JOHN A. QUELCH
JACQUIE LABATT

The American Express Card

Marketing is fully integrated into our overall strategy. Our largest investor, Warren Buffett, is very focused on brand health and customer metrics.

—Kenneth I. Chenault

In April 2008, Jud Linville, president and chief executive officer of U.S. Consumer Services at American Express Company, was preparing for a meeting with Ken Chenault, American Express's chairman and chief executive officer since 2001, and Al Kelly, president of American Express Company. The purpose of the meeting was to discuss further growth prospects in the United States for the American Express consumer card business while maintaining the brand's premium positioning.

The performance of the American Express card, launched 50 years earlier in 1958, had been remarkable. By 2008, there were 52 million American Express cards in circulation in the U.S., held by 41 million "cardmembers" (see **Exhibit 1**). American Express commanded nearly a 24% share of U.S. credit card payments.[1]

As Linville prepared for the meeting, he wondered whether he could continue to rely on the same business growth drivers that had served American Express well in the past. With the U.S. economy slipping into recession, the proliferation of cards in the market required American Express to deepen its consumer understanding to provide innovative, value-added products that would attract and retain cardmembers.

Company Background

The American Express Company was a leading global payments and travel company with revenue net of interest expense of $27.7 billion in 2007, up 10% from 2006.[2] American Express's principal products and services included charge and credit card payment products and travel-related services offered to consumers and businesses around the world. American Express was the world's largest issuer of charge and credit cards as measured by the annual value of purchases charged on these cards.[3] Yet American Express maintained a "best-in-class" credit quality, reflecting in part the company's traditional focus on the affluent segment, its expertise in evaluating the credit risk of individual consumers, and its ongoing commitment to investing in risk capabilities.[4] In 2007, around 70% of American Express's revenue net of interest expense and 85% of its pretax income from continuing operations[5] was generated in the United States. The global diversity of the business included 86 million cards in force worldwide, more than 115 card-issuing or merchant-acquiring

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Professor John A. Quelch and Research Associate Jacquie Labatt prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

arrangements with banks and other institutions, and over 650 American Express network branded products.[6] *Fortune* magazine ranked American Express the "Most Admired" megabank/credit card company in its 2008 annual survey.[7]

American Express's roots date back to 1850, when Henry Wells, William Fargo, and John Butterfield founded an express delivery company. The very nature of handling and transporting customers' assets depended on security and trust, core attributes that had remained at the heart of the company and brand. In the late 1800s, American Express introduced financial products such as money orders and Travelers Cheques. The company later expanded into the travel business to further support its Travelers Cheques customers who were increasingly going abroad.

The First Card

The first American Express card targeting the business traveler was launched in 1958. The decision to enter this new business "faced strong opposition within the company with senior leaders evenly divided on the issue."[8] The debate began when the Diners Club card was introduced in 1950. American Express recognized the card as a potential threat to the company as consumers began using this card as a substitute for Travelers Cheques.[9] Some argued that a charge card would cannibalize the Travelers Cheque business, while others believed competing cards would hurt those sales regardless. There was further concern that launching a card would upset the American Automobile Association (AAA), one of American Express's largest distributors of Travelers Cheques. At the same time, AAA was known to be considering launching a card of its own. Finally, with the economy in recession, many executives argued that it was a risky time to be launching a charge card. Nevertheless, in December 1957, American Express president Ralph Reed decided to launch such a card without further delay, stating at the time: "All we have to sell is service."

When word of the card's imminent launch leaked, the company was inundated with calls from potential applicants. Further, the American Hotel Association approached American Express regarding forming an alliance, which gave the company an immediate customer base of 150,000 cardmembers and 4,500 participating merchants.[10] By the official launch date of October 1, 1958, American Express had already issued 250,000 cards at an annual fee of $6 each, $1 higher than the fee for a Diners Club card. The first American Express card[11] was targeted at businessmen on expense accounts, offering them a convenient method of payment rather than a means of financing purchases. This American Express card was a charge card that required the user to pay off the balance monthly. It was not a credit card that offered the user the option of paying interest on the balance as if it were a cash loan.

The Gold (1966), Corporate (1966), and Platinum (1984) cards followed despite concerns over cannibalizing the original American Express card. This hierarchy of cards with progressively higher annual fees and services offered business travelers the aspirational prospect of being invited to move up from Green to Gold to Platinum. (In 1999, American Express added an unadvertised, by-invitation-only product, the black Centurion card. Equipped with VIP benefits such as a personal concierge, the Centurion card was offered by invitation only to a small, elite group of Platinum card customers. Celebrities and the very rich clamored for the right to carry this new card.)

American Express launched its first credit card, Optima, in 1987. The Optima card was the first American Express card to allow customers to carry a balance and pay interest. It was marketed only as a "companion" card to existing American Express cardmembers. A downturn in the economy in 1991 resulted in unexpected losses as some Optima customers failed to make their payments. As a result, American Express deferred plans to expand its credit card business and tightened its existing credit modeling programs and controls. In addition, American Express "card suppression," whereby merchants tried to dissuade consumers from using their American Express card, began with the 1991 "Boston Fee Party." Boston restaurateurs were upset with what they viewed as American Express's excessive discount rate, the percentage fee American Express charged merchants on consumer purchases made with American Express cards. This practice of not honoring the American Express card gained momentum and discouraged some consumers from using their American Express cards.

Scale was viewed as a key competitive success factor in the payments industry; American Express considered its 16%—and falling—market share of the U.S. payments market in the early 1990s too low. With too few cards in circulation and too few merchants accepting the American Express card, American Express management faced a "chicken and egg" dilemma in trying to determine which aspect of the problem to address first.

Turnaround

Harvey Golub's appointment as chairman and chief executive officer in 1993 set the stage for restoring health to the American Express business and brand. Golub became the "vocal guardian" of the American Express brand as he outlined his vision for the company: "To become the world's most respected service brand."[12] American Express's purpose was to manage, market, and promote the core attributes of the American Express brand, "trust, security, integrity, quality and customer service," through educating employees, incorporating these attributes into card products and services, and reflecting them in all marketing communications. Future chief executive officer Ken Chenault, who was then running the card business, laid down three guiding principles: to provide superior value to customers, to achieve best-in-class economics, and to direct all activities to support the American Express brand. In addition, Golub established long-term goals as the guiding metrics for the business: earnings per share growth of 12%–15% per year, revenue growth of at least 8% per year, and return on equity of 18%–20% on average over time.

