

Mastercard: Choosing Where to Extend the Network

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Decision scope: How to emphasize Mastercard's core network, value-added services and adjacent network capabilities in the next planning cycle

Case convention: This is a hypothetical strategy exercise. Company disclosures are historical; no private deliberations are represented.

The decision

On March 1, 2024, Mastercard's strategy team is preparing for its next planning cycle. The network is growing, services revenue is growing faster than the core payment-network line, and policy proposals could change routing or issuer economics. Mastercard must decide how to emphasize its next cycle of work: deepen the core payment network and acceptance/customer relationships; extend value-added services (VAS); advance capabilities such as open banking and digital identity; or sequence a portfolio of initiatives behind evidence gates.

These choices are a hypothetical planning frame, not a disclosed internal allocation dispute. Public sources do not identify a fixed resource pool, a mandated committee decision, or project-level returns. Regulatory compliance is a constraint, not an optional strategic choice. The team should state which evidence would support its emphasis and how it would respond if network rules, routing behavior or customer economics changed.

A network with several participants

Mastercard describes a four-party network connecting account holders, issuers, merchants and acquirers. It says it does not issue cards, extend credit, set issuer account fees or set acquirer merchant rates; customer relationships are generally managed by its customers. Its strategy priorities are to expand in payments, extend services, and embrace new network opportunities such as open banking and digital identity. [P1]

In 2023, Mastercard reported \$25.098 billion in net revenue: \$15.824 billion from payment-network activities and \$9.274 billion from VAS and Solutions. The first line increased 10%; the second increased 18% reported and 17% currency-neutral. The company attributed network growth primarily to domestic and cross-border dollar volume and switched transactions. It attributed VAS growth primarily to cyber/intelligence, fraud and security solutions, consulting, marketing and loyalty. Customer rebates and incentives totaled \$15.182 billion, up 22%, which the company said reflected key drivers and new or renewed deals. These are management explanations, not causal estimates of each service's contribution. [P1]

Mastercard reported worldwide gross dollar volume (GDV) growth of 12% in local currency, 6% in the U.S. and 15% outside the U.S. Cross-border volume increased 24% in local currency and

switched transactions increased 14%. GDV measures purchase plus cash volume; switched transactions are those initiated and switched through Mastercard's network. These activity measures are not Mastercard revenue or margin. [P1]

The product mix of Mastercard-branded GDV also varied: consumer credit was \$3.445 trillion, consumer debit/prepaid \$4.437 trillion, and commercial credit/debit \$1.148 trillion. The table excludes Maestro and Cirrus cards and volume; prepaid includes consumer and commercial programs. The figures describe volume through specified Mastercard-branded programs, not all global payment activity or the economics of each program. [P1]

Routing and policy uncertainty

Two policy questions were live at the cutoff. In October 2023, the Federal Reserve proposed lowering the cap on interchange for regulated U.S. debit and prepaid transactions by about 28%-30% at a \$50 average ticket, with periodic updates. This was a proposal, not a rule in force at the cutoff. [P1]

The Credit Card Competition Act of 2023 had been reintroduced in the Senate. As described in Mastercard's filing, it proposed extending routing mandates to credit and requiring specified access to authentication, tokenization and security technology for competing networks. The bill was referred to committee; it was not law at the cutoff. [P1] [P4]

Separately, a May 2023 FTC consent order requires Mastercard to provide primary account numbers for tokenized online debit transactions so merchants can route them to alternative networks. Mastercard's filing also described a Department of Justice civil investigative demand focused on its U.S. debit program and competition, and said it was cooperating. The consent requirement is distinct from the unresolved investigation; a civil investigative demand is not a finding. [P1] [P3]

These developments raise strategic questions about customer value, network participation, security, service investment and routing. They do not establish the eventual regulatory outcome or quantify the effect on Mastercard's fees, merchant costs, issuer economics, cardholder rewards, or transaction volumes.

Evidence at a glance

Reported measure or event	What it shows	What it does not show
2023 payment-network revenue \$15.824bn (+10%); VAS and Solutions \$9.274bn (+18% reported, +17% currency-neutral). [P1]	Both businesses grew; VAS grew faster on the reported basis.	Relative incremental margins, customer retention, attach rate, or service-driven network volume.
Customer rebates and incentives were \$15.182bn, +22%. [P1]	Rebate/incentive expense is a substantial part of the commercial system and rose faster than net revenue.	Deal-level payback, counterfactual network volume, or which customers received the increase.
GDV +12% local currency; cross-border volume +24%; switched transactions +14%. [P1]	Mastercard reported growth in network activity, particularly cross-border volume.	Net revenue per transaction, route choice, contribution margin or competitive cause.
Federal Reserve proposal, Senate bill and FTC consent order. [P1] [P3] [P4]	Routing and interchange policy can affect the network environment; one debit-routing obligation was finalized.	Later outcomes, broad transaction migration, or quantified effect on any participant.

What remains unknown

The public record does not disclose comparable initiative-level contribution margins, VAS attach or renewal by cohort, customer acquisition/retention effects, issuer and acquirer economics, routing migration under the FTC order, incentive payback, or pass-through to merchant prices and cardholder rewards. It also does not show whether multi-rail services complement or substitute for card transactions within particular customer segments.

The choice

Which emphasis should Mastercard propose for the next planning cycle: strengthen core-network reach and customer execution; extend differentiated VAS; advance adjacent network capabilities; or stage several paths with defined evidence gates? Explain how the proposal creates value for account holders, issuers, merchants and acquirers, how it remains responsive to routing and interchange changes, and what evidence would trigger more, less or different emphasis. Address the strongest counterargument. Do not assume a fixed budget, project returns or a regulatory outcome.

Sources and conventions

All information is limited to public sources available by March 1, 2024. Figures are reported by Mastercard unless otherwise noted; company explanations and proposals are attributed. GDV, net revenue, rebates, VAS and switched transactions are distinct measures. Interchange is generally a transfer from acquirers to issuers, not Mastercard net revenue. No post-cutoff outcomes are included.

- **P1:** Mastercard FY2023 Form 10-K, filed Feb. 13, 2024: Item 1, strategy pp. 7-8; network roles pp. 9-10; revenue categories pp. 20-21; GDV mix p. 6; policy proposals p. 24; Item 7 metrics pp. 52-55; Note 3 pp. 82-83; Note 21 p. 110.
- **P2:** Mastercard Q4/FY2023 earnings release, Jan. 31, 2024, Exhibit 99.1 to Form 8-K.
- **P3:** FTC, *In the Matter of Mastercard Incorporated*, May 30, 2023 final order and opinion.
- **P4:** U.S. Senate, S.1838, *Credit Card Competition Act of 2023*, introduced June 7, 2023; referred to committee as of cutoff.
- **A1:** Rochet and Tirole (2003), "Platform Competition in Two-Sided Markets," *JEEA* 1(4), 990-1029.
- **A2:** Rysman (2004), preliminary working-paper version of "An Empirical Analysis of Payment Card Usage"; not the final 2007 journal article.