

American Express: Where should growth investment go while travel recovers?

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On April 23, 2021, American Express faced a split recovery. Q1 Goods & Services (G&S) spending on its proprietary cards was above Q1 2019, while travel and entertainment (T&E) spending remained far below its Q1 2019 level. The company had just reported 2.1 million new proprietary cards for the quarter and said added value on several premium products was helping engagement. It had also reported that net card fees were growing as discount revenue and net interest income remained below year-earlier levels. The public data showed momentum in parts of the business, but not the incremental returns on a specific product benefit or acquisition campaign. [P2, P6]

For classroom purposes, assume you are a senior strategy leader preparing a recommendation about the sequencing of growth investment through the rest of 2021. This is a hypothetical assignment, not a disclosed AmEx committee or management request. You have no internal product-level budget, customer economics, or test results.

A three-sided strategic tension

Here, “three-sided” refers to the linked interests of cardmembers, merchants and network partners in AmEx’s integrated model; it is not a formal claim that AmEx is a three-sided platform.

American Express describes itself as a globally integrated payments company. It maintains direct relationships with Card Members as issuer and merchants as acquirer, creating a proprietary closed-loop model. Third-party issuers, merchant acquirers and other partners also extend its Global Network Services (GNS) and network services. The company earns revenue through merchant discount (fees charged for accepting its cards), card fees, lending and other services. Cardmember value can support acquisition, usage and retention; broad card acceptance and merchant economics also matter to the network. [P1]

That model leaves management with linked choices. Premium products can command higher card fees and offer differentiated services, but rewards, benefits, marketing and servicing have costs. Everyday-use propositions may help increase frequency and reduce reliance on travel spending, but the available disclosures do not establish their yield or profitability relative to premium products. More card spending may benefit multiple parts of the network, yet a lower average discount rate-AmEx’s net-retained share of proprietary and GNS billed business from merchants it acquires or third parties acquire on its behalf, less amounts retained by those third parties-can constrain merchant-side revenue. [P1, Item 7 glossary]

COVID-19 had disrupted these relationships. AmEx described temporary benefits and digital measures introduced in 2020, and said they supported cardmember engagement. In February 2021, management described 2021 as a transition year, with planned investment in card acquisition, targeted value injections and periodic premium refreshes. Those statements express management's view and plans; they do not quantify the lift or cost of any one intervention. [P1]

A recovery with different speeds

The April 23 release showed first-quarter revenue net of interest expense of \$9.064 billion, down 12% from \$10.310 billion a year earlier. Net income was \$2.235 billion and diluted earnings per share were \$2.74. The quarter included \$1.05 billion of pre-tax credit reserve releases (\$802 million after tax); provisions for credit losses were a \$675 million benefit, compared with \$2.621 billion in provision expense in Q1 2020. The earnings comparison therefore reflected both operating conditions and credit-reserve movements. [P2]

The dated results presentation separated card spending by category. Q1 2021 proprietary G&S billed business was 11% above Q1 2019 at constant exchange rates (FX-adjusted) and made up 86% of billed business. T&E was 60% below its Q1 2019 level and represented 14%. The G&S measure is spending on AmEx-issued cards, not all network volume. It is an aggregate result; it does not show which customers or benefits produced the change. [P6, slides 4-5]

Acquisition and revenue measures also pointed in different directions. Proprietary new cards acquired rose to 2.1 million in Q1 2021, from 1.7 million in Q4 2020; earlier pandemic-quarter additions had been lower. Marketing expense was \$1.0 billion, up 21% year over year. Net card fees rose 13%, while discount revenue declined 10% and net interest income declined 21%. These measures differ in scope and do not isolate the performance of premium cards or marketing campaigns. [P6, slides 17, 19]

