

CASE 2

American Express: Bank 2.0

A New Mission in Enterprise Growth

In June 2011, Kenneth Chenault, CEO of American Express (AXP), announced the formation of a new group within the company, Enterprise Growth (EG), to drive expansion into digital and mobile payments. “New technologies are redefining the payments business and creating opportunities that go beyond our existing businesses,” said Chenault in a press release. “The Enterprise Growth group is designed to extend our leadership into the world of alternative payments and create new fee-based revenue streams for the post-recession environment.” To lead the group, AXP hired Dan Schulman from Sprint Corporation (where he had headed the Prepaid Group after previously serving as founding CEO of Virgin Mobile USA, as president and CEO of Priceline.com Incorporated, and in other leadership positions).¹ “Technology [is] fundamentally going to change the way you might think about financial services,” Schulman said during one of his first meetings with EG, “just as the Internet has redefined one industry after another.”² EG, he continued, was designed “to challenge existing business models” and “to think about the intersection between software, software platforms, mobile apps, mobile technology in general, and financial services.”

For Alpesh Chokshi and Wesley Wright, this was the moment they had been waiting for. Both of them had been at AXP since 2001 and had worked in its prepaid business since 2005. When EG was formed, their group had moved into EG with a mandate to drive expansion beyond AXP’s traditional credit and charge business on a global basis. Chokshi was the president and Wright led product development. Before moving into EG, together with their team they had driven the expansion of AXP’s prepaid business into gift cards and reloadable cards. Now, with the support of Chenault and Schulman, they saw an opportunity to do something bigger—to move AXP into debit and checking

spending, a large sector of payments in which it did not currently play (see Exhibit 1 for AXP consolidated financial performance and Exhibits 2 through 4 for performance metrics of the U.S. cards business). Their team had begun calling the initiative Bank 2.0, indicating the application of technology to usher in a “next iteration” of banking.

As the team focused on this opportunity, Chokshi imagined the concerns some of his colleagues might raise. The team would need good answers to a number of questions. The good news was that the EG team had “gone to school” with regard to the potential opportunity in Bank 2.0. The team was well aware of the magnitude of the potential market that was currently underserved by traditional banking services. In the United States, estimates were that more than one in four households (28.3%) were either unbanked or underbanked³ and conducting some or all of their financial transactions outside of the mainstream banking system.⁴ Even as EG’s initial research had gleaned some promising indicators, there was still much that needed to be worked out.

The Closed-Loop Network

AXP cards were accepted at fewer merchants than Visa or MasterCard. One reason was a perception that AXP transactions were more costly to the retailer or merchant due in part to different business models, fees, and pricing structures for processing transactions.

In the Visa and MasterCard business models, external banks and financial institutions owned the relationship with the cardholder (in the vernacular of credit card business models, these were called “issuers”). Issuers provided cards to their customers that bore a Visa or MasterCard logo, and set the interest rate and any fees on the loans the cards would deliver. When the cardholder bought a meal at a restaurant, a transaction network sent the amount of the purchase to the restaurant’s

This field-based case was prepared by Jackie Thomas-Kennedy, Research Assistant, under the supervision of Gregory B. Fairchild, E. Thayer Bigelow Associate Professor of Business Administration. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2014 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. To order copies, send an e-mail to sales@dardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.