

Term Project Dissertation Report on

MARKETING STRATEGY AND

COMPARATIVE ANALYSIS OF AMERICAN

EXPRESS BANK

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CERTIFICATE

This is to certify that Ms. /Mr. Abhishek Garg, have completed the term project titled “MARKETING STRATEGY AND COMPARATIVE ANALYSIS OF AMERICAN EXPRESS BANK” under the guidance of Mr. A. K. Bhargava as part of Executive Master of Business Administration (EMBA) curriculum of Delhi School of Management, New Delhi. This is an original piece of work and has not been submitted elsewhere.

Mentor Name and Signature

**Delhi School of Management
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DECLARATION

I, Abhishek Garg Roll No. 2K22/EMBA/03 student at Delhi School of Management, Delhi Technical University, Bawana Road Delhi – 110042 studying in EMBA 2022-2024 hereby declare that I have completed the project on “MARKETING STRATEGY AND COMPARATIVE ANALYSIS OF AMERICAN EXPRESS BANK” during the semester 4th of academic year 2022-2024 under the guidance of project guide Mr. A. K. Bhargava. The information submitted is true and original to the best of my knowledge.

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ACKNOWLEDGEMENT

I would like to express my sincere gratitude to head of department of Delhi School of Management Dr. Saurabh Agrawal, Programme coordinator Dr. Vikas Gupta and Project guide Mr. A. K. Bhargava, for providing me an opportunity to do my project work on “MARKETING STRATEGY AND COMPARATIVE ANALYSIS OF AMERICAN EXPRESS BANK”. I also wish to express my sincere gratitude to the non-teaching staff of our college.

I sincerely thank to all of them in helping me to carrying out this project work. Last but not the least, I wish to avail myself of this opportunity, to express a sense of gratitude and love to my friends and my beloved parents for their mutual support, strength, help for everything.

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ABSTRACT

Every organization these days want to advertise their products and spend a lot of money on promotional activities so that people buy and consume their products/services and in turn they earn. This is what known as Marketing strategies created by brands to advances itself. Organizations always tries to create marketing strategies based on various parameters to first do the segmentation of market then positioning of product in those segments and in the end target the population in a way so that it is more fruitful.

There are many Banking/Financial companies in Indian market as well globally with a huge competition between them like American Express, Visa, Mastercard etc. All of them are famous because of their brand promotion and marketing strategies. In this paper, we will discuss about the marketing strategies on American Express to understand the internal and external marketing forces which effects the performance. Also, we will see how American Express is performing in market with respective to other competitors in terms of process and other parameters.

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LIST OF ABBREVIATIONS

Abbreviations	Definition
Amex	American Express
UPI	Unified Payment Interface
SEO	Search Engine Optimization
CEO	Chief Executive Officer
CMO	Chief Marketing Officer
App	Application
STP	Segmentation, targeting and Positioning
UI	User Interface
Gen Z	Generation Z
Gen X	Generation X
ESG	ENVIRONMENTAL, SOCIAL AND GOVERNANCE
DEI	Diversity, Equity, And Inclusion
SDGs	Sustainable Development Goals (SDGs)

CHAPTER 1: INTRODUCTION

A marketing strategy is a comprehensive document that covers an organization's promotion effort. Creating a marketing strategy is essential for any business. Every company develops a marketing plan that defines policies to promote sales of a product or service. The main idea of brand promotion is the promotion of quality and standard products. Adopting innovative strategies along with action plans to promote a strong and powerful brand helps the company succeed. Marketing literature should inform the media brand's marketing communications. The promotional strategy has become an integral part of the production plan and a means of attracting customers. Organizations formulate different strategies to gain a larger market share, which leads to the company's goal of generating revenue. Organizations must work on their brand's strengths, weaknesses, opportunities, and threats. A global brand value chain measures the outcome of a brand thriving around the world. You must unlock the key to creating innovative brand identities and unique business outlets. The Indian market is a competitive market, and you need to know how to penetrate because a competitive market can make both a profit and a loss for your product. On the operational side, tracking marketing progress is useful because it facilitates the assessment of failures and successes. It is important to note that the key stakeholders of the company should be aware of the applied marketing strategy. Knowledge of the marketing plan ensures that stakeholders are making significant and realistic contributions to influencing the strategy. Marketing strategy development is critical to any business because it is the process by which organizations focus their limited resources on sales growth opportunities and high customer satisfaction as key objectives. This is an important factor in meeting the needs and desires of our customers.

American Express is a global travel, banking, and network services firm. It was formed in 1850 and has since become a Fortune 500 company. The company offers charge and credit cards, as well as traveler's checks and other stored-value products. Have you ever thought about the secret of success? Why is this bank dominant in the banking sector?

It is its digital marketing strategies that made the bank achieve the success that it has today. So, as you can see, the world is fully online now, and marketing is the rib of every industry.

1.1: COMPANY PROFILE

American Express is a multinational supplier of travel, financial, and network services. It was established in 1850 and has since become a Fortune 500 firm. Individuals can get charge and credit cards, traveler's checks, and other stored-value products from the firm. American Express is the world's biggest charge card provider, as well as the world's largest travel firm and issuer of travelers' cheques.

Financial planning, brokerage services, mutual funds, insurance, and other investment goods are also available. It has 2,300 offices worldwide and works in 175 countries. It is the holding company for three primary businesses: American Express Travel Related Services, The American Express Bank Limited, and American Express Financial Advisors.

The American Express Bank Ltd. was established in India in 1921. Since its inception, its primary goal has been to provide financial and commercial banking services to India's largest enterprises. American Express Bank Limited is diverse, spanning numerous industrial categories, product lines, and consumer groups. In 1998, the business expanded its financial services offering by launching a full range of retail banking services in India.

American Express Bank Limited is a well-known firm with a distinctive marketing approach. They promote their products with a socially meaningful theme, which allows them to outperform their market competition. Overall, American Express Bank's marketing approach is excellent, and they employ the most innovative marketing techniques. It employs the most recent marketing strategy, digital marketing, to deliver online campaigns using social media platforms such as Facebook, LinkedIn, and YouTube, among others.