With a business strategy built on the company's brand, Golub refocused American Express on the card business. Starting in 1981, American Express had purchased brokerage and financial advisory firms in an effort to become a "financial supermarket." This strategy proved to be a distraction. By 1993, Golub had divested American Express of most of its non-core businesses. Concurrently, the U.S. card business underwent a significant review under the leadership of Chenault. He identified three issues: Costs were too high compared to American Express's most efficient competitors; the division was too slow to change and adapt, particularly in introducing new products; and the organization was not sufficiently flexible to meet the needs of specific, more targeted consumer segments.[13]

By 1995, signs of a turnaround were evident in the American Express card business. New card products began to appear with increased frequency, including proprietary and co-branded cards. A co-branding strategy was initially opposed by branding purists who argued that the American Express brand was too precious to be shared with a partner. This had led American Express to turn down an opportunity to co-brand air-miles-earning AAdvantage credit cards with American Airlines in the mid-1980s. The company came to regret this decision as American Airlines and, later, United Airlines both launched co-branded cards with Visa and MasterCard. The launches of the co-branded Hilton Optima card (1995) and the Delta SkyMiles American Express card (1996) marked the company's new willingness to partner with other strong brands. In future years, agreements were also struck with Costco, Starwood, and JetBlue.

In 1996, Golub decided to open the American Express network and invited other banks and institutions to issue cards on its network. Doing business with other card issuers that were often competitors was a significant shift for the company. But, by carefully choosing the right partners who would tailor American Express products for their high-spending customers, the company could efficiently supplement its own efforts to grow the number of cards-in-force, cardmember spending, and merchant acceptance. The Global Network Services (GNS) division was formed in 1997 to build these relationships.

By 2007, there were more than 750 different American Express cards (including cards co-branded with merchants and banks) available around the world. **Exhibit 2** lists the principal American Express card offerings and features in the United States as of 2008. In evaluating prospective product offerings, Linville asked whether the company was, first, "removing friction" from the system—making everyday life easier in some way for consumers such as with a "contactless" card—and, second, "providing special recognition," or badge value, to cardmembers. Linville sought to make the American Express brand available more broadly while ensuring that it retained its premium status.

Organization

As of 2007, the company was organized into two major customer groups: Global Consumer Services and Global Business-to-Business Services. The Global Consumer group contributed 67% of the company's revenues net of interest expense and 52% of its income from continuing operations.[14] Its range of products and services included charge and credit card products for consumers and small businesses worldwide, consumer travel services, and prepaid, stored value products such as Travelers Cheques and Gift Cards. Business-to-Business Services contributed 29% and 38%, respectively, to the company's revenue and income, and offered business travel, corporate cards, expense management products and services, network services, and merchant acquisition and processing for the company's network partners and proprietary payments businesses. (See **Exhibit 3** for a breakdown of company revenues by operating group and division, and see **Exhibit 4** for income statement data on the company's U.S. card business.)

U.S. Payments Industry

Payment Systems

American Express competed against all forms of payments for consumer purchases, a market that exceeded $7 trillion in the U.S. in 2008.[15] Payments could be divided into three broad categories: paper-based payments (checks, cash, money orders, official checks, Travelers Cheques); card-based payments (credit, debit, prepaid, electronic benefits transfer); and electronic-based payments (pre-authorized and remote).

Consumers were shifting from paper-based payments toward cards and electronic methods (see **Table A**). Converting even a small portion of the paper market to American Express payments represented a big opportunity. Many of these transactions were cash/check-based because either they were low-value transactions (at mom-and-pop stores) or high-value captive transactions where there was little incentive for the merchant (for example, a utility company or apartment landlord) to accept charge/credit cards and absorb the discount fees charged for the service. American Express estimated that around 25% of the cash/check segment represented high-value transactions such as car purchases, tuition fees, and rent/mortgage payments.

Credit and Debit

Credit cards held a leadership 26% share of the payments market and had grown 45% in dollar terms since the year 2001. Debit cards, which were issued by banks and allowed a purchase payment to be deducted immediately from the cardholder's bank account, held a 14% share of the payments market and had grown 162% over this same period. Since American Express was not a bank, it did not offer debit cards. The average purchase per debit card in the U.S. was $39 compared to $87 per credit card purchase.[16] While debit card transactions were projected to exceed credit card transactions by 2011, the average purchase per credit card transaction was expected to remain higher.[17]

Table A U.S. Consumer Purchases by Payment Type—2006

Method of Payment	Consumer Purchases (billions)	% Change Versus Previous Five Years	Market Share
Paper	**$3,365**	**-4 %**	**47%**
Checks	1807	-19	25
Cash	1439	+23	20
Other	119	-3	2
Cards	**3,048**	**+77**	**43**
Credit Cards	1,871	+45	26
Debit Cards	1,010	+162	14
Other	167	+209	3
Electronic	**751**	**+177**	**10**
Preauthorized	443	+136	6
Remote	307	+270	4
Total	**7,165**	**+30**	**100**

Source: Adapted from *The Nilson Report*, Issue 890, October 2007.

The average American adult carried 4.4 payment cards in his/her wallet, be they debit, credit, and/or charge cards.[18] Competitors in the card payments business were either card networks that processed transactions (Visa, MasterCard), card issuers (primarily banks), or organizations that both issued cards and processed transactions (American Express, Discover Financial Services). Charge cards for specific retail chains were declining in importance. American Express aimed to increase its "share of wallet" by making American Express the payment card of choice for all transactions. This was especially important, as recent evidence showed the average number of cards per wallet falling rather than increasing; 20% of consumers shed payment products in 2007 versus 16% in 2004.[19] Further, only 31% of consumers were adding new payment products to their wallets, a drop from 56% three years earlier.[20] Many American consumers "compartmentalized" their spending, using different cards for different types of payments. For example, some long-standing American Express members still used the American Express card just for travel and entertainment, and used a Visa or MasterCard credit card for other purchases.

Competitive Card Networks

Payment networks operated under two business models. “Open-loop” payment networks, as employed by Visa and MasterCard, were multiparty. Processing a payment typically involved connecting two financial institutions: one that issued the card (issuer) and one that serviced the merchant (acquirer). The open-loop network managed the information and transfer of value between the two banks. In a “closed-loop” network, as used by American Express and Discover, the network “owned” the relationship with both the cardholder and the merchant. Leading payment networks are listed in **Table B**.

Table B Credit Card Networks—U.S. Market Share 2007

	Share of Credit Card Purchases	Share of Credit Card Transactions
Visa	42.2%	43.8%
MasterCard	28.7	30.5
American Express	23.8	18.3
Discover	5.3	7.4

Source: Adapted from *The Nilson Report*, Issue 889, 2007.

