# Global Product Management and Development

Robert Wesley
US Corporate Products Committee
October 27-29, 1997

# Presentation Objectives

- Overview of the Product Management and Development Process

- Suite of consumer credit card products

- Suite of corporate credit card products

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# MasterCard Product Development & Management Process

- All MasterCard products & services are developed to:
  - Maximize member profitability
  - Satisfy customer needs that have been identified through research
  - Provide members the flexibility to adapt the product to the marketplace
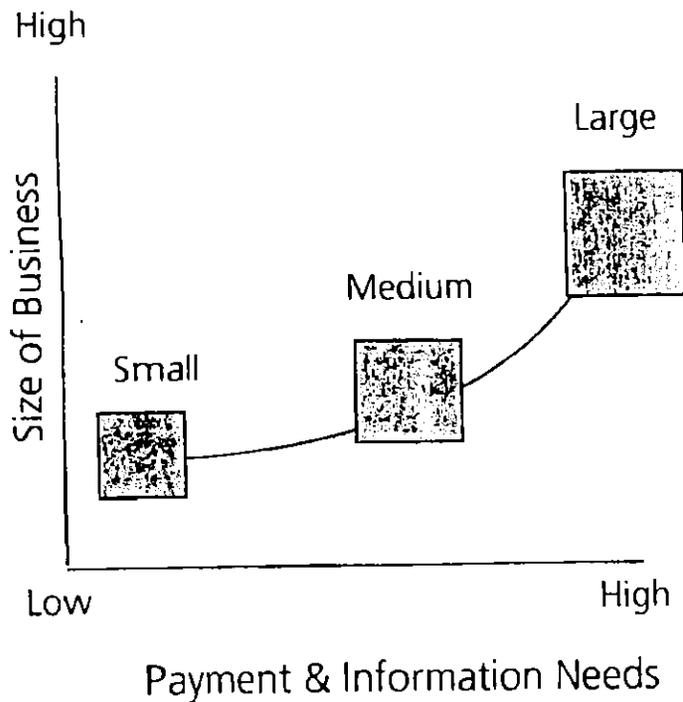
# Today's Consumer Wants More

Greater Need for Segmentation

- More sophistication
- More specific needs
- Increased flexibility

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# Needs Driven by Lifecycle and Lifestyle

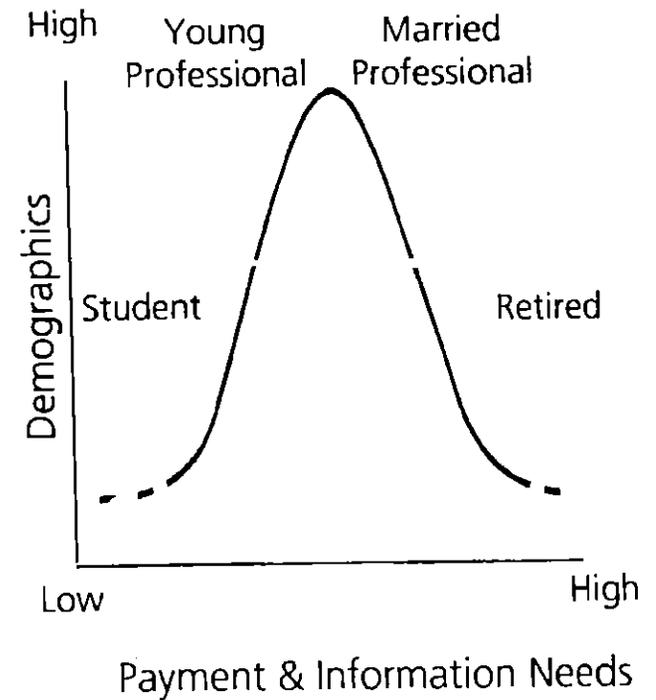| Life Stage | Financial Consideration | Behavior | Attitude |
|---|---|---|---|
| Student | Rates | Leisure Travel | Prestige |
| Young Professional | Fees | Business Travel | Quality Seeker |
| Parent | Credit Line | Play Sports | Price Conscious |
| Homeowner | Value-Added Service | Shopper | Affiliation Need |

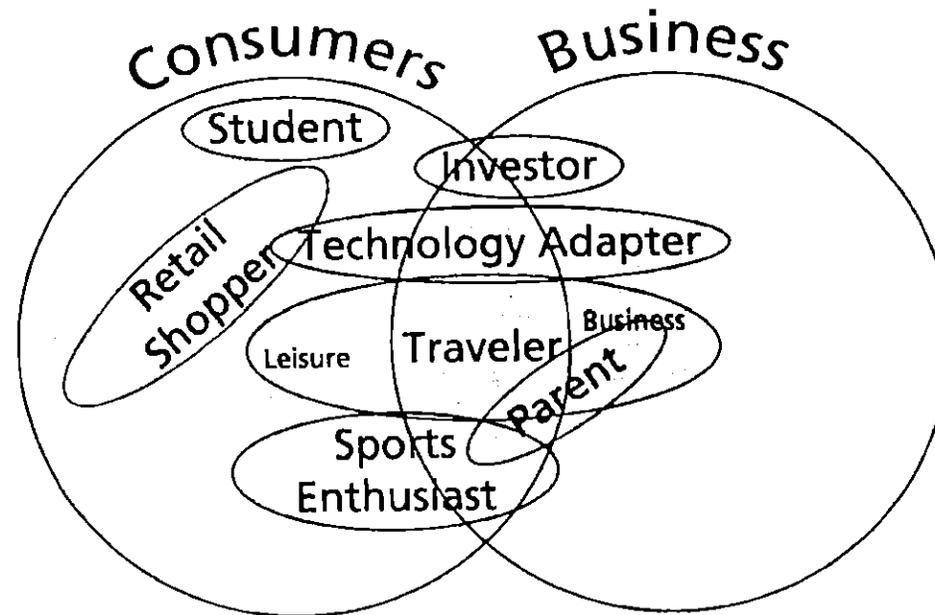# Products Meet Key Customer Segment Needs

## Corporations/Business

High

Size of Business

Large

Medium

Small

Low ........................................ High

Payment & Information Needs

## Consumers

High   Young          Married
       Professional   Professional

Demographics

Student                          Retired

Low                                High

Payment & Information Needs

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# Products Meet Key Customer Segment Needs



Consumers · Business

- Student
- Investor
- Technology Adapter
- Retail Shopper
- Leisure
- Traveler
- Business
- Parent
- Sports Enthusiast

Understanding customer drivers allows us to define marketable segments.

# MasterCard Product Offering

## Consumer Credit

Standard Card

World Card

Gold MasterCard
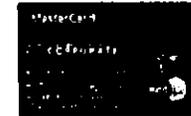
Secured Card

Platinum Card

## Corporate and T&E
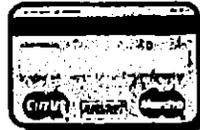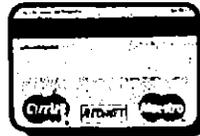
Corporate Card

Purchasing Card

Fleet Card

## Debit

Maestro

MasterMoney Debit Card

## Prepaid & Stored-Value

Chip Card

Mag stripe stored value

*MasterCard International offers a wide array of payment options.*

# MasterCard Consumer Credit Card Product Offerings



WEALTH

Premium Family of Products

Gold

Standard

World MasterCard

"Platinum Class"

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# Standard MasterCard

## For Members' Primary Customer Base...

**MasterCard.**

5412 3456 7890

0000   01/95-12/98
LEE M. CARDHOLDER

- Key component of members' product mix

- Allows issuers to tailor offer to segment the market

- Provides utmost flexibility

- Design allows for prominent display of member branding

- Global recognition of MasterCard brand

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# Gold MasterCard

## For Members' Better Customers...



- Suited for more affluent customer lifestyles
- Minimum US $5,000 spending limit or credit line
- Customized special features and services
- Distinctive gold design signals preferred customer status

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# Secured MasterCard

## For Members' Less Credit Worthy Customers...

**MasterCard.**

5412 3456 7890 1234

0000 01/95-12/98

LEE M. CARDHOLDER

- For customers with no credit history or blemished records

- Customer provides deposit with issuer equal to spending limit

- Allows customer to establish or improve credit history

- Provides access to global network
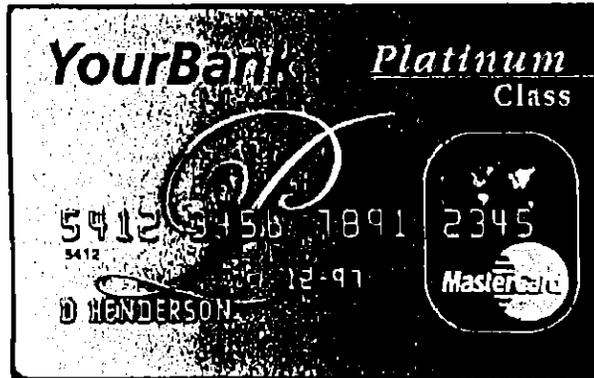
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# New Mastercard Products — Premium Family

**The Strategy Is to Retain, Expand and Evolve Existing Cards Based on Local Market Needs**



World MasterCard

Platinum Class

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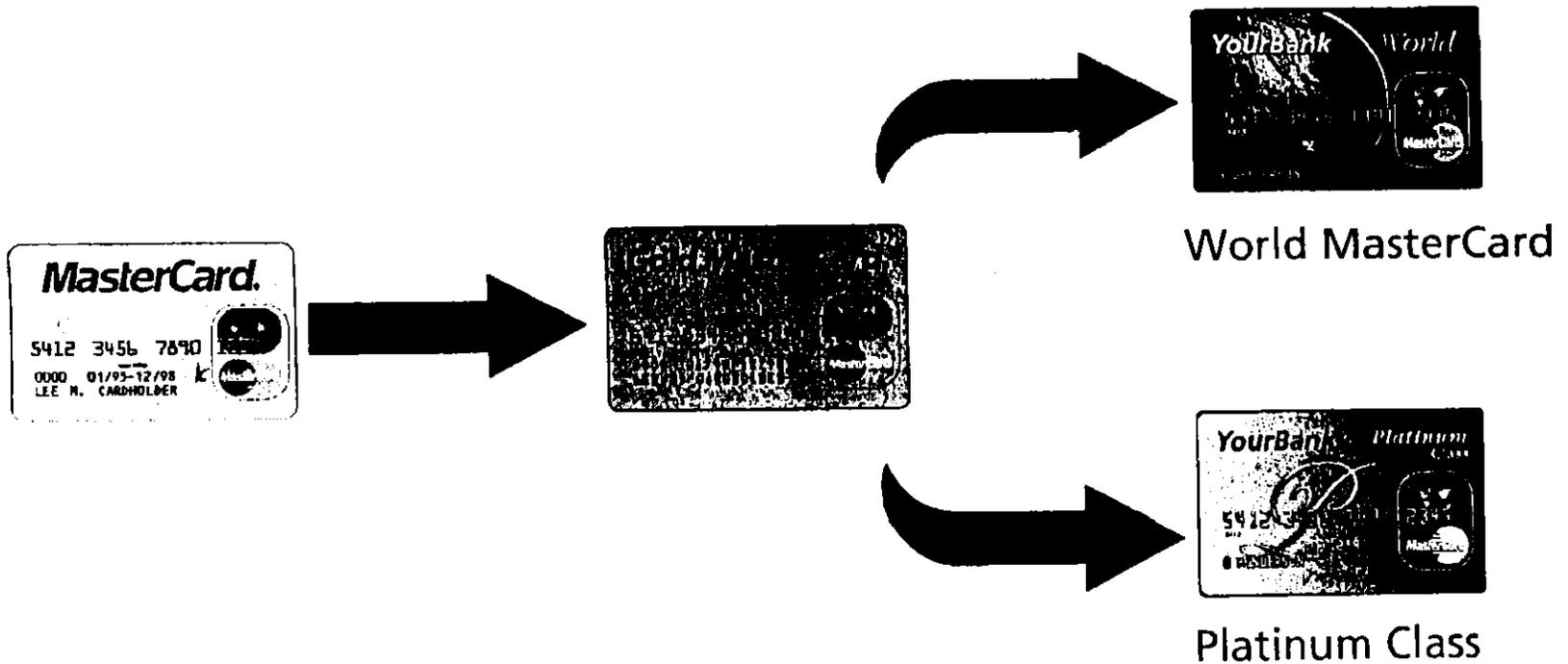
# New MasterCard Product —
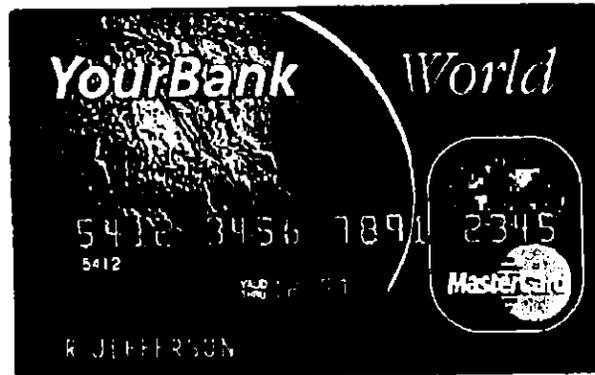# Platinum Class

## For Members' Best Customers Desiring Higher Lines and Services...



- Additional prestige and value for the upper end of the Gold card portfolio

- Minimum credit line of U.S. $10,000

- Rewards program and preferred treatment at merchants

- Excellent customer service

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# New MasterCard Product — World Card

## For Members' Best Customers...



- Created for most affluent customer segment

- No pre-set spending limit with revolver option

- Exclusive privileges and premier services

- Superior rewards and incentives tied to spend

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# MasterCard Co-Branding Approach

