American Express and the Charge Card

from *Forbes Greatest Business Stories of All Time* by Daniel Gross, *et al.*

Howard Clark, Chief Executive Officer of American Express.

Around the world at gas pumps, restaurants, and airline ticket counters consumers face the inevitable query: "Cash or charge?" It's a question that was rarely asked fifty years ago, but now we are on the verge of being a cashless society. Consumers and businesses routinely buy billions of dollars worth of services and goods without so much as a thin dime changing hands. The product that led this transformation was the American Express card, or, as *Forbes* called it: "the late-twentieth-century piece of magic that replaced checks, money, and charge accounts."

The American Express card, and every other charge card, evolved from the company's greatest invention, the traveler's check, which was introduced in 1891. With an American Express traveler's check in hand, a visitor otherwise unknown in Rotterdam, Quito, or Adelaide could obtain hard cash in a matter of moments. It was a whole new concept—selling people the honor of being trusted—and it caught on. Ever since, American Express has understood that concept better than any other company.

The company itself tried to engender trust at every opportunity. For example, the staff in its offices worldwide were instructed to help travelers, however possible. Expanding on its success and expertise, it grew to become the largest travel company in the United States. With worldwide connections, a thorough understanding of finance, and a clubby attitude, the company was on a firm foundation when it entered the burgeoning credit card field in 1958.

Part of the corporate culture of American Express, since its founding in 1850, has been to keep a quiet, even bland facade. With few exceptions, its chief executives have been content to stand in the background, behind the one name that has to mean something, if the names, and signatures, of its customers are to mean something all around the world. American Express executives through the first hundred years were so conservative, in fact, that many innovations were inadvertent or even unauthorized. Meanwhile, the company set aside ample cash reserves, guarded over its core businesses (or "tended its knitting," as one president put it), and stayed the most certain course in good times and bad. Steady management and a "safety-first" attitude toward finance surely resulted in American Express celebrating a hundredth birthday in 1950. But, at that same time, they nearly kept the company from entering the charge card business, which was to become its most important source of revenue.

The staying power of American Express can be ascribed to its understanding, as *Forbes* put it in 1989, that "A credit card, in short, is not a mere commodity, [but] it says something about the person who uses it." The company understood that the card could be considered much more than a financial accessory; it could be a status symbol in its own right.

A Delivery Giant Evolves into the Dominant Travel Firm

American Express was formed in 1850 as a temporary solution to a bitter feud among express companies in New York. The express business emerged in the 1840s in response to improvements in transportation and logistics exactly as it re-emerged in the 1970s, through companies like Federal Express. In both eras, companies got a good start by catering to individuals and businesses that were willing to pay extra for speedier, more reliable service than the U.S. Postal Service offered.

Henry Wells had built his express company, Wells & Company, in the 1840s by taking advantage of a new rail link just completed from Albany to Buffalo. He was a decent, likable man, and a humanitarian (he would later start one of the nation's first colleges for women, Wells College in New York State). In 1842, he offered a good opportunity in his company to a railroad freight agent named William G. Fargo. The two didn't always get along while Fargo was working his way up in the firm, but they would create a number of new ventures, including one of the most storied names in the history of U.S. business: Wells Fargo & Company.

Both men sensed that the more America spread out, the more it needed to be connected. Fargo had already expanded the company's express service to Chicago, when another upstate New Yorker, a tough wheeler-dealer named John Butterfield, built his network of stagecoach lines into serious competition. The two firms couldn't beat each other commercially, despite the bitter rivalry that grew between them. The agonizing truth, apparent to all concerned, was that the firms had no choice but to merge before they drove each other out of business.

In 1850, Henry Wells, John Butterfield, William Fargo, William and John Livingston, James Wasson and an attorney James McKay met in Buffalo, New York, to discuss terms. Days later, they reached an agreement and founded a new company—the American Express Company. However, the agreement had a catch: a clause in the charter they signed dictated that the company would automatically dissolve after ten years.