Visa, Inc. Visa operated the world’s largest retail electronics open-loop payment network. Visa provided financial institutions, their primary customers, with product platforms, including consumer credit, debit, prepaid, and commercial payments (see **Table C**). Visa operated a data-processing network that transferred transaction data and managed payment flow between issuers and acquirers. Visa generated revenue primarily from financial institutions based on fees calculated on the dollar volume of payment activity on Visa-branded cards (service fees) and from fees charged for providing transaction processing (data-processing fees). In 2007, Visa USA generated 82% of its gross operating revenue from service and processing fees combined.[21]

Table C U.S. Results for Visa, Inc., Annual Product Performance (June 30, 2007)

Payment Type	Payment Volume (billions)	Share of Payment Volume by Payment Type
Consumer Credit	$ 624	34%
Consumer Debit	637	35
Commercial and Other	188	10
Total Payments Volume	1,449	79
Cash Volume[a]	382	21
Total Volume	1,831	100%
Total Transactions (in millions)	25,942	

Source: Adapted from Visa, Inc., Form 10-K, December 2007.

[a] Cash volume includes cash access transactions, balance transfers, and convenience check transactions associated with Visa.

Visa went public on March 18, 2008, raising $19 billion in the world's second-largest initial public offering (IPO).[22] The IPO created a cultural and business challenge: Visa had to shift its focus from delivering benefits to its partner banks toward maximizing profits for long-term shareholder value.[23] As stated in Visa's 10-K report, "Many of our employees have limited experience operating in a profit-maximizing business environment."[24] Further, the proceeds of the IPO bought out the interests of the partner banks. As a result, the banks were no longer Visa's partners and co-owners but were now Visa's customers.

MasterCard MasterCard (MC), which successfully went public in 2006, was a global payment solutions company that was similar to Visa's open-loop network. MC's primary sources of revenue were transaction service fees, data-processing fees, and assessments on gross dollar use (purchases, cash disbursements, balance transfers) of MC-based cards. In 2007, transaction fees and assessments represented approximately 74% and 26%, respectively, of the company's net revenues.[25]

Discover Financial Services Discover Financial Services (DFS) was the consumer credit and financial services division of Morgan Stanley until it was spun off to shareholders as an independent closed-loop payments network company in July 2007. Founded in 1986, DFS was the only issuer whose wholly-owned network operations included both debit and credit card capability.[26] DFS also offered a range of banking products, such as personal and student loans, certificates of deposit, and money market accounts. DFS's primary source of revenue in its U.S. card business was interest income earned on revolving cardmember balances. Other sources of revenue included late-payment, over-the-limit, and merchant discount fees. Like American Express, the company offered a rewards program to cardholders; under the Discover program, card users earned a cash-back discount on the value of their transactions.

Competitive Card Issuers

Competitive card issuers (largely banks) issued credit and debit cards, predominantly under the Visa and MasterCard brands, and were responsible for the pricing, positioning, and marketing of their co-branded cards. The top three banks accounted for more than 60% of outstanding bank-issued credit card purchases, as indicated in **Table D**. Card issuers competed on the basis of card features and quality of service, including rewards, number of cards issued and quality of users' credit and spending, number of establishments accepting the card, success of target marketing and promotional campaigns, and the ability of the issuer to manage credit and interest rate risks through economic cycles. The primary revenue source for bank issuers was interest income earned on outstanding credit card balances. They acquired new cardholders by cross-selling cards to the customers of their retail branch networks and, increasingly, targeted high-spending consumers, offering premium cards with enhanced services such as larger lines of credit, cash rebates, lower interest rates, and co-brand benefits with airline frequent-flyer programs.

Table D U.S. Credit Card Volumes by Card Issuer in 2007

	Volume of Purchases (billions)
American Express[a]	$459
JP Morgan Chase	317
Bank of America	263
Citigroup	222
Capital One	106
Discover[a]	90
U.S. Bank	65
HSBC	41
Wells Fargo	37
GE Money	27
Other	87

Sources: Adapted from *The Nilson Report*, Issue 896, February 2008, except for American Express (American Express Annual Report 2007).

[a] Do not include third-party business.

Emerging Payment Networks

New entrants offering nontraditional, convenient, technology-based payment methods were growing in number and importance. It was estimated that credit and debit cards generated approximately $200 billion in purchase volume from online bill payments in 2006.[27] New payment methods included online "aggregator" networks, such as PayPal and Google Checkout, and telecom providers that leveraged new technologies and customers' existing charge and credit card relationships to create mobile payment solutions where the plastic card would not need to be presented to the merchant. PayPal used encryption software to allow consumers to make financial transfers between computers.[28] Similarly, Google Checkout, which accepted and processed existing payment methods such as American Express, Visa, and MasterCard, aimed to offer buyers a fast, safe, and convenient purchase experience.

American Express Card Business Model

The American Express "spend-centric" business model (see **Exhibit 4**) depended on increased cardmember spending. American Express's primary source of income was "discount revenue," revenue earned from fees charged to merchants for processing purchases made using an American Express card. The fee charged represented a percentage of the dollar value of these transactions. In 2007, discount revenue and card fees accounted for more than 70% of U.S. Card Services' revenue net of interest expense (see **Exhibit 5**). The average American Express cardmember charged more each year than the average Visa or MasterCard credit card user. In 2007, the annual average purchase volume per American Express card of $8,360 in the U.S. was substantially higher than that for Visa ($2,470/card) or MasterCard ($1,960/card).[29] By accepting American Express cards, merchants benefited from attracting as patrons the higher-spending American Express consumer. As a result, American Express could justify a premium discount rate from merchants over its competitors. American Express invested this price premium in information systems that studied the purchase habits and inclinations of cardmembers. These insights led to the development of targeted promotions, connecting merchants with interested American Express cardmembers who were in turn motivated to spend even more on their American Express cards. In this way, the spend-centric model became a virtuous cycle, benefiting cardmember, merchant, and company alike.

From the outset, American Express targeted the affluent, high-spending consumer. "High-wallet" consumers were defined by American Express in 2007 as those who spent more than $30,000 annually using cards. Affluent consumers represented roughly 10% of card users but accounted for half of U.S. charge/credit card consumer spending.[30] American Express's target consumer typically liked to travel, liked to be different, and liked special access to exclusive experiences. For many years the American Express consumer skewed slightly toward affluent, older men, a reflection of the company's early targeting of the male business traveler. The company had successfully increased American Express brand penetration of affluent younger and female consumers.

Unlike its transaction-oriented competitors, Visa and MasterCard, the American Express card always emphasized an aspirational lifestyle. An early example was the 1985 launch of *Departures* magazine for Platinum cardmembers who were active, affluent consumers. The *Departures* editor defined luxury not as status and privilege but in terms of quality and authenticity.

Membership in a Lifestyle

From the outset, American Express executives emphasized that the company sold not just a card but a relationship. The relationship involved a "membership" in which the company committed to providing the member with the following: Access (premium and exclusive access and enhanced experiences for cardmembers), Advocacy (in merchant disputes, for example), Accountability (privacy of information, fairness in billing), and Affiliation (a sense of belonging to a community). Every American Express charge card included the "Member Since" designation on the front followed by the year the consumer became an American Express cardmember.

