

Plastic Bullets

By Kazuhiro Shibuya

There is a major war under way in the Japanese credit card industry. It is a jungle out there, populated with several armies of combatants: the bank cards such as Diamond Credit (DC) and JCB; cards started by big finance companies such as Seibu Credit; Nippon Shinpan and the other nonbank cards; and the international heavyweights such as Visa and MasterCard.

The first shots were fired by Visa—the world's largest card company. As originally set up, Sumitomo Bank's credit card company—Sumitomo Credit—was supposed to supervise the issuing of Visa cards in Japan through Visa Japan Association. But Visa International in San Francisco, which oversees operations for all of Visa's international cards, has recently been bypassing Visa Japan Association and going straight into negotiations with Nippon Shinpan, DC and the other Japanese card companies to link up cards.

In response to this offensive—which Japanese card companies refer to as the "Visa syndrome"—the world's No. 2 card (MasterCard) has set up MasterCard Japan and sought to stem Visa's inroads. In addition, another card has also joined the fray: JCB, which is making its own independent foray into the international arena without the help of either of these international giants. Significantly, JCB is Japan's largest card issuer in terms of the number of cardholders.

Opening salvo

The card industry is shaping up in a way which brings to mind Japan's Warring States period (ca. 1480–1570), when the various *daimyo* formed and re-formed alliances in a shifting struggle for land and power. It appears to be the start of a long and bitter battle for card supremacy.

"Of all the... I've never heard of anything like it before. This is going to turn the whole industry inside out." This was the reaction of an outraged executive at



Credit card displays are becoming a common sight in Japan today, a sign of the "credit card war."

one nonbank card company in October 1988 when Mitsubishi Bank announced that it would issue a joint card combining the features of the DC card and the Visa International Card.

There were two features that made this especially outrageous. The first was that it was a tie-up arranged without the involvement of Visa Japan—nominally the organizer and sole agent for Visa in Japan—and it included a number of innovative features. This DC-Visa card—available starting in April 1989—will be good at all of the 5.74 million outlets worldwide (as of the end of 1987) where Visa cards are honored, and DC will become a Visa International principal member the same as Visa Japan, taking an active part in lining up more stores for the Visa

network and all of the other things that go with being part of Visa's international organization.

The second outrageous aspect was that, until then, DC had been linked with MasterCard International and had issued a DC-MasterCard. With the link to Visa, it now has ties with both of the Big Two.

Yet this opening salvo did not go unanswered. The Million Card (MC) issued by a Tokai Bank affiliate joined in with a contract with Visa International stipulating the same royalty payments, the same terms of issue, and the same everything that Diamond had with Visa and announced that it intended to issue an MC-Visa card, also in April 1989. Like DC, MC had been tied in with the MasterCard network and had been issuing a

joint card with MasterCard. MC had been competing one-on-one against DC on a level playing field, and the company may well have felt that DC was trying to change the rules of the game with the link to Visa. As one MC executive admitted, the link to Visa was thus intended to counter any competitive advantage that DC could have gained from the second affiliation. In addition, Union Credit (UC)—which is backed by Dai-Ichi Kangyo Bank and Fuji Bank—is expected to weigh in with its own Visa tie to counter these moves by DC and MC.

In fact, however, the first signs of activity in this war were seen in late 1987, when the largest nonbank card company—Nippon Shinpan—entered into a special contract with Visa International to issue a Nippon Shinpan-Visa card. It was not long before two of the big finance cards—Seibu Credit and Daiei Finance—were also authorized to issue Visa cards. Once these sparks had been struck, the tinder box went up and DC and the rest of the MasterCard affiliates were pounding on Visa's door.

The results are redrawing the map of Japanese card companies, their positions and their market strengths. As noted above, it used to be that Visa was handled only by Visa Japan, which meant Sumitomo Credit. As of the end of March 1988, the Sumitomo Visa card had 9.5 million cardholders. Although this was not as many as JCB had, Visa was still Japan's second-largest card. Yet with the introduction of the DC-Visa and MC-Visa cards, the Visa card will cease to be a Sumitomo Credit monopoly. The industry is agreed that this is a very serious problem for Sumitomo.

The Visa syndrome has also affected MasterCard International. Very simply, DC and MC used to just issue MasterCard cards. Now with the tie-up with Visa, their customers have a choice. If the customers split evenly, it will mean that MasterCard loses half of the cardholders it would ordinarily have gotten from these cards. This can only have a deleterious impact on the royalties that MasterCard collects from the DC and MC people. Reacting to this, MasterCard has founded a new company—MasterCard

Japan—and plans to enable cardholders to have access to outlets that honor any of its tie-up cards (DC, MC or UC) starting this April. Yet there is still some question as to whether or not this will be enough to turn back the Visa onslaught.

