review by Visa legal staffs

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## In Addition to Rules, There Are Several Other High Priority Global Initiatives



Preliminary

Recommendations	Specific responses	Prime Mover
Strengthen Visa Corporate Card offering	<ul style="list-style-type: none"> <li>• Develop multinational issuance and reporting capability</li> <li>• Revise IRF to improve member profitability</li> <li>• Increase sale and marketing efforts to corporate customers (e.g., direct sales, trade advertising)</li> </ul>	<ul style="list-style-type: none"> <li>• Int'l</li> <li>• Int'l/Regions</li> <li>• Regions</li> </ul>
Enhance system/information capabilities	<ul style="list-style-type: none"> <li>• Enable multinational card issuance and reporting</li> <li>• Provide detailed merchant reporting for expense and inventory management and customer purchase tracking</li> </ul>	<ul style="list-style-type: none"> <li>• Int'l/Regions</li> <li>• Int'l</li> </ul>
Enhance Visa Gold offering	<ul style="list-style-type: none"> <li>• Improve 24 hour emergency card service</li> <li>• Enhance POS performance (i.e., reduce referrals, authorization declines, and merchant/cardholder disputes)</li> <li>• Increase advertising to consumers and member banks</li> </ul>	<ul style="list-style-type: none"> <li>• Int'l</li> <li>• Regions</li> <li>• Regions</li> </ul>
Strengthen Visa Travel Money product	<ul style="list-style-type: none"> <li>• Decrease cash disbursement fee                             <ul style="list-style-type: none"> <li>- depending on regional pricing and bilateral agreements</li> </ul> </li> <li>• Increase number of VTM acceptance locations</li> </ul>	<ul style="list-style-type: none"> <li>• Int'l/Regions</li> <li>• Regions</li> </ul>

The Visa International Board should endorse the priority of these initiatives and their global implementation