

PERSONAL JOURNAL

## AmEx Bid to Expand Its Share Sparks a 'Rewards' Arms Race

By **RON LIEBER**  
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For years, consumers have whipped out a never-ending variety of credit cards in the effort to accumulate miles and points. Now, in a bid to reverse decades of market-share declines, one company -- **American Express Co.** -- is handing out more rewards per dollar than anyone else.

While the company's ads for its new cards are ubiquitous, many people haven't realized just how much American Express has raised the stakes in the rewards game. In every key category -- frequent-flier miles, cash rebates and free merchandise -- its cards are giving away more to big spenders than nearly any other competitor.

American Express's effort to gain business has ignited an arms race of sorts among credit-card issuers. Just in the past few weeks, companies like **J.P. Morgan Chase** and **Citigroup's** Citibank unit have upped the ante to stave off potential defections by cardholders. **Bank One** recently announced a year-long promotion for its miles-earning card with United. Until Feb. 28, cardholders will earn double miles at restaurants and home-improvement stores, with more deals to follow.

"I've been in the business for 20 years, and in the last eight to 10 months, the rewards area is probably the hottest that it's ever been," says Lanny Byers, a MasterCard senior vice president.

The flurry of rewards underscores the intensely competitive state of the card industry. Card issuers have basically two ways to grow. Get more customers or get existing customers to spend more. Handing out rewards helps both things happen.

American Express could use a boost. Measured against Visa, MasterCard, Discover and Diners Club, the company's market share of overall credit-card charge volume in the U.S. has fallen steadily for three decades. In 1970, it was at 42.7%, according to the Nilson Report, a newsletter that covers consumer-payments systems. As of

### REAPING THE REWARDS

• Here's a rundown<sup>1</sup> of some of American Express' most generous rewards cards and a comparison with some of its competitors. Most cards earn a base rate of one point or mile per dollar spent.

### COMPANIES

Dow Jones, Reuters

#### American Express Co. (AXP)

PRICE	33.77
CHANGE	-0.88
U.S. dollars	10:53 a.m.

#### J.P. Morgan Chase & Co. (JPM)

PRICE	22.49
CHANGE	-0.45
U.S. dollars	10:53 a.m.

#### Citigroup Inc. (C)

PRICE	33.05
CHANGE	-0.60
U.S. dollars	10:53 a.m.

#### Bank One Corp. (ONE)

PRICE	35.34
CHANGE	-0.31
U.S. dollars	10:53 a.m.

#### Provident Financial Corp. (PVN)

PRICE	6.21
CHANGE	0.14
U.S. dollars	10:53 a.m.

\* At Market Close

mid-2002, it stood at 19.8%.

Until fairly recently, most cards had been handing out rewards the same way for years: Charge one dollar, get one mile, or earn one penny as cash back on your purchases. But American Express broke through those barriers. Collectors of frequent-flier miles on several airlines can collect two miles instead of just one for every dollar they charge on their American Express card in grocery and drug stores.

Using that same earning ratio, they can hoard points instead of miles and trade them for a broad array of luxury goods. Meanwhile, the company's new cash-rebate card offers much more than the standard 1% refund to cardholders who are willing to wrestle with its complicated rebate formulas.

Now, the banks that issue Visas and MasterCard are introducing their own wave of promotions and products. Citibank and Chase both launched new rebate cards in the past few weeks. **Providian** is giving away plane tickets to people who spend \$20,000 using its new AirPoints Visa.

They could have a hard time swaying die-hard American Express customers already awash in rewards. During the past few years, Sammy Grant, a financial planner in Atlanta, and his wife have run 85% to 90% of their spending through their Delta and their Starwood Hotels American Express cards. The Starwood card has attracted a cult following among rewards junkies because heavy users can get 1.25 frequent-flier miles for every dollar spent.

Later this month, Mr. Grant and his wife will cash in their points and go to Hawaii. "How many chances do you have to go to Hawaii, and all you have to pay for is food?" he says.

One reason American Express has had so much trouble attracting more people like him is that it still suffers from a perception -- bolstered by a long-running Visa ad campaign -- that many merchants don't accept its cards. The reality, according to American Express, is that its customers can charge away at 95% of all businesses that accept plastic.