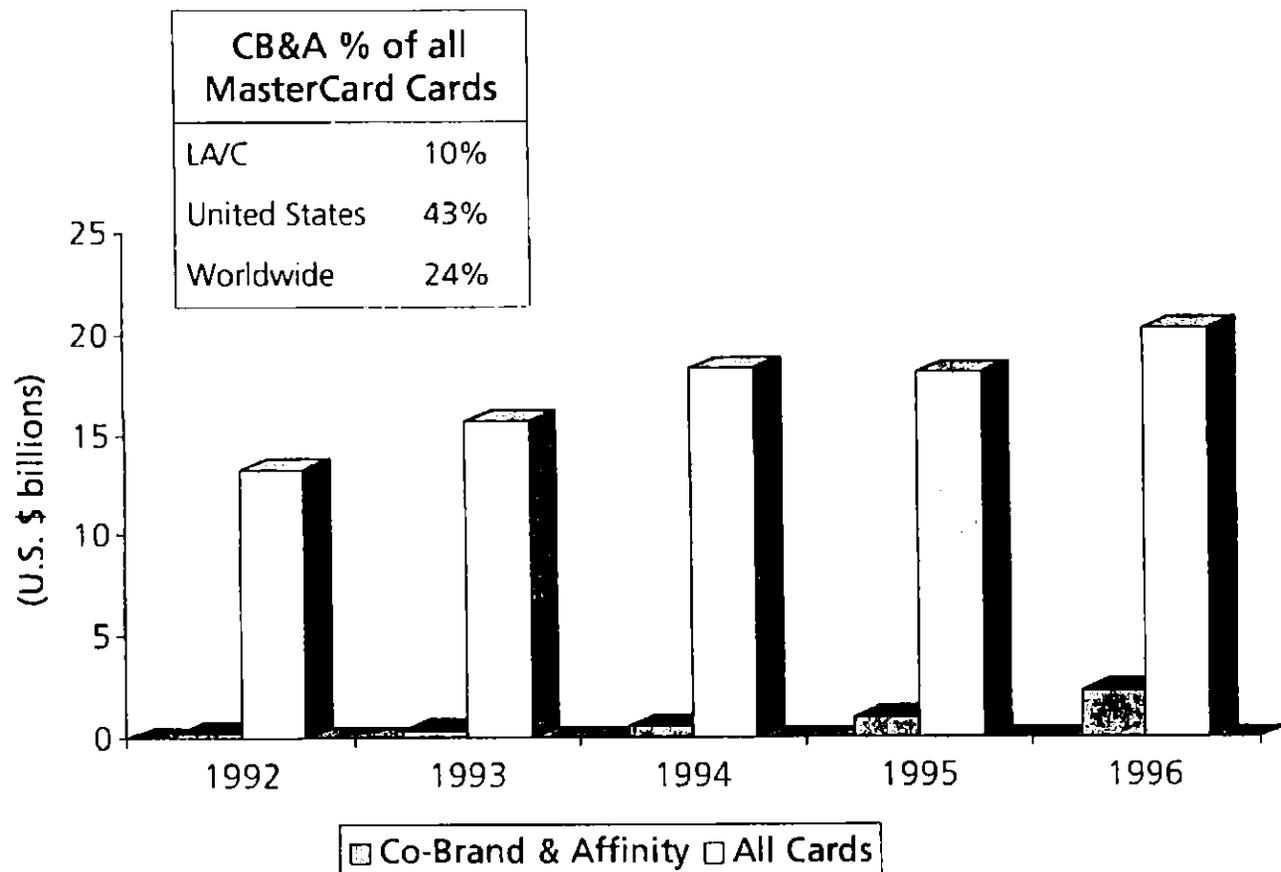| Build Brand Preference | Proposal Support | Launch Support | Post Launch Support |
|---|---|---|---|
| •Identify prospects<br>•Establish common goals and objectives with prospects<br>•Provide international consultation | •Market research and analysis<br>•Product development and selection<br>•General support | •Project management<br>•Database marketing<br>•Advertising and promotions<br>•General marketing support | •Program effectiveness analysis<br>•Recommended revised marketing approach<br>•Leveraging MasterCard |

*Performance Differential = Stronger Loyalty Programs*

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# Co-Branded & Affinity Growth in Charge Volume

| CB&A % of all MasterCard Cards | |
| --- | --- |
| LA/C | 10% |
| United States | 43% |
| Worldwide | 24% |

(U.S. $ billions)

25
20
15
10
5
0

1992    1993    1994    1995    1996

☐ Co-Brand & Affinity  ☐ All Cards

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# Co-Brand & Affinity Programs

Leverage MasterCard Promotions & Sponsorships
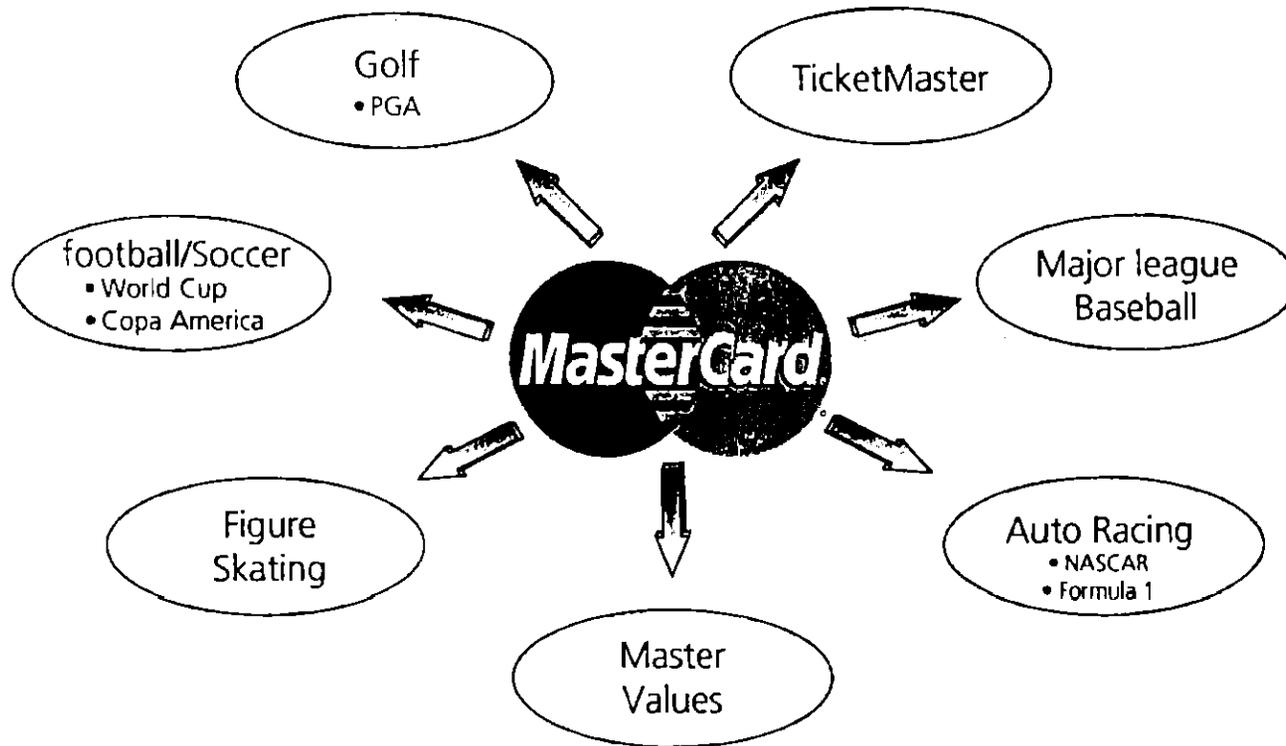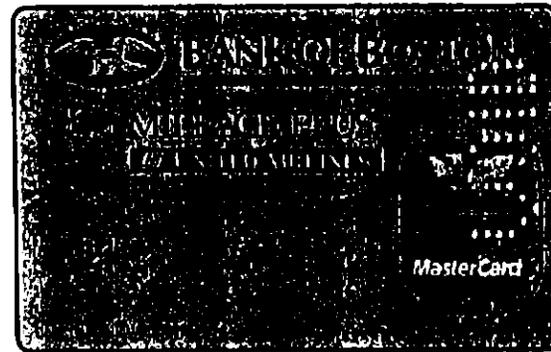
Golf
• PGA

TicketMaster

football/Soccer
• World Cup
• Copa America

Major league
Baseball

MasterCard
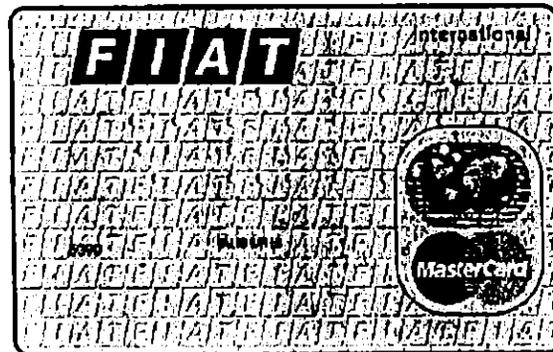
Figure
Skating

Auto Racing
• NASCAR
• Formula 1

Master
Values

# Co-Branded & Affinity Successful Programs

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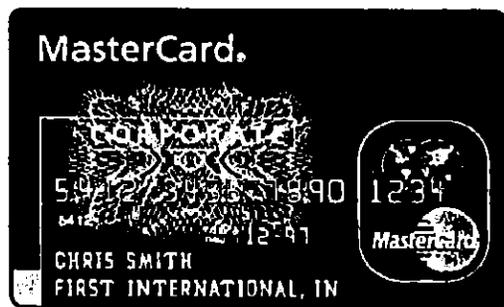# Co-Branded & Affinity Successful Programs

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# MasterCard's Value-added Products and Services

## Corporate Products

# Global Corporate Products

## Strong Contribution to MasterCard Growth — 1Q 97



Percentage Growth

| | Standard | Gold | Corporate |
|---|---|---|---|
| GDV | 7.3 | 25 | 34.3 |
| Cards | 10.4 | 19.4 | 32.7 |

Legend: ■ GDV / Cards
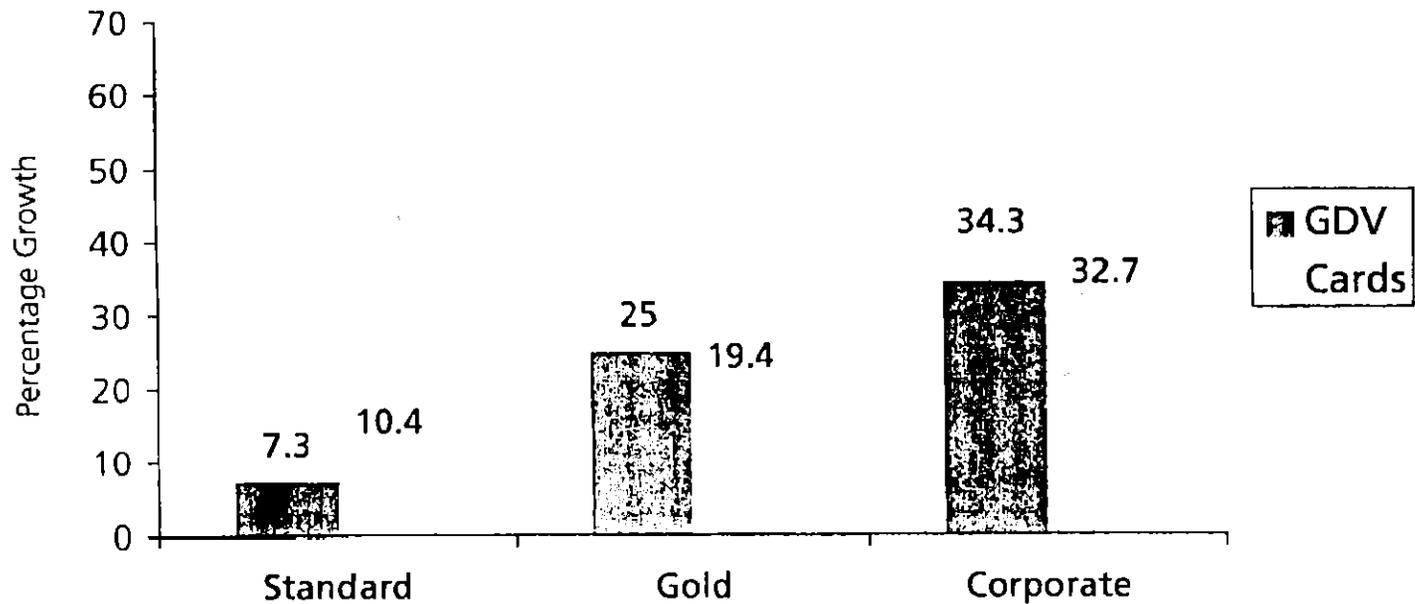
Source: 1Q97 Global Performance Report

# Global Corporate Products

## High Spend Per Card Contributes to Profitability



Bar chart values:
- Debit: $760
- Standard: $1,548
- Gold: $2,288
- Corporate Products: $5,364
- Purchasing Card: $7,040

