American Express Business Model

Idea In Short

American Express earns money by charging merchants a discount fee on every card swipe, then reinvests a large share of it into rewards, lounges and concierge services that keep affluent cardholders loyal. The company also collects annual fees, some running into four figures and interest on revolving balances. Unlike Visa and Mastercard, which license their networks to banks, American Express both issues cards and operates the network, giving it a fuller cut of each transaction and more control over the customer relationship. That structure lets it charge merchants more, roughly 2.3% to 3.5% per transaction, in exchange for wealthier customers who spend more per swipe. This article traces how a mail delivery firm from 1850 became a closed-loop payments company built around premium spending.

From express mail to plastic

American Express began in 1850 when Henry Wells, William Fargo and John Butterfield merged their competing express delivery firms into a single company built to move valuables and packages across the country. The founders split ways within a decade, with Wells and Fargo departing to build what became Wells Fargo, leaving American Express to grow under different leadership through the rest of the 19th century.[1] The company issued its first traveler's checks in 1891, giving travelers a way to carry funds securely without cash, a product that outlasted the express delivery business it grew from. It exited the mail and freight business entirely in 1918, folding that division into the newly formed Railway Express Agency and spent the following decades building out financial and travel services instead.

The charge card era begins

American Express introduced its first charge card in 1958, a paper product that required cardholders to pay their balance in full each month rather than carry debt, a discipline that still separates its core card products from typical bank credit cards. The gold card followed in 1966, the green card was repositioned around it in 1969 and the platinum card launched in

1984 aimed at customers who wanted the discipline of a charge card paired with elevated status. The centurion card, known widely by its nickname the black card, arrived in 1999 as an invitation-only product built for the highest-spending clients, reportedly created partly in response to an urban legend about a limitless black card that circulated among wealthy cardholders before the product existed.2 Each tier added new benefits, from airport lounge access to travel insurance, while keeping the core mechanic the same:

> cardholders pay in full and American Express collects its revenue mostly from merchants and annual fees rather than interest on unpaid balances

Buffett's long stake

Warren Buffett's Berkshire Hathaway began accumulating American Express shares in 1991, when the company was recovering from a costly diversification into brokerage and insurance businesses under the Shearson and IDS units.3 Buffett has held the position through multiple decades and it remains one of Berkshire's largest public equity holdings. The relationship has stayed passive; Berkshire does not sit on American Express's board or direct its strategy and Chief Executive Stephen Squeri runs the company's operations independently.

> American Express has developed a form of network economics based on trust that competitors have found very hard to replicate

Betting bigger on premium

Squeri's strategy over the past several years has meant walking away from mass-market card products to concentrate spending and marketing on premium cardholders who pay higher fees for elevated benefits. The bet paid off through 2025 and into 2026, when American Express reported card member spending growth of 9% on a currency-adjusted basis, the fastest pace in three years, driven substantially by demand from younger affluent customers rather than only longtime cardholders.4 The company relaunched its flagship

Platinum Card in September 2025, raising the annual fee from $695 to $895 while expanding statement credits to more than $3,500 a year across dining, hotels, ride-hailing and lifestyle brands. That trade, a higher fee matched with proportionally larger perks, has become the company's standard playbook for retaining cardholders willing to pay for curated experiences instead of shopping for a cheaper card.

What the discount fee actually funds

Merchants who accept American Express pay a discount rate that typically runs from 2.3% to 3.5% of each transaction, noticeably higher than the rates charged on Visa or Mastercard transactions. That premium exists because American Express operates a closed-loop network: it issues the cards, processes the payments and manages the merchant relationships itself, rather than routing transactions through partner banks as Visa and Mastercard do. Discount revenue reached $37.4 billion in 2025, up 6% from the prior year and represents the largest single share of the company's total revenue of $72.2 billion.5 Much of that fee income funds the rewards, travel credits and service infrastructure that keep affluent cardholders loyal, a cycle that only works if merchants keep accepting the higher cost in exchange for wealthier customers.

Interest income and card fees

Not every American Express product requires paying the balance in full each month. The company also issues revolving credit cards that carry interest on unpaid balances, a smaller but still meaningful revenue source alongside its traditional charge cards. Net card fees, the annual and membership charges tied to premium products like Platinum and the business versions of its cards, reached nearly $10 billion for full-year 2025, up 18% from the prior year, with the company reporting that 73% of new global accounts opened that year carried a fee-paying product.6 Foreign transaction fees, late payment charges and balance transfer fees round out the remaining revenue categories, though none approach the scale of discount revenue or card fees.

Corporate clients and small business tools

Beyond individual cardholders, American Express built a substantial business serving corporate clients and small business owners with expense management, business charge cards and vendor payment tools. Corporate clients, ranging from multinational companies to government agencies, use American Express for travel and expense software alongside dedicated account management support. Small business owners rely on the company's business cards and cash flow tools to track spending and earn rewards on operating expenses, a segment American Express has continued to invest in as it looks for growth beyond premium consumer cards.