JCB prides itself on being the only Japanese card that has an independent global presence. "In fact," says JCB President Takashi Tanimura, "JCB has already passed Diners Club to rank No. 4 worldwide in terms of cardholders and affiliated stores (the three leaders being Visa, MasterCard and American Express). We think we are on the right track, and we plan to go our own way overseas and to eschew ties with Visa or MasterCard."

Going it alone

The largest of the bank cards, JCB rejects any hint of ties with Visa or MasterCard and is determined to strike out on its own. It already has local companies or branch offices in Los Angeles, Chicago, London and Hong Kong, and it plans to add a few more to the network every year. By March 1994, JCB plans to have a full score of overseas companies or branches. And building on this overseas network, it is busily issuing cards for overseas Japanese businesspeople and providing information and other services for Japanese travelers.

In addition, JCB plans to use this overseas network to sign up stores and other outlets. Today, JCB is honored by only 120,000 outlets in 100 countries. Over the next three years, it plans to up this to half a million—and a million in five years. This is very ambitious planning, but Tanimura says, "We intend for revenues from over-

seas card use to be 10% of total sales before long."

Of course, such growth will not come cheap. JCB plans to spend ¥10 billion just in commissions to the agents responsible for signing up overseas outlets. Given that JCB's earnings for fiscal 1988 are estimated at ¥6.6 billion, this is a considerable gamble. JCB is betting the company that it does not need Visa or MasterCard and can go it alone.

There is one other factor that enters into things, both muddying the calculations and helping to explain the MasterCard affiliates' shift to Visa and JCB's gutsy determination to go it alone: the fact that international usability is expected to be a major factor in determining whether or not a card survives the coming shake-out.

In the past, most of the Japanese who had credit cards had them for overseas use. Not having a card in Japan itself was no real disadvantage. But someone who does not have a credit card in the United States has no credit at all. In fact, there are some times and places in the United States in which it is more difficult to pay cash, such as when renting a car. Thus people who were happy without a card in Japan still needed one when they went overseas. And with the yen's appreciation, there has been a rapid increase in the number of Japanese going overseas. Some estimates say that there will be 10 million Japanese a year going overseas in another five years. The card companies have to sign these people up and keep them as satisfied customers if they want to survive.

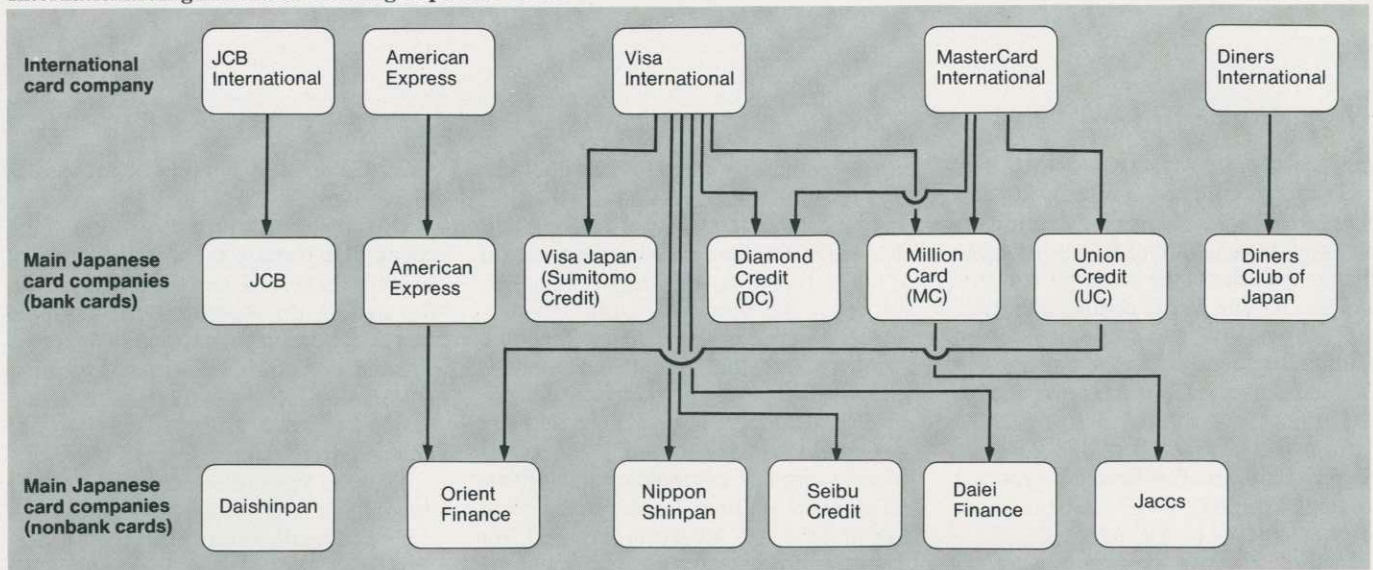
The reason DC, MC, Nippon Shinpan and the others are clamoring for Visa affi-

