

The commoditization in the credit card industry



The commoditization in the credit card industry According to the Brand Keys (www.brandkeys.com) Brand Survivability Assessment, American Express (# 20) is the only financial brand in the top 50 brands recognized by Americans . Credit cards have become a commodity. From a historical perspective, store credit cards were the “ modern” thing when they were introduced as new and convenient. They provided an additional touch point for stores with consumers, and some actual continuity early on too. But in light of the introduction of more broadly used (and promoted) cards, like VISA, Discover, and MasterCard they have become relics.

One of the many companies in the middle of all this commoditization is the New York, NY-based American Express Company. Not many years ago, most credit card offers arriving in your mailbox were barely a notch above other junk mail. Today it is common to receive a couple of offers each week; some with single digit interest rates and/or annual fee waivers. The companies are issuing offers with these mouthwatering interest rates and fees not only to get your attention, but to get your balance. Rather than wait for you to build up a revolving balance, some issuers offer special incentives to transfer balances from other credit cards.

Consumers in the United States carry three cards at an average at any given point in time. Let's see the pattern of commoditization in the industry. Credit cards were introduced by Diners Club in 1950. By the early 1960s, more companies offered credit cards, advertising them as a time-saving device rather than a form of credit. American Express and MasterCard became huge successes overnight, and by the mid-'70s, Congress had to start to regulate

the credit card industry by banning such practices as the mass mailing of active cards to those who had not requested them.

Battling with teaser rates and single digit, fixed, go-to rates in the main stream credit card market in the U. S. has driven the commoditization of consumer bank credit card products. The Internet will only accelerate this reality. Revamping of American Express in 1999 The J. D. Power and Associates 1996 Cardholder Brand Image Analysis listed the perception - most strongly associated with American express to be a card for people with a lot of money. The company has now repositioned itself as a trendy, stylish and secure brand of credit card to own, by launching the Blue by American Express. To fight the commoditization, American Express has now entered into the sub prime market by targeting first time users and students having little or no credit history, who were willing to own cards with high interest rates and on the other hand have also entered the small and medium business market providing them complete business solutions at low interest rates but relatively steep annual subscription fees.

They understood the mix of financial freedom combined with the trend and security aspect which the students needed. The company embedded a smart chip on the new Blue by American Express cards which addressed the safety issue which was a big concern during the internet boom. The smart card was backed by the secure, cross-platform, object-oriented power of Java Card technology. Both revolutionary and evolutionary, the chip, allowed for enhanceable, and multiple functionality within a single card capable of seamlessly meeting the customer's changing needs over time.

American Express capitalized on the high interest rates and the negligence of financial responsibility aspect of the sub prime users. They also entered into the corporate credit card users market differentiating themselves from Citibank, Capital One, Diners and Discover, by providing customized spending limits and benefits for the each employee in the organization thereby addressing the companies and the individual's needs.

According to Christensen, commoditization destroys a company's ability to capture profits by undermining differentiability, de-commoditization affords opportunities to create and capture potential enormous wealth. By segmenting the market and customizing their cards, we believe that American Express has moved where the value is in the value chain compared to companies such as Discover and Diners are struggling to be on the right side of the value chain.