For ten years, the partners watched each other like hawks, with little whole-hearted agreement on anything. When Wells and Fargo suggested a further expansion of operations to California, Butterfield naturally disapproved. The opportunity was certainly too great to resist—though neither Wells nor Fargo probably realized then just how great—and so Wells, Fargo & Company was created in 1852, as a separate cousin company to American Express. It would become famous for the Pony Express, and for bringing well-capitalized banking to the American West.

The strains within the American Express board of directors led to factions within management and a generally tense, secretive atmosphere. Despite such problems, the firm managed its affairs with competence and grew into one of the most admired companies of the nineteenth century. From the company headquarters, initially in Buffalo and later in New York City, American Express slowly built up a network of offices along railroad spurs all over the country; the exceptions included the New England coast and a few other places staked out by friendly competitors.

After ten years, the company was making so much money that the partners finally agreed on something important: They didn't want to let the company dissolve. They found a way to circumvent the dissolution clause: selling off all company's assets, except for the name, and recreating a new company around that name. By 1880, American Express maintained more than 4,000 offices in nineteen states. Customers, in complete confidence, could send packages, letters, or envelopes containing cash.

The firm now faced a challenge from the U.S. Post Office, which had started selling money orders in 1864. That allowed people to send money without shipping cash. In 1881, William Fargo's brother, J. C., was named president of the American Express Company. He was an irascible man, who wouldn't even consider issuing money orders at first, because they could be easily altered. When a brilliant employee named Marcellus Berry devised a way to safeguard the checks against tampering, American Express began to issue its own money orders at a price that was slightly lower than the post office's. The company subsequently made its first foray into the international side of the business, striking deals with firms like Kidder, Peabody & Company and Baring Brothers to guarantee payment of American Express money orders at banks in several foreign countries.

In the late 1880s, J. C. Fargo took a trip to Europe. Like any other well-heeled tourist, he arrived with a letter of credit from a major U.S. bank. A "letter of credit" was something like a bank book, in that designated banks in foreign cities would advance cash to the holder and then note on the letter the amount taken and the new total available. But letters of credit were a nuisance, even for a Fargo. "I had a lot of trouble cashing my letters of credit," J. C. complained to Marcellus Berry upon his return. "The moment I got off the beaten path they were no more use to me than so much wet wrapping paper. If the president of American Express has that sort of trouble, just think what ordinary travelers face. Something has got to be done about it."

That "something" was to be a remarkably enduring product that emerged as the first step in creating a cashless society: the traveler's check. Marcellus Berry designed it, too, and his version was almost exactly the same as the one still in use. The checks came in denominations of $100, $50, $20, and $10. For security purposes, purchasers signed each one in the upper left corner at the place of issuance and then signed it again when cashing it at an American Express office or foreign bank. One difference between the nineteenth-century check and today's edition is that, in those days of stable currencies, the checks included a handy scale for calculating exchange rates, which American Express guaranteed would be honored at any point in the future.

The traveler's check business began quietly: the company sold just 248 (worth $9,120) in 1891, the first year on the market. The concept was slightly flawed, since the checks could be cashed only at American Express offices, too few of which were established at the time. The company solved the problem by contracting with banks and hotels that would cash the checks. By 1892, when check sales boomed to $483,490, American Express offered a fourteen-page brochure listing of establishments that would accept them. Annual sales rose to $23 million by 1909.

Many fortunes have been made in the last hundred years by making various accoutrements of upper-class life available to the middle class. American Express created a miniature letter of credit when it issued the first traveler's check, granting a measure of worldly assurance to anyone with so little as $10, plus commission.

Overseeing the whole company, J. C. Fargo made no secret of the fact that he preferred carrying freight to serving tourists. The traveler's check couldn't be scorned, though. It was a unique product that not only generated cash flow but neatly diverted some cash flow into collecting pools as well: all those people who bought traveler's checks and never cashed them made a donation to the American Express Company. Even people who bought them and then delayed cashing them made the company a free loan. As these pools of cash grew, Fargo realized that traveler's checks were literally money in the bank for American Express. Fargo developed the business to the fullest, but when several executives suggested that the company put its worldwide connections to work in a travel service (in direct competition with Britain's Thomas Cook & Son), Fargo demurred. To him, American Express was fast becoming a financial services company, while still operating successfully as a freight company.