CEO	Stephen Squeri
CMO	Elizabeth Rutledge
Area Served	Worldwide
Industry	Banking, Financial Services
Market Share/ Revenue	\$2.1 Billion
Vision	Provide the world's best customer experience every day.
Tagline	Don't do business without it.

Table 1.1: Quick Statistics on American Express Bank

1.2: OBJECTIVE OF THE STUDY

1. In this case study, we will go deep into the marketing strategy of American Express Bank like segmentation, targeting, positioning, marketing campaigns, social media marketing, influencer marketing, Mobile app, and Content marketing strategy.
2. Process comparison with respect to other financial organization like Visa and Mastercard.
3. Why can't American Express cards make it big in India? How American Express can improve its presence in India?
4. How American Express forming the environmental, social and governance strategy?

CHAPTER 2: LITERATURE REVIEW

Marketing strategies represents an organization's promotional output for a brand in a particular year. Laying down a marketing plan is a prerequisite for any business growth to perform better in this competitive world (Kotter 2017¹). Every company needs to plan out their marketing strategies to increase their products/services' sales as the major stakeholders in a company wants to know the plan of action for product marketing for their significant inputs (Tellez 2017²). The American Express was established in 1850 and over the years, the company is applying diverse strategic plans for the card products to overpower their competitors (Hickman and Silva 2018³). Recently, American Express adopted several segmentation approaches like demographical, geographical and location-based aspects (Vellas 2016⁴). In demographical segmentation, American Express sell credit cards to all age categories (Gen Z, Gen X, baby bloomer etc.). On the other hand, the geographical and location-based aspect mainly focuses on the ethics, personality, and lifestyles of the customers. American Express faces many competitors over the centuries like Visa, Mastercard etc. Their basic strength lies in the strong financial status that American Express holds, and it gives a beneficial edge in implementing different marketing plans on a larger scale. However, a major drawback of American Express is that it offers only a limited product range in different market segments in comparison to their competitors (Grant 2021⁵). Therefore, American Express can widen the horizon in their product range by targeting the ever-increasing requirements of consumers and thus improvising the sales (Guerreiro et al. 2016⁶). This can be achieved by interacting the consumers on social media platforms such as Facebook, twitter and Instagram and promoting their new range products over there (Go and You 2016⁷).

CHAPTER 3: RESEARCH METHODOLOGY

This research methodology involves data, approaches, and validation of the estimated market numbers through primary research. The information used here is intended to estimate the market size of various key industries in this sector from both primary and secondary data. Primary data is collected mainly to get factual response from the policy makers as well as marketing personnel of the banks under study.

Secondary data is collected from magazines, newspapers, earlier related studies, etc. Various reports published related to banking have been considered for understanding the problems of marketing of services by the bank.

Descriptive research is the research method used because it covers most marketing research. The goal is to provide an accurate picture of some aspect of the market environment. It is more rigorous than an exploratory study and aims to describe the uses of product.

Nature of study: This project is descriptive in nature.

Nature and Sources of primary data: The data collected for this project is through various published articles, reports etc. to make this study more convincing and fact based.

Method of secondary data collection: Information was collected personally through various articles, balance sheets, income statements, annual reports, social media, magazines, ResearchGate, websites, reports, press releases, international journals etc.

Analysis of Data Collection: Types of data analysis techniques used in project:

- ✓ Graphical analysis performed using MS Office – Excel.
- ✓ Percentage analysis performed using MS Office – Excel.

The information gathered from the primary source was put through MS tools for interpretation. The results from the Excel Worksheet are copied, where they were improved upon and interpreted, to present the understanding of data analysis. Using Microsoft Excel, the necessary graphs/ charts were also generated.

CHAPTER 4: MARKETING STRATEGY OF AMERICAN EXPRESS BANK

American Express's segmentation divides its marketing strategy in different parts depending on the following factors.

- Demographics
- Geographical
- Location-Based

American Express finds the different groups of customers based on their needs. All the products of American Express are segmented based on the customers belong to same geographical region.

American Express's **targeting** technique creates a differentiation in large market to focus on each part of the market. It figures out and covers to all the customers based on various characteristics. Majorly, they have customer base with higher income.

Positioning tells us about product and goods stand in comparative to other companies. American Express keeps it simple and less complex for its customer along with convenience and safety. As its customers are rich, so they implement smart techniques.

Marketing Campaigns

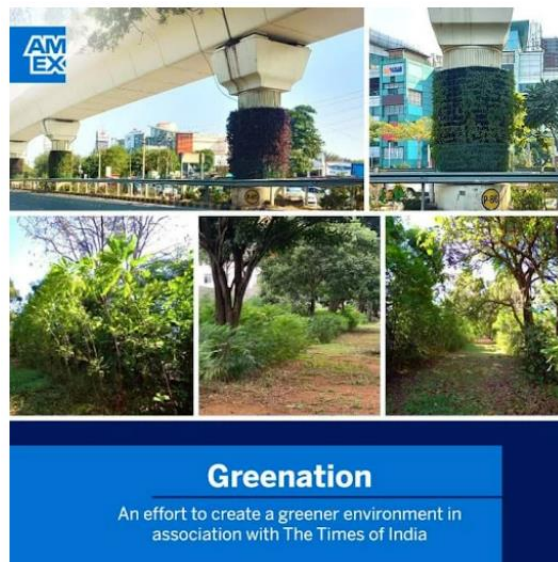


Figure 4.1: Greenation Campaign⁸

#greenation project was launched by American Express with the Times of India, three years ago. During this period, it helped to keep and maintain vertical gardens across all the pillars in Gurugram. These types of projects help in increasing the greenery in

the environment and improved the air quality with raise in awareness among the society. #InvestInOurPlanet

#MakeMyTrip

A campaign was started in Nov 2021 with MakeMyTrip to give best travel offers to its customers so that they experience firsthand offers like discount up to 15% and this will bring rise in company's profit.



