

CORE ISSUES

1. Inability to capitalize opportunities in the Chinese market
2. Lack of direction in handling CUP as a strategic partner or competitor
3. Intensifying competition in China and Globally
4. Lawsuits threatening VISA

IDENTIFICATION OF PROBLEMS

1. Restrictions on processing RMB-denominated transactions in China resulting in exclusion from ATM cash transaction, debit cards etc.
2. Monopolization of and threat from CUP
3. Violation of operating regulations by CUP and other EPS providers
4. Big losses in antitrust cases fueling the speculation and losing of future lawsuits

Revised Global Strategy

1. **WAIT FOR CHINA TO OPEN UP:**

The only reason foreign EPS providers are vying for a piece of the Chinese market is because it's such a lucrative market. So despite all the adversities faced there, VISA will still want to do business in China. Currently, the way forward for Visa is to maintain its relationship with CUP since without this partnership there is no other way that Visa could work in the Chinese market. So, Visa shouldn't directly challenge CUP's monopolistic position and risk market isolation.

When the Chinese market fully opens up, VISA has to make sure it's ready. So it should start to gradually build its infrastructure by adopting the standards set by China. For instance, it can make its cards compatible with the transaction processing devices that currently support only CUP's cards.

Citigroup's progress in China signals the gradual opening of China's financial market. If Visa strengthens its ties with partner-banks like Citigroup, it can piggyback their channel to issue RMB-denominated cards when China opens up its markets. In order foster closer ties with banks who are vying for the Chinese market, Visa can utilize its already established partnerships with them as "priority partners".

Past victories at the WTO and the reverse consensus rule puts the odds in USA's favor. However, settlement is lengthy and expensive. And there is still a possibility that China might introduce strict administrative measures to limit the business development of foreign EPS providers. So whatever the outcome, VISA will still be subjected to the policies set by the Chinese government. Hence, VISA should not expect much from WTO, rather it should wait patiently and gather its strength in the meantime.

DEFENDING EXISTING MARKET SHARE IN CHINA AND GLOBALLY:

CUP offers 15 to 20% lower merchant fees. It has no currency transaction fee either whereas Visa charges 1 to 2% of the transaction value which involves two-step currency settlement process. Visa also charges royalty fees. Reducing transaction or merchant fees could

seriously undermine Visa's bottom line. However, this will also result in more transactions in number and values.

Many Chinese customers are opting for the CUP card upon renewal. This can be easily countered by increasing the validity date of the card and offering more fringe benefits like giving Chinese travelers double reward points when they visit US. Visa can also target hotels, restaurants, and other destinations which attract the Chinese travelers and build a discount or reward system.

Since competition is intensifying for Visa, it needs to differentiate its services from its competitors. This can be achieved in the following ways: (i) invest in new technology like mobile wallet or online payment services; (ii) leverage its global image by stressing its availability in over 200 countries, secure network, and value-added services like data processing and risk management.

Globally, rather than going head on competition with UnionPay and Mastercard, Visa needs to defend its market share in areas where it has a strong grip. To achieve that, Visa can offer exclusive gifts and bonuses to high-value customers. Visa can also coordinate with Visa Europe and align its strategies to suppress any threat from competitors.

EXPLORING NEW TERRITORIES:

Middle East and Africa (11.6% growth in 2011) and Latin America (10.3% growth in 2011) are two promising markets where Visa explore new territories to establish its dominance before the invasion of other competitors. Countries, like India, with growing middle-class who care for the prestige factor behind using cards, could also be targeted by Visa using its image.

MITIGATE EFFECTS OF LAWSUITS:

Visa has been accused of imposing regulations like fines on merchants and other EPS providers for not using Visa's network. This has prompted antitrust lawsuits in the past (in just over a decade Visa has paid \$4.25 billion in monetary damages whereas its net income in 2011 was \$3.6 billion) and speculations are being for another hefty fine in a case where the judge is the one who slapped a \$2 billion settlement before.

To mitigate the burden of a one-time hefty cost, Visa first of all needs to keep a pre-cautionary provision for potential lawsuits. Furthermore, Visa can simply revoke restrictions and allow merchants (depending on their market location) to offer alternative forms of payments. Reducing the interchange fees to a competitive level will incentivize the usage of Visa's network over competitors'. It is likely that worldwide interchange rate will fall in the future, so Visa will be one step ahead.

These strategies may be against the operational regulations of Visa and may seem to conflict Visa's interest at first glance, it will however, save Visa from future costly lawsuits. Unless Visa incentivizes the use of its own network, there might be an increase in the number of cards co-branded by CUP and Visa's competitors.

Worldwide there is a growing trend in the number of card users. Although revenue will fall due to lower interchange fee, rise in number of transactions will offset the losses due to lowering the interchange rate.

CONCLUSION

There is little chance that CUP is going to take over Visa in terms of global transaction value due to Visa's already established global dominance. To prevent CUP from catching up, Visa needs to emphasize its inherent strengths mentioned above. While it may not be possible to have the most number of cards in circulation due to CUP's dominance in China, Visa should focus on emerging markets.