To underscore the membership status of American Express consumers, the company in 1991 launched the Membership Miles program to motivate customer sign-ups, customer retention, and more frequent card usage. At launch, the Membership Miles program gave cardmembers one point for every dollar charged on the card and the ability to redeem points with seven airlines. The program was renamed Membership Rewards (MR) in 1995. Spending on American Express cards linked to MR averaged four times higher than that on cards without rewards activity.[31] Seventy percent of cardmembers used the MR program. Cardmembers enrolled in the program were found to be lower credit risks as well as more profitable.[32] The company's "data-mining" capabilities helped shape the MR program into an industry-leading loyalty program. For these reasons, American Express's marketing spending on MR had grown at a compound annual growth rate of 24% since 2001, compared to an average 12% increase in marketing and promotion spending.[33]

The MR program in the U.S. had more than 160 redemption partners[34] and featured 29 airlines among its 250 merchandise brands. Analytics not only helped to determine whom to reach and with what offer, but also how rewards influenced loyalty. In 2005, the MR analytics team analyzed which members were more likely to redeem, in which categories, how many points they would redeem, and at what cost to the company. This research enabled American Express to craft a more appealing mix of reward offers, to predict more accurately the volume of demand for particular offers, and to negotiate better deals with suppliers. Innovations such as "First Collection," a luxury tier exclusively for U.S. Platinum and Centurion cardmembers that included redemption partners such as Tiffany and Lamborghini, and "Bonus Points Mall," an online gateway to more than 100 retailers, were examples of how American Express increasingly tried to match the nature and the level of rewards to what its members sought and expected.

Data-Based Marketing

As a card issuer and network provider, American Express had direct relationships with both its cardmembers and its merchants. "Data-based marketing" became a competitive advantage at American Express. Analyses of cardmember purchases enabled American Express to develop offers that boosted spending with particular groups of merchants. Open-loop competitors Visa and MasterCard could not match American Express's data-driven capabilities because they controlled access to either the cardholder or the merchant data, not both.

The purpose of data-based marketing was to develop insights and offers that would match members' interests, drive charge volume, and increase loyalty to American Express.[35] The company did not use individual consumer data for marketing purposes but rather clustered cardholders into segments based on personal, financial, and lifestyle characteristics evident in the patterns of their transactions. Cardmember clusters might have greater than average spending in, for example, entertainment, dining, home, fashion, electronics, or automobiles. Cardmembers whose spending showed them to be more "passionate" about their homes might then receive offers from local home-improvement retailers.

The company also researched correlations across spending categories to identify potential partnerships. For example, research indicated that affluent consumers who owned at least one luxury automobile brand had a strong affinity not only to other luxury brands but also to consumer electronics brands, an above-average tendency to engage in skiing and antiquing, and a strong likelihood of owning a second, more practical vehicle. Data mining also enabled American Express executives to predict how spending behavior evolved through various "life stages" and increasing levels of affluence. For example, the company's predictive model indicated that non-affluent cardmembers who made a single luxury purchase, such as a first-class airline ticket, were three times as likely to become affluent. Card upgrade offers distributed following a cardmember's first luxury charge purchase resulted in response rates over 50% above normal.[36]

Emerging Challenges

By 2005, competitors had begun to imitate American Express's lifestyle platform with premium product offerings (e.g., Visa Signature, MasterCard World Elite), exclusive experiential rewards (e.g., MasterCard's Unique Experiences program), and lifestyle advertising. Visa's "Life Takes Visa" advertising campaign emphasized the "brand's promise to deliver innovative products and services that empower cardholders to experience life and business their way and on their terms."[37]

The quality of a card's rewards program was increasingly important to higher-spending consumers. No longer did they evaluate rewards programs just on ease of earning and redeeming points. The variety and frequency of unique rewards (such as backstage access at a concert) were more and more critical. American Express had an edge over Visa and MasterCard owing to its cumulative expertise in arranging special events, but bidding wars for such opportunities were increasingly common.

While continuing to emphasize relationship and lifestyle over transaction, American Express had to broaden its merchant network to maintain its share of consumer spending. In 1990, 64% of

American Express U.S. billings came from the travel and entertainment (T&E) sectors and 36% came from retail and other sectors.[38] This reflected the company's belief that spending could be segmented into "business" and "personal." American Express's focus on T&E concerned Chenault and Kelly. They believed that, in the interests of scale, American Express had to expand its presence in the "everyday" retail market. This change in strategy was opposed initially, partly because it would necessitate launching more new products and, in the eyes of some traditionalists, weaken the brand. However, by 2007 the sources of cardmember spending had more than reversed, with everyday retail spending representing more than 69% of U.S. American Express card billings.[39]

Marketing Communications

Advertising Campaigns

American Express had a long history of successful, distinctive advertising that consistently stressed prestige, inviting consumers to join an exclusive club of cardmembers. One of the first TV campaigns, "For People Who Travel" (1969–1974), demonstrated how the American Express card is "All You Need" for your travel and entertainment needs. This was replaced by the "Do You Know Me?" campaign, which that ran for more than a decade, produced 125 commercials, and marked the beginning of the company's strategy of using famous American Express "members" to sell cards to consumers. "Do You Know Me?" used a variety of celebrities to highlight the special treatment and recognition cardmembers enjoy, the premise being that people with famous names don't always have equally famous faces; anyone who carried an American Express card would be immediately identified as someone of note.

In 1987, American Express premiered the "Membership Has Its Privileges" campaign, which highlighted the company's superior service and showed how the card "not only facilitated the variety and enjoyment of a cardmember's lifestyle, but that membership is also invaluable when emergencies arise."[40] To complement this television campaign, the "Portraits" print campaign was launched. Portraits underscored the message that "superior customer service, security, and convenience" were important American Express qualities that cardmembers relied on. Shot by celebrity photographer Annie Leibovitz, "Portraits" focused on a unique group of high-profile cardmembers.

The company's first global advertising campaign, "Do More," was launched in 1996 and emphasized brand attributes such as trust, customer focus, travel relevance, and financial insight. A variety of "product" commercials highlighted individual card benefits such as no preset spending, purchase protection, and global assist, while talent-driven "stories," such as Tiger Woods's "Manhattan" commercial in which he plays the world's toughest "island" course—Manhattan—were intended to drive emotional relevance. In an effort to encourage everyday usage of the card, the "Do More" campaign introduced a series of ads showing comedian Jerry Seinfeld using the American Express Card in supermarkets and drugstores.