Another problem for American Express is that some of its rewards cards have fees that hit \$110 a year or more. Companies such as MBNA and Providian offer competing cards with no fees. But for the most popular cards, the ones that deliver miles, consumers almost always pay an annual fee. For those cards, American Express's fees are about average, and the company offers more miles for each dollar spent.

American Express can afford to be more generous in part because merchants pay higher service fees to accept its cards than they do to take Visa or MasterCard. American Express's average fee is about 20% higher than Visa's or MasterCard's, according to the Nilson Report.

The generous new rewards offers don't apply to American Express customers who still are using the company's "vintage" Green and Gold cards. To get the juicy new offers, these cardholders need to call the company and ask to be upgraded to one of

the new charge cards. For most holders of the Green card, the new total annual fee will be \$110 instead of \$95. (People with the older cards are still eligible for any rewards they are currently getting.)

Here's a roundup of what American Express and its competitors are offering.

**MILES:** Citibank's AAdvantage MasterCard (co-branded with American Airlines), and Bank One's Mileage Plus Visa (offered up with United Airlines) were the leaders in this area for years, offering one frequent-flier mile for every dollar cardholders charged.

Bottom line: AmEx's Delta Air Lines card is the best deal now. Cardholders earn the usual one mile in the airline's SkyMiles program for every dollar they spend on the card. But when they use the card in retail sectors where American Express is trying to get more penetration, including gas stations and grocery stores, they get two miles per dollar.

**MERCHANDISE:** American Express popularized the concept of points for merchandise a decade ago. In recent years, a variety of MasterCard and Visa issuers have responded with similar programs.

Bottom Line: Light spenders or people who don't want to pay an annual fee on their card should pick a Visa or MasterCard merchandise card. Heavy spenders, meanwhile, are better off with American Express, which offers a fancier array of goods to cardholders through its Membership Rewards program. (The program also lets you trade points for airline miles and includes four major U.S. carriers: Continental, Delta, Southwest and US Airways.)

**CASH:** In the cash-back niche, American Express is itself the stalker, and Discover, which has long owned the territory, is under assault. Discover offers a cash award of as much as 1%, which it will double for people who redeem their rewards at certain retailers. American Express's version, which was launched last summer, comes with a reward chart that offers different redemption rates depending on where consumers are spending their money, how much they spend, and whether they're carrying a balance. American Express promises "up to" a 5% cash rebate in its mailings, but people who don't carry a balance are unlikely to get more than roughly 1.75%.

Bottom line: If you shop at stores where Discover doubles the rewards, stick with the Discover card. The AmEx card is best for people who just want cash.

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#### Reaping the Rewards

Here's a rundown of some of American Express' most generous rewards cards and a comparison with some of its competitors. Most cards earn a base rate of one point or mile per dollar spent.

WHAT IT COSTS AND	DELTA SKYMILES	STARWOOD PREFERRED	BANK ONE	AMERICAN EXPRESS	DISCOVER PLATINUM	AMERICAN EXPRESS	PROVIDIAN AIRPORTS
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WHAT YOU COLLECT	AMERICAN EXPRESS	GUEST AMERICAN EXPRESS	UNITED MILEAGE PLUS VISA	CASH REBATE		PREFERRED AWARDS GREEN	VISA
ANNUAL FEE	\$55*	\$30*	\$60	None	None	\$110	None
CASH	None	None	None	Up to 3% cash back in some stores; up to 1.5% in others, and a bonus for carrying a balance	Up to 1% cash back, which is doubled if you redeem your points for gift certificates	Cash rewards are available, but they're a lousy deal (\$100 back for 20,000 points)	None
TRAVEL	\$1=2 miles (at drug stores, grocers and gas stations)	\$1=1.25 miles (for big spenders)	\$1=1 mile, but there are occasional double-miles deals	None	None (some gift certificates are available at travel providers)	\$1=2 points (at drug stores, grocers and gas stations)	\$1=1 point (offers cheaper plane tickets than competitors)
MERCHANDISE	None	None	None	None	Gift certificates to Borders, Dell, and Red Lobster	Gift certificates to Saks Fifth Avenue, plus diamond rings	Gift certificates at Home Depot, plus goods from Toshiba and Cuisinart

\*The Delta fee isn't levied on people who also have AmEx charge cards; the Starwood fee is waived for one year for all new cardholders

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