To a greater extent than almost any other company, American Express has been in a constant state of evolution. Wherever Americans went, the company was there to greet them, on the lonely frontier or on the even lonelier—for a busted Yankee—boulevards of Europe. The company's specific products and services could change, without its straying from its roots, and each successive CEO could see American Express as a completely different sort of company, without being wrong.

After J. C. Fargo retired, the company branched out. In 1915, American Express finally started its tourist service. "When you sell tickets to a prospective traveler, you can't just go down to the boat with a bunch of roses and say good-bye," said Frederick Small, who assumed the company's reins in 1923. "He has to be serviced all the way." The company offered to book tours, arrange trans-oceanic travel, and exchange currency for clients at offices in the United States and abroad. It quickly became the country's largest travel agency. "Romance had ambushed the American Express Company under the sober business guise of travelers cheques," *Forbes* wrote in 1929.

During World War II, the travel business virtually shut down and most of the company's European offices were shuttered. Yet American Express weathered the difficult times on the strength of the checks, which it sold in large quantities to U.S. soldiers. In the midst of the war, Small turned the company over to one of his protégés, Ralph Reed, a Wharton graduate who had joined American Express in 1919 as assistant to the comptroller. Reed was an Amex man all the way, according to the historian Peter Z. Grossman: "Like Small, he believed that Amexco was not just a company but a family, and he forgave everything except disloyalty." It was Reed who, late in his sixteen-year-tenure as president of American Express, would reluctantly introduce the American Express Card.

After the war, American Express rebuilt much of its travel service network, and was poised to cash in on the recovering tourist market. In the 1950s, pent-up demand for European travel burst out, encouraged by a strong dollar and growing prosperity at home. American Express offices resumed their stature as a "home away from home" for travelers. At the Paris office, at 11 Rue Scribe, up to 12,000 tourists stopped in each day, gathering mail, offering advice, booking trains or tours, and cashing traveler's checks. American Express was booming, and gross revenues rose fivefold between 1945 and 1957, when the company notched profits of $6.9 million on revenues of $54.7 million.

American Express Watches a Growing Credit Card Industry

The charge card was not a new invention in the early 1950s, but it came onto the scene in a new form and turned into a major distraction for executives at American Express. Credit cards had first come into use at retail establishments in 1914, according to credit card historian Lewis Mandell. Although merchants saw them primarily as a convenience for major customers, it soon became clear that such cards could be profitable operations in their own right. In the 1940s, department stores like Gimbel's began offering store charge cards with revolving credit. Customers could use them to purchase items and were assessed interest charges on the outstanding balances. Restaurants and gas stations also offered charge cards. However, most early credit cards (all early cards were known as such, whether they offered revolving credit or not) could be used only at one particular store or at a single chain.

In 1950, Frank McNamara and Ralph Schneider, two businessmen, started Diners Club, the first of what came to be known as "travel and entertainment" cards. For a $3 annual membership fee, members received a card and could charge meals at restaurants, which took their payment—less five to ten percent—through Diners Club. This percentage came to be known as the "merchant discount." Although the arrangement meant lower profits on meals charged with the card, restauranteurs signed up in the belief the card would bring in more business. In starting Diners Club, McNamara and Schneider were positioning themselves as middlemen between restauranteurs and consumers. They guaranteed payment to the restaurants and collected from the cardholders.

American Express would ultimately follow Diners Club in starting its own credit card. As early as 1946, American Express executives floated a plan to start a highly conservative program under which clients could deposit money and then draw on the balance as they used the card. (Today, such an arrangement is referred to as a "debit card.") Reed rejected it. More specifically, he placed it "in indefinite suspense."