In 2004, a new global campaign with the tagline "My Life. My Card." featured snapshots of the lives of celebrities, including Robert DeNiro, Tiger Woods, and Ellen DeGeneres. The campaign portrayed American Express cardmembers as exceptional people no matter where they lived or what they did. The campaign was also the first to support both American Express's proprietary and network businesses. John Hayes, American Express's chief marketing officer, believed that the company's history of tastefully portraying the rich and famous had provided it with an edge in attracting A-list talent. DeGeneres purportedly pointed to Seinfeld's ads before signing on to do her own.[41]

American Express launched its most recent campaign, "Are You A Cardmember?," in 2007. Hayes explained: "The new campaign continues the tradition of defining the value of belonging to the American Express community by showcasing some of our most exceptional cardmembers and the ways in which membership works for them. But our latest campaign not only reaffirms for existing members why they belong, it also calls on nonmembers to consider becoming a cardmember."[42] See **Exhibit 6** for a summary of American Express's U.S. card advertising campaigns.

Expenditures

The company's mix of marketing spending had changed to reflect the growing importance of targeted communication over mass mailings and the emergence of the digital world. Over time, spending on direct mail, while still large, had decreased along with spending on television advertising. Event/experiential marketing and Internet spending had both grown. American Express used direct marketing both to acquire new customers and to motivate existing members to upgrade. Traditionally, American Express sought new customer applications from outbound telemarketing, "Take Ones" (applications placed in restaurants and other retail establishments), and direct-mail efforts. By 2008, only 40% of successful new applicants still came from direct-mail solicitations and response rates had slipped well below 1%. By contrast, a significant portion of applications came from new channels such as the Internet, co-branded partner channels, and consumer-initiated phone calls to American Express customer service. The American Express website had become one of the company's largest sources of new member applications. It allowed the company to leverage its data-mining expertise to provide real-time consumer rewards and offers. The Web simplified the card selection/application process by guiding the applicant through card choices. Based on the applicant's stated card feature priorities (fees, rewards, payment terms), the American Express website provided card product comparisons and recommended the most appropriate card options from American Express's portfolio. The growing importance of the digital world was reflected in the company's shift in media spending, as shown in **Table E**.

Table E American Express Company—U.S. Card Media Spending

Media Type	Share of Media Spend 2003	Share of Media Spend 2007
Online	7%	19%
Television	48	57
Non Traditional Media[a]	14	10
Print	23	13
Radio	8	2

Source: Company records.

[a] Non Traditional Media includes billboards, transit, cinema, and other out-of-home media

Investing in the website reduced American Express's costs and built brand presence and prestige. By 2008, 38% of American Express applications, payments, and reward redemptions had migrated to the Web at cost rates 53%, 84%, and 86% lower, respectively, than offline.[43] The Internet allowed the company to attract new customers faster (one application every eight seconds) and more economically. The website, serving as a virtual service center around the clock, increased the frequency with which the company was in contact with its customers, making it a powerful marketing channel. Claiming the americanexpress.com site "gets more traffic than the *Wall Street Journal* online," the company noted that its members used the Web primarily for checking statements and cashing in rewards. With more than 50% of American Express payments left to migrate online, upside opportunity existed for further cost savings and deeper relationships with customers.

Bank and Merchant Partners

As of 2008, American Express obtained customers in two ways: through direct company solicitations and communications that resulted in consumers being issued proprietary American Express cards; and through third-party financial institutions that solicited their customers to sign up for American Express cards through them, a business managed by the company's Global Network Services (GNS) division.

Bank Partners

American Express's GNS business was set up in 1997 to build partnerships with banks and other institutions to issue American Express–branded products. GNS products were designed to help issuers develop products for their highest-spending, most affluent customers and to support the value of American Express card acceptance with merchants. GNS enabled American Express to broaden its cardmember base internationally at relatively low cost. By 2008, GNS had over 120 partners in more than 125 markets and accounted for nearly 25% of American Express's overall cards-in-force.

American Express particularly wanted to help each bank design card products for their high-spending, affluent private banking clientele, and to benefit from new distribution channels that included each bank's website, direct-mail capabilities, and retail branch network. For their part, the banks were interested in partnering with American Express because of its superior marketing expertise as a card issuer and the higher-spending profile of American Express cardmembers. Merchants stood to benefit from more American Express cards in circulation. For American Express, expanding the GNS business required little capital; the banks owned the receivables and therefore absorbed the consumer credit risk. While consumers could choose between American Express proprietary cards and those issued under GNS partnerships, cannibalization of direct sales appeared to be minimal.

While GNS began building a healthy international business, it was effectively barred from doing business in the U.S. by Visa and MasterCard's policies preventing their U.S. member banks from issuing other card brands. In 1998, the U.S. Department of Justice filed suit against Visa, MasterCard, and eight of their member banks, charging anticompetitive practices. The suit charged that Visa and MasterCard prohibited their U.S. partner banks from issuing American Express–branded cards on the American Express network. Discover cards were affected similarly. The legal battle was resolved in 2004 when the U.S. Supreme Court let stand a court ruling that Visa and MasterCard had violated antitrust laws. Visa settled for $2.25 billion. MasterCard later settled for $1.5 billion.

American Express soon signed Network Card License Arrangements (NCLs) to issue American Express–branded cards with seven leading U.S. banks. MBNA was the first, followed by Citibank, Barclaycard U.S., USAA, GE Money, HSBC, and Bank of America. Though the banks were licensed to issue American Express–branded cards, American Express owned the relationships with merchants.

This meant that GNS earned discount revenue from both the bank issuer and the merchant acquirer, a sum that represented roughly one-third of total GNS revenues. This design feature underscored the importance of the continued focus on the high-spend segment. American Express developed strong account-management teams to manage the relationships with these major banks. Two major banks that had not yet signed on to issue American Express cards were JP Morgan Chase and Capital One.

Merchant Partners

In addition to U.S. banks, American Express depended on relationships with merchant partners, seeking always to expand its merchant coverage. These relationships were managed by the Merchant Services Group. Despite American Express's premium discount rate, American Express believed that merchant coverage was not a function of price alone; if it were, Kmart and Walmart, for example, would not have chosen to accept American Express. Further, the Discover card discount rate was less than American Express's yet Discover had a much lower merchant penetration. (See **Table F** for fees paid in 2005 by U.S. merchants to accept card payments.) American Express account managers and third-party sales organizations aimed to convince merchants of two benefits to offset American Express's higher discount rate: that American Express cardmembers would spend more with them than with competitive cardholders and that American Express data mining could target promotional offers that would drive business their way. To persuade reluctant merchants to sign up, the Merchant Services Group might target members who were likely shoppers at a new merchant with double points promotions for an inaugural period.

