



"WE KEEP FINDING WAYS FOR PEOPLE TO USE THE VISA BRAND BETTER, MORE SAFELY AND FOR LESS MONEY," SAYS CHAIRMAN AND CEO JOSEPH SAUNDERS.

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EVERYWHERE

WITH

» BY SUSAN CAMINITI

» CHAIRMAN AND CEO JOSEPH SAUNDERS SAYS
NEW TECHNOLOGIES WILL TRANSFORM THE WAY
PEOPLE PAY FOR NEARLY EVERYTHING.

ABOUT A BLOCK FROM THE BUSTLING hub of commerce that defines San Francisco's waterfront sits a tall, tan building. Don't be fooled by the nondescript facade. Inside is the pulsing epicenter of another kind of commerce, one aided by VISA INC. (V), the global electronic-payments network. The company, which in March 2008 completed the largest initial public offering in U.S. history on the New York Stock Exchange, operates the vast processing system that connects thousands of financial institutions with millions of merchants and hundreds of millions of cardholders all over the world. As it does so, it is reshaping the way people pay for everything from vacations to lattes.

At Visa's helm is Joseph Saunders, 63, a 30-year banking veteran brought onboard as executive chairman in February 2007. His mandate: transform Visa from a private association of banks to a corporation ready for its public debut. A big man with a booming voice, Saunders possesses the sturdy, unflappable air of someone who doesn't rattle easily — an especially handy trait given the current global economic climate. "I was the transition guy," he says, squeezing a small rubber ball, part of the physical therapy his doctor ordered after rotator-cuff surgery put his right arm in a sling. "I was supposed to come in, oversee the merger of the different Visa companies around the world, put together a board of directors and then find a CEO to run the company."

But a couple of months into his tenure, the internal committee assembled to oversee Visa's restructuring — the same people who selected Saunders to lead the charge in the first place — "pretty much told me, 'You're not going

VISA

to find anybody better than yourself to run this company, so will you just do it?" Saunders recounts. "Once you put that much time and energy into something, you're really not interested in just passing it on to the next guy. So I said yes."

Elizabeth Buse, who's been with Visa since 1998 and is now global head of products, calls Saunders decisive and thoughtful. "We have had leaders who would analyze the heck out of something but never make a decision," she says, "and those who went just on gut feel. Joe can do both." Antonio Lucio, who joined Visa in December as global head of marketing after working as head of innovation for **PEPSICO INC.** (PEP), agrees. "I've worked for bosses where 50 percent of your time is spent trying to figure out what's really on their minds," he recalls. "Joe's a straight shooter. He will let you know before, during and after. You can't ask for better than that."

ELIZABETH BUSE, GLOBAL HEAD OF PRODUCTS, SAYS VISA IS COMBINING TWO POWERFUL CONSUMER INNOVATIONS — ELECTRONIC PAYMENTS AND MOBILE TECHNOLOGY.



MAKING MONEY WHEN PEOPLE SPEND

Such equanimity will serve Saunders well, observers say. As he leads newly public Visa through the explosive growth of electronic payments around the world, the increasing appetite of emerging markets for debit and credit cards, and the introduction of technologies that make Visa's products easier to use, Saunders is operating in the midst of one of the world's worst financial crises. Rapid bank consolidation, tight credit and slowing consumer spending can create a hostile environment for any company. For a company like Visa that "makes money only when people spend money," says the CEO, the consequences can be especially brutal. Saunders acknowledges plainly: "You can't have a meltdown in the U.S. economy and not have it affect Visa to some degree."

Despite the candor, Saunders is quick to detail why he believes Visa won't feel a direct hit. First, he points out that Visa is not a credit-card company. It is primarily a processing company that enables its clients — banks and financial institutions — to issue cards to consumers under the Visa brand. Its vast network then processes the transactions when consumers use Visa cards at the point of sale. The banks, not Visa, are on the hook if folks fall behind on their credit-card bills.

The other point to remember is that a big chunk of Visa's revenues now comes from the fast-growing debit-card market, reports the company. Unlike credit cards, debit cards are tied to cash-ready sources such as checking accounts and are increasingly used for basics such as buying gasoline and food. According to Visa, approximately 53 percent of all debit-card purchases are for such nondiscretionary items, and debit cards are replacing cash and checks for even the smallest purchases.