To Ralph Reed, American Express was a travel company—the preeminent one in the world. Each year more Americans seem to be traveling on trips planned by American Express and secured by Amex traveler's checks. Reed knew it firsthand, because he was the quintessential American tourist. In fact, he was everything that J. C. Fargo would have disdained: a man of humble birth—a comptroller on holiday—off to Europe each and every year to show the folks back home how easily he mixed with grandees and miscellaneous royalty. He was the quintessential tourist, except in one respect: Reed's trips were well-covered by the press. In 1956 he was on the cover of *Time,* but not as the CEO of the year; he was "The Grand Pooh-Bah of Travel." Somehow, the name fit, and it is still easy to call Ralph Reed "the Pooh-Bah." He was indeed the leader of a colorful, wandering tribe: the American tourists.

The issue of a charge card didn't go away. In the 1950s, living "on the cuff"—as using credit cards was called—became more and more commonplace. Credit cards emerged as the perfect instrument in the expanding economy, since they allowed Americans to buy expensive durable goods on installment. And the increasingly affluent U.S. population found cards especially useful for travel purposes. The American Hotel Association started a charge card that could be used at all member establishments, as did the Avis and Hertz car rental agencies. *Gourmet* and *Esquire* magazines also introduced credit cards that could be used at certain restaurants. By the time Diners Club went public in November 1955, it counted 200,000 members who charged about $20 million worth of meals a year.

As is often the case, the largest player in the field was slow to catch on to an emerging trend. The Pooh-Bah was still cautious, despite the success of Diners Club and its imitators. In fact, in 1956, Reed turned down a chance to purchase Diners Club.

After examining the full situation regarding Diners Club, though, Reed realized that its founders were undoubtedly onto something. He deputized senior vice president Howard Clark "to spell out how American Express can get into [credit cards] as an American Express activity." Clark, in turn, hired a consulting firm, Robert Heller & Associates, to conduct a feasibility study. And in the kind of move that gives consultants a black eye, Heller in October 1956 warned that the card would have "a substantial adverse effect on Travelers Cheques in the near future."

Still, there was mounting evidence from the field that other credit cards were already eating into the company's vaunted traveler's check franchise. In 1957, Harry Hill, a Paris-based American Express executive, urged the home office to act quickly. "1 would like to stress that I feel very strongly that something must be done for New York to get into this picture," he wrote. "There are too many people coming abroad with their Diners' cards and we are losing business."

Swayed by such pleas, Reed finally came around and decided to throw the full weight of the company's reputation and name behind a card. "We probably have to go all out as long as the cardholders are creditworthy," he said at a meeting in December 1957, when the company finally committed itself to a concept modeled on Diners Club.

Ralph Reed had no interest in building a new product from the ground up. That extended the risk, after all. Besides, the company was already lagging in a field crowded with charge cards. Rather, he sought out existing businesses to buy. The first was the American Hotel Association's credit card operation, which had 150,000 members. He also purchased the *Gourmet* card's 40,000 names. Next, the company began to exploit the two things that no other company had: its name and its experience. First, it began a marketing campaign that relied heavily on the American Express name. Long identified with the romance of travel, the company quickly realized that its card would have to have a certain cachet. The hunch proved correct, as thousands of individuals responded to newspaper advertisements to obtain the card, even in advance of its official introduction. Second, the company used its long-standing connections and its reputation to sign well-known establishments that would accept the card. Legendary Manhattan restauranteur Toots Shor, who had rejected the entreaties of other card companies, came on board, saying, "It's got a reputation for being clean and decent, and it'll probably lend some class to my place."

Americans spent $4 billion with their credit cards in 1958, and American Express was finally positioned to get a piece of the action. By the time its purple-colored cards were formally launched at an October 1, 1958, press conference, 250,000 people had already requested them. And from the first day, the Amex card had a place in the world, a lot of places, in fact. Among the 17,500 outlets accepting the card were favorite spots like London's Dorchester Hotel and Maxim's in Paris.