Figure 4.2: MakeMyTrip American Express Card⁹

#BackingWomanArtisans



Figure 4.3: Backing Woman Artisans Campaign¹⁰

This campaign was started in 2022 on international women's day with Dastkar Delhi. This helped all the small industries that are badly affected from Pandemic. American Express and Dastkar bring inspiring stories of many craftswomen.

Social Media Marketing

American Express is active on all the social media pages all the time, all the pages are well maintained and having huge audience.

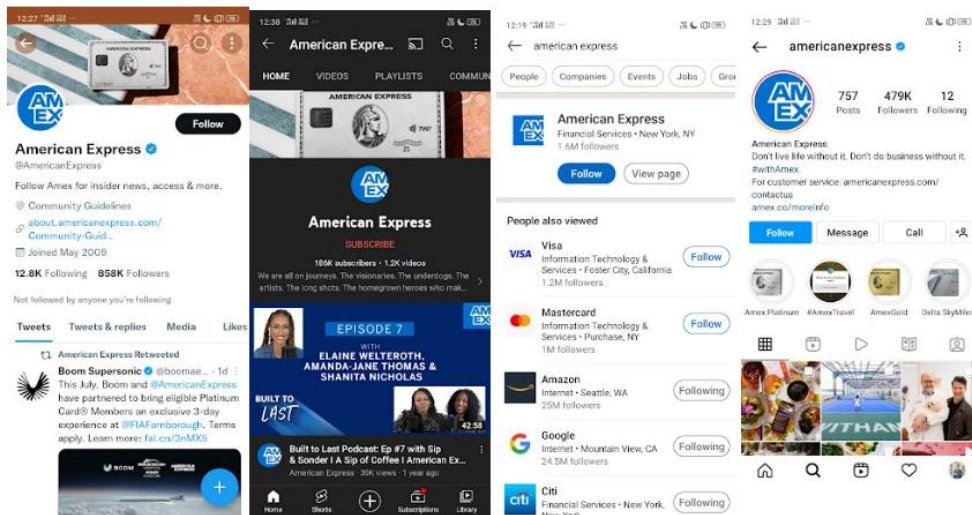


Figure 4.4: Social Media Marketing Campaign^{11,12,13}

LinkedIn is one of the most popular social media networks for American Express, with over 1.6 M followers. It attracts new customers and retains the existing ones, they mostly offer information about credit cards, promotions etc. Their other social media networks are Twitter, YouTube, Facebook, and Instagram.

Search Engine Optimization (SEO) Strategies

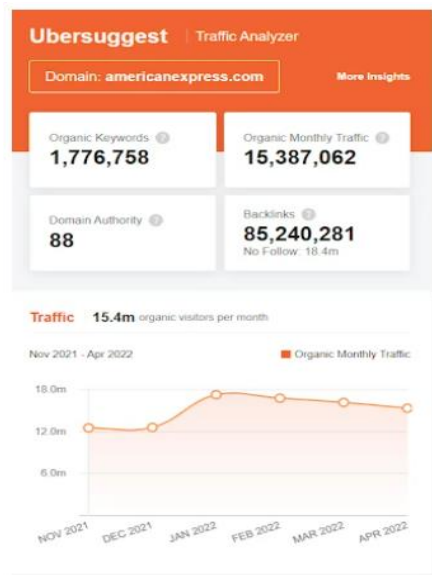


Figure 4.5: SEO Traffic¹⁴

As per SEO ranking, American Express Bank has 1 M+ organic keywords and all of it are unique because of the outstanding performance of digital marketing of America Express Bank.

Also, the traffic per month is around It has around 15million+ traffic in a month.

Influencer Marketing



Figure 4.6: Influencer Marketing with Farhan Akhtar⁹

Influencer marketing also helped American Express in gaining more customer as Farhan Akhtar, an actor, musician, director, and producer has collaborated with American Express in a new integrated 360-degree commercial campaign for their metal platinum charge card.

He has also been appointed as the Platinum Club of American Express’s brand ambassador and promote the product with a large marketing effort with the slogan “Membership Changes Everything.”

Mobile Apps

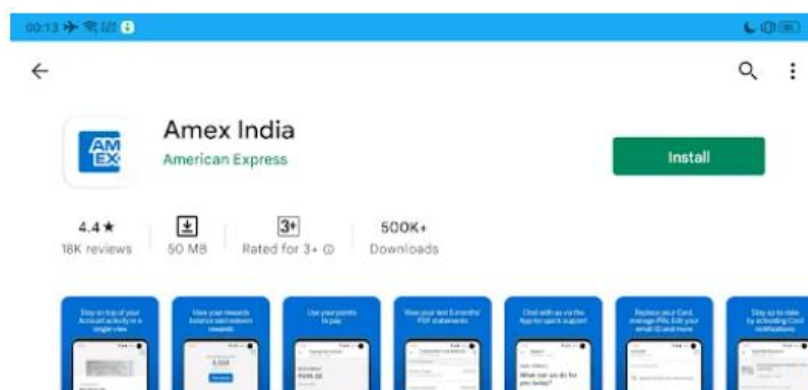


Figure 4.7: Mobile Application

The American Express India mobile app helps its users and consumers in handling of credit cards and other activities. The app UI is very simple and familiar for the consumers which enhances the user experience with security.

CHAPTER 5: AMERICAN EXPRESS'S PRESENCE IN INDIA

It's been 100+ years and American Express never stopped off with the credit cards. They started off in 1921 with the setting up of a travel office in Kolkata. From there on, they, started off with what is called Destination business wherein customers from other parts of the world who had cards issues whether it was in Europe, US, whichever other parts of the world, they would come and use their cards.

In India, American Express issued a suite of products whether it was on consumer side, commercial side and other businesses. They start with financial operations, things like payroll, ledgering and so on from other parts of the world. In mid 90s as a wage arbitrage eventually moved into a quality arbitrage where now they have so many centers of excellence where they are doing not only finance work, call center work, but even risk modeling, analytics, technology and the list goes on.