Y-axis: $0 to $8,000 in $1,000 increments
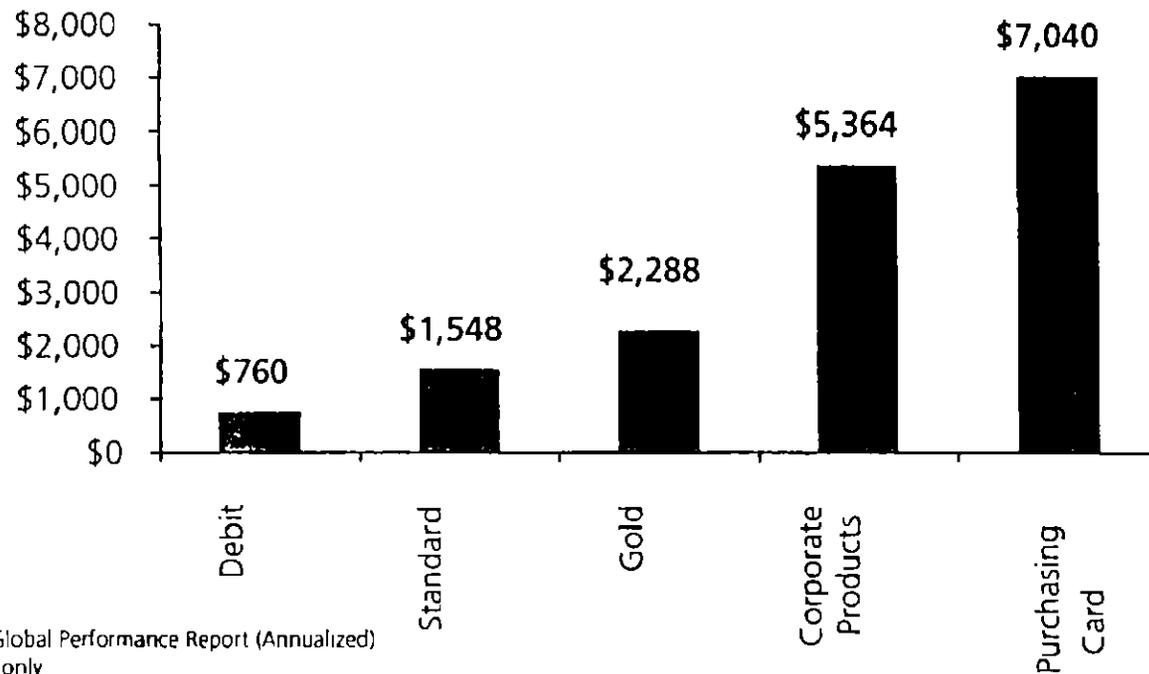
Source: 1Q97 Global Performance Report (Annualized)
1 U S. statistics only

# Strategy

## Delivering a Global Platform

| Product Positioning | Product Features | Pricing | Systems Support | New Product Applications |
|---|---|---|---|---|
| Corporate Payment Solution | New Global Benefits | Global Interchange | Smart Data 3.0 | Fleet Electronic Commerce |
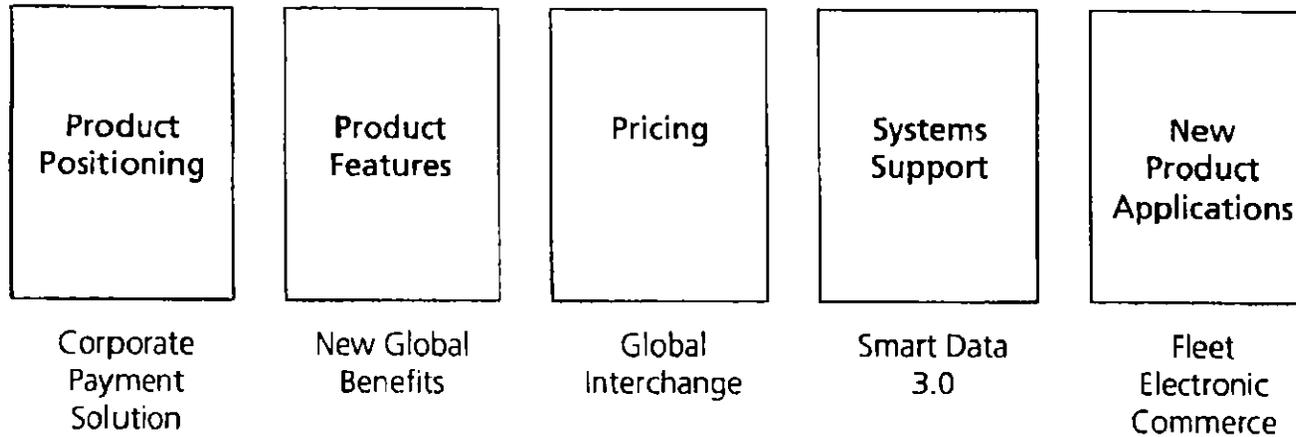
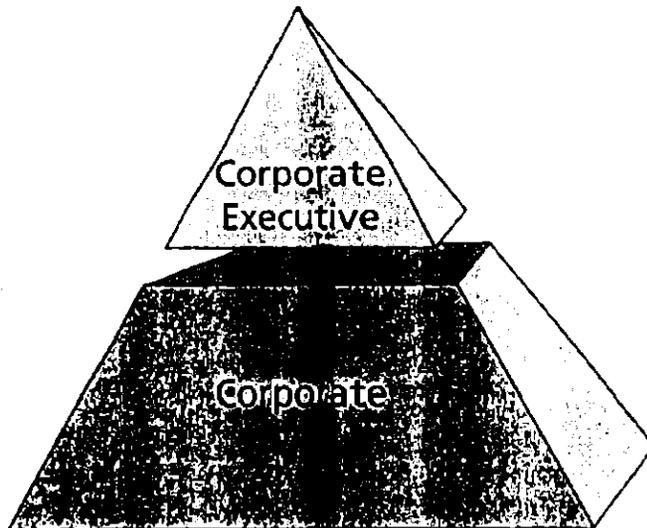**Consistent Product Platform for Global Expansion**

# Corporate Executive Card — Segmentation

## Corporate Market Leveraged Global Product Development Initiatives to Achieve Efficiency



*Large/Middle Market*
(Accounts with 10+ Cards)

*Small Market*
(Accounts with Less than 10 Cards)

Business Seniority

Business Needs

Corporate
Executive

Corporate

World

Corporate
Executive

Corporate

25
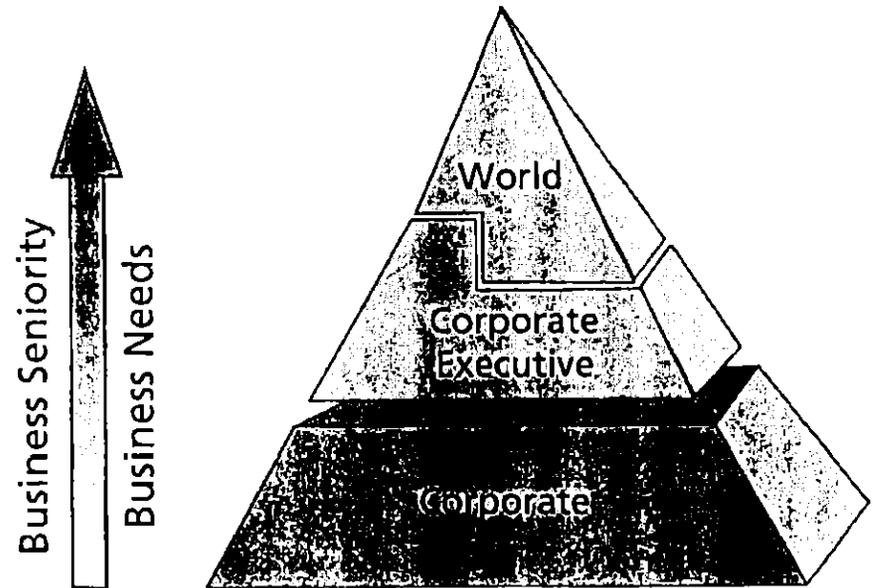
# Corporate Executive Card

## The Executive Card Expands the Product Portfolio to Meet Market Demand

- Need was identified for more upscale corporate card to fill product gap, i.e., Amex

- Demonstrate MasterCard continued commitment to T&E Market and corporate product category

- Create new profitable revenue opportunities for membership and competitive tools versus Visa/Amex

- Defend distribution system against competing brands

# Smart Data Corporate MIS Leadership

## Market Segmentation:

| Small Corporate | Large Corporate | Multi Nationals |
|---|---|---|
| Smart Data 2.02 ⇐ | Smart Data 2.0 ⇒ | Smart Data 3.0 |
| Single Desk Top | Single Desk Top | Multi User |
| Simple Installation | 32 Level Hierarchy | Multi Currency |
| One Level Hierarchy | 29 Standard Reports | Multi Language |
| Limited Reports | Customized Reporting | Global Reporting |
| No G/L Mapping | G/L Mapping | Enhanced E-Mail |
| Issuer Provides Data | E-Mail | |
| | Central Data Repository | |
| | American English | |

# Electronic Commerce

## Business-to-Business commerce will lead the way...

*"Business-to-Business E-Commerce is the Killer Application of the Internet"*

— Peter Solvic..Cisco Systems

# Electronic Commerce

## Projections vary dramatically, however, Internet growth is inevitable...



Legend:
- Killen
- Input
- Dataquest
- Forrester
- ActivMedia
- MCI (original)

Data labels (2000): $800, $230, $200, $74, $50, $10

X-axis: 1995, 2000
Y-axis: 0, 100, 200, 300, 400, 500, 600, 700, 800
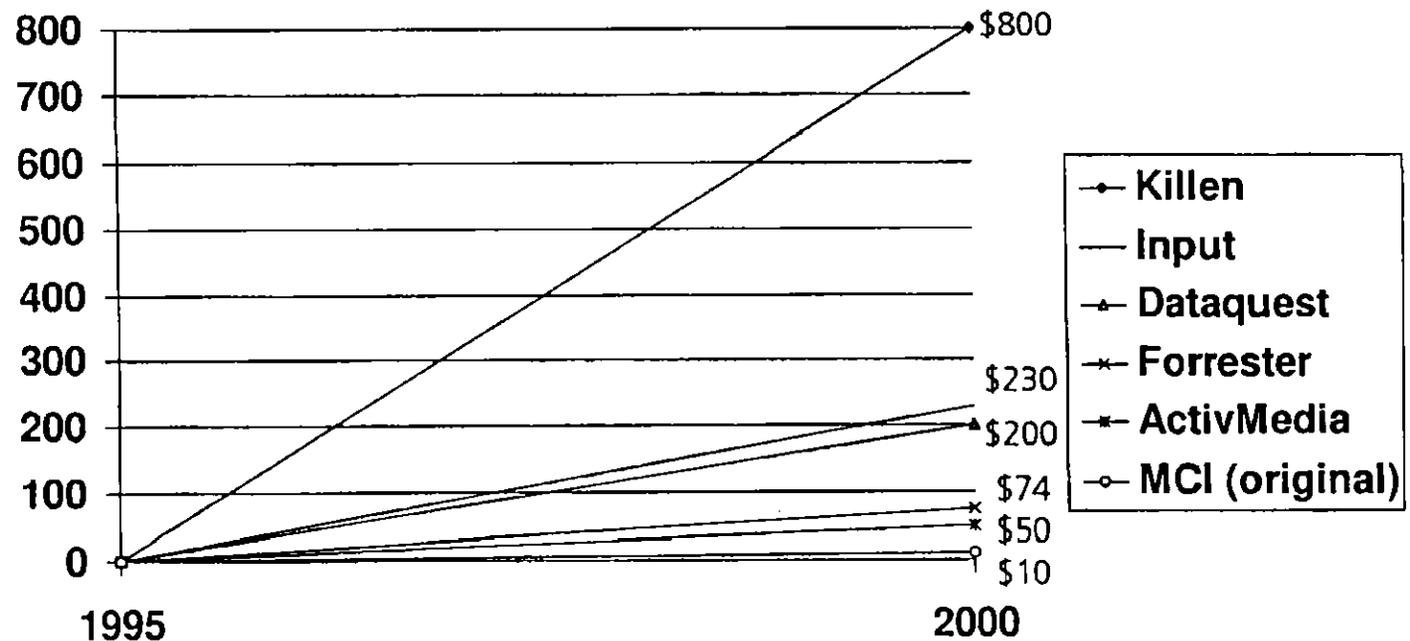
# "E-Purchasing" Objectives

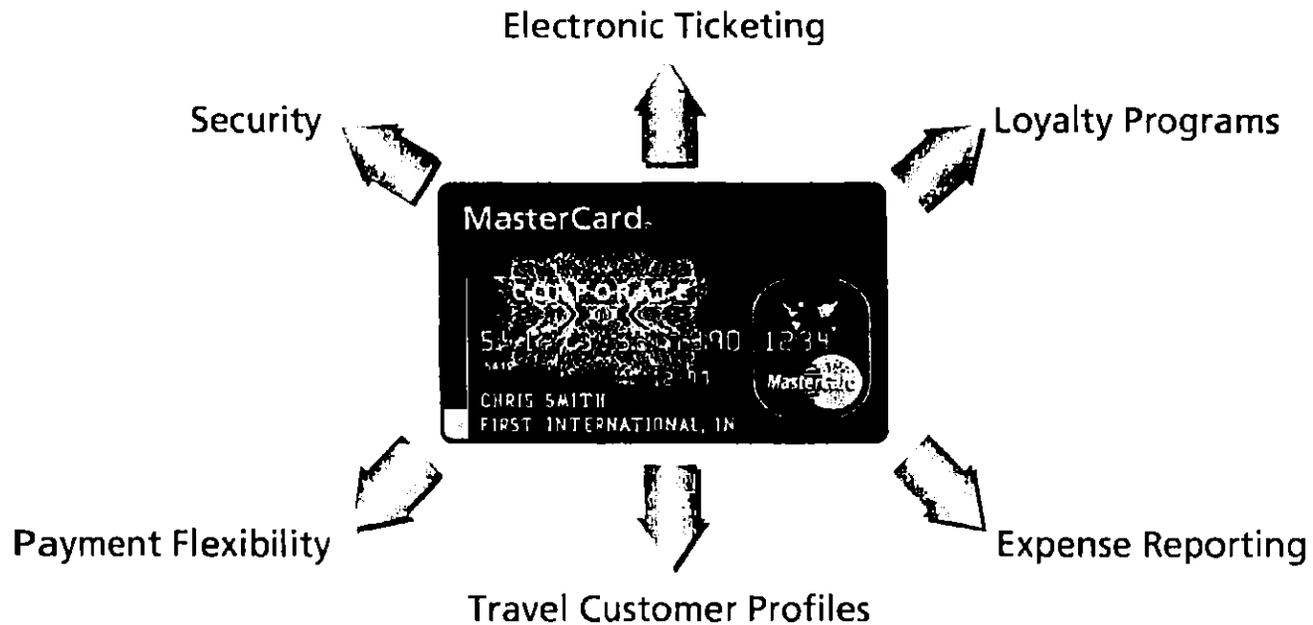## To develop profitable solutions for Corporate E-Commerce that leverage...