In fact, David Robertson, publisher of *The Nilson Report*, which covers the global electronic payments industry, estimates that the number of debit-card transactions will grow nearly 10 percent annually through 2012, double the rate of credit-card transactions. That's good news for Visa, because about 63 percent of the U.S. debit-card market is generated by Visa-branded products. Debit-card usage outside the U.S. is growing as well, especially in markets such as Latin America and Russia, adds Saunders.

But Saunders stresses that debit cards' contribution to Visa's overall performance is just part of the company's global growth strategy. "At Visa we're not in 50 different businesses," he explains from his rather modest office at Visa's headquarters. "We process the transaction and clear the transaction, and that's how we make money. It's no more complicated than that."

The CEO says that whether a purchase is paid for with a Visa credit, debit or prepaid card; conducted through a money transfer; or activated using a cell phone or some other device (see "More Ubiquitous Than a Toothbrush," next page), the concept comes down to using the Visa brand at the point of sale. "We keep finding

ways to do that better, more safely and for less money,”

explains Saunders, “and that’s how we’re going to be okay even in a tough economic climate.”

For the 2008 fiscal year ended in September, Visa reported revenues of \$6.3 billion, a 21 percent increase over the prior year’s pro-forma results. The \$1.7 billion net income represents a 66 percent jump over 2007 pro-forma results. Because the company’s revenues are driven by both dollar volume and the number of transactions processed, Visa expects to benefit from the expanding debit-card market, even if credit-card activity remains flat, Saunders notes.

Visa’s sheer size is also a good defense in today’s tough economic marketplace. The company reports that it processed more than 36 billion transactions worldwide in the 12 months ended June 2008 that together equaled \$4.2 trillion in volume. The 1.6 billion Visa-branded cards in circulation globally are almost double what its nearest competitor can claim.

THE SAME IN MANY LANGUAGES

The Visa brand that exists today started modestly as BankAmericard when **BANK OF AMERICA CORP.** (BAC) launched it in 1958. By the 1970s, the bank had transferred the card business to a new entity called National BankAmericard Inc., which was essentially an association owned by the banks issuing the card. In 1976, the card was renamed Visa, in large part because the word could be pronounced the same in many languages, according to the company. In 1984, Visa launched its global ATM network, giving consumers 24-hour access to their money. The brand’s scope grew during the following years, with global transaction sales volume reaching the \$1 trillion mark in 1997. In 2004, Visa’s consumer debit volume surpassed its credit business for the first time.

Still, until its \$19 billion IPO in March, Visa was a private association owned by the banks and financial institutions that were also its customers. The business was divided among three separate groups that shared little more than a brand: Visa USA, Visa Canada and Visa International, which included regions such as Asia-Pacific, Latin America, Central and Eastern Europe, the Middle East and Africa. Each group had its own board of directors, CEO and marketing campaign, and only periodically did the companies consult or even speak with one another.

“The reason we couldn’t do money transfers globally three years ago when we identified it as an opportunity is that we couldn’t get the different operating companies to agree on who paid what to whom,” Buse notes. “It was amazingly fragmented.”

Saunders says the decision to take the company public was not difficult. “We weren’t as effective as we could have been, but we operated in a very competitive marketplace,” he says. “Competitors and other payment alternatives would have slowly eroded our market share.” For instance, if an international bank client wanted Visa to provide it with card services around the world, Saunders says, it would have been challenging under the company’s old structure. “We would have needed to go to all these different boards to get it done,” he explains.

Before the company could go public, it had to reconfigure the three legal entities and set up a corporate structure. About a year before the reorganization, the committee that would eventually hire Saunders created Project Atlas. Made up of roughly 100 representatives from the different operating companies, the group was asked to look at the

MORE UBIQUITOUS THAN A TOOTHBRUSH

» WHAT DO TOOTHBRUSHES and mobile phones have in common? Nothing much, other than the fact that **NOKIA CORP.** (NOK) market research indicates that sometime in the next 12 months the number of people around the world who have cell phones will surpass the 4 billion or so individuals who use a toothbrush. Can you say market opportunity?