It has also been remarkable for digital payments in India. It's got a huge Phillip, because of digitization, because more people have taken to digital payments, UPI in particular has got a huge shot in the arm. In fact, they closed 5 lack crore in terms of value and nearly 2.5 billion now in terms of the volume of transactions.

As this come at the cost of cards, because if we look at UPI, in its initial years it was dominated by peer-to-peer transactions, but in the last few months there is a huge uptick in person to merchant transactions. The surge has really been UPI which has been on fire since demonetization in 2016 and now it is just the volumes.

One of the use case could be person to person which is about 70 to 75% of all UPIs and then is person to merchant which is about 25% of the total. So we could go and use the UPI, handle to transact at a merchant, which could be a Kirana store and typically those transactions would be \$510 in that range.

In India, after they enabled with contactless payments, people are also talking about how to enable contactless payments through their smartphone. Opening up post vaccine, for example, malls, movies, restaurants, people, segments where cards or credit cards were traditionally used. There have been contactless transactions. They have been on the increase more and more customers.

But still American Express think the comfort level is still very high to have the form factor, which is a card in your wallet, take it out right. At some point in time in the future, mobile may double up as everything. They've been around in some other

countries where it could be a little while away before full adoption to that happens. Small country like India where the population is huge, but just small. When you look at the penetration, penetration of credit cards, it's only 55 or 60 million credit cards in the market. There was a statistic that say only 3 in 100 people in India have credit cards versus 35 in 100 in the US. And when compare it with some of the developed countries, that number is as high as it could depend on which country you're talking about, could be 30 to 50 and in some cases 80. The runway is so huge from a penetration viewpoint.

The use cases of credit cards which have been growing at traditionally 25% to 30%. There was a dip in 2020 because of COVID where the credit card which is \$100 billion. Point of sale volumes in India in 2019 came down to about \$85 billion. So for the first time in the last 20 years American Express saw a dip and it may grow at about 25% and they're on. It should hopefully continue at that pace.

Interestingly, when look at debit cards, now, anyone who opens a bank account gets a debit card. So there are around 900 million debit cards in India. But those debit cards account for about \$90 billion of point of sale, terminal point, the volume of that point of sale. So primarily debit cards are used as an ATM withdrawal mechanism because they used as literally for cash withdrawal.

Debit card was really the small ticket transaction and that is where UPI which is so convenient, but one needs a person number. It could do a real time transaction. So the ATM withdrawals have come down in a way because UPI, but credit cards, are here to stay definitely from a form factor.

In 2020 what has changed significantly is the usage of credit cards online. So when we look at online, right, there has been a surge in online usage. So as a matter of fact that industry level 75% to 80%. Of the \$85 billion in the industry that happened in 2020, happened on online. So that's really huge number. Important is that American Express focus on the suite of products which cater to the target segments. They within have a high indexation towards the premium side when they look at the billing, the spend on the cards and overall spend.

Under absolutely the appetite for credit is increasing in India. The demographics of the country are so amazing, 60% of India is below the age of 30 and 47% of the workforce is below the age of 30. A lot of these people, they dream big. They have the spending progress. They want to buy that iPhone today and even if they can be in parts they would want to do that. So, some of the products fit in very well with those needs. So a

lot of whether it's appliances, whether it's mobile phones, whether it is you or any other electronics for that matter are they bought today which where they're ready to pay in installments.

American Express cards are not widely accepted in India due to several factors, including:

Merchant discount rate: It has a higher merchant discount rate than its competitors, which makes its cards less acceptable, especially by small merchants.

Interchange fee: They charges merchants between 1.43% and 3.3%, while Visa and Mastercard charge between 1.15% and 2.5%.

American Express needs to wake up before India gives up on them. A global credit card giant that's known for its exclusivity around credit cards.

The likes of Axis Bank and HDFC Bank have significantly upped their games especially in cards segment. American Express has taken their cardholders for granted.

Here are a few things that has led to their downfall in India:

Rigidity around American Express has an exceptionally high merchant discount rate in comparison to its competitors in India and that leads to low acceptability of their credit cards especially by small merchants.

Petrol pumps are literally a nightmare if you have an American Express card and these individuals shop on luxury brands and stores, which accept American Express cards happily.

HDFC's cards have followed a path of devaluation but Infinia & CB are still way better than American Express Platinum Reserve. The fact that they consciously push their worst card that's worth 10k in a market where you can get Infinia, DCB, Magnus, & Vistara.

American Express can improve its presence in India through various strategies:

1. Localized Offerings: Tailoring its products and services to suit the Indian market, such as offering rewards and benefits that are attractive to Indian consumers, like discounts on dining, travel, and shopping.
2. Partnerships/ Expanded Acceptance: Collaborating with local banks, retailers, and businesses to expand acceptance and offer co-branded cards with specific benefits for Indian customers. Increase the number of merchants accepting American Express cards across various sectors, including retail, dining, travel, and entertainment.

3. **Digital Innovation:** Enhancing its digital platforms and mobile apps to provide seamless and convenient experiences for Indian cardholders, including features like mobile payments, expense tracking, and personalized recommendations.
4. **Customer Service:** Investing in multilingual customer support and providing dedicated services for Indian customers, understanding their specific needs and preferences. Engage with customers through targeted marketing campaigns and loyalty programs to build long-term relationships.
5. **Marketing Campaigns:** Launching targeted marketing campaigns that resonate with Indian culture and values, showcasing how American Express can add value to their lifestyles and financial goals.
6. **Corporate Partnerships:** Focusing on corporate card solutions and building relationships with Indian businesses for expense management, travel services, and rewards programs.
7. **Regulatory Compliance:** Ensuring compliance with local regulations and staying updated with evolving financial policies in India to maintain trust and credibility among customers and regulators.
8. **Community Engagement:** Demonstrate commitment to social responsibility and community development initiatives in India. Engage in philanthropic activities, support local causes, and promote financial literacy programs to build goodwill and trust among Indian consumers.