The expense picture was not a single "engagement cost" trend. On the presentation's Q1 year-over-year comparison, cardmember rewards declined 6%, cardmember services 30%, business development 11%, and marketing increased 21%. A separate variance commentary reported that combined marketing and business-development expense increased 4%, primarily due to incremental marketing investment, partly offset by lower corporate client incentives as corporate card billed business fell. Management attributed lower rewards to lower billed business and lower cardmember services to reduced travel-benefit use. The average discount rate was 2.26%, down from 2.34% a year earlier, with management citing a shift toward G&S spending categories. [P1, Item 7 glossary; P6, slides 23, 32-33]

These facts permit competing interpretations. A G&S recovery could signal that everyday card utility is sustaining spending while travel remains depressed. It could also reflect pandemic-era substitution, timing or other factors that do not persist. New card additions and card-fee growth could reflect successful premium value investments; neither measure reveals activation, retention or contribution by account. Lower reward and travel-service expenses could indicate flexible costs-or merely lower use of travel benefits during a period when travel itself was constrained.

Competitors were adapting too

On January 8, 2020, JPMorgan Chase announced headline Sapphire Reserve terms that included a \$550 annual fee, a \$300 annual travel credit, 3x points on travel and dining, and lounge access. [P4] Chase announced Pay Yourself Back on May 28, 2020, with launch on May 31. That release offered enhanced redemption multipliers through September 30, 2020: Reserve points were worth 50% more and Preferred points 25% more for eligible grocery, dining and home-improvement purchases. The September date applied to those announced enhanced terms, not necessarily to the feature itself. An October 27 update still described Pay Yourself Back for grocery, home-improvement, dining or charitable-contribution categories, but did not state its multipliers or terms on April 23, 2021. These announcements show competitor adaptation toward everyday value, not customer uptake or profitability. [P4, P7, P8]

The Q1 AmEx presentation also reported that Global Consumer Services revenue net of interest expense declined 11% year over year and Global Merchant and Network Services revenue declined 13%. These segment figures aggregate products, geographies and customer types; they cannot be used to infer a premium-card return. [P2]

The decision

Which investment sequence should AmEx pursue for the rest of 2021?

1. **Continue premium investment.** Maintain planned premium refreshes and acquisition activity as a way to support card fees, engagement and future travel recovery. The risk is that benefits and acquisition costs may outpace incremental account value while T&E remains weak.
2. **Emphasize broader everyday value.** Direct more of the next wave of discretionary growth effort toward G&S usage and broader acquisition. The risk is that current G&S recovery may not be durable or sufficiently valuable, and reduced premium investment could weaken differentiated fee economics.
3. **Stage both approaches.** Continue selected premium and everyday initiatives while requiring additional evidence before expanding them. The risk is slower growth and loss of share or partner opportunities while competitors act.

Recommend a sequence and specify what evidence should govern the next expansion or pause. Distinguish gross cards from activated and retained accounts; G&S billings from total network volume; fee growth from incremental product returns; and reported earnings from the reserve-release effect. The public information does not disclose premium-card acquisition cost, benefit utilization, cohort-level contribution or a product-level investment budget. Do not assume a particular dollar allocation or calculate a company-specific return from segment totals.

Exhibit 1. Q1 2021 financial snapshot

Measure	Q1 2021	Comparison / context
Revenue net of interest expense	\$9.064bn	Down 12% from \$10.310bn in Q1 2020
Net income	\$2.235bn	Included \$1.05bn pre-tax (\$802m after-tax) reserve releases
Provision for credit losses	\$(675)m benefit	Versus \$2.621bn provision expense in Q1 2020
Global Consumer Services revenue net of interest expense	\$5.3bn	Down 11% year over year
Global Merchant and Network Services revenue net of interest expense	\$1.2bn	Down 13% year over year

Source: P2, opening results table and segment commentary. The segment figures are selected lines and do not sum to total revenue. Parentheses denote a benefit for provisions, not cash revenue.

