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AmEx Troubles: Some cardholders can leave home without it

AP By KEN SWEET 20 hours ago



NEW YORK (AP) — For decades, American Express was the undisputed credit card of choice among corporate road warriors, the wealthy and the well-traveled, who lived by the company's slogan, "Don't leave home without it."

But changing consumer habits, extremely aggressive competition and increased pushback from its merchants are putting heavy pressure on AmEx.

Rivals are trying to steal away business and are succeeding in some cases. Costco, for example, is ending its 15-year relationship with AmEx and defecting to Citigroup and Visa starting next March. And airlines that used to give VIP lounge access to AmEx cardholders have been switching in recent years to other

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credit card companies.

Compounding its troubles, AmEx recently lost a major government antitrust lawsuit, a verdict that could damage its ability to compete.

"The competitive environment for AmEx is very challenging," said Jason Arnold, a Wall Street analyst who covers AmEx for RBS Securities. "Major competitors have all directed their efforts to take chunks away from their business. They've got serious problems."

As a result, American Express stock is down 12 percent this year. Analysts, on average, have cut their 2015 profit forecast from \$6.2 billion to \$5.6 billion. AmEx recently announced 4,000 layoffs, or about 6 percent of its workforce. And CEO Kenneth Chenault will face a skeptical Wall Street audience Wednesday at the company's annual investor day.

One of the biggest threats to AmEx is the slew of competing cards aimed at the well-to-do, sometimes with lower annual fees. Card issuers have energetically courted merchants who used to accept only American Express. Merchants who once coveted AmEx's high-net-worth cardholders are discovering they can find the same customers elsewhere.

Citigroup, in particular, has been going after AmEx's core customer. Citigroup has hired executives away from AmEx over the past few years to help it overhaul its credit cards and revamp its loyalty program, known as ThankYou. Citi Cards CEO Jud Linville, for example, worked at AmEx for nearly 20 years.

The capture of Costco by Citigroup and Visa was the biggest blow to AmEx. The warehouse-club chain accounted for \$80 billion of spending on AmEx's network last year and 10 percent of AmEx's cards.

"Costco was a real punch in the gut," said David Robertson, publisher of the Nilson Report, a major trade journal for the credit card industry.

Citi also recently created a card called Citi Prestige, a high-annual-fee card aimed at AmEx Platinum Card holders.

"Citi's ThankYou program, a year and a half ago, was pretty much worthless," said Brian Kelly, editor in chief of thep-oointsguy.com, a travel and credit card rewards

FILE - In this Jan. 20, 2010 file photo, American Express cards are posed for a photograph in Phoeni ...



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"But over the past year Citi has really started to get into the game. They are not at a Chase or AmEx level yet, but based on where they have gone in a short amount of time, they're becoming quite formidable."

JPMorgan Chase introduced its own reward cards in 2009 with a program similar to AmEx's. It is called Chase Ultimate Rewards.

Airport lounge access was once a perk basically guaranteed by AmEx. But American Airlines switched allegiance last year, turning over exclusive access to lounges to Citi cardholders. AmEx cardholders lost access to United Continental's lounges in 2011 and lost the ability to transfer their points to United in 2012.

Even Discover Financial has gotten into the game. Last month, it introduced a credit card focused on building up miles that can be redeemed for travel.

AmEx hasn't sat idle. To generate revenue, it has raised annual fees and interest rates on some products. It has also added perks for its customers, such as waiving foreign transaction fees and giving a \$100 credit for incidental airline expenses for Gold Card members.

And when AmEx parted ways with United Continental, it went ahead and opened its own airport lounges. It has 13 worldwide so far, with plans to open more this year.

"American Express is still the gold standard when it comes to their rewards program, but lately it seems like all they're doing is playing catch-up," Kelly said.

While competitors have been moving upmarket, AmEx in response has been moving in the opposite direction. It now has two pre-paid debit cards, one of them with Wal-Mart. Pre-paid debit cards are typically aimed at low-income consumers who may not have checking accounts. The company also launched a no-annual-fee credit card last year aimed at "everyday" purchases — not the travel-heavy, corporate-expense-account business AmEx is known for.

AmEx isn't going to let Citi walk away with its Costco card customers without a fight, either. It plans to spend aggressively to try to keep some of them because roughly 70 percent of spending on those cards was done outside the stores, according to AmEx.

"I don't think there's anything structurally wrong at AmEx," said Sanjay Sakhrani, an analyst at Keefe, Bruyette & Woods.

"They're going to get in front of the revenue they are going to lose next year when the Costco relationship ends."

Along with increased competition, AmEx is facing heavier regu-

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latory pressure. Last month, the Justice Department won an antitrust lawsuit against American Express over its practice of making merchants sign agreements not to express a preference for one card over another.

If AmEx loses on appeal, merchants will be free to express their preferences, and that could force the company to lower the percent it charges them to process cards. That would be a drastic hit to AmEx's bottom line, and company executives have acknowledged as much.

During the trial last summer, AmEx's Chenault said the company would be "fighting for our survival" if it lost the case.

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