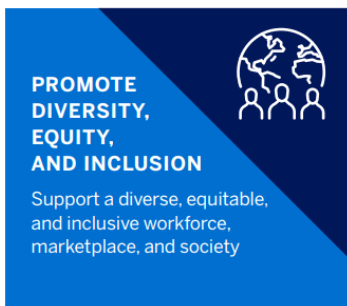
By implementing these strategies effectively, American Express can significantly improve its presence and competitiveness in the Indian market.

CHAPTER 6: AMERICAN EXPRESS ENVIRONMENTAL, SOCIAL AND GOVERNANCE STRATEGY

“Back people and businesses to thrive and create equitable, resilient, and sustainable communities globally.”

The ESG mission of American Express is to build a business to address the worldwide complexities and provide high impact solutions to serve customers, partners, and society.

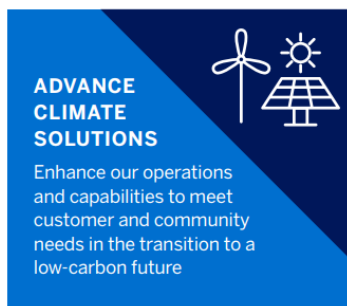
Promote Diversity, Equity, And Inclusion



- Enhance various representation with equal opportunities to have an inclusive culture.
- Fulfill the demand of small businesses and develop more inclusive marketing initiatives.
- Better racial equality and social justice in societies.

Figure 6.1: Promote DEI¹⁵

Advance Climate Solutions



- Focus on minimal impact on climate and manage related risks and opportunities.
- Allow customers and partners to move to a low carbon economy through new capabilities.
- Multiple community programs to help build climate resilience and equitable communities.

Figure 6.2: Advance Climate Solutions¹⁵

Build Financial Confidence



- Motivate people to create and maintain their financial health using products and services with robust account security.
- Stronger financial security and income management of small businesses through various initiatives.

Figure 6.3: Build Financial Confidence¹⁵

Advancing The United Nations Sustainable Development Goals (SDGs)

American Express contribute positively to achieve the UN’s 2030 Agenda for Sustainable Development. Below are the 17 United Nations Sustainable Development Goals where American Express contributes its work:



Figure 6.4: Sustainable Development Goals¹⁵

Promoting Diversity, Equity, and Inclusion

- A. Company should enhance the diverse representation and inclusive culture with equal opportunity by maintaining 100% pay parity across genders, races and ethnicities.
- B. Fulfilling the needs of small businesses, consumers and create more diverse marketing initiatives by increasing the annual spend to \$4 billion till 2025 toward DE&I initiatives.
 - Providing solutions to financial education to at least 250K small- and medium-sized business in the US from 2020 to 2024. Developing more diverse marketing initiatives to design and build product and programs that meet the needs consumer and businesses.
- C. Providing grants of \$50 million by the end of 2024 to advance racial equality and social justice including members of small groups. There is an increase in the number from American Express Leadership in the US who are from small groups from 50% to 75%.



Figure 6.5: Growth in DEI¹⁵

Advancing Climate Solutions

- A. Minimizing the climate impact and manage related risks and opportunities to have net-zero emissions by 2035 in alignment with SBTi. This will help in enhancing the management of climate-related risks and opportunities across American Express business.
 - Allowing our customers/partners to move to a low-carbon economy through the development of low-carbon product innovations, including carbon tracking and offset solutions by the end of 2022.
- B. Providing \$10 Million to Support community programs, partnerships and initiatives that address the adverse effects of climate change to help build more climate-resilient and equitable communities by engaging colleagues through Green2Gether program.

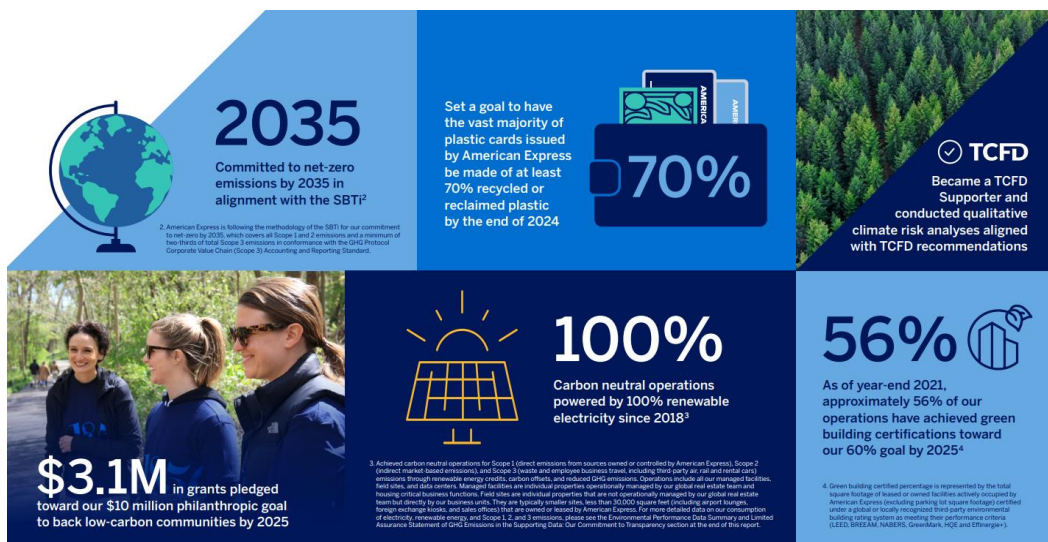


Figure 6.6: Growth in Climate Solutions¹⁵

Building Financial Confidence

- A. Providing access to individuals from small groups to build their financial well-being by using products, services, tools, and education.
- B. Strengthening the financial security and money management capacity of small businesses and consumers through various products, services, campaigns, and initiatives.
- C. Building the resilient communities through multiple grants, programs, and initiatives that support economic empowerment and equity by investing money.



Figure 6.7: Growth in Building Financial Confidence¹⁵

Key Pillars and Business Ethics

Brand	Authentically build brand relevance and brand affinity for American Express with Black, Latinx, Asian, LGBTQ+, and other underrepresented communities, customers, and colleagues.
Customer	Develop holistic strategy across the Enterprise to strengthen our business with underrepresented consumers and small businesses.
Culture	Become a company where explicit consideration of equity is integrated in everything, we do to embody inclusion.
Colleague	Create a culture that respects, values, and recognizes everyone by removing systemic barriers to achieving inclusion and advancement that drive company success.

