

## Why So Many American Express Cards?

American Express's (AmEx) green, gold, and platinum charge cards (cards whose balance had to be paid off each month in full) used to be closely linked with high status and prestige. Obtaining an AmEx card required a high income, and obtaining a gold or platinum card required an even higher one. AmEx card carefully differentiated its product by using famous people to advertise the virtues-exclusively and distinctness-of possessing its card. Customers were willing to pay the high yearly fee to use the card. AmEx's cards were a premium product that allowed the company to charge both customers and merchants more because it offered quality service and conferred status on the user. For many years, its charge card operation was the money-spinner of AmEx's Travel Related Services (TRS) Division, and the company's stock price soared as its profits reached over \$200 million by 1990.

AmEx's differentiated strategy suffered in the 1990s, however. Rival companies like MasterCard and Visa began to issue true credit cards whose balance did not have to be paid off monthly, although of course high interest is charged on the unpaid balance. They also advertised that their cards could be used at locations where AmEx's were not accepted (because of the high fees it charged). In addition, various companies banded together with MasterCard and Visa to offer customers many other benefits of using their particular credit cards. For example, airlines issue credit cards through MasterCard or Visa that allowed customers to accumulate miles toward the purchase of an airline's tickets. This strategy encourages high customer loyalty and by 1995, thousands of other companies, such as AT&T, GM, Yahoo, and Dell, began issuing credit cards that offer customers savings on their products.

AmEx failed to respond to these developments. Its managers were so convinced that their card was the best and commanded the most loyalty that they spurned attempts to ally with airlines, hotels, or car companies to develop new kinds of cards. Moreover, they failed to see the potential of credit cards that allow customers to carry unpaid balances. This was a grave error. The emergence of all these new credit cards, which better satisfied the needs of millions of new customers, broke the loyalty of AmEx customers.

Soon the AmEx card had lost its differentiated appeal; it was now just one more credit card in an overcrowded market. More than 2 million of its users deserted AmEx, which lost hundreds of millions of dollars by 1996.

Under new management, AmEx strove to fight back and develop a new business model to restore its profitability. Realizing its mistakes, it started its own airlines mileage program to try to entice its previous cardholders back. It also decided to issue a true credit card, but its managers bungled the introduction, and it flopped. Desperate, AmEx lowered the fees it charged merchants to process card payments and tried to increase the number of outlets that accept the card. However, it found that MasterCard and Visa, anticipating such a move, had allied to develop a proprietary electronic system to process credit card payments and would not let AmEx participate so that merchants were reluctant to take its card since this increased their paperwork.

In 2001, AmEx was helped enormously in its efforts to capture back customers when the Monopolies and Exchange Commission ruled that MasterCard and Visa had unfairly locked AmEx out of the market with their electronic system. AmEx would be allowed to participate, and with this hurdle overcome, it launched new credit cards and began to issue new kinds of cards that specific market segments. In 1999, for example announced a new electronic smart card intended to the global standard for travel and entertainment transactions. Among other things, this card permits electronic ticketing and boarding passes, automated car rental check-in, internet identification and access, and payment functions including an electronic purse. It also brought out cash-back AmEx cards that gave cardholders up to 2 percent back on their purchases, creating a product similar to the Discover Card, which offers a 1 percent rebate. And it allied with airlines and hotels and developed cards specifically for their users.

By 2002, it offered nine kinds of charge cards and fourteen kinds of credit cards in the attempt to expand its market reach. It also spent over \$1 billion a year on marketing and promotion to rebuild its brand name. AmEx hopes these moves will restore its differentiated image so that once again it becomes the credit card of choice. However, the growing importance of the electronic marketplace has created new challenges for the company, and the success of its efforts is still uncertain.