

DEC 18 1997

MEMORANDUM

Date: December 12, 1997
To: Carl Pascarella
cc: Jan van der Voort
Bill Stewart
From: Vic Dahir
Subject: FY 98 MIP

*Carl -
Please let me know when
you're ready to discuss, so we
can finalize/publish MIP
goals for 198.
Thanks!
Jan*

The attached schedule shows the proposed FY '98 MIP goals for you as president of Visa U.S.A. Unfortunately, for the same reasons I outlined last year, I strongly suggest that we do not use these goals for the Visa U.S.A. MIP participants. I have reiterated my concerns below.

Operating Profit

As currently defined, this measure becomes more inappropriate each year because the target is so large for the U.S. The method used to determine this goal implicitly assumes that the size of the base has no impact on the degree of difficulty of beating the target. In other words, the presented approach assumes that improving operating profit from \$10 million to \$12 million—20 percent improvement—is as easy or as difficult as moving it from \$750 million to \$900 million—also 20 percent improvement. Our target is \$765 million, and the way the target is set—100 to 104 percent of target rates a 3—if we beat our budget by \$30 million you still rate only a 3.

Tom Cleveland's probability analysis is seriously flawed as it relates to the U.S. because of the small sample size. According to the data, the U.S. has a 9.1 percent probability of beating the budget by more than \$150 million (required for you to score 5), and more than a 25 percent probability of beating the budget by more than \$92 million (required to score 4). Under no circumstances could Visa U.S.A. achieve such a result without jeopardizing the long-term viability of the business. As we get better at forecasting revenue, which the Executive Committee encouraged us to do, we lose all ability to achieve anything but a 3 based on this proposal because our total discretionary expense budget is only \$185 million, and we have almost no ability to affect anything else.

P-0753

GOVERNMENT
DEPOSITION
EXHIBIT
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Victor Dahir

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Growth vs. MasterCard

As I have pointed out in the past, focusing your measurement exclusively on MasterCard is also flawed. With total dual ownership and Visa at 67 percent market share, growing Visa faster is at odds with our Members' goals. In fact we would put MasterCard out of business shortly, but not before we forced even more irrational behavior which would be damaging to the Membership. While you and I might like to put MasterCard out of business, that is **NOT** what our owners want.

Worse yet, to compete on this measurement we would need \$50 to \$75 million just to get an equal share of new accounts (i.e., to rate a 3). The only place to get this much money is the advertising budget, which means we diminish the value of the brand. I fail to see how this helps anyone. As one of our regional managers recently said to me—If we aren't willing to commit the money to compete evenly with MasterCard, how can my compensation be based on the number of accounts? My response was "it can't, and it won't!" This goal is just not appropriate for the U.S. market.

Member Satisfaction

As we have discussed, the changing U.S. environment and the work we have done on project Concord will probably make this measurement obsolete also, at least in its current form. At best, it may be appropriate for one more year.

Proposed MIP Goals for Visa U.S.A.

Knowing that we have to distribute goals for this year's MIP soon, I have attached what I believe to be a reasonable proposal that could at least get us through one more year. It's not great, but at least it won't incent inappropriate behavior or demotivate people. However, as you know, if project Concord is pursued, the performance measurements need some serious work.

1998 MIP Objectives

President, Visa USA - Carl Pascarella

Performance Objectives (Payout % - % Target)	Weight	Performance Benchmarks		
		Threshold (50%)	Target (100%)	Maximum (200%)
Operating Profit (\$Millions) (US Region)	20%	\$719.0	\$765.0 - \$795.0 (**\$667.5)	\$918.0
Growth vs. MC: (US Region)				
Volume	10%	96%	100% - 104% (**\$101.23%)	110%
Number of Accts.	10%	95%	100% - 102% (**98.22%)	105%
Focus Products:* Commercial/Debit				
Member Sat. Results (75% region; 25% worldwide)	30%	2.8	3.2 (**3.8)	4.5
Individual Objectives	30%	2.5	3	5
	100%			

* Performance relative to Region Specific plans to grow these product(s) will be used as a modifier to numerical results.
 ** 1997 Results (Volume and Account Growth based on 1998 calculation method)

Revised Objectives - Per Visa International Compensation Committee Meeting, December 4, 1997

12/9/97

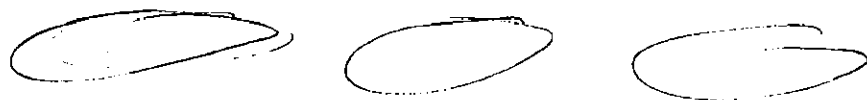
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<i>Visa USA proposal</i>									
<i>Management Incentive Plan</i>									
<i>FY 1998 Measures</i>									
						<u>Threshold</u>	<u>Target</u>	<u>Maximum</u>	
POS growth versus PCE growth						1.04	1.09		
POS index growth/PCE index growth						1.08	1.10 - 1.11		1.16
Operating Profit (variance to budget in %)						8% 720	10% 757		12% 817
Gross Volume vs AMEX						90%	100%		110%
Member Satisfaction						2.8	3.2		4.5
Debit Card Volume (\$B)						98.7	109.7		120.7
Commercial Card Volume (\$B)						23.5	26.1		28.7

GPC Market Share



5A

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Chair