Business	Develop holistic strategy across the Enterprise to strengthen our business with suppliers in underrepresented groups and investments in businesses owned by underrepresented groups.
Community	Combat systemic racism and promote equity and advancement through our community initiatives and charitable priorities.

Table 6.1: Key Pillars¹⁶

-  Back Our Customers
-  Make It Great
-  Do What's Right
-  Respect People
-  Embrace Diversity
-  Stand for Inclusion
-  Win as A Team
-  Support Our Communities

CHAPTER 7: COMPARISON OF AMERICAN EXPRESS WITH RESPECT TO VISA/MASTERCARD

52.9 billion that's the total net revenue of American Express made in 2022 but despite its impressive earning American Express is far from dominating the credit card industry.

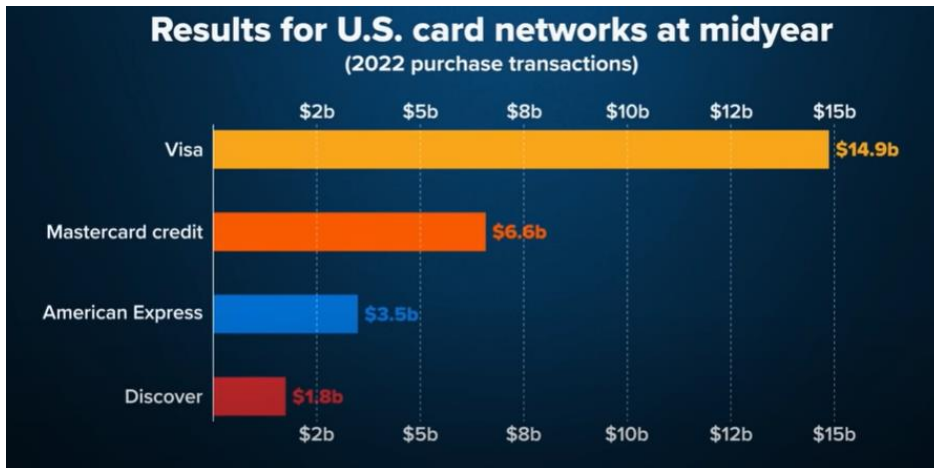


Figure 7.1: Results for US Card Network 2022^{17,22}

Its domestic payment volume is far behind that of the Visa and MasterCard, and it lags Discover based on the number of the cards in circulation.

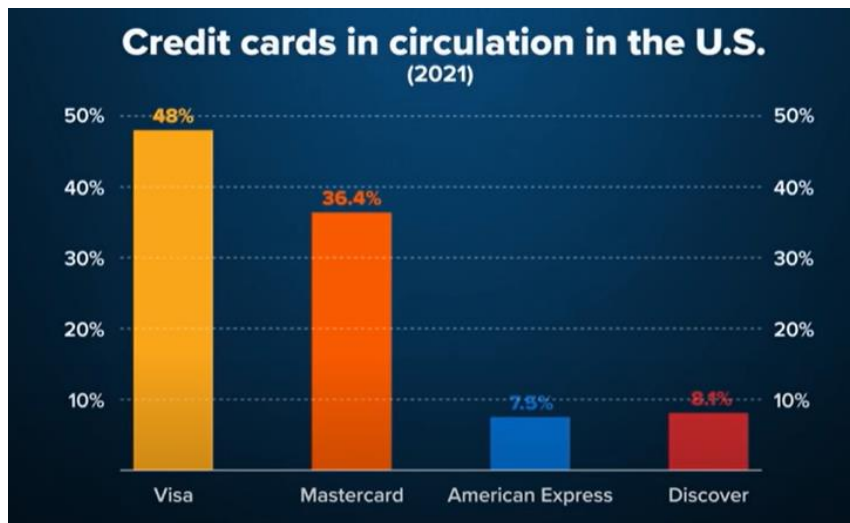


Figure 7.2: Card Circulation in US 2021^{17,22}

It's a difficult business for American Express to be in given the threats posed by Visa and MasterCard.

What they have learned are people who use the card a lot to spend a lot of money and pay it off and they are willing to cater to that crowd by giving them premium perks whether at airport or things they can use every day. Whether that's a Walmart plus

membership or Uber cash or things that keep using that card keeping it at top of the wallet.

Armed with impressive reward and loyal customer base, American Express has achieved impressive growth. The company's revenue has increased over 32% since 2017 and shares of the company has shown resilience and growth in a tumultuous market.



Figure 7.3: American Express Revenue Growth^{17,23}

American Express is a bit more of a what we call a quality compounder like a very steady stable business, growing revenues, high single digit to 10% and then they get a little bit of operating leverage on top that they grow earnings like in the low double digits.

They've learned a lot through COVID. They've diversified their business model and sharpened their pencils on what matters to their customers.

What is the secret to American Express's success and where is it headed next?

American Express began as a freight forwarding company in 1850 transporting various goods across a rapidly expanding nation it wasn't until the late 19th century and it began its transformation into a payments company. It began to introduce financial products and travel services.

Then in the 1950s following its high success from traveler checks it introduces first charge card to offer customers more convenient way to pay. Where the brand truly begins as we know it today. They've had multiple products come out the gold card, the platinum card and really focusing on the consumer and the corporate card business.

What sets American Express apart from the rest of the industry is the way in which their network operates. Most credit cards from companies like Visa and MasterCard function in what's called an open loop system.



Figure 7.4: Vias/MasterCard Open Loop System¹⁷

When a card holder uses the card in their network to make a purchase from a merchant, they generate revenue by relaying that information from the issuers usually the banks that have issued the cards to the acquirers or the merchant's bank.

American Express on the other hand operates in a closed loop system where it functions as the issuer, the acquirer and the network combined.