“The public is very much credit-minded and we have the organization to handle it,” promised Ralph Reed, who was himself a dues-paying member (card number 101-000-001-6). “Ultimately, it’s our hope to liberate the American wallet from its multiplicity of credit cards,” he said. The American Express card could be used in hotels, restaurants, stores, and at airline, ship, and train ticket counters: More than any other card of the time, it could be used as a replacement for cash.

Reed’s optimism represented the arrogance of a dominant company crashing into a new field. To his great chagrin, the early results were not auspicious. In March 1958, Michael Lively, who would eventually become the general manager of the Credit Card Division, estimated the card would lose $1 million its first year and earn $1 million in 1959. Even though American Express signed up 750,000 members who charged over $100 million in 1960, the card continued to lose money into its third and fourth years. There were, it turned out, major pitfalls to starting big, as opposed to building a business slowly from the ground up.

American Express had been unprepared for the logistics of collecting monthly payments from such a large number of customers and merchants. “For a while we weren’t even getting all our bills mailed out on time,” said company Vice President Clark B. Winter. As a result, American Express was forced to take write-offs. “We lost roughly $2 million last year, and we have made every mistake we could possibly have made in getting it going,” said the board chairman, Ralph Owen, in 1960. In the rush to automate the process, the company had acquired the wrong technology. Apparently, the wrong people were managing the unit as well. As 1960 came to a close, American Express’s credit card operations were a quagmire.

George Waters Takes Charge of the Credit Card

Ralph Reed didn’t have to clean up the mess. In 1960 the company’s directors gave him one last trip to Europe and then named a successor. The new man was forty-four-year-old Howard Clark. Clark, a Harvard-trained lawyer who joined the company after leaving the Navy in 1945, turned over responsibility for the flagging card to George Waters in 1961.

Waters, at age forty-five, had most recently worked as chief operating officer of an Atlanta grocery store chain called Colonial Stores. An expert in data processing, he had grown up in a culture alien to credit. His father had often told him: “A person has no right to own anything, except a home, if he can’t pay for it with cash.” Despite this background, Waters was right for the job. Savvy and hard-driving, he moved decisively in the business world. He was, in short, the exact sort of person at whom the Amex card was aimed.

The first problem that Waters faced was relatively simple, but it forced him to make decisive moves early on. The Amex card just wasn’t bringing in sufficient revenue and Waters reasoned that one easy way to boost revenues would be to increase the $6 annual fee; this might make it expensive, but then, under Waters, it wasn’t supposed to be for everybody. Although there were concerns that such a move would scare off clients, Howard Clark agreed that a drastic step was necessary. “I’d rather die on the operating table than bleed to death,” he said. “Let’s raise the discount, and raise the price of the card from $6 to $8 and see what happens.” Waters turned out to be right; revenues did rise.

Another major problem lay in delinquent card balances. When acquiring *Gourmet*’s list and the operations of the American Hotel Association card, American Express had taken on a large number of clients without making adequate credit checks. And the company had been slow to crack down on delinquent payers; the hallowed American Express tradition was to coddle its customers, never to antagonize them. Waters moved quickly, though. Instead of giving people a ninety-day grace period, he mailed dunning notices after a month’s delinquency. The company also sent humorous verses with a serious message: “But in the future, don’t delay. . . We’ll cut you off, if you don’t pay.” And Waters didn’t hesitate to cancel delinquent accounts.

As a third means of increasing revenues, he unilaterally boosted the discount rate—the percentage of a sale that the merchant had to pay the company—from 3 percent to 7 percent. Again, this had the potential to alienate the firm's merchant partners. But Waters believed that American Express, with its long history of service and name recognition, could get away with it. "If you have the best product, sell it for a premium," he liked to say. "People will pay." These initiatives helped the drive toward profitability.