- Existing Purchasing Card Member/Client Relationships

- Efficiencies of Card-based payment infrastructure

- Information Delivery via Smart Data desktop reporting and 635 Enhanced Data Capture

- Alliances with E-Commerce applications providers which support the Purchasing Card, Smart Data, SET standards and Multos (Future)

# MasterCard Corporate T&E Smart Card Vision

## The Corporate T&E Market will be an Early Adopter in Multi-Application Technology



Electronic Ticketing

Security

Loyalty Programs

Payment Flexibility

Travel Customer Profiles

Expense Reporting

# The Key Features of the Smart Travel Card Are...

Electronic ticket

Booking — Ticket — Airport Check-in — Car Rental Check-in — Hotel Check-in

Travel agency

**Seamless Service**
Cashless
Convenience
Loyalty Credit
Electronic bill
Expense account management

Expenses Reimbursement

Expenses Statement

Expense Break-down

Airport Check-in

Car rental Check-out

Hotel Check-out & Bill
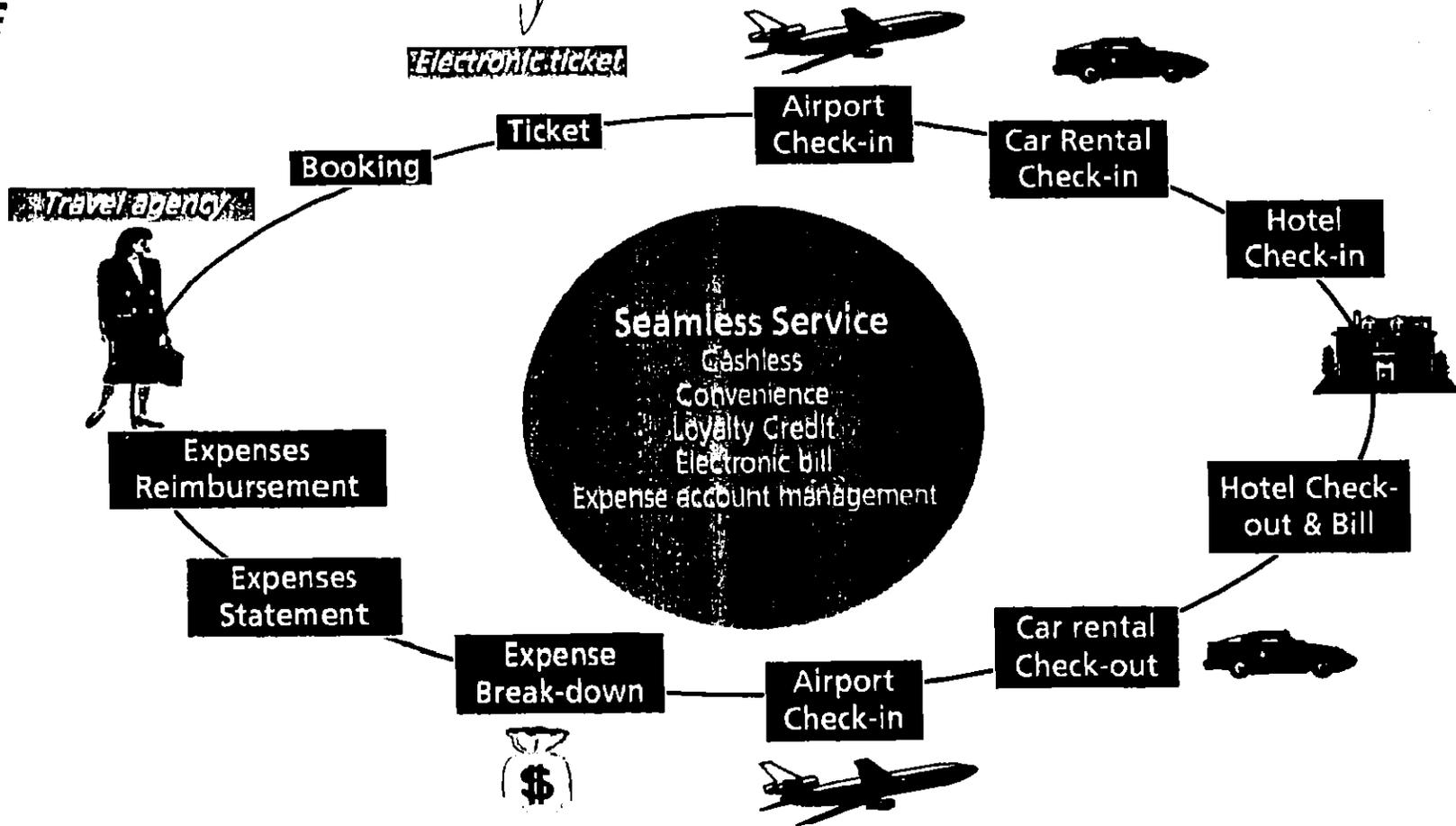
# MasterCard's Value Added Products

## MasterCard is Here to Work with You at Every Stage of the Product and Customer Lifecycle
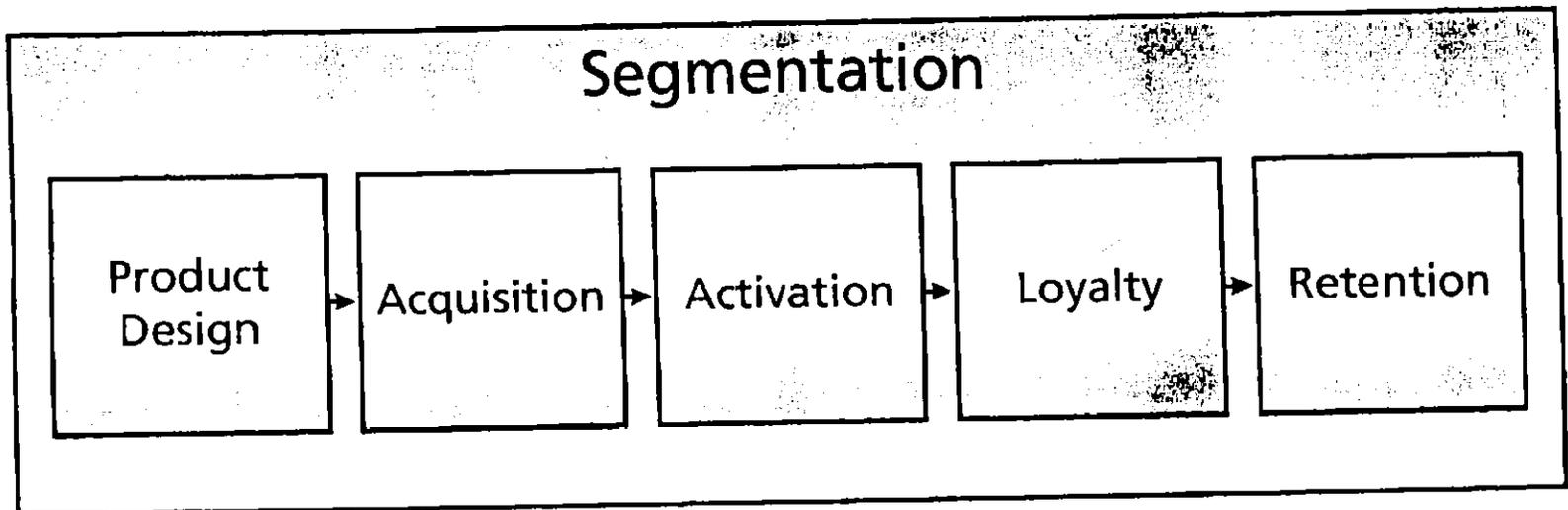
Segmentation

| Product Design | → | Acquisition | → | Activation | → | Loyalty | → | Retention |

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# MasterCard
# International

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# Bankruptcy Initiatives

## Corporate Products Committee

October 29, 1997

# Agenda

- Joint (MasterCard/Visa) Bankruptcy Reform Initiatives
    - Goals & objectives
    - Bankruptcy Issues Council
        - NBRC
        - research
        - legal issues
        - government relations
        - public affairs
- MasterCard "responsibility" advertising

# Bankruptcy Filings
# Business and Consumer



Legend:
- Personal Filings
- Business Filings

Y-axis: 0, 400,000, 800,000, 1,200,000

X-axis: 1980, 1982, 1984, 1986, 1988, 1990, 1992, 1994, 1996
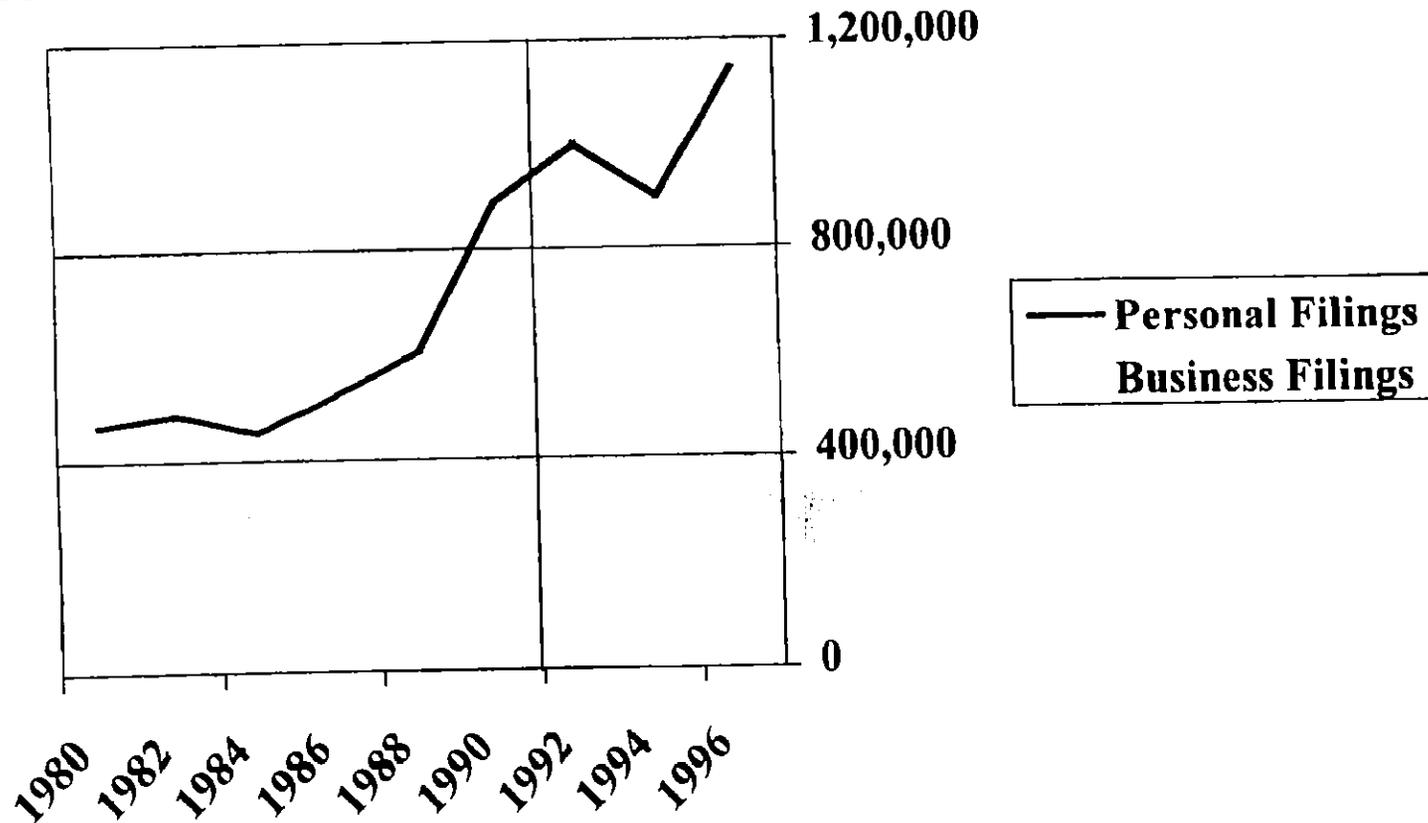
# Current Situation

- Record 1.16 million consumer bankruptcies in 1996
    - one in every 100 households
- MasterCard forecasts 19% growth in 1997
- Causation factors:
    - Economic
    - Social
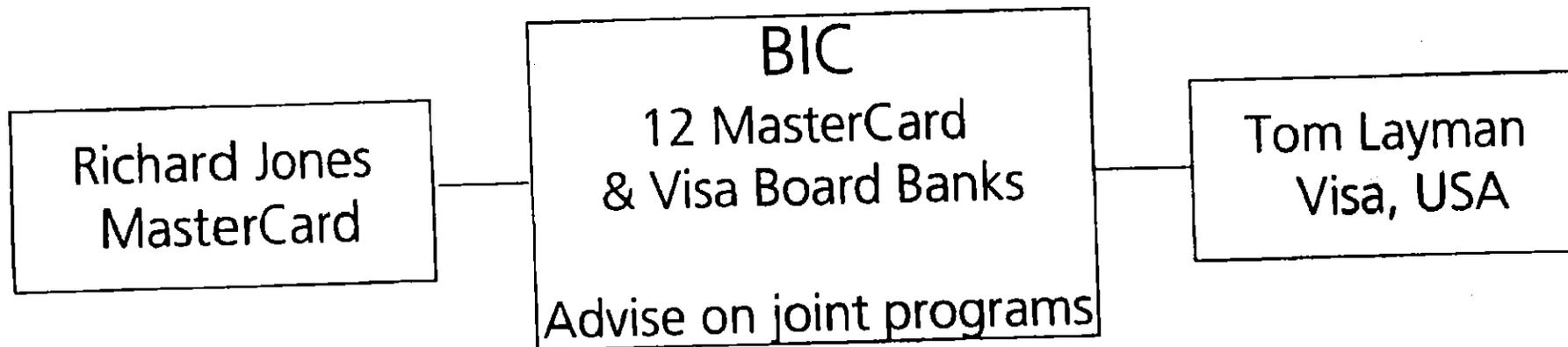    - Legal