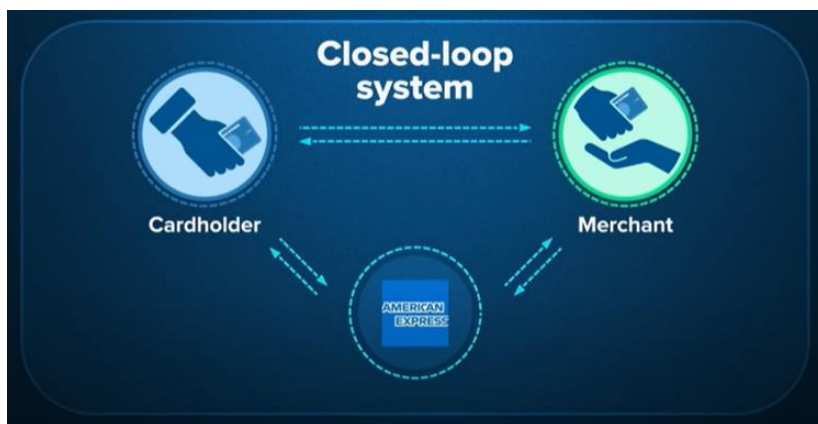


Figure 7.5: American Express Closed Loop System¹⁷

American Express is different from Visa and MasterCard because American Express is a lender, visa and MasterCard are merely card networks, so they process transactions but they're not actually issuing credit.

American Express is both they are a lender of credit and a card network. A processor of transactions that really enables them to see exactly what their customers are spending down to the item and have all that extra data where they can advertise or target different rewards spans across that. That's going to be very different than what Visa and MasterCard can see, which would be just total dollar amounts.

It allows them to tailor some of those deals especially on the merchant side. If there's a reason why they want a specific merchant's business, they can change their normal terms to fit that situation they don't have to worry about. A bank being upset about what those terms are whereas Visa and MasterCard would. This closed loop system also allows American Express to earn money from interest unlike Visa and MasterCard. The company generated about \$9.9 billion in net interest income in 2022.

It's advantages to be diversified so they get paid anytime a transaction is processed and then there are also other levers like people who pay annual fees or carry debt or other things that incur charges. But interest income is just a tip of the iceberg when it comes to American Express 's total revenue. Discount revenues or fees charged to merchants that accept its cards brought in more than \$30 billion in 2022 contributing to more than 58% of American Express 's total revenue net of interest expense for that year.

They charge a premium to their merchants to take their cards and the merchants are willing to pay that premium because American Express is bringing them the most affluent biggest spenders. They make the discount revenue from the swiping and so they charge the merchants a certain discount rate 2 & 1/2 or so it depends on this can vary by merchant size but a lot of their revenue unlike their competitors is coming from this white fee versus net interest income. Because of its reliance on discount fees big spenders are American Express's most important asset. Recent reports claim that American Express card members spend on average three times as much annually as those who aren't members.

American Express targets these affluent cardholders through a spend centric model that focuses on generating revenues primarily by driving spending on its cards that's where rewards come in. In just 2022, American Express spent almost \$17 billion providing services and rewards to its card members. When they talk about a spend centric model they're really talking about being your go to card and is a really good example of this is the American Express platinum card one of their flagship premium products on the face of it this is a travel card and it has a lot of travel benefits with rewards airport lounges and all that fun stuff but you can also get a free Walmart plus membership and you can get a whole bunch of other everyday kind of credits they're trying to make this a go to everyday not just something that you pull out a few times a

year when you're traveling. That high Spend centric model is the reason why they can provide such strong rewards that they do and why the customers are willing to pay those higher annual fees than for other cards because they're getting the benefits of the spend and the rewards because the people that are spending are making this up and they'll spend behavior. Having a closed loop system means how much the cardholder spends is usually more important than the number of transactions made. American Express also utilizes the immense information gathered through its closed loop system to create offers that attract and retain customers.



Figure 7.6: Different Types of American Express Cards¹⁸

A lot of the tricky part about rewards programs in kind of more mainstream cards is that the rewards are a little bit of like ad hoc like they might have very cool interesting rewards, but they might not think that you as the consumer value in. American Express's case because of that closed loop dynamic and because they know you and they know the merchant they can create rewards that feel to you as the consumer like this program was custom designed for me like they could go out and recruit all of the top hotels and all of the top restaurants and have specialized offers and specialized rewards and stuff to bring consumers the affluent consumers to those hotels to those restaurants and everyone sees benefits from their role in the middle of connecting those dots.

Having an affluent customer base also gives the bonus advantage of decreased credit risk delinquency rates for American Express have remained substantially lower compared to other major issuing banks. Credit losses through the cycle will move really closely with unemployment as you would expect if you think about the changes in unemployment they roughly go up between 1.7 times 2.25 times in a recession and the prime credit card issuer will see roughly that same sort of increase in credit losses over that time frame whereas an American Express could actually see a little bit less than that so if it was to go up two times you might see American Express go up 1.8 times and so that makes a big difference as far as the cyclicity of the business, the

overall risk to earnings and returns it's really one of the reasons why investors kind of focus on this stock in a downturn it's considered a safety play and that's why we're outperform with this stock today. In recent years, American Express has begun to diversify its customers further mainly targeting millennials and underbanked Americans. American Express is doing a good job winning over younger customers as well they've talked about how about 60% of their new card acquisitions are Gen Z and millennials and they've done some creative things there with experiences whether it's travel or dining or exclusive concerts like they did one with Jack Harlow and they're just trying to reach a younger audience that will be the leaders and heavy spenders of tomorrow. American Express has also made meaningful investments in scaling and improving its technology allowing its offerings to be more competitive against the rise of alternative premium cards. They continue to make progress abroad they were actually the first US based credit card issuer to win approval in China and they're partnering with local brands there to really tap into that increasingly affluent consumer audience. In Europe this is like France Germany credit card adoption both by affluent consumers and by small businesses is much lower than in US the UK and Australia where it's quite high and so there's a huge amount of just growth opportunity. They're also tech companies in a way that you know whether that's the apps and the web experiences that they provide or and all of the data that they're gathering you know some people say that a concept like buy now pay later could be a big threat to the American Express model, they actually were the first traditional credit card issuer to unveil their version of that a few years ago they came out with American Express pay it planIT which again speaks to offering something for everybody the biggest threat for American Express is the competition within the credit card industry to me the biggest weakness or danger. American Express really is that marketplace power of visa and MasterCard and what they may decide to do with it which may or may not be anything that American Express can control. The value that they are able to offer from the closed loop model is distinctive and unique but as things like data analytics and AI get better and the whole process of issuing cards and managing card programs becomes more digitized as their technology advances those open loop card programs can better replicate what American Express is able to do uniquely. So they can run better analytics to understand your consumer spending, they can better tailor your rewards. But while loan loss provisions increased following a period of high inflation experts believe that American Express is more than ready to weather a possible recession. They're not by