Japanese Credit Cards

	Cardholders		Sales	
	Total (thousands)	Market share (%)	Total (¥ billion)	Market share (%)
JCB	11,095	30.9	1,351.1	34.0
Visa	9,502	26.4	1,018.6	25.6
UC	7,320	20.4	879.5	22.1
DC	5,180	14.4	453.3	11.4
MC	2,850	7.9	274.2	6.9
Total for five	35,947	100.0	3,976.7	100.0

Note: Based on figures issued by the companies as of March 1988

International Alignments for Leading Japanese Cards



liation is that they think Visa will give them an international edge. The way the numbers line up (as of fiscal 1987), 5.74 million outlets take Visa cards and there are over 165 million Visa cards out, whereas MasterCard is honored at 5.95 million outlets and there are nearly 145 million MasterCards in circulation. The two would seem to be evenly matched in terms of outlets and cardholders, but Visa has an undisputed edge over MasterCard in actual use terms. This shows up most clearly in sales, where Visa had fiscal 1987 sales of \$164.8 billion and MasterCard sales of only \$120.1 billion—a \$40 billion edge.

What of JCB? Although it cannot match these two giants yet, it is determined to be an independent world presence and has outlined a strategy that it thinks will give it a viable niche. Sooner or later, the JCB people say, cardholders are going to start winnowing their holdings and the time will come when people will only carry two cards—one of them a JCB card and the other either Visa or MasterCard. Why JCB?

As of the end of March 1988, there were about 120 million of Japanese credit cards outstanding—about one for every man, woman and child in Japan. Of course, many people have several cards in their pockets, and there has been no slackening in the number of new cards issued. As a result, a clear bipolarity is developing between the cards people use a lot and the cards that just clutter up their billfolds or purses. Natural selection is at work, and it is survival of—if not the fit-

test—at least the most used. JCB has formulated a hypothesis that it thinks will enable it to be one of the survivors.

As JCB's Tanimura explains it, "People are going to get down to two cards—one a payment card they use to pay for things they buy and the other a T&E (travel and entertainment) card they use for plane tickets, accommodation, entertaining and other services." Applying this hypothesis to the international arena, JCB thinks that Visa and MasterCard are very much payment cards and do not have that much presence as T&E cards.

Travel services

The leading foreign T&E card is American Express, which has 1,500 offices in 130 countries around the globe and offers a full range of hotel and travel reservations and other services. And then there is JCB, which offers Japanese-language travel services in 57 major cities and is going into T&E in a big way. JCB has decided that the future lies in beefing up its T&E services and differentiating itself from Visa and MasterCard. "There is a limit to what we could do for our Japanese customers under the Visa or MasterCard umbrella," says Tanimura, "These are, after all, American companies."

The question that readers must be asking themselves at this point is which of the two Japanese globalization strategies is going to work. Unfortunately, it is still too early to tell. All that can be said at this point is that they are both going to be uphill fights. On the one hand, DC, MC

and Nippon Shinpan will have access to the 5 million outlets that honor Visa and MasterCard. But there are a number of disadvantages that go along with this.

Because Visa and MasterCard started out as American companies, their outlets tend to be concentrated in North America and they are not very well represented in Asia and Oceania—where over half of Japanese travelers go. At the same time, neither of the Big Two exercises much control or initiative with regard to outlets, leaving this to the issuing banks, with the result that it may take longer to clear up any problems that arise.

Yet this does not mean that JCB will have an easy time of it. Even if it is able to provide the kind of personalized attention people want from a T&E card, and even if it is able to line up the million outlets that it wants by 1994, it will still have far fewer outlets than either Visa or MasterCard. And staking its survival on T&E—while it has the advantage of distinguishing JCB from Visa and MasterCard—has the disadvantage that it puts the company eyeball-to-eyeball with Amex. Can JCB really beat out Amex?

Even though there is a very real possibility that Visa will be the only winner in this free-for-all, the Japanese card companies—DC, MC, Nippon Shinpan and JCB—are in too deep to pull out now. It is a fight to the finish, let the cards fall where they may.

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