Since 2000, American Express increased merchant acceptance of its cards in many categories, especially quick-serve restaurants, mass transit, and health care. American Express card acceptance also increased in industries where cash, checks, or bank transfers were the predominant forms of payment, including apartment rentals, private jet travel, and destination clubs. By 2008, the American Express card was accepted at millions of merchants in the U.S.. Management estimated that U.S. locations where the American Express card was accepted covered more than 90% of American Express cardmembers' general-purpose charge and credit card spending.[44]

Table F Fees Paid by U.S. Merchants to Accept Card Payments—2005

Payment Card Brand	Fees Paid (billions)	Weighted Average[a]
Visa/MasterCard Credit Cards	$25.13	2.19%
Visa/MasterCard Debit Cards	9.76	1.75
American Express	8.51	2.41
Discover	1.46	1.76

Source: Adapted from *The Nilson Report,* Number 862, August 2006.

[a] Fees vary according to merchant category, volume, and type of card.

Conclusion

By the spring of 2008, American Express was strategically focused on the payments and travel businesses, having sold off the last of its banking interests. Michael O'Neill, senior vice president of corporate affairs and communications, explained this transformation: "We narrowed the business and broadened the brand." Warren Buffett, who was the company's largest shareholder, described

American Express's "powerful world-wide brand" as "an enduring moat that protects excellent returns on invested capital"[45] and Chenault as one of the "giant-company managers whom I greatly admire."[46] In March 2008, *Barron's* named Chenault as one of "The World's Best CEOs" for having "positioned American Express well to withstand turbulence. He hasn't compromised credit standards to gain new cardholders, nor has he cut back on marketing spending to prop up earnings. His loss rates on cards remain among the industry's best."[47]

In the second half of 2007, a U.S. housing downturn and credit crunch slowed U.S. economic growth. American Express issued a profit warning in early 2008. Chenault explained that the slowdown in cardmember spending that had come on suddenly in December 2007 was broad-based and was expected to continue into 2008. "Now we've been through slowing economies before, but none of us can recall such a dramatic drop over such a short time frame, except for the event-driven decline of 9/11."[48] Past-due loans and write-offs also rose, especially in parts of the U.S. that had experienced a housing price bubble. However, superior risk management and credit controls at American Express meant that it was less affected than competitors.[49]

It was in this context that Jud Linville prepared for his meeting with Ken Chenault and Al Kelly. How could the American Express consumer card business continue its growth while maintaining the company's premium positioning? Were there opportunities for his organization to serve U.S. consumers and merchants in new ways while continuing to turn in the profits that shareholders had come to expect?

Exhibit 1 American Express Card Business Statistics: 2006–2007

Years Ended December 31 (billions, except percentages and where indicated)	**2007**	**2006**
Card billed business[a]		
United States	**$459.3**	$406.8
Outside the United States	**188.0**	154.7
Total	**$647.3**	$561.5
Total cards-in-force *(millions)* [b]		
United States	**52.3**	48.1
Outside the United States	**34.1**	29.9
Total	**86.4**	78.0
Basic cards-in-force *(millions)* [b]		
United States	**40.9**	37.1
Outside the United States	**29.2**	25.4
Total	**70.1**	62.5
Average discount rate[c]	**2.56%**	2.57%
Average basic cardmember spending *(dollars)*[d]	**$12,106**	$11,201
Average fee per card *(dollars)* [d]	**$32**	$32

Source: Company documents.

[a] Card billed business includes activities (including cash advances) related to proprietary cards, cards issued under network partnership agreements, and certain insurance fees charged on proprietary cards. Card billed business is reflected in the United States or outside the United States based on where the cardmember is domiciled.

[b] The number of cards that are issued and outstanding. Proprietary basic consumer cards-in-force includes basic cards issued to the primary account owner ("cardmember") and does not include additional supplemental cards issued on that account. Proprietary basic small business and corporate cards-in-force include basic and supplemental cards issued to employee cardmembers. Non-proprietary basic cards-in-force includes all cards that are issued and outstanding under network partnership agreements.

[c] Designed to approximate merchant pricing, the percentage of billed business (both proprietary and Global Network Services) retained by the Company from merchants it acquires, prior to payments to third parties unrelated to merchant acceptance.

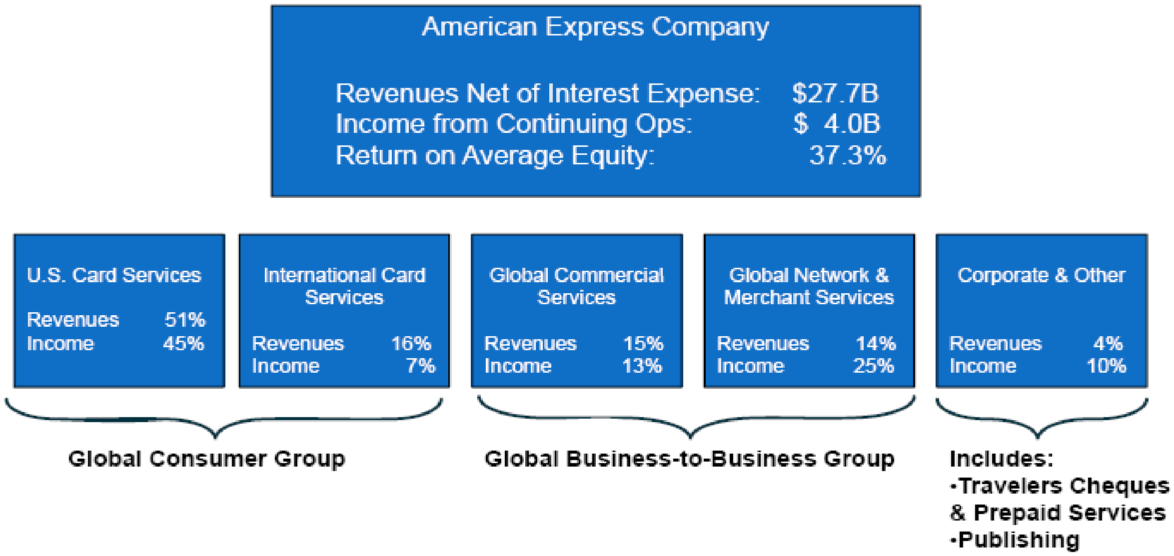
[d] Average basic cardmember spending and average fee per card are computed from proprietary card activities only.