Visa can. Tapping into the convergence of electronic payments and mobile technology is just one way the company is expanding its reach in both mature and emerging markets, says Buse, global

head of products. “We’re combining two of the world’s most powerful and ubiquitous consumer innovations — electronic payments and mobile technology,” she says, “and creating payment options that are fast, secure and convenient.”

Last October, for instance, Visa began testing a format that makes the company’s payment options and services available on Nokia mobile phones. Using their Visa accounts and Nokia’s next-generation handsets, consumers globally will be able to pay for goods and services, transfer money, receive real-time alerts when their account

experiences activity and get discount offers from merchants based on their buying habits.



For consumers in mature markets, Buse says, the new service is yet another value-added feature on a device that consumers can’t seem to live without. She explains that the impact will be particularly important on people in emerging markets — many of whom lack access to bank branches or even ATMs:

The combination of mobile technology and electronic payments will allow a safe way to access and transfer money.

disparate financial processes, marketing campaigns and operating procedures to determine how to consolidate operations in a way that would make sense in the new, combined company.

Eventually the restructuring committee approached Saunders, then president of card services at Washington Mutual Inc. He agreed to shepherd Visa through the reorganization and IPO process, with thoughts of retirement after the company went public. But when the offer came to stay on permanently, Saunders says, "it was really too interesting to pass up."

WHEN THE BOARD ASKED SAUNDERS TO
BECOME VISA'S PERMANENT CEO, THE OPPORTUNITY
WAS "TOO INTERESTING TO PASS UP."

ANTONIO LUCIO, GLOBAL HEAD OF
MARKETING, IS WORKING TO
CREATE A MORE COHESIVE BRAND
IMAGE AROUND THE WORLD.



Saunders was born in Chicago and raised in nearby Evanston, his mother a homemaker and his father "basically a salesman," he says. "My dad was the general manager of a casket company and at one point he sold doughnut-making machines." After getting a BS in business and an MBA from the University of Denver, Saunders found his way into banking. "Following graduation, I knew I was going to do something in business," he says. "I don't think anybody really knows at that age what they're going to do with the rest of their life. I'm still looking for the guy who knew when he was a senior in college that he wanted to be the CEO of **THE CLOROX CO. (CLX)** or something." Saunders eventually became chairman and CEO of Fleet Credit Card Services, and was CEO of Provident Financial Corp. when WaMu bought it in 2005.

Although the reorganization of the three Visa companies largely involved eliminating duplication, there wasn't a drastic drop in head count, the company reports. Controllers, SEC-trained attorneys and other executives with public-company experience were hired, keeping the number of employees at around 5,500 worldwide. Still, Saunders says, "it didn't take a rocket scientist to figure out we had too many CEOs and way too many CFOs, HR people and support staff." Visa also consolidated a number of functions, including marketing and advertising. Lucio was brought onboard to hire a single global ad agency — instead of the five agencies the brand had previously used — and is working to create a more cohesive brand image and to get better pricing for the television airtime Visa now buys around the world.

With the "low-hanging fruit" cleared, says Saunders, the company set its sights on the more difficult task of transforming the culture. Accountability became the watchword, he says. For example, in Visa's pre-IPO days, managers received generous budgets for new product initiatives. "In the past, everybody spent too much and didn't get to the end point quickly enough," notes Saunders.

Today, when the company is testing a new application for payment from a mobile phone, for instance, it focuses testing on just two or three crucial countries, rather than the 15 or so countries it used to select as a matter of course, the CEO explains. Further, new projects are measured for how wide an application they can have, not just how interesting the underlying technology might be. "It's getting people to think a different way," says Saunders, "and that's an interesting challenge." Visa reports that these changes and others should save the company \$300 million in operating expenses over the long term.

The one thing that hasn't changed since the IPO is how Visa processes billions of transactions each year. It all starts when the consumer hands over a Visa card at the retailer where a purchase is made. The transaction information flows electronically to the merchant's bank, which forwards the dollar amount to Visa. Visa then transfers the data to the bank that issued the card. That bank sends an authorization message back to Visa, either denying or approving the sale. Visa

returns the authorization response to the merchant's

bank, which then forwards the response to the merchant. If the transaction is approved, the sale goes through and the customer's account is charged. (If the purchase is denied, the merchant might ask for another form of payment.) The amount of time for this entire process: about one second, says Visa.