any means immune to a downturn but at the same time with that high spender affluent customer those credit losses are likely significantly lower than some of the peers that are more focused on average consumer even subprime borrowers and so you know there's no reason to think that American Express won't have a strong customer base after the next recession.

	Quarters Ended March 31,		Percentage Inc/(Dec)
	2024	2023	
Billed Business (Billions)	\$367.0	\$345.5	6%
<i>FX-adjusted¹</i>		\$344.1	7%
Total Revenues Net of Interest Expense	\$15,801	\$14,281	11%
<i>FX-adjusted¹</i>		\$14,230	11%
Net Income	\$2,437	\$1,816	34%
Diluted EPS ²	\$3.33	\$2.40	39%
Avg. Diluted Common Shares Outstanding	722	744	(3)%

(Millions, except per share amounts, and where indicated)

Figure 7.7: Q1, 2024 Business Update¹⁹

Comparison of American Express and its rival competitors Strategies:

Attribute	American Express Strategy	Mastercard Strategy	Visa Strategy	Conclusion
Expanded Acceptance	Focusing on increasing merchant acceptance through partnerships.	Collaborating with banks and retailers to expand acceptance.	Partnering with banks and businesses to enhance acceptance.	All three prioritize increasing acceptance to improve card utility.
Localized Products	Developing tailored products with relevant rewards and benefits.	Offering localized benefits and co-branded cards with partners.	Providing customized solutions and rewards for diverse markets.	Customization is crucial for meeting diverse consumer preferences.

Digital Transformation	Investing in digital innovation for seamless payment experiences.	Enhancing digital platforms and enabling contactless payments.	Implementing advanced digital solutions for secure transactions.	Digital advancements are key for staying competitive in the market.
Customer Engagement	Providing exceptional customer service and personalized offerings.	Focusing on customer experience through rewards and support.	Offering customer-centric services and loyalty programs.	Strong customer engagement is vital for loyalty and retention.
Partnerships and Alliances	Collaborating with key players for mutual growth and market access.	Forming strategic alliances and expanding network partnerships.	Partnering with banks, retailers, and fintech for market expansion.	Partnerships are essential for market reach and service enhancement.
Corporate and SME Solutions	Offering comprehensive solutions for corporate and SME customers.	Providing business-focused services and expense management tools.	Offering corporate cards and solutions for business efficiency.	Addressing corporate needs is crucial for capturing business spending.
Community Engagement	Demonstrating social responsibility and supporting local causes.	Engaging in philanthropy and promoting financial literacy.	Supporting community initiatives and promoting sustainability.	Community engagement builds trust and enhances brand reputation.

Table 7.1: Comparison of American Express v/s competitors^{20,21}

Each company, American Express, Mastercard, and Visa, has its unique strategies while overlapping in many areas like expanded acceptance, digital transformation, and customer engagement. Customization, digital innovation, strong partnerships, and community engagement are critical for success in the competitive payment industry.

CHAPTER 8: FUTURE SCOPE OF AMERICAN EXPRESS

American Express is always aspirational about its brand, there brand is about backing customers. They say don't live life without it and don't do business without it.

Now the brand is a lot more welcoming and a lot more open to a wider range of people who want value, differentiated service and the experiences. A millennial or Gen X or boomers everybody has aspirations, and they believe that their card can help them to achieve their financial aspirations, travel aspirations or lifestyle aspirations.

As per my understanding and learning here are the future scope of American Express which likely to encompass several key areas, driven by technological advancements, evolving consumer preferences, and global economic trends.

- American Express will continue to invest heavily in digital innovation, enhancing its mobile apps, digital payment solutions, and data analytics capabilities. This includes incorporating AI and machine learning for personalized customer experiences and fraud detection.
- American Express will forge strategic partnerships with fintech companies, banks, and retailers to expand its ecosystem and offer more diverse services and benefits to customers. This may include collaborations for loyalty programs, financial management tools, and integrated payment solutions.
- American Express will focus on expanding its presence in emerging markets while consolidating its position in established markets. This involves tailoring products and services to local needs, enhancing acceptance networks, and leveraging cross-border opportunities for businesses and consumers.
- With increasing awareness of environmental and social issues, American Express will likely emphasize sustainable finance initiatives. This includes offering eco-friendly card options, supporting green initiatives, and promoting financial literacy and inclusion.
- American Express will leverage AI and advanced data analytics to gain deeper insights into customer behavior, preferences, and spending patterns. This information will drive personalized offers, targeted marketing campaigns, and risk management strategies.
- Given the rising cyber threats, American Express will continuously enhance its cybersecurity measures and fraud prevention technologies. This includes

biometric authentication, real-time transaction monitoring, and proactive risk mitigation strategies.

- American Express will prioritize delivering exceptional customer experiences across all touchpoints. This involves seamless omnichannel interactions, 24/7 customer support, and innovative solutions that add value to cardholders' lives.
- American Express will work towards promoting financial inclusion by expanding access to its products and services to underserved communities. This may involve initiatives such as microfinance partnerships, education programs, and affordable banking solutions.

These areas will shape its growth trajectory and competitive positioning in the evolving financial services landscape.

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