Even as policies were changing, the card itself was changing. The color was switched from purple to green, in a new design purposefully reminiscent of cool cash. In a major effort to boost the card's profile, the company retained in 1962 the services of a reigning advertising agency of the day, Ogilvy, Benson & Mather. The campaign that Ogilvy designed highlighted American Express as "the company for people who travel."

American Express borrowed another tactic from Ogilvy's playbook, using extensive surveys to back up its marketing practices. In 1962, it commissioned a study that revealed that Americans misplaced or lost about $700 million in cash each year. The obvious lesson? Consumers should use the American Express card or traveler's checks for everyday use—instead of cash. To induce more companies to accept the card for payment, American Express armed itself with statistics. In 1964, for example, when American Express first hooked up with American Airlines, the card division conducted a survey that showed 24 percent of the tickets sold under the airline's new "sign and fly" plan constituted new business brought in by the availability of credit. This kind of data would be used to approach other airlines about the value of working with American Express.

With or without statistics, Waters's instinct all along was to distinguish the Amex card from the competition in the travel and entertainment field, that is, from cards like Diners Club and Carte Blanche. American Express began to refer to its cardholders as "members," implying that carrying the card conferred special privileges. Then it backed up the claim with exclusive services that only a company with its worldwide connections could offer. In 1963, for example, the firm announced it would cash personal checks up to $300 for cardholders overseas. Competitors like Diners Club, with no comparable international network, could not match this offer. On the strength of its advertising and its growing list of participating businesses, American Express in 1964 saw its volume of charged sales surpass Diners Club, posting $344 million in sales compared to $250 million for Diners Club.

Positioning the Card as a Prestige Item Amid Competition

Credit cards in the travel and entertainment field were primarily pitched to well-off people—especially businesspeople who dined out or traveled frequently. Overall, though, the credit card began to acquire a middle-class image in the 1960s. This development was largely due to the efforts of the California-based Bank of America. In 1959, it introduced a credit card through mass mailings to 1.5 million people in the state. This card, one of the first "bank cards," operated on assumptions fundamentally different from those of the Amex card. Offering a low $100 credit limit, BankAmericard charged no fee. Instead, the bank earned profits by charging 1.5 percent monthly interest on unpaid balances. The Amex card, essentially just a charge card by comparison, offered no extended credit and so exacted no interest. Since the Bank of America was effectively offering to lend money to cardholders for relatively small purchases, it concentrated on signing agreements with retail establishments where its middle-class cardholders would shop.

The BankAmericard (later known as "Visa") built a strong base in California before making a strong national move by licensing other banks to use its brand name and its processes in 1966. Just when the Amex card was starting to dominate its old rivals Diners Club and Carte Blanche, it was faced with competition from BankAmericard and from another card, one with a familiar pedigree. In 1968, Master Charge cards swept into first place among bank cards, having been issued by a consortium of banks headed by none other than Wells Fargo.

American Express didn't rush into head-on competition with BankAmericard and Master Charge. Since it made money from annual fees and commissions, not from interest on outstanding balances, it sought to put more cards into the hands of people who made large purchases, people, most notably, on expense accounts. Under Waters's direction, the company began to pitch the card to corporate customers. Starting in 1966, a company could establish an account with American Express and issue multiple cards to its employees. The company would then receive one inclusive bill, detailing purchases made by each cardholder.

Even as Wells Fargo's Master Charge showed up in tens of millions of Americans' wallets, its old cousin became, if anything, even haughtier. American Express continued to charge a comparatively high membership fee of $12, along with higher commissions on purchases. The company felt the costs were justified because of its service and its reach. "Where they have some of the airlines and some of the restaurants, we have them all," said an American Express marketing official in 1969.

By the close of the card's first decade, the American Express Company had been transformed. Net income rose from $9 million in 1960 to more than $75 million in 1969. During that period, the company's earnings grew at an annual rate of 17 percent, growth more common among young entrepreneurial companies than among 110-year-old firms.

