

American Express Card

The Setup

American Express (Amex) is a consumer services company providing a variety of services to its cardholders. Its primary service is its well-known charge card, that enables “members” (i.e., cardholders) to purchase goods and services from millions of merchants that accept the card. Unlike other credit cards, cardholders are required to pay off their accrued balances each month, and interest is not charged.

Question

- Recently, Amex has faced strong competition from new credit cards entering the market. They have considered dropping the \$55 annual fee. What are the economics of such a decision, and should they drop the fee or not?

Additional Info

- \$55 x the number of members (could round to \$50 for simpler math).
- What is your best estimate for the amount of cardholders?
- No additional revenues from consumers, since balances are paid monthly. (Amex doesn't enforce late fees)
- 1% merchant fees for all transactions from merchants honoring the Amex card.
- Est. annual transactions are \$1,000 per cardholder.