Key Partners

American Express relies on a network of merchants who agree to accept its cards despite higher discount rates, drawn in by the spending power of its cardholder base. Co-branding partners, including airlines like Delta and hotel groups, issue jointly branded cards that extend Amex's reach into loyalty programs it does not run directly. Technology partners support fraud detection, payment processing infrastructure and mobile wallet integration, while banks and financial institutions in some countries issue Amex-branded cards under license where the company does not operate directly.

Key Activities

Processing payments across its closed-loop network sits at the center of American Express's operations, requiring constant investment in fraud detection and transaction infrastructure. Credit risk management determines who receives cards and at what limits, a discipline that matters more for American Express than for issuers focused on lower-spending segments. Marketing efforts concentrate on retaining premium cardholders through targeted offers and card refreshes rather than broad customer acquisition and customer service, including concierge lines for premium tiers, remains a differentiator the company invests in directly.

Key Resources

The American Express brand, built over more than a century around trust and premium service, remains the company's most valuable asset and the reason it can charge merchants above-market discount rates. Its closed-loop payments network, encompassing both card issuance and transaction processing, gives it data and revenue that bank-issued networks do not capture. Human capital, particularly in customer service and risk underwriting, supports the personalized service that premium cardholders expect and pay for.

Value Propositions

Premium cardholders get airport lounge access, concierge services, travel credits and elevated rewards in exchange for annual fees that can run into four figures on top-tier products like the Platinum and Centurion cards. Small business owners get expense tracking, cash flow tools and rewards tailored to operating costs rather than personal spending categories. Corporate clients get expense management software and dedicated account teams that help large organizations control travel and procurement spending. Merchants get access to a cardholder base that spends more per transaction than average shoppers, along with data and marketing tools to understand their customers better.

Customer Relationships

American Express builds loyalty through personalized service, particularly for premium cardholders who get direct access to dedicated service representatives rather than general call centers. Rewards and travel credits tied to specific card tiers keep cardholders engaged with the benefits attached to their annual fee. The company also solicits feedback through surveys and maintains community engagement through social media, though its core relationship tool remains the tangible value delivered through card benefits rather than digital engagement alone.

Channels

Cardholders can apply for and manage American Express products through the company's website and mobile app, which handle everything from applications to reward redemption. Direct mail and targeted advertising remain active channels for reaching prospective premium cardholders. Retail and travel partnerships extend the brand into physical spaces like airport lounges and partner hotels, while customer service centers support cardholders who need assistance beyond self-service tools.

Customer Segments

Premium cardholders, typically affluent individuals and frequent travelers, form the core segment that the company's recent strategy has concentrated around. Small business owners and freelancers make up a distinct segment served with tools built around operating expenses rather than personal spending. Corporate clients, including large enterprises, governments and nonprofits, need payment and expense management at a scale individual products don't address. Merchants, the fourth segment, pay discount fees in exchange for access to American Express's higher-spending cardholder base.

Cost Structure

Rewards programs represent one of American Express's largest expenses, since the statement credits and points that fund premium card benefits scale directly with cardholder spending. Marketing and customer acquisition costs remain significant given the competition for affluent customers among premium card issuers. Technology infrastructure, fraud prevention systems and regulatory compliance add ongoing costs, as does the salary base needed to staff dedicated customer service for premium tiers.

Revenue Streams

Discount revenue, the fee merchants pay on each transaction, is the largest single revenue stream, reaching $37.4 billion in 2025. Net card fees from annual and membership charges on premium products grew 18% that year as more cardholders traded up to higher tiers. Interest charges on revolving balances contribute a smaller but steady stream, while foreign transaction fees, late fees and other charges round out the remainder.

- 1American Express company history
- 2Centurion Card origin and requirements
- 3Berkshire Hathaway American Express stake
- 4American Express card spending growth reporting
- 5American Express 2025 discount revenue figures
- 6American Express fourth-quarter 2025 results

Summary

American Express has spent more than a century narrowing its focus toward customers who spend heavily and pay for the privilege. The 2025 Platinum Card overhaul, which raised the annual fee to $895 while adding statement credits worth more than $3,500, shows the company still betting that affluent and younger high earners will pay more for curated perks rather than walk to a no-fee alternative. Merchants keep accepting the higher discount rate because Amex cardholders spend more per transaction than average shoppers. The company's closed-loop network, where it both issues cards and processes payments, gives it revenue and data that bank-issued networks like Visa do not collect directly. Its next challenge is holding premium cardholders as economic conditions shift and competitors chase the same affluent segment with their own elevated rewards cards.