>> MasterCard IPO Has a Big Upside

BY ERIC GROVER

Bank control fettered where and how MasterCard could pursue growth. Now, having resolved to cross the governance Rubicon through an initial public offering, the payment network will have freedom and an imperative to grow. It should boldly cultivate nonbank customers and expand and deepen its processing business overseas.

Its S1 SEC filing does not convey MasterCard's immense upside. Worldwide general-purpose card transactions and volume grew 14.2% and 13.8% respectively during 2004, and MasterCard revenue increased a healthy 16.2%. But, it is treading water. Globally most consumers and businesses do not use MasterCard products. Of those that do, few use them for most payments. Moreover, in most markets few banks use it to process the lion's share of their MasterCard transactions.

Post-IPO, members of management will consecrate themselves to purposefully and creatively growing existing businesses. Independent, MasterCard can develop new channels. Mobile-phone operators, retailers and insurance companies all have payments ambitions.

The largest mobile-phone operators' reach is greater than any retail bank on the planet. Vodafone has a whopping 450 million customers, for example.

Behemoth retailers such as Carrefour and Wal-Mart buying MasterCard directly would enjoy greater flexibility and economics, enabling delivery of better consumer value. Carriers also can offer much. They could bundle discount healthcare provider networks with flexible-spending and health-savings accounts, and MasterCard credit card products.

Beneath the covers MasterCard has a humongous processing business. However outside a handful of Anglo-American markets it does not process most of its own transactions, much less competitors', which it could also profitably process.

While national bank cartels ring-fence home markets, in an increasingly flat world parochial protectionism is less sustainable. The world is chock full of national-processing opportunities.

In Korea merchants use multiple acquirers, and a dozen networks process interbank card transactions. How big an opportunity could this be? In 2004 MasterCard earned $800 million processing 12.4 billion transactions, or about 6.45 cents each. Korea had 1.4 billion MasterCard and Visa transactions in 2004, suggesting processing there could add $90 million annually.

Several threats imperil MasterCard growth prospects: the worldwide regulatory assault, MasterCard's culture and talent roster, and lingering bank control in Europe.

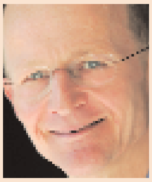
Regulation straight jackets payment networks. Going forward MasterCard will be a less inviting target because it no longer can be plausibly argued it is a bank conspiracy fixing prices and restraining competition. That said, government bureaucrats will not voluntarily rescind regulation.

MasterCard should move to roll back regulatory constraints and stymie those in the works. It must make an affirmative case in the public and political arenas.

Possibly an even greater risk is MasterCard's culture. Attitude, culture and talent matter. Attitude is a force multiplier. Association culture is not conducive to enterprise, aggressive pursuit of growth, innovation and calculated risk taking.

Jack Welch, arguably the 20th century's greatest CEO, relentlessly engaged General Electric Co. on culture and developing talent. In a similar vein, MasterCard's CEO Bob Selander should invest thought and energy invigorating the culture and enriching the talent roster.

Unshackled, MasterCard can accelerate growth. **CP**



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