Exhibit 2. Proprietary billed-business recovery

Q1 2021 category	Change vs. Q1 2019, FX-adjusted	Share of proprietary billed business
Goods & Services (G&S; formerly Non-T&E)	+11%	86%
Travel & Entertainment (T&E)	−60%	14%
Total billed business	−12%	100%

Source: P6, printed slide 5 (PDF p. 4). “Billed business” is proprietary billings on cards issued by AmEx, as defined on printed slide 4 (PDF p. 3). It is not total network volume. Comparisons are at constant exchange rates; the presentation notes that days mix may affect monthly billed-business growth.

Exhibit 3. Acquisition, revenue mix and expense movements

Measure	Q1 2021	Comparison
Proprietary new cards acquired	2.1m	2.5m Q1'20; 1.0m Q2'20; 1.4m Q3'20; 1.7m Q4'20
Marketing expense (rounded presentation figure)	\$1.0bn	+21% year over year
Net card fees	-	+13% year over year; 14% of Q1 revenue
Discount revenue	-	−10% year over year
Net interest income	-	−21% year over year
Cardmember rewards expense	\$2.243bn	−6% year over year
Cardmember services expense	\$317m	−30% year over year
Business development expense	\$802m	−11% year over year
Marketing expense (more precise reported amount for same Q1 line)	\$964m	+21% year over year
Combined marketing and business-development expenses	-	+4% year over year; management cited incremental marketing, partly offset by lower corporate client incentives
Average discount rate	2.26%	2.34% in Q1 2020; management cited G&S mix shift

Source: P6, printed slides 17, 19, 23, 32-33 (PDF pp. 16, 18, 22, 31-32). Measures have different definitions and are not product-level unit economics. Slide 23 gives the separate expense lines; slide 33 gives the combined marketing/business-development commentary.

Exhibit 4. Historical competitor terms

Announcement	Headline terms	Timing and limit
Chase Sapphire Reserve, Jan. 8, 2020	\$550 annual fee; \$300 annual travel credit; 3x travel/dining; lounge access	Issuer announcement; headline terms do not show effective member value or issuer cost.
Chase Pay Yourself Back, May 28 and Oct. 27, 2020	May release: Reserve points +50% and Preferred +25% for eligible grocery, dining and home-improvement redemptions. Oct. update mentioned grocery, home-improvement, dining and charitable-contribution categories.	May release's enhanced multipliers ran through Sep. 30; that does not establish the feature ended. Oct. update does not specify multipliers or terms in effect on Apr. 23, 2021. Neither source establishes take-up or profitability.

Sources: P4, P7 and P8, issuer announcements.

Source key

- **P1:** American Express 2020 Annual Report / Form 10-K, filed 12 February 2021. [Issuer PDF](#). Item 1, “Our Business,” printed pp. 3-4: direct cardmember issuer and merchant acquirer relationships and proprietary closed-loop model; network-services discussion includes third-party issuers, acquirers and partners. Item 7, “Average discount rate” glossary, printed p. 83 (PDF p. 93): percentage of proprietary and GNS billed business retained by AmEx from merchants it acquires or third parties acquire on its behalf, net of amounts retained by those third parties.
- **P2:** American Express Q1 2021 earnings release, 23 April 2021. [Issuer release](#). Opening results table, reserve-release discussion, footnote 2 and segment commentary.
- **P4:** JPMorgan Chase, “Chase introduces new cardmember benefits with Lyft and DoorDash,” 8 January 2020. [Issuer release](#).
- **P6:** American Express Q1’21 Earnings Presentation, 23 April 2021. [Issuer PDF](#), printed slides 4-5, 17, 19, 23, 32-33.
- **P7:** JPMorgan Chase, “New ‘Pay Yourself Back’ feature: Chase Gives Cardmembers New Options to Redeem Ultimate Rewards Points,” 28 May 2020. [Issuer release](#).
- **P8:** JPMorgan Chase, “Let’s Go, Peloton and Chase Sapphire: Sapphire Teams Up with Peloton to Introduce New Cardmember Benefits,” 27 October 2020. [Issuer release](#). Pay Yourself Back categories in release text; separate Peloton statement-credit terms.