1996-97 Management Incentive Plan

Talking Points

Region has had substantial successes this year:

- Market share growth vs. Mastercard: Visa +.8, MC -.8
- Market share growth vs. Amex: Visa +.9, Amex -.2
- Member satisfaction slightly higher than in 1996(+.01)
- Employee Opinion Survey - significant improvement - aligned with best-performing companies
- Successful Advanta litigation

We have also encountered some obstacles:

- Commercial card shortfall
- Mail share erosion
- Sears/Walmart issue

Potential issues for 1998 MIP:

- Aggressive targets - recalibrate.
- Per the board's direction, striving for tighter budgeting
- Member satisfaction - a good meaure?
- Growth vs. MC or Amex?
- Number of accounts?

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GOVERNMENT DEPOSITION EXHIBIT 350

	FY '97
REVENUE	1,027
OPERATING EXPENSE	
TRANSACTION PROCESSING	194
PRODUCT ENHANCEMENTS	36
DISCRETIONARY	166
	631
5% VARIANCE	32
10% VARIANCE	63
12% VARIANCE	76
20% VARIANCE	126

NOTES TO INCENTIVE PLAN RECOMMENDATIONS

Operating Profit:

- Because the operating profit is so large in Visa U.S.A., the percentages International is using to achieve a 4 or 5 rating make no sense.
- We would have to beat the budget by $120 million to attain a 5 rating--absolutely impossible, and therefore it becomes a disincentive.
- We would have to beat the budget by $72 million to achieve a 4--also impossible, unless we don't do what we're supposed to.
- FY '96 was strong because revenue was nearly 8% ahead of plan, by far the most ever. However, the average revenue variance over the last 6 years is 2.4%. We shouldn't penalize people because we had two great years in a row.
- Given the way operating profit is defined, excluding advertising, international service fees and initiatives, expense management becomes almost irrelevant in the U.S. Our revenue is $1 billion, operating expense is $400 million, and operating profit is $600 million. Since nearly 60% of operating expense is volume related, that leaves $160 million of "controllable" expense relative to a $600 million operating profit target. If we save $10 million like we did last year, that's 6.5% of our "controllable" expense, but it only moves the needle 1.7% on operating profit.
- The real problem is operating profit, as defined, is not a good measure of performance for Visa U.S.A. But since we're stuck with it for FY '97, I believe 10% over budget, or $60 million is a real stretch and worthy of a 5 rating.

Growth vs MasterCard

- In a well developed, dual environment like the U.S., the suggested international growth targets are definitely inappropriate. Growing much faster than MasterCard in the long run is both unsustainable and, more importantly, **NOT** desirable from our Member's perspective.
- If Visa grows 50% faster than MasterCard (which would earn a 4 rating), the current 66/34 market share picture would change to 74/26 in five years and 80/20 in ten years. If asked, I don't think our Board members would want this to happen.
- Again, I don't think this is a good measure for the U.S. given the fact that our Members own both associations. Therefore, I've suggested leaving the measures as they were last year, especially since Visa was precluded from winning the Sears and WalMart programs.

C:vic's data/Inctvpln