# Current Situation (Cont'd)

- Perception exists among critics that credit cards are to blame
    - Record number of recent solicitations
    - Credit too easy to obtain
        - lax underwriting criteria
    - Consumers confused by teaser rates
    - Former bankrupts can easily obtain credit

# Current Situation (Cont'd)

- Flawed bankruptcy laws providing extraordinary relief
  - Don't have to demonstrate need for relief
  - Erases debts even of those who can repay
  - 70% of bankrupts file under Chapter 7
  - 90% are "no asset" filings
    - Issuers and unsecured creditors get nothing
- Over $11 billion in losses for bankcard industry

# Bankruptcy Issues Council

| Richard Jones MasterCard | BIC<br>12 MasterCard<br>& Visa Board Banks<br><br>Advise on joint programs | Tom Layman Visa, USA |
|---|---|---|

- Gov't relations
- Public affairs
- Legal issues
- Research

# Short Term/Long Term Objectives

Raise Consumer Awareness

Show The Current System is Flawed

Promote Needs Based System

Set Legislative Agenda

Shift Emphasis From Credit Cards

Short Term

Long Term

Change Bankruptcy Code

Change Consumer Behavior

Rectify Legal Interpretation

# Bankruptcy Issues Council

- MasterCard
- Visa
- Advanta
- AT&T UCS
- Bank of America
- Chase
- Citicorp

- FCC/NBD
- First USA
- FNBO
- Household
- MBNA
- NationsBank
- USAA

# National Bankruptcy Review Commission

# The NBRC

- Created with Bankruptcy Reform Act of 1994
- Review system, recommend changes
    - Commercial and consumer bankruptcies
- Slow to organize
    - Death of Mike Synar, first chairman
    - Held first meeting 2 years after formation
    - Report presented to Congress October 20 1997

# NBRC Consumer Proposal

- Adopted by slim 5-4 vote
  - Alternate proposal defeated 5-4
- Opposed by creditors
  - Forgives nearly all credit card debt 31 days+
  - Boosts homestead and property exemptions in many states
  - Makes student loans dischargeable
  - Rejected "needs" testing

# Government Relations

# Legislative Activities

Responsible Borrower Protection Bankruptcy Act

- Introduced Sept. 17 in House of Representatives
  - Rep. Bill McCollum (R-FL)
  - Rep. Rick Boucher (D-VA)
- Addresses flaw in system that allows people to walk away from debts regardless of ability to pay

# Legislative Activities

Highlights of Legislation

- Creates Needs-based system
- Addresses multiple filings
- Streamlines process for Chapter 13 filings
- Regular re-examination of Chapter 13 plans
- Makes debtor aware of options and alternatives
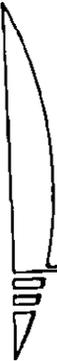
# Legislative Activities

Highlights of Legislation (Con't)

- Ensures creditors get adequate notice of filings
- Establishes central docket of bankrupts so courts can easily review history of filers
- Creates database of bankruptcy filers and statistics so Congress can monitor trends

# Public Affairs

# Public Affairs

- Retained the Powell Tate public affairs firm to:
  - Make bankruptcy reform part of national discourse
    - Highlight flaws in system
    - Highlight needs-based solution
    - Neutralize perception that credit cards are cause
  - Support lobbying strategies

# Public Affairs

- "Issues advertising" campaign
  - Inside the Beltway media
  - Message: system is broken, unfair
  - Urge Congressional action on crafting solution

# Legal Issues

# Legal Issues

- Education
  - Retained Carl Felsenfeld, Fordham Univ. law professor & noted bankruptcy academic
    - Legal articles
    - Symposia
    - Consulting

- Litigation
  - Identified 3 national law firms for litigation effort

# Legal Issues

- Litigation effort will use appellate process to:
  - Address absence of precedent and uncertainty in bankruptcy code regarding...
    - dischargeability of credit card debt under Chapter 7
  - Address pro-debtor and ad hoc approach at bankruptcy court level
- Support individual issuers in challenging cases on appeal

# Research

# Research

- WEFA Group
  - "Economic Cost of the Bankruptcy System"
  - "Consumer Debt & the Economy"
- Ernst & Young
  - "Impact of Moving to Chapter 13"
  - "Impact of State-Specific Exemptions in the Bankruptcy Law"

# Research

- Purdue Credit Research Center -
  - Study to understand profiles of filers and their ability to pay
    - 25% of Chapter 7 filers can pay back 33% of non-housing debt
    - 10% can repay 85% of debt
    - 5% can repay 100%

# Responsibility Advertising

# Responsibility Advertising

- Mounting & emotional criticism re: college segment
    - Laws limiting issuer access to campuses introduced in...
        - NY, MI, MA
    - School administrations adopting similar policies
    - Issue raised in Grassley bankruptcy hearings
    - Increasingly negative media coverage

# Responsibility Advertising

<u>Target media</u>

- TV

  - MTV...Sept 4 debut on *MTV Music Video Awards*

- Print

  - Details, Entertainment Weekly, Rolling Stone, Spin, US, Wired, GQ, etc.

- New Website

  - "Creditalk"...almost 10,000 visits since launch

MasterCard®

# MasterCard
# International

**MasterCard**

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# Corporate Products
# *Purchasing Card Update*

Elisa Corridore - VP US Region Corporate Products
Committee Meeting - Purchase, NY
October 28th-29th, 1997

# Purchasing Card Update

## Discussion Points

- Segment Opportunities
- Standardization of Commodity Coding
- Sales and Use Tax
- American Management Association Seminars

# Purchasing Card Update

## Segment Opportunities

- Healthcare
- Franchise

# Purchasing Card Update

## *Segment Opportunities - Healthcare*

- Project Objectives
  - identify healthcare market sectors where opportunities for accelerated purchasing card penetration may exist and be leveraged
  - develop strategies for accelerating purchasing card penetration in the attractive market sectors
    - understand size of the opportunity
    - understand purchasing dynamics, needs, penetration hurdles
    - develop penetration strategy
    - identify potential partners to initiate strategy implementation

# Purchasing Card Update

## *Segment Opportunities - Healthcare*



Contract

Membership

Contract

Supply

Supply

Contract
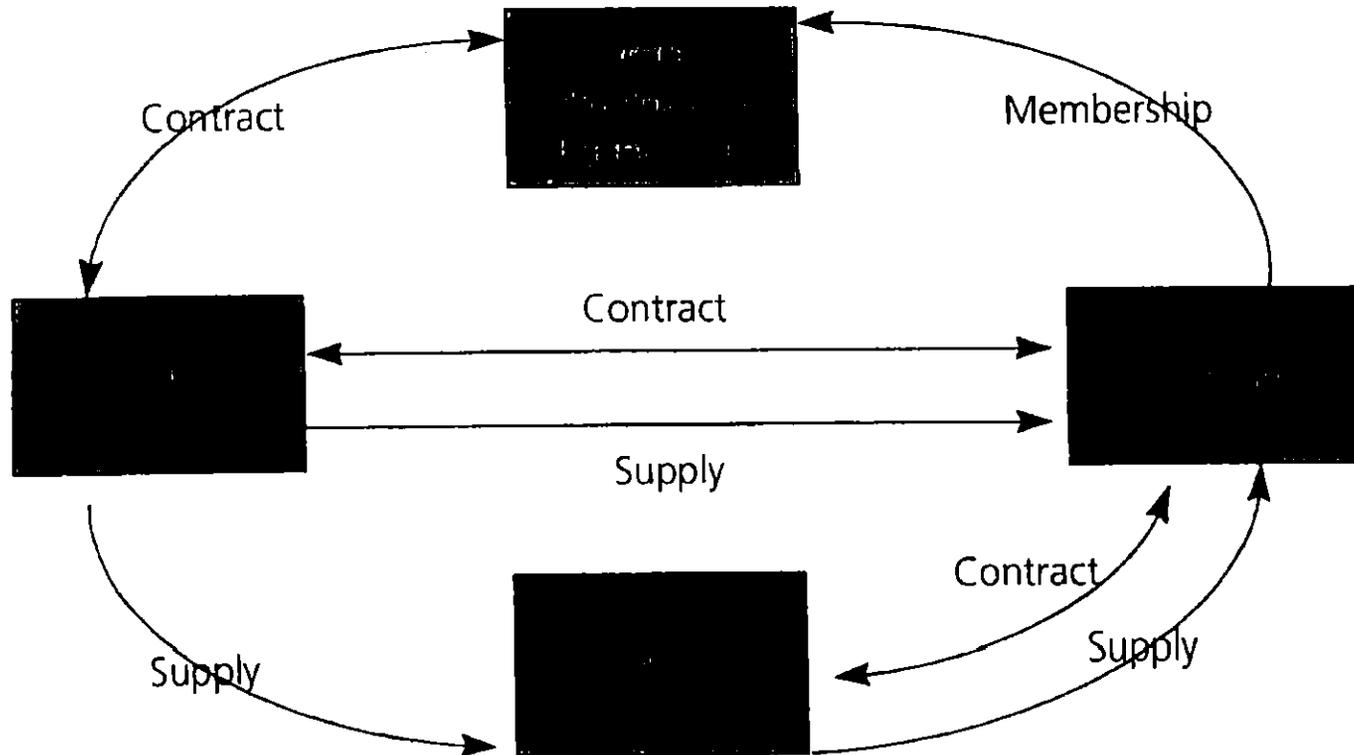
Supply

# Purchasing Card Update

## *Segment Opportunities - Healthcare*

- Provider Sector
  - spend almost $90 billion per year on supplies
  - until 10 years ago, was a cottage industry characterized by independent provider entities
  - current increases in both corporate consolidation and service delivery dispersion can be attributed to unrelenting cost pressure on providers
  - in response to these pressures, providers are
    - integrating for economies of scale and for political clout with payers
    - dispersing care delivery to most-suitable lowest-cost setting

# Purchasing Card Update *Integrated Delivery Network*

## *Segment Opportunities - Healthcare*

- Provider Sector (con't)
  - providers are also responding to cost pressures by increased collaboration via group purchasing organizations (GPOs) to obtain lowest prices for goods and services
    - about 85% of all hospital medical, surgical and pharmaceutical supplies are now purchased through GPOs; about 50% of all lab equipment and other supplies
  - off 700+ GPOs, top 20 allegedly have access to 87% of all US hospitals
  - as a rule, GPO's primary function is contracting with manufacturers; it does not participate in the purchasing process

# Purchasing Card Update

## *Segment Opportunities - Healthcare*

- Supply Sector

  - healthcare distribution system is fairly concentrated with a few major national players and a number of smaller national distributors, as well as much smaller local and regional distributors

  - due to ripple effect of cost pressures on providers, distribution systems undergoing additional consolidation and blurring of lines between them

  - as healthcare delivery becomes more dispersed, large distributors likely to continue to be most cost-effective at serving these locations

# Purchasing Card Update

## *Segment Opportunities - Healthcare*

- Purchasing Card Opportunity Analysis
  - the hospital purchasing process seems not to differ substantially from other industries
    - 80-20 rules apply to healthcare supply purchasing
    - 3-way matching forms the basis of invoice payment
  - except in rare circumstances, there do not seem to be any unusual regulatory or procedural requirements
  - certain types of purchasing are typically made outside the Purchasing Department
    - pharmaceutical and dietary
    - highly specialized/custom items
    - purchasing by research departments

# Purchasing Card Update

## Segment Opportunities - Healthcare

- Purchasing Card Opportunity Analysis (con't)
    - while supply chain information flow is still generally paper-based, institutional use of electronic purchasing is clearly rising
        - electronic ordering is performed primarily thru point-to-point proprietary systems provided by distributors
        - payment is made almost entirely by check
        - EDI is increasingly being used, even in proprietary systems
        - distributors investing tremendous amounts into information technology for order management

# Purchasing Card Update

## *Segment Opportunities - Healthcare*

- Purchasing Card Opportunity Analysis (con't)
  - gradual implementation of standard numbering systems for healthcare supplies and providers may spur use of electronic ordering, particularly thru third-party or open-architecture systems
    - universal numbering system exists for pharmaceuticals
    - universal number system for providers is currently being developed by the Health Card Financing Administration (HCFA)
    - use of UPNs (Universal Product Number) for medical/surgical supplies is gradually gaining momentum
    - lack of an in-place standard numbering scheme has complicated the purchasing process and has likely hampered development of third-party catalog/ordering systems

# Purchasing Card Update

## Segment Opportunities - Healthcare

- Purchasing Card Opportunity Analysis (con't)
  - Purchasing Cards increasingly being used in the healthcare industry, but.....
    - not used for "mainstream" healthcare supply purchases
    - current approaches and future EDI will be adequate for dealing with key suppliers
    - using Purchasing Cards purely as settlement vehicle does not save much over current methods or EFT
    - Purchasing Cards do not offer sufficient control for the purchase of strategic supplies

# Purchasing Card Update

## *Segment Opportunities - Healthcare*

- Purchasing Card Opportunity Analysis (con't)
  - Purchasing Cards will likely be used in the following situations which can represent 10-15% of purchasing or $10-$15 billion
    - purchasing not linked to specific contracts
    - locally-contracted suppliers
    - small suppliers where EDI is not cost-effective
    - suppliers with unsophisticated billing processes
    - standing orders/recurring orders

# Purchasing Card Update

## *Segment Opportunities - Healthcare*

- Purchasing Card Opportunity Analysis (con't)
  - Purchasing Cards will likely be used in the following situations which can represent 10-15% of purchasing or $10-$15 billion
    - small orders
    - where multiple departments make frequent, yet irregular or urgent purchases
    - custom/specialty/one-time purchases
    - items where specialized knowledge is critical and pruchaser is better off making the purchase directly
    - items where systematic receiving is not crucial

# Purchasing Card Update

## *Segment Opportunities - Healthcare*

- Capturing These Volumes Will Be Challenging
  - healthcare provider market is highly fragmented
  - perceived need is not high
  - even where need is perceived, relative priority is not high