Exhibit 2 Selected American Express U.S. Charge and Credit Card Products: 2008

CARD TYPE	SELECTED FEATURES AND BENEFITS
CHARGE CARDS	
Green (1958)	Membership Rewards, no limit, year-end summary
Gold(1966) —Preferred Rewards Gold (2002)	Membership Rewards, access to special events
—Rewards Plus Gold (1994)	Membership Rewards, access to special events, 5 free additional cards
Platinum (1984)	Airport Club access, 24 hour concierge service, by Invitation Only events
Centurion (1999)	
One from American Express (2005)	1% of purchases deposited to high yield savings account
CREDIT CARDS	
Blue (1999) —Blue (1999)	No annual fee, flexibility to pay over time, free additional cards
—Blue Cash (2003)	No annual fee, earn up to 5% cash back, unlimited cash rewards
—Blue Sky (2005)	No annual fee, earn points redeemable on airline, hotel or cruise services.
—Blue for Students (2001)	No annual fee, flexibility to pay over time, Membership Rewards
Optima (1987) —Optima Platinum (1997)	No annual fee, transfer balances for free, Membership Rewards
City Rewards —In New York City (2004)	No annual fee, earn Inside points to eat, drink and play in New York
—In Los Angeles (2005)	No annual fee, earn Inside points to eat, drink and play in L.A.
—In Chicago (2005)	No annual fee, earn Inside points to eat, drink and play in Chicago.
Clear (2005)	No fees of any kind, automatic rewards, flexibility to pay over time
PARTNER CARDS	
Airlines —Gold Delta Sky Miles (1996)	Earn Sky Miles on every dollar spent, earn double miles on some purchases
—Platinum Delta Sky Miles (2002)	Earn Sky Miles, earn 1 companion ticket each year
—JetBlue Card (2005)	Earn points towards JetBlue flights
Hotels —Starwood Preferred (2001)	Earn points towards free hotel stays, upgrades, even flights
—Hilton HHonors (1995)	Earn HHonors points on every purchase
Costco—True Earnings Card (2004)	Earn cash back on purchases
Lifestyle Cards —The Knot (2005)	Membership Rewards, no annual fee, get special offers from The Knot
—The Nest (2005)	Membership Rewards, no annual fee, get special offers from The Nest
FOR CORPORATE CLIENTS	
American Express Corporate Cards (1966)	Comprehensive reporting to track spending and increase compliance
Business ExtrAA Corporate Card (2003)	Savings through airfare rebates, free travel awards
FOR SMALL BUSINESS	
Business Gold Rewards (2005)	Save 3-25% on business expenses at selected partners (e.g.: FedEx, Delta)
Business Platinum Card (1995)	Access to airport lounges, professional office space, personal concierge
Plum (2006)	Trade terms, pay within 10 days, get 2% off or defer payment
Starwood Preferred Guest Business Credit Card (2001)	Free awards nights at Starwood Hotels, awards flights on over 30 airlines
Business Cash Rebate Credit Card (2003)	Earn 2.5% on all purchases and up to 5% for certain business purchases.

Source: Company documents.

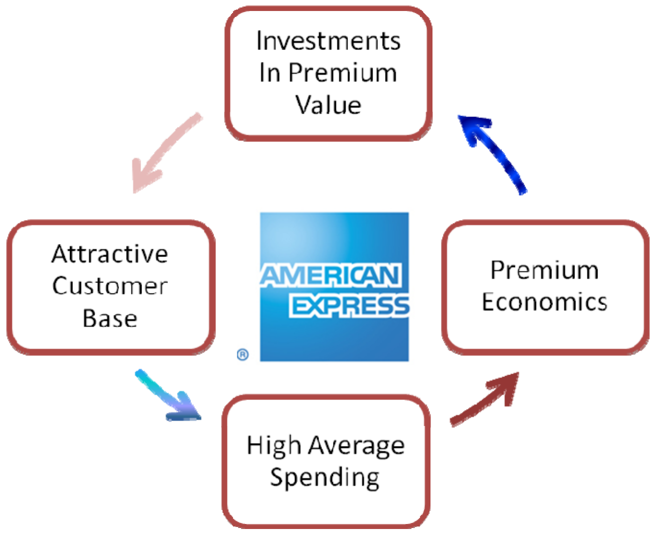
Exhibit 3 American Express Company Overview: 2007



Source: Company records.

Exhibit 4 American Express: Spend-Centric Model

The American Express spend-centric business model focused primarily on generating revenues by driving spending on its cards, and secondarily finance charges and fees, allowing the company to grow market share in the payments industry.



Source: Company documents.

Exhibit 5 American Express U.S. Card Services—Selected Income Statement Data

Year Ended December 31 (millions)	2007	2006
Revenues		
Discount revenue, net card fees and other[a]	$10,435	$9,421
Cardmember lending revenue[b]	4,762	3,434
Securitization income		
Excess spread, net	1,025	1,055
Servicing fees	425	407
Gains on sales from securitizations	57	27
Securitization income, net[c]	$ 1,507	$ 1,489
Total revenues	$16,704	$14,344
Interest expense		
Cardmember lending	1,518	957
Charge card and other	964	767
Revenue, Net of Interest Expense	$14,222	$12,620
Expenses		
Marketing, promotion, rewards and cardmember services	$ 5,140	$ 4,445
Human resources and other operating expenses	3,354	3,227
Total	$ 8,494	$ 7,672
Provisions for losses[d]	$ 2,998	$ 1,625
Pretax segment income	$ 2,730	3,323
Income provision	$ 907	$ 1,171
Segment Income	$ 1,823	$ 2,152

Source: American Express Company Annual Report 2007, p. 53.

[a] **Discount Revenue** represents revenue earned from fees charged to merchants with whom the company has entered into a card acceptance agreement for processing cardmember transactions.

[b] **Cardmember Lending Revenue** represents the outstanding amount due from cardmembers for charges made on their American Express credit cards, any interest charges and card-related fees and balances with extended payment terms on certain charge products.

[c] **Securitization Income, Net** includes non-credit provision components of the net gains from securitization activities; excess spread related to securitized cardmember loans; and servicing income net of related discounts or fees.

[d] **Provisions for Losses** include credit-related expenses.

Exhibit 6 Major American Express Advertising Campaigns in the United States

1958–early 1960s	**Good As Gold. The World Around!** Establish prestige image for AmEx card and provide application instructions.
1969–1974	**For People Who Travel** Show how the American Express card is "all you need" for your travel and entertainment needs.
1975–1987	**Do You Know Me?** Show celebrities receiving the special treatment and recognition cardmembers enjoy around the world. Tagline, which continued through 1995, is "Don't Leave Home Without It."
1987–1992	**Membership Has Its Privileges** Introduce notion of "membership" and showcase the benefits of respect, recognition, unsurpassed service as well as *Global Assist*, *Buyers Assurance*.
1996–2000	**Do More/Seinfeld** Highlight individual card product benefits such as no pre-set spending, purchase protection, global assist. Talent-driven "stories" drive emotional relevance and recognition benefit. Use Jerry Seinfeld in a larger than life manner to increase awareness and use of the American Express card at everyday spend locations. Sub-campaign uses everyday moments to highlight individual product benefits such as retail protection and roadside assistance.
2002	**Make Life Rewarding** Relaunch American Express brand post 9/11 using charge card as the face of propriety. Sub-campaign introduced "revitalized" charge card with membership reward programs built in.
2004–2007	**My Life. My Card.** Demonstrate the company's belief that American Express cardmembers are exceptional people no matter where they live or what they do. Featured extraordinary individuals including Robert DeNiro, Tiger Woods, Ellen DeGeneres, and Laird Hamilton, revealing snapshots of their lives. Acclaimed director Martin Scorsese and celebrated photographer Annie Leibovitz were commissioned to lend their vision to elements of the campaign creative. While the creative direction varied from ad to ad, the campaign theme was consistent: achievers of all types choose American Express.
2007–2008	**Are You A Cardmember?** Entice prospective cardmembers to apply and join the American Express community and reinforce the membership benefits to current cardmembers via showcasing the advantages American Express offers versus competition. Celebrities such as Beyoncé Knowles, Ellen DeGeneres, Tina Fey, and Diane Von Furstenberg are featured within a lifestyle and access theme.