Part of the growth can be attributed to the company's diversification. Howard Clark had generally left the card division to its own devices as he focused on pushing the company into new areas. In 1968, for example, American Express purchased the Fireman's Fund, an insurance company; Equitable Securities, a mutual fund firm; and even a magazine called *U.S. Camera*, which it renamed *Travel and Leisure.* Despite this flurry of activity, the company's two cashless projects—the American Express card and the traveler's check—still accounted for the bulk of its profits. By the end of the decade, the card had far outdistanced its chief competitors in the upscale travel and entertainment area, and American Express still held more than 60 percent of the market for traveler's checks. In 1970, American Express reported charge volume of $2.3 billion, compared with $935 million for Diners Club and $220 million for Carte Blanche. With clever advertising and marketing, the card that seemed likely to embarrass American Express at the beginning of the decade had become a status symbol, both for the people who carried it and for the company that had nurtured it successfully.

The Float

For nearly a century American Express has been the beneficiary of a unique wrinkle in its business. When the company began selling traveler's checks in the 1890s, it noticed a significant lag between the moment customers purchased checks for cash and the moment checks were redeemed. As a result, American Express found itself in custody of a large amount of cash, which came to be called the float." A crucial asset for the company, Forbes once identified it as "the cash AmEx holds while the checks are burning a hole in your wallet." It amounted to a continuous, interest-free loan from the customers to the company. And if, for any reason, the purchaser neglected to redeem the checks altogether, the firm didn't have to pay back the loan" at all. v

Over the years, the company rolled the float into high-quality government and corporate bonds, and, to a lesser degree, into stocks. By the end of 1956, the American Express float was an investment fund of $503 million. And the company earned nearly as much from that investment as it did from all of its other corporate operations. "American Express is only in two businesses, credit cards and float," said Oppenheimer & Company analyst Donald Kramer in 1970, when the float ranged from $700 million to $1 billion. He was only half joking.

In 1978, the average check remained uncashed for thirty days, and Forbes estimated that American Express earned about $81 million annually from the float. By 1995, when the company reported that there were $6 billion worth of traveler's checks outstanding on any given day, returns on the investment of these funds represented a substantial portion of the company's $969 million in income from interest and dividends.

Although American Express's record in the 1960s was impressive, its card business represented oniy a small portion of the overall credit card industry. Between the end of 1967 and 1970 alone, for example, outstanding consumer credit rose from $8.2 billion to $13.8 billion. At the same time, many firms that rushed into the credit card game in the late 1960s quickly racked up losses due to lax oversight. "By the end of 1970, credit losses totaled $116 million, up more than 100 percent from 1969," *Forbes* wrote in 1971.

American Express had been just a bit more careful than others in its field—as it had been in any field it entered through the years. The firm avoided losses to bad credit by staying true to its core strategy. It didn't give credit, except as a thirty-day courtesy, and outstanding balances had to be paid every month. Amex customers were expected to be careful too.

In more recent years, however, American Express changed its stance. In the company's continuing process of redefining itself, it became an intricate conglomerate of financial services, expanding through a series of acquisitions and expensive start-up ventures. A traditionally bland company became one of the boldest, with results that were often discouraging, and could have been disastrous if it hadn't been firmly anchored by its relatively new core-business: the Amex card.

New types of American Express cards have proliferated since the company established the original. The Optima—albeit the least successful product in the American Express roster—even offers revolving credit, like the bank cards. And while the company has expanded all operations, travel-related services accounted for 66 percent of its $15.8 billion in revenues for 1995. That year, holders of 38 million Amex cards charged up $162 billion worth of goods and services worldwide, while traveler's check sales topped $26 billion; together, these figures added up to nearly 3 percent of the U.S. gross national product.

Billions of dollars spent and not a penny to be seen. More than 100 years after American Express sold its first Travelers Check, and nearly forty years after the first American Express cardholder whipped out a small cardboard rectangle embossed with the company's distinctive logo, the cashless society is closer at hand than ever before. Little by little, and assuming as little risk as possible, American Express had learned how to replace cash with a measure of trust.