Though Visa executives recognized the importance of transparency and accounting discipline before the IPO — Visa USA has been Sarbanes-Oxley compliant since 2006, says Saunders — the company had deployed an enterprise-risk-management system that the CEO says “needed improvement.” In September 2007, Saunders hired Ellen Richey from Washington Mutual as Visa's chief enterprise risk officer. The company says she helped draft the document that outlined for employees what it meant to work for a publicly traded corporation, as well as the common set of business goals that would be in place around the world. The fact that nearly 80 percent of Visa's employees bought shares in the IPO at the offering price of \$44, says Saunders, proved to him that they were committed to the company's success in the years ahead. The bulk of the roughly \$18 billion raised in the IPO will be used to buy back shares, the company reports. About \$3 billion has been set aside to settle litigation brought by merchants claiming that Visa and its member banks inflated fees. The company says the sum is adequate should the courts rule that Visa has to pay.

A WORLD OF OPPORTUNITIES

Today, a little less than half of the \$4.2 trillion worth of transaction volume that Visa processes annually comes from purchases made in the U.S., the company reports. That piece of the pie will be eclipsed as business in emerging markets continues to heat up and as more people get Visa cards. At a product-innovation conference in New York City for analysts at the end of September, William Sheedy, Visa's president of North America, said, “Most of the growth for Visa in the years ahead will happen outside the U.S.”

Latin America — particularly Brazil and Mexico, where avid credit-card users are already starting to embrace debit cards — is among the company's most promising regions, Saunders says. The challenge in many developing markets often comes down to cultural as well as technological hurdles, he explains, noting that shoppers at Mexican **WAL-MART STORES INC.** (WMT) often use their cash cards to withdraw money from an ATM in the store to pay for their purchases at the register. As acceptance grows among consumers — buoyed by new Visa marketing and advertising campaigns touting the convenience of debit cards — Saunders expects debit cards to replace a good portion of the cash business at the point of sale. “Right now it's a cultural thing,” he says, “because the registers in the stores already accept debit cards. But just like in the U.S., the changeover will happen.”

In markets such as India, Visa is betting big that mobile technology will pave the way for growth. “The U.S. has this ubiquitous, low-cost, highly reliable landline infrastructure that emerging markets lack. But mobile infrastructure in India is ubiquitous and is becoming increasingly reliable,” Saunders says.

Buse says Visa is creating applications that allow electronic payments to be made through mobile phones. “The mobile device will replace what would be a physical card and the terminal — or cash register — infrastructure,” she explains. “We can leapfrog right past the older infrastructure and allow consumers to use their mobile phones to make purchases.” In other words, folks in India may never see — or need — a debit card.

In other emerging markets, Visa is working directly with vendors to improve the way commuters pay transit fares. For instance, in Singapore, Visa cards embedded with a chip allow commuters to pay for subway and bus fares. There's no worry that the card's balance will reach zero: It's automatically replenished with funds from the commuter's Visa credit or debit account.

A UNIFIED BRAND

One of the biggest opportunities Visa gained by becoming an integrated global company was the chance to redefine its brand around the world. Out went four regional ad agencies the company had been using. In their place is one global creative agency — TBWA Chiat Day, a member of the **OMNICOM GROUP INC.** (OMC) — that is charged with positioning Visa, Lucio explains, as “the universal currency of life.”

The nuts and bolts of that mandate mean that Lucio is “re-evaluating everything,” he says. Even the wildly popular “Life Takes Visa” campaign is up for review, and the successful “Go World” campaign that ran in the U.S. throughout the Beijing Olympics is not above change, he reports. Going forward, he envisions a unified message with each country featuring its own athletes. “This is the first time Visa will be able to start from the same point of view all around the world,” Lucio says. “The message will be global, but the execution will be local and resonate with the local population.”

Saunders recognizes that although the structural changes at Visa are complete, cultural shifts will continue between people from different regions and between old and new employees. “It's tough sometimes to merge the ideas and thoughts of people who have been here a while with the folks who are new,” he says thoughtfully. The challenge he faces in the months and years ahead, of course, is blending the best of both. After all, Saunders postponed his retirement to run Visa in this next chapter of its corporate life. He wants to stick around to see how it all turns out. ■