Source: Company documents.

Endnotes

[1] Adapted from *The Nilson Report,* Issue 902, 2008.

[2] American Express Annual Report, 2007, inside front cover.

[3]American Express Fixed Income Presentation, March 12, 2008, http://media.corporate-ir.net/media_files/irol/64/64467/DebtInvestorPres.pdf, accessed June 12, 2008.

[4] American Express Financial Community Meeting 2/16/2008 K. Chenault speech, texthttp://media.corporate-ir.net/media_files/irol/64/64467/KCSTalkingPoints020608.pdf, accessed June 12, 2008.

[5] American Express Annual Report, p. 110.

[6] American Express Fixed Income Presentation, March 12, 2008, http://media.corporate-ir.net/media_files/irol/64/64467/DebtInvestorPres.pdf, accessed June 12, 2008.

[7] American Express Fixed Income Presentation, March 12, 2008, http://media.corporate-ir.net/media_files/irol/64/64467/DebtInvestorPres.pdf, accessed June 12, 2008.

[8] American Express Company Annual Report, 2007, p. 17.

[9] Becoming American Express—150 Years of Reinvention and Customer Service, Massengill, 1999, p. 134.

[10] *Becoming American Express*, Massengill, 1999, p. 136.

[11] The first American Express card was issued on purple paper. In 1959, American Express began issuing embossed cards made of plastic to better withstand day-to-day use and speed processing at point of sale; this card was still purple. The "Executive Credit Card" (originally blue and purple that eventually became known as the "Gold Card") was launched in 1966. It was not until 1969 that American Express dropped the color purple and switched to the iconic green for its core card product. Source: Company records.

[12] *Becoming American Express*, Massengill, 1999, p. 185.

[13] *Becoming American Express*, Massengill, 1999, p. 188.

[14] American Express Fixed Income Presentation, March 12, 2008, http://media.corporateir.net/media_files/irol/64/64467/DebtInvestorPres.pdf, accessed June 12, 2008.

[15] Adapted from *The Nilson Report,* Issue 890, October 2007, p. 10.

[16] Adapted from *The Nilson Report*, Issue 889, October 2007, p. 7.

[17] Adapted from *The Nilson Report,* issue 889, October 2007, p. 7.

[18] Company records. Credit/charge/debit cards per adult (18 years+) in the U.S. was 4.43.

[19] Adapted from PaymentDynamics 2007 Preferred Payments Study—CardTrak.com, http://www.cardtrak.com/news/2007/04/24/wallet_share, accessed April 27, 2008.

[20] Adapted from PaymentDynamics 2007 Preferred Payments Study—CardTrak.com, http://www.cardtrak.com/news/2007/04/24/wallet_share, accessed April 27, 2008.

[21] Adapted from Visa Form 10-K, December 2007, http://www.secinfo.com/d14D5a.u881w.htm#1stPage, accessed June 12, 2008.

[22] http://www.bloomberg.com/apps/news?pid=20601087&sid=a9FpVxh7WHLk&refer=home, accessed April 29, 2008.

[23] Adapted from Visa Form 10-K. December 2007, http://www.secinfo.com/d14D5a.u881w.htm#1stPage, accessed June 12, 2008.

[24] Visa Form 10-K, December 2007, http://www.secinfo.com/d14D5a.u881w.htm#1stPage, accessed June 12, 2008

[25] MasterCard 10-K Form, December 2007, p. 8.

[26] Discover Financial Services 10-K report, for fiscal year-end November 30, 2007, http://investorrelations.discoverfinancial.com/phoenix.zhtml?c=204177&p=irol-sec#5452992, accessed April 6, 2007.

[27] *The Nilson Report,* Issue 883, July 2007, p. 1.

[28] http: computer.howstuffworks.com/paypal.htm, accessed April 6, 2008.

[29] *The Nilson Report,* Issue 877, April 2007.

[30] *Context* magazine—"Brand Power: The Next Generation of Service," Spring 2008, p. 21.

[31] American Express Annual Report 2006, p. 17.

[32] American Express Form 10-K, December 31, 2007, p. 18.

[33] American Express Financial Committee Meeting presentation, February 6, 2006.

[34] American Express Form 10-K, December 31, 2007, p. 17.

[35] *Context* magazine, "Brand Power: The Next Generation of Service," Spring 2008, p. 22.

[36] *Context* magazine, "Brand Power: The Next Generation of Service," Spring 2008, p. 23.

[37] Visa Form 10-K Report December 31, 2007, p. 20.

[38] American Express Form 10-K, December 31, 2007, p. 8.

[39] American Express Form 10-K, December 31, 2007, p. 8.

[40] Company records.

[41] Michael McCarthy, "American Express Sticks with Tradition of Celebrity Pitches," *USA Today* (Advertising and Marketing), http://www.usatoday.com/money/advertising/adtrack, accessed April 21, 2008.

[42] *Adweek* Online, "Ogilvy Changes AmEx Tagline," 06 April 2007, http://globalll.oncesource.com/haredscripts/test/getarticle.asp, accessed April 21, 2008.

[43] Jud Linville speech, company records, August 2, 2006.

[44] American Express Form 10-K, December 31, 2007 p. 8.

[45] Berkshire Hathaway, Letter to Shareholders 2007, p. 6.

[46] Berkshire Hathaway Annual Report, 2006, p. 4.

[47] http://global.factiva.com/ha/default.aspx?ftx=American%20Express, accessed March 31, 2008.

[48] American Express Website: Investor Relations, Financial Community Meeting February 6 2008, Chenault Talking Points http://media.corporate-ir.net/media_files/irol/64/64467/KCSTalkingPoints020608.pdf, accessed April 25, 2008.

[49] American Express Website: Investor Relations, Financial Community Meeting February 6 2008, Chenault Talking Points http://media.corporate-ir.net/media_files/irol/64/64467/KCSTalkingPoints020608.pdf, accessed April 25, 2008.