*Nursinghomes establish 90 day payment terms with their suppliers because they wait forever for the gov't to pay them.*

# Purchasing Card Update

## *Segment Opportunities - Healthcare*

- Penetration Strategies (near term)
  - pursue top GPOs to develop co-branded program to market to their smaller and mid-size hospitals ($2.5B)
  - pursue large distributors (and possibly manufacturers) to accept purchasing cards, encourage their use and possibly develop a co-branded card ($6.8B)
  - pursue provider entities of various types that mange a distributed network of facilities ($2.1B)
  - pursue the top hospital chains ($3.8B)

# Purchasing Card Update

## *Segment Opportunities - Franchise*

- Project Objectives
  - identify if opportunities for accelerated purchasing card penetration may exist and be leveraged
  - develop strategies for accelerating purchasing card penetration in the franchise market sector

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# Purchasing Card Update

## *Segment Opportunities - Franchise*

- Segment Profile
  - small business accounts for roughly 47% of all retail sales in US and 50% of GNP; forecasted to represent over 50% of all retail activity by year 2000 or $1 trillion
  - one in every 12 businesses is a franchise
  - franchise sales were $803.2B in '92, up $87B over '90
  - Franchise Times 1997 Survey showed
    - average gross sales of $1,439,000 per unit
    - 62% of franchise accept credit cards; 27% of sales are credit card
    - 83% use cards for business-related purposes
    - 80% of franchise owners were in upper or middle management

# Purchasing Card Update

## *Segment Opportunities - Franchise*

- Determining Purchasing Card Opportunity
  - conduct initial survey in partnership with Franchise Times Magazine
    - 1,000 surveys to be mailed 10/27 w/ $1 incentive
    - random sampling based on 29 "concepts"
    - duration 6-8 weeks before tabulation begins
    - develop future strategy depending on survey results

# Purchasing Card Update

## *Standardization of Commodity Coding*

- Background

  - MasterCard, along with Amex and Visa approached by
    Dun & Bradstreet regarding endorsement of D&B
    developed coding system - SPSC (Standard Product Service
    Codes)

    - open, non-proprietary, hierarchical numbering system that allows
      identification for either a broad product group or a specific item

    - consists of approx. 6,000 listings

    - 10 digits and has five levels of classification

    - D&B responsible for managing the coding schema

  - Group jointly funded survey performed by CAPS (Center for
    Advanced Purchasing Studies) to identify market
    "readiness" for commodity code standardization

# Purchasing Card Update

## *Standardization of Commodity Coding*

- CAPS Survey Results
  - Dr. Phil Carter, Director of CAPS states

    *"One of the key pieces missing from many electronic commerce solutions is the inability to classify similar products into a commonly recognized category. Our studies determined that the amount of time companies are spending on developing, assigning, and maintaining commodity code systems is substantial. Many even maintain multiple commodity identification systems. The acceptance of a single, open system for this purpose will provide dramatic processing and management efficiencies. As an accepted, open standard, the SPSC now allows strategic management of the entire procurement process."*

# Purchasing Card Update

## *Standardization of Commodity Coding*

- CAPS Survey Results
  - Key findings of respondents
    - 57% use commodity code systems
    - most commodity code systems are internally developed and maintained
    - manufacturing firms are more likely to use them
    - larger companies are more likely to use them
    - Pcard using companies are more likely to use them
    - commodity code systems are not standard w/in industries or between buyers and suppliers
    - one commodity code system used by all suppliers would have value

# Purchasing Card Update

## *Standardization of Commodity Coding*

- Next Steps
  - Joint press release indicating support of the SPSC
  - Participation in SPSC Symposium Nov. 4-5

# Purchasing Card Update

## *Sales and Use Tax*

- FTA White Paper

  - published June '97 and distributed to various tax organizations

  - recommends purchasing card transactions be evaluated separately during audit

  - good first step,  but home run would be to effect changes in state's guidance regarding audit

- Deloitte and Touche

  - Contracted in September '97 to obtain letter agreements similar to those obtained by American Express in II states

  - Information supplied to D&T regarding product functionality, nuances associated with data capture and sample tax reports with level III data

# Purchasing Card Update

## *American Management Associations*

- Purchasing Cards : How to Get Started, How to Make Them Work
    - 6 in '97, 10 in '98
    - purchasing professional perspective

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*MasterCard*
*International*

MasterCard

## " E-Purchasing"

# The Evolution of Purchasing Cards

Stewart A. Stockdale
US Region Corporate Products
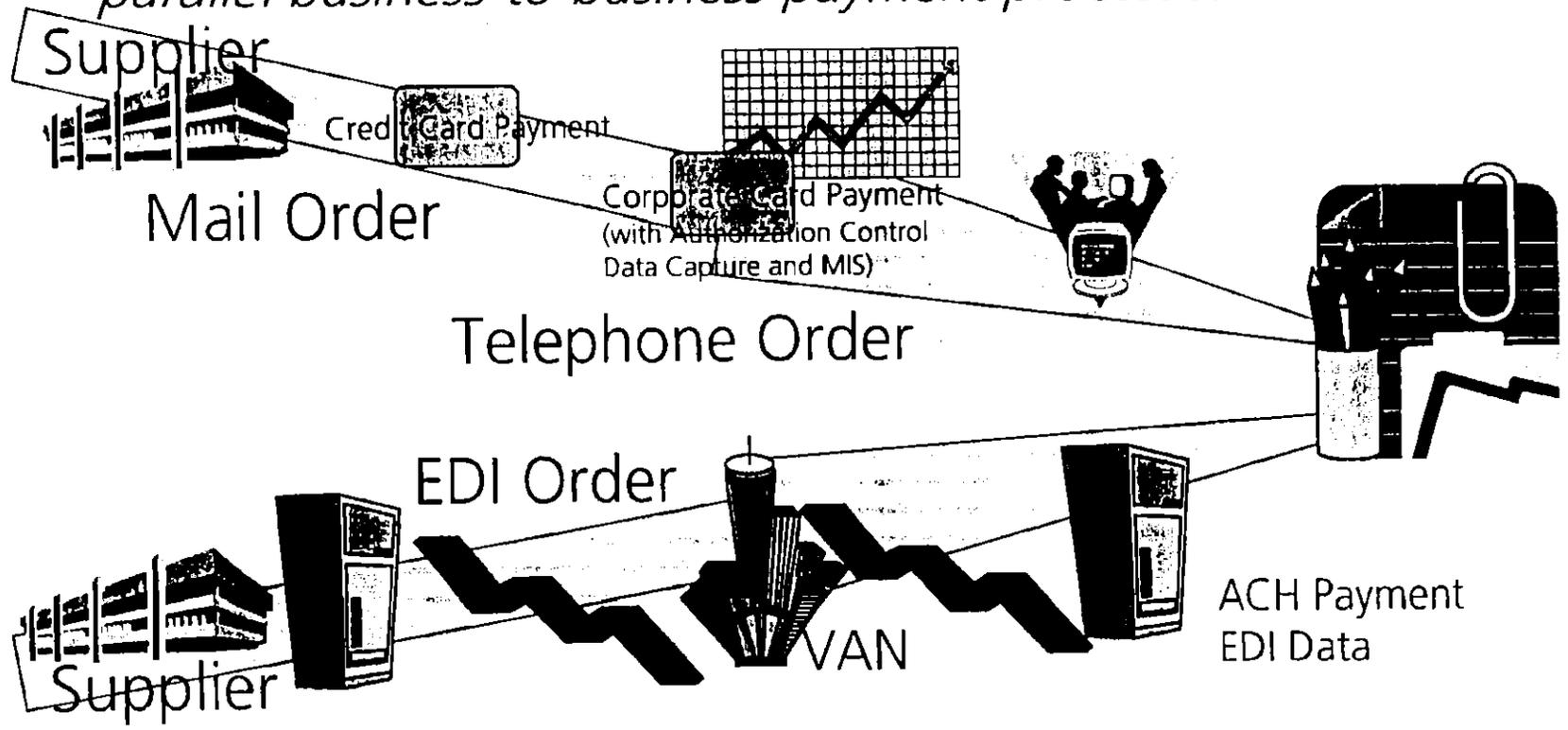Committee Meeting

Oct 29, 1997

# "The Future of Money"

*"Access to money, anywhere, anytime"*

- – *It's all about supporting value exchange...expediting transactions between two parties*

- – *Within this definition, the transaction medium is not an important differentiator*

- – *Electronic Commerce is a natural evolution of traditional Mail Order/Telephone Order purchasing activity*

*Electronic Commerce - Remote, digital exchange of value*

# Evolution of Electronic Purchasing

*Electronic Purchasing represents the convergence of two parallel business-to-business payment processes:*

Supplier

Credit Card Payment

Mail Order

Corporate Card Payment
(with Authorization Control
Data Capture and MIS)

Telephone Order

EDI Order

Supplier

VAN

ACH Payment
EDI Data

# Electronic Commerce - Growing Dramatically

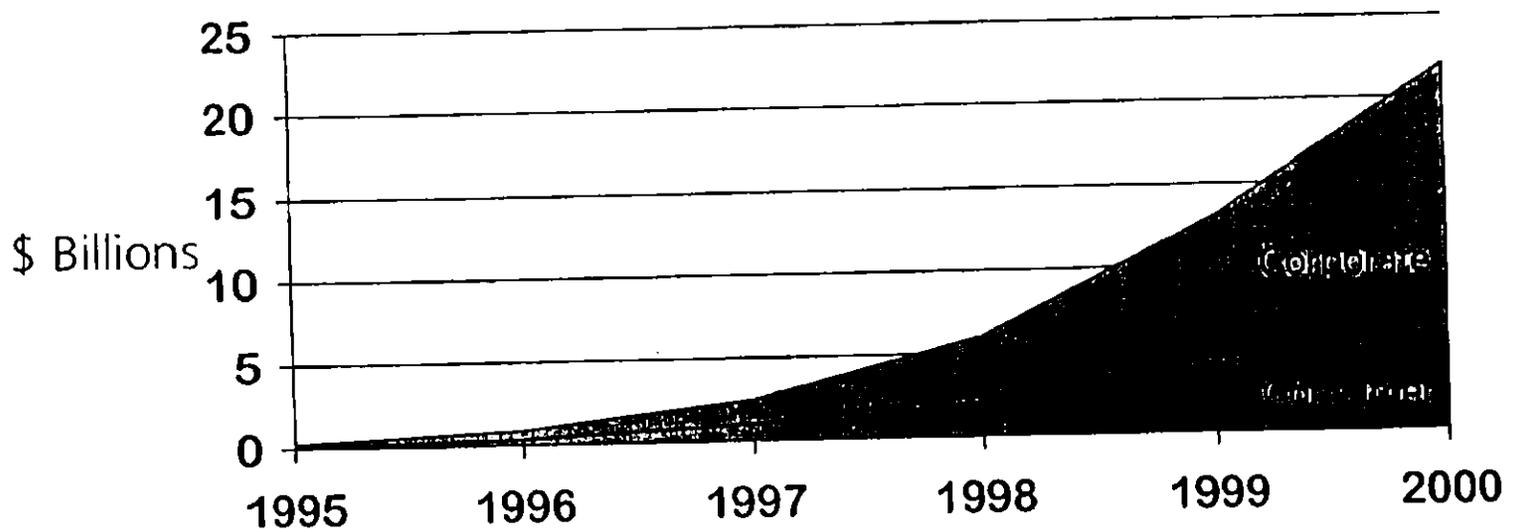*Projections vary dramatically however, Internet growth is inevitable...*
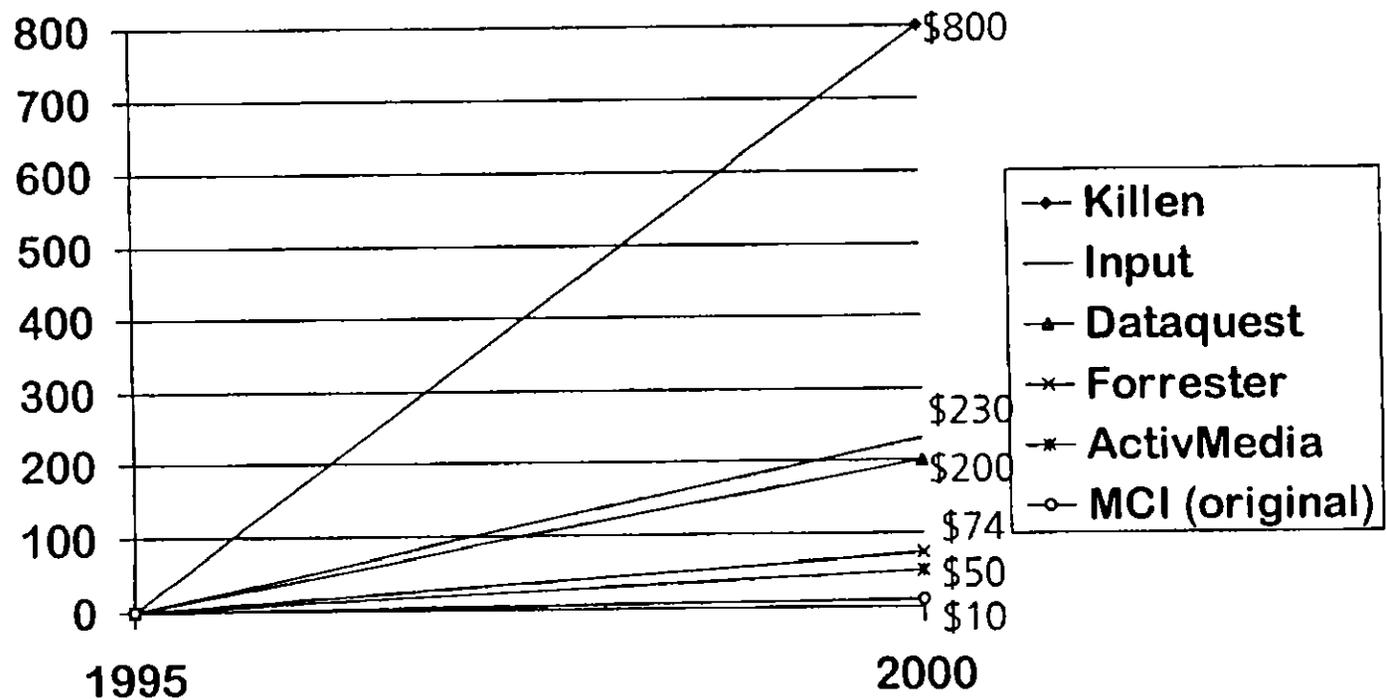
# Best Guess: Internet Commerce will reach $22B by 2000

