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AMERICAN EXPRESS: MEMBERSHIP REWARDS EUROPE (*)

On November 10th 1995, Enrique Ortiz, head of American Express Consumer Loyalty for Europe, was thinking about the critical steps the company had to take to make a full success of the European Membership Rewards Programme launched in 1993. He knew that the success of such loyalty programmes depended on two elements: the "customer proposition", i.e. the type of rewards offered to the customers, and the ability to manage the programme's cost base, i.e. the funds spent in securing strategic programme partners and controlling administrative costs.

Enrique Ortiz considered the penetration rate the Programme had achieved so far. With an average of over 20% of the cardholders enrolled in Membership Rewards in Europe, he wondered if it was time to modify the "customer proposition" in order to make the Programme more attractive to a wider base.

The Membership Rewards Programme had been designed for business travellers. The type of rewards offered appealed mainly to members of Airline Frequent Flyer Programmes, who collected miles on American Express and then transferred them to their preferred airline to collect free tickets or upgrades. Enrique Ortiz believed that a different kind of partner had to be recruited if the penetration rate was to reach the 50% target he had in mind. Partner diversification could go various routes: car rental companies, restaurants, show ticket agencies, even household appliance companies. Additionally, he wondered how to attract customers of the alternative payment instruments to "the Card" (for example, the Optima credit card) that American Express was increasingly marketing.

At the same time, Enrique Ortiz felt the need to carefully manage the cost of the programme. This could be achieved by signing low cost deals with partners and by encouraging customers to redeem points on these low cost deals. He was wondering how feasible this option was and how co-operative the partners would be.

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Credit and charge cards in Europe

Credit and charge cards allow the purchaser to "buy now and pay later", an idea initially introduced by Diners Club in 1956 and followed by American Express in 1957. There are two types of card: charge cards and credit cards. Charge cards such as American Express and Diners Club are sometimes also referred to as travel and entertainment cards. They differ from credit cards in that the cardholder has to pay the outstanding balance on his or her account in full at the end of each month. Credit cards or bank cards are typically issued by specific banks under the umbrella of one of the two international credit card organisations, Visa International and MasterCard. Holders of this type of card have the option of paying their balance in full at the end of the month or rolling over any portion into the following month and thereby opting to pay interest (APR of around 22% in the UK) on the balance carried. Visa is the dominant credit card in the European Community, with some 33.4 million cardholders at the end of 1988. Eurocard/MasterCard had some 18.9 million cardholders at the same date, while American Express was a distant third, with over 4.5 million cards in 1994 (See Exhibit 1 for market shares of major companies). Visa and Mastercard worked as franchises, having reached agreements with more than 20,000 banks, which acted as their channel of distribution.

The European market for credit and charge cards (referred to as credit cards from here on) has developed rapidly since the 1970s. Credit card charging levels have increased in response to favourable consumer market conditions and advances in banking technology. In 1995 more than 10% of consumers' expenditures were made by credit card. This figure has been growing as the number of outlets accepting credit card payment has increased. As more banks and even corporations have entered this market as issuers, annual fees charged to consumers have come down (in many cases there are none), allowing consumers to carry multiple cards. American Express cardholders carried an average of seven cards in their pocket.

Merchant fees –3% as an average for American Express and 1.5% for Visa– and interest charged to cardholders on outstanding account balances account for the vast majority of the issuers' revenues. Thus, consumer spending is the key driver of company revenue. Card companies have recognised the importance of establishing a consumer preference for their card relative to the competition. One of the methods used in an attempt to increase market share and build a loyal customer base are rewards and loyalty programmes.

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American Express

The American Express Company was born as an express freight company in 1850, when Henry Wells merged Wells & Co. with other express carriers - Livingston & Fargo, and Butterfield, Wasson & Co. American Express created the first private pension plan in the US in 1875, and in 1882 the American Express Money Order was introduced as a safer alternative to shipping sums of cash. American Express invented the Traveller's Cheque in 1891, liberating travellers from the need to obtain letters of credit. American Express freight offices in England, France and Germany entered the travel business in 1898 by selling tickets for European railroads and transatlantic ships. To accommodate international financial operations in Latin America, Europe and the Far East, the American Express Company was incorporated in 1919. The company launched the American Express charge card in the US in 1958, and five years later the American Express Sterling card was launched in the UK.

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Under James D. Robinson, who served as CEO from 1977 to 1993, American Express acquired various businesses as part of a strategy to turn the company into a "financial supermarket". Acquisitions included Shearson Loeb Rhodes (brokerage, 1981), the Boston Company (banking, 1981), Balcor (real estate, 1982), Lehman Brothers Holding Company (investment banking, 1984), Investors Diversified Services (brokerage, 1984), and E. F. Parker (brokerage, 1987). In 1982 American Express officially became a blue chip company when it was named as the first financial services company to the Dow Jones Industrial Average.

In the early 1990s, however, losses mounted in the brokerage subsidiaries, while the company's flagship charge card business was facing unprecedented competitive pressures: merchants were angry about the fees paid to American Express, which ranged from a 20% to 300% premium over fees paid to other card companies, while cardholders were questioning the annual fee for the card, whose basic rate was 8,000 ptas. compared with 2,000 ptas. for Visa.

Harvey Golub was named CEO in 1993, and under his leadership the company has accelerated a process of divesting most of its financial subsidiaries, aside from Investors Diversified Services, which was reconstituted as American Express Financial Advisors. Golub has reduced and reorganised American Express' operations while defining a new mission for the corporation: "to become the world's best service brand".

Today American Express defines its businesses as travel related services, investment & financial services, and information processing services, provided throughout the world. In 1994 Travel Related Services enjoyed net revenues of $10,256 million, out of total company revenue of $14,282 million. American Express Financial Advisors was responsible for $3,270 million, while $652 million came from the American Express Bank. In 1994 Travel Related Services was the company's most profitable activity, with reported after-tax income of $998 milion of 72% of the company's total income in 1994 (see Exhibit 2 for selected financial information).

Travel Related Services

The flagship TRS product was the American Express Personal Card (the original card). In 1995 the product range also included the Gold Card, the Platinum Card, the Corporate Card, the General Revolving Credit Card, the Company Card, as well as Optima, a newer credit card that allowed consumers to carry interest-bearing revolving debt. In addition, TRS operated a world-wide travel agency with offices in 160 countries. It also published lifestyle and travel magazines and sold life insurance though AMEX Life Assurance.

In 1994 there were 36.3 million cardholders world-wide and more than 4.5 million in Europe. "The card", as it is often called, is issued in 32 currencies and is used for payment in 160 countries at more than 3.9 million service establishments. Customers spent $141 billion using their American Express Cards in 1994; 80% of the expenditure was done by 20% of the cardholders. The remaining 20% of the expenditure was split equally between a group of 30% of cardholders and another group of low-spenders that accounted for 50% of the cards. Enrique Ortiz commented:

> "Our approach over the past year or so has been to develop distinctly different products to meet the needs of the major market segments we want to serve –in effect, moving from a "one card fits all" approach to different products for different

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