● *Business-to-Business commerce will account for lion's share*



25 ─
20 ─
15 ─
$ Billions
10 ─
5 ─
0 ─
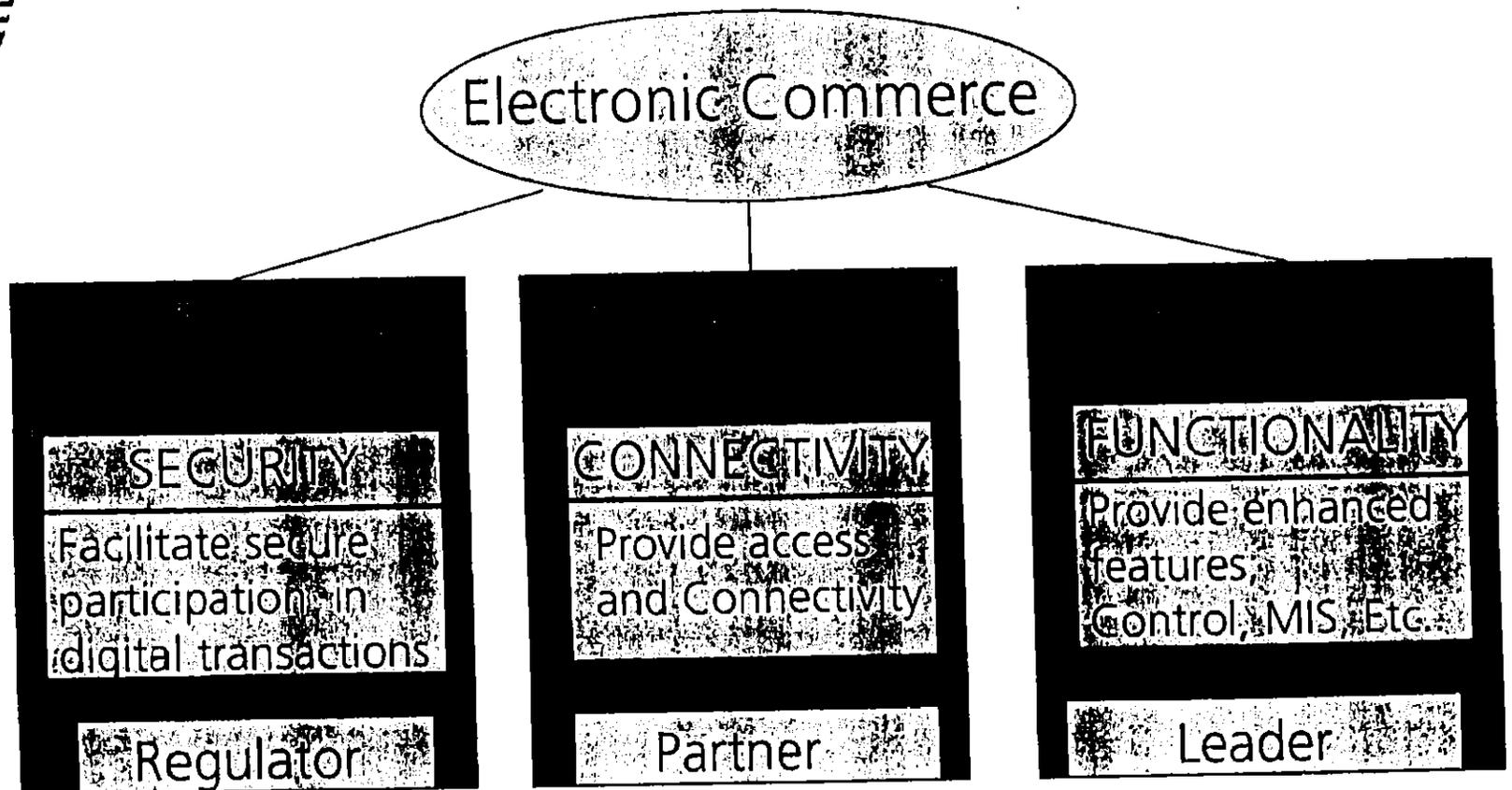1995   1996   1997   1998   1999   2000

# Electronic Commerce

*Business-to-Business commerce will lead the way...*

*"Business-to-Business E-Commerce is the Killer Application of the Internet"*

– Peter Solvic..Cisco Systems

# MasterCard's Emerging Role in Electronic Commerce

Electronic Commerce

**SECURITY**

Facilitate secure participation in digital transactions

Regulator

**CONNECTIVITY**

Provide access and Connectivity

Partner

**FUNCTIONALITY**

Provide enhanced features, Control, MIS, Etc.

Leader

# MasterCard's Commitment

- MasterCard is fully committed to supporting Business-to-Business E-Commerce

- We do not believe that any one "ultimate" Business-to Business E-commerce design will prevail:
  - Several different approaches have been advanced...
  - We are supporting multiple Pilots to evaluate
  - "Real World" test experience is the best way to refine concepts and choose alternatives in this "virtual world"

- Speed-to-market is critical, given the pace of evolution in this marketplace
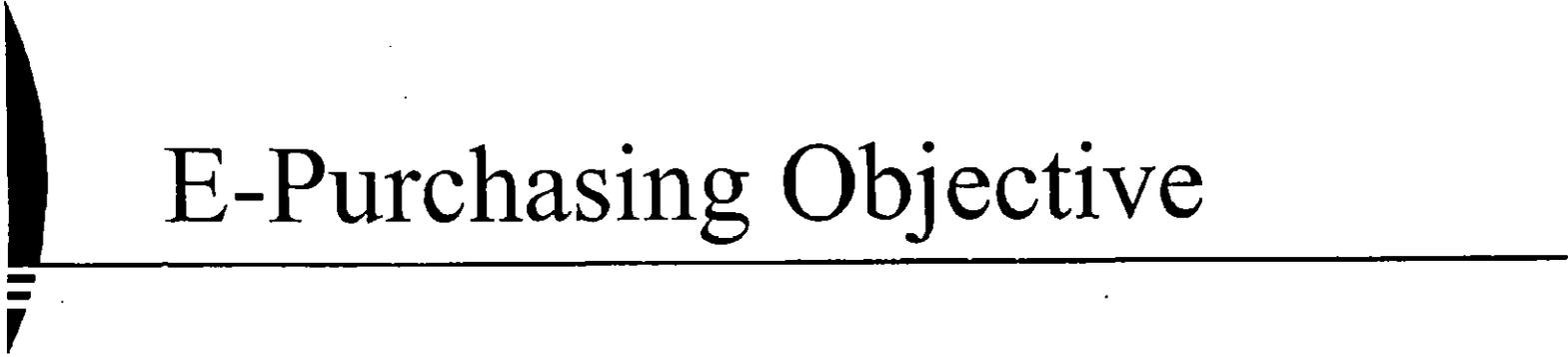
# E-Purchasing Objective

To Provide Leadership in the Global Business-to-Business
E-Commerce Market and Establish MasterCard as
the predominant, preferred Payment Method


We will achieve this by leveraging existing
Corporate Payment Products capabilities

# MasterCard E-Purchasing

- E-Purchasing is MasterCard's name for Business-to-Business E-Commerce activity
- It is differentiated from Consumer e-commerce by varying levels of:
  - Merchant/Vendor Access
  - Purchase Control Methodology
  - Levels of Data Capture

# E-Purchasing Assumptions

*Business-to-Business E-commerce differs significantly from consumer E-commerce:*

| Factor | Consumer | Business-to-Business |
|---|---|---|
| Acceptance | Maximum | Selective |
| Authorization Control | None (Individual Limits) | Multi-level Multi-Criteria |
| Aggregate Reporting | Not Applicable | Required |
| Enhanced Information | Not Required | Highly Desired |

*E-Purchasing addresses these requirements*

# Minimum Standards for Business-to-Business E-Commerce Platform

- Real-time control of who buys, what, and when
- Improved efficiencies of the electronic order process over conventional alternatives
- Restriction of transactions to "approved" or mandated vendors
- Centralized aggregation of purchase information for corporate Purchasing Function
- Audit trail information, enhanced data capture, post-purchase editing, electronic G/L posting

# MasterCard's E-Purchasing Product Requirements

| Issue | Requirement | Solution |
|-------|-------------|----------|
| Buyer Confidence | Brand Recognition | MasterCard "E-Purchasing" screen & materials logo |
| Vendor Acceptance | All "desired" vendors ("Freedom without Choice") | Level II/III vendor certification |
| Integrated Reporting | Combining information from all transaction types | MasterCard Data Repository |
| Reconciliation | Enterprise-Wide Solution | MasterCard SD4W 3.0 Multi-user version |
| Multiple "Malls" and Vendor offers | Integration of Multiple Platforms | MasterCard "MasterServer" sourcing platform |

# MasterCard's E-Purchasing Product Features

## E-Purchasing will leverage...

- Existing Purchasing Card Member/Client Relationships and P-Card reengineering efforts
- Efficiencies of Card-based payment and information transfer infrastructure
- Enterprise-wide Purchase Information Delivery and reconciliation via:
    - Smart Data 3.0 multi-user desktop reporting
    - 635 Format Invoice Capture from severs
    - Matching/reconciliation algorithms (Member driven)

# E-Purchasing Marketing Support

*E-Purchasing will be "packaged" as a new payment program as part of "Corporate Payment Solutions":*

- Inclusion of E-Purchasing product requirements, approved vendors and processes in Global Corporate Payment program marketing materials
- Publication of Business-to-Business transaction processing standards for security, data capture, audit trail and chargeback processes
- Certification of both Acquiring and Issuing Members as participant parties (as with P-Card)
- Use of MasterCard branded E-Purchasing logo on vendor screens and collateral as indicator of certification compliance and "safe" transaction process

# E-Purchasing Mark

**MasterCard**
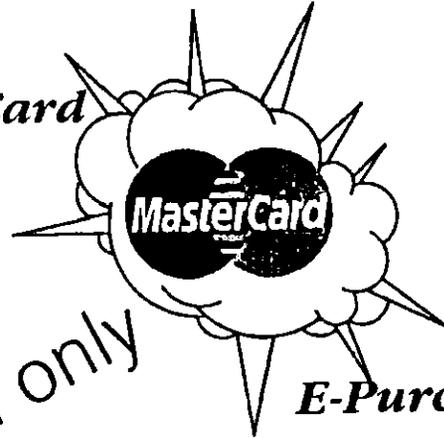
**MasterCard**

Draft Design
For Illustration only

**E-Purchasing**

# MasterCard E-Purchasing - 1998 Pilot Tactics

## *MasterCard/Member Bank partnership*

- Objectives:
    - Minimize individual Member resource allocations
    - Support Multiple Platforms, Optimize speed-to-market

- Leverage existing corporate and vendor (acquiring) relationships to efficiently expand base of corporate E-Purchasing participants

- Integrate Smart Data reporting to corporate clients as core feature of E-Purchasing program:
    - Eliminates Member need to build new MIS
    - Consolidates all data

- Initial Canadian efforts underway. Will include other countries/Banks after initial pilot results

# E-Purchasing - Issues to Consider

- Brand Identity / Product Packaging
- Large Ticket Transaction Support
    - Electronic Purchasing Interchange
    - Currency Conversion fees
- Buyer Protection/Chargeback Rules

# MasterCard's E-Purchasing: Advantages to membership

- Opportunity to "Own" new revenue stream through creation of new Branded Product Category
  - Card convenience in E-Commerce will generate new usage now customarily being paid by check/ACH
  - P-Card data capture can supplant EDI volume at potentially better margins
- Investment in P-Card will pay back as volume builds
- Window of opportunity to redefine financials and implementation costs on vendor/supplier side

# Pilot Deployment Initiatives

- ELEKOM
    - In-House MasterCard test
    - Bank of Montreal Canadian Pilot
        - High Interest among Key Corporates & Vendors
    - Australia - 1998 Commitments
- ACTRA, TPN, Ariba, Others
    - Also evaluated, will support at Member request

# MasterCard Approach - Architectural Advantages

- "Key" text-based catalog data maintained on in-house Corporate transaction server. "Rich content" obtained on as-needed basis via Internet access to vendor web site

- User friendly "PO" styled process. Strong search capabilities across suppliers. Order completion in-house w/ e-mail approval

- No need to reconstruct HTML-based vendor web sites/electronic catalogs

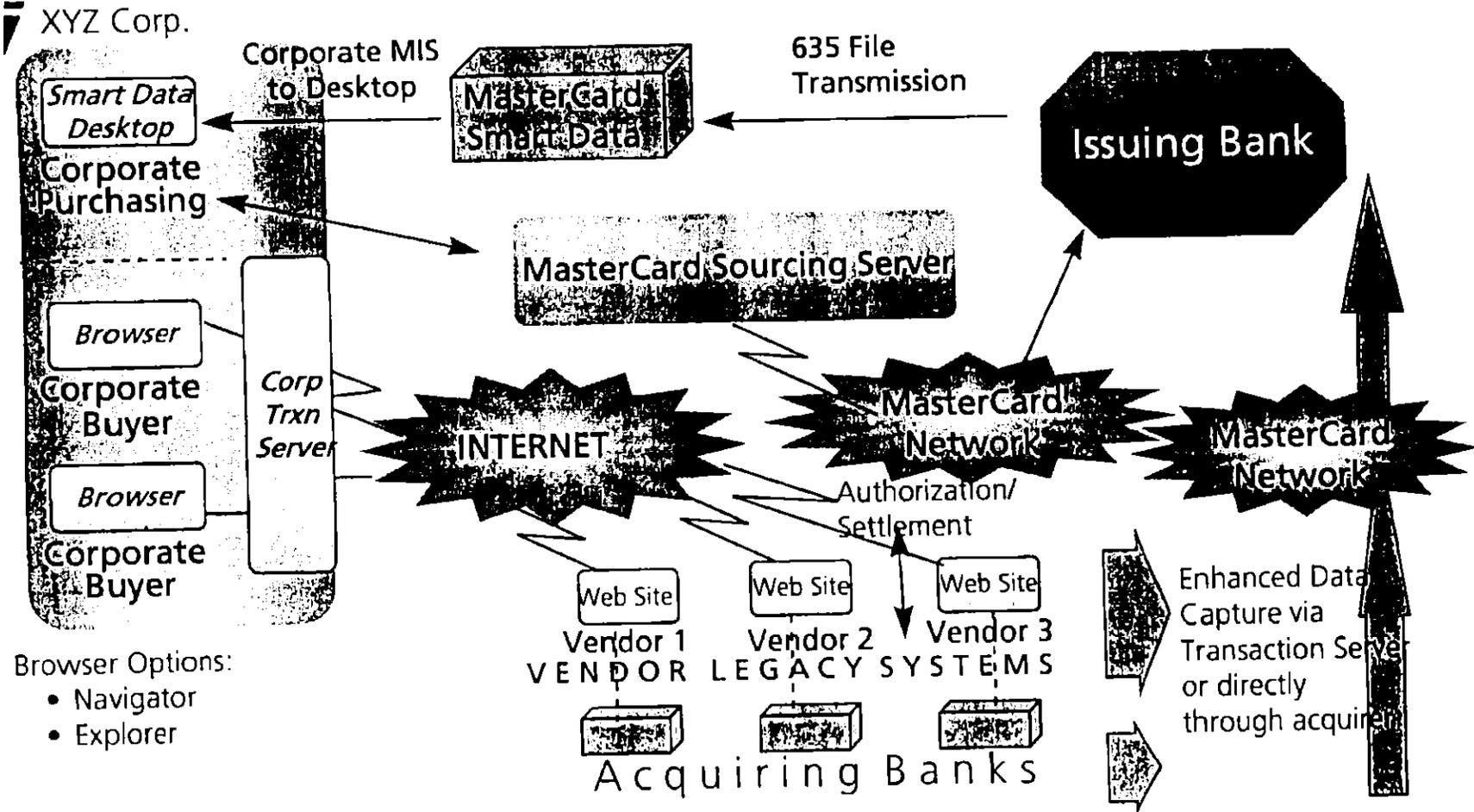- Advantages: Less costly, more flexible, faster vendor implementation

# Program Design

- Individual transaction servers based at corporate client locations

- MasterCard staging/sourcing server housed in St. Louis.

- Ownership transparent to corporate client/vendors. Branded as local bank offering within country

- Trading orders processed from servers to vendors via Internet
  - Authorization will employ SET protocol and new encryption techniques as they become available
  - MasterCard will support global issuance of certificates of authority for E-Commerce

# Program Design (Continued)

- Financial settlement off Internet:
  - "On-us" txns handled by individual Banks
  - Interbank txns passed to INET through secure gateway and processed like conventional card transactions
  - All MO/TO billing rules (e.g... partial billing on shipment) and chargeback / audit trail capabilities built into server/INET interface

- Data Capture per standard P-Card process, augmented by transaction server capture where possible (EDI). Full line item (Level III) data capture and 635 file transmission is mandatory for all transactions. Default corporate reporting via Smart Data

# Corporate Electronic Payments
## - System Overview -

XYZ Corp.

Corporate MIS
to Desktop

*Smart Data Desktop*

Corporate Purchasing

*Browser*

Corporate Buyer

*Corp Trxn Server*

*Browser*

Corporate Buyer

Browser Options:
- Navigator
- Explorer

MasterCard Smart Data

635 File Transmission

Issuing Bank

MasterCard Sourcing Server

INTERNET

MasterCard Network

MasterCard Network

Authorization/ Settlement

Web Site

Web Site

Web Site

Vendor 1    Vendor 2    Vendor 3
VENDOR LEGACY SYSTEMS

Acquiring Banks

Enhanced Data Capture via Transaction Server or directly through acquirer

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*International*

# GSA Update

Ira Jekowsky
Corporate Products Committee Meeting
Purchase, NY          October 28 - 29, 1997

# Agenda:

- Recap where we've been.

- Discuss our plans for where we need to be.

- Describe how all corporate products users will benefit from our efforts.

2

"It's been the best of times, the worst of times."

Charles Dickens
A Tale of Two Cities

# Re-cap of the last 9 months

- January   Introduced the opportunity
- February  Established MasterCard "Public Sector Capture Team"
- April      Provided MasterCard's plan and strategy for GSA and held first chip strategy meeting
- August     Provided "GSA Card Services Solutions" document committing to highest level of support in planning, marketing and implementation
- September  Provided MULTOS briefings and specifications
- On-going   Provided on-site member visits, consultations and customized support services

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# But there is still much to do

## MasterCard:

- Systems development activities
- Rules and policy changes

## Together:

- Marketing
- Transition/conversion
- Emerging technology

5

# Schedule

- November - December    Oral presentations
  demonstrations

- January    Winners announced

- February    Kick-off conference

- March -  ?    Task order / Marketing phase

- May - November    Conversion

- December    Activation/celebration

# System Development Activities

- 98.2 Release Dependent
    - Additional merchant information
    - New passenger transportation record
    - Fleet tax exemption
    - Inter/Intra governmental payment processing
- Non-release dependent
    - Facilitating the acquisition of additional merchant and travel information

7

# Potential for Rule Changes

- Electronic dispute resolution
- Additional authorization controls
- Itinerary data on credits
- Inter/Intra governmental pricing

# Next steps

- Meet to present our plan to your GSA team and identify your needs:
    - → Marketing
    - → Transition/conversion
    - → Emerging technologies
- Work together to implement systems enhancements and rules changes

# What your country is doing for you!

- Additional merchant information
- New passenger transportation record
- Fleet tax exemption capabilities
- Electronic dispute resolution
- Additional authorization controls
- Itinerary data on credits
→ Hybrid card/smart card accelerated development
→ Inter-department purchasing capabilities

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# There is no shortage of ideas for smart cards inside and outside government.

- Stored Value
- Loyalty
- Credit
- Debit
- Electronic Ticketing (event, airline)
- Electronic Couponing
- Transportation (bus, train, parking
- EBT (food stamps, WIC)
- Pay TV

- Access Control/Security
- Campus Cards
- Health Care
- Identification
- Telephone (GSM, cellular, calling cards)
- Travelers Checks
- Payroll Time & Attendance Systems
- Employee Benefits
- Internet

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# Hybrid cards will bridge the gap created by a lack of commercial infrastructure

- <u>Hybrid card</u>:  a single card combining a magnetic strip and an integrated multi-application chip and operating system.

  - Financial functions will migrate from mag strip to chip as commercial infrastructure comes on-line.

- In the interim, access control and other administrative "campus-like" applications will drive usage.
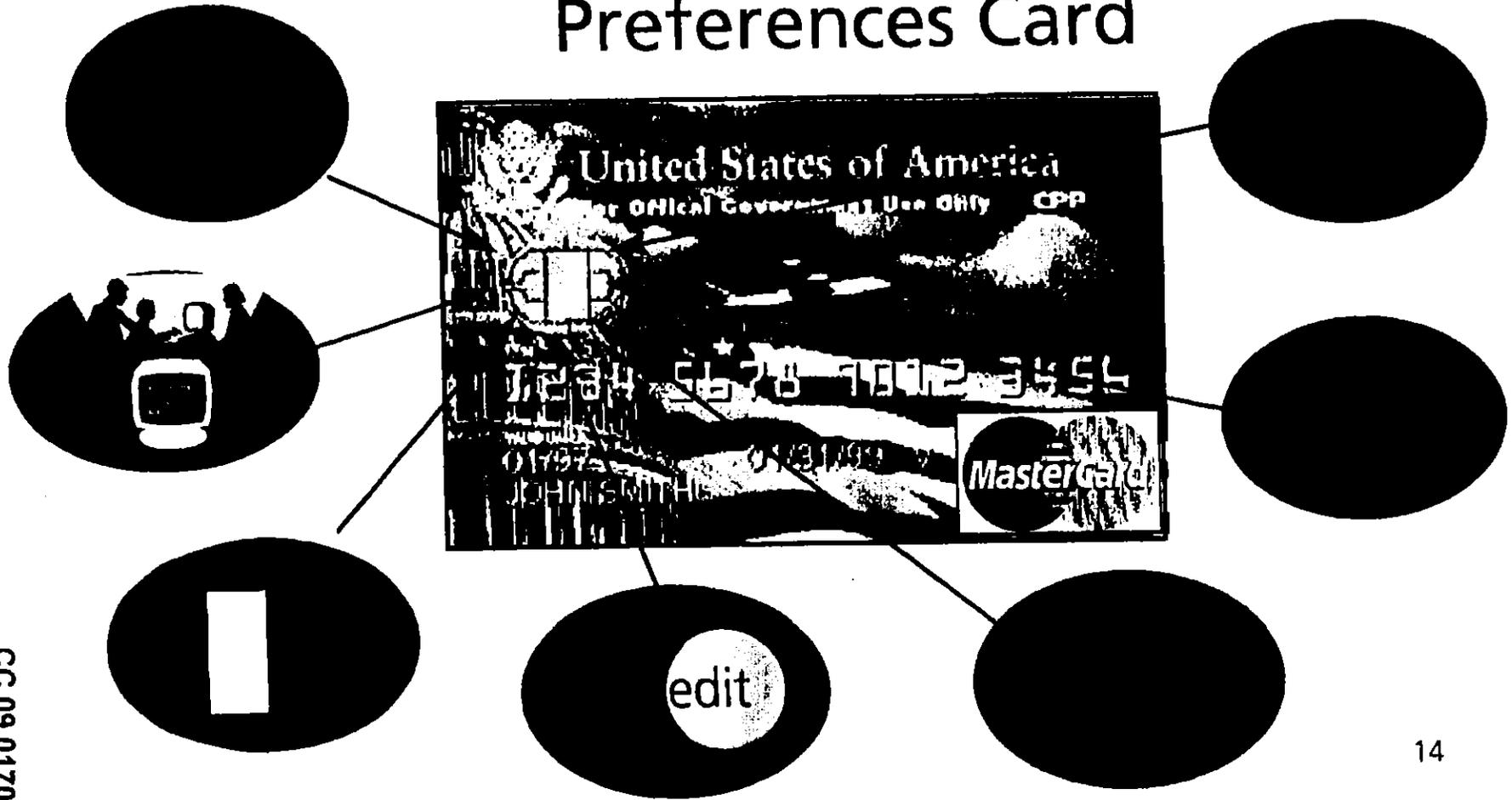
12

# The key to our smart card strategy
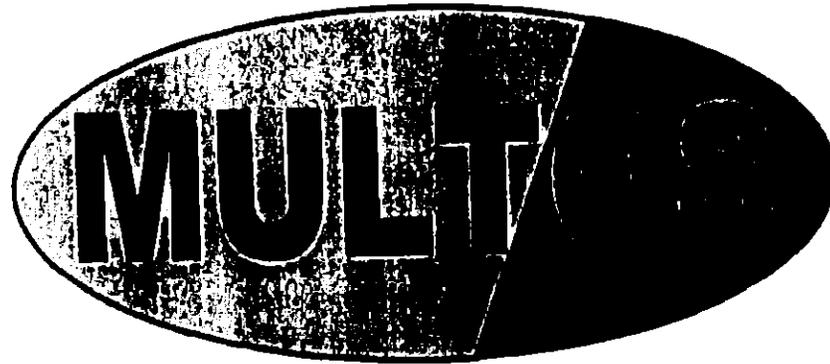


The first open, high security, multi-application operating system for smart cards

13

# Cards will be tailored to meet the unique needs of citizens and government agencies
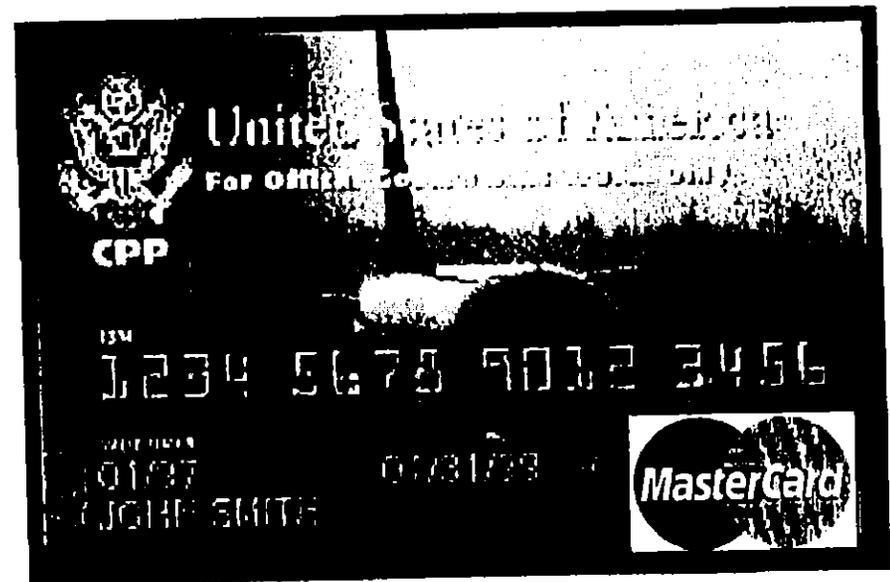
## Preferences Card

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# Inter-department payment solutions -- the ultimate one-card everything solution

- Combines on a single card all an organization's external and internal purchasing and all non-financial applications

- Provides a fully integrated reporting system customized to each in-house merchant, buyer and employee

# MasterCard
# International

**MasterCard.**

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