

Testimony of Susan Sabbott
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Before the U.S. Senate Committee
On Small Business and Entrepreneurship

May 13, 2009



Chairwoman Landrieu, Ranking Member Snowe and members of the committee, my name is Susan Sabbott, and I am President of American Express OPEN – the division of American Express dedicated exclusively to small business owners.

American Express issued our first small business card more than 20 years ago, and today we are the leading card issuer for small businesses in the U.S. based on purchase volume.

Thank you for inviting me today.

My father was a business owner. He owned a small trucking company based in New Jersey. Growing up, I saw first hand the joys and challenges of running a small business. I am extremely proud of our mission at American Express OPEN to provide small business customers with short term financing and unsecured credit options to assist them as they manage and grow their businesses. I speak with our small business customers on a regular basis to get a first hand understanding of their needs. Of course, in our current economy, much of the conversation centers around their unique strategies to adapt to and weather the obstacles associated with this dramatic downturn.

First, I would like to talk about some of the factors that are contributing to the challenges business owners are facing today. Evidence of the dramatic circumstances that businesses large and small face appears in daily news headlines. As the largest issuer of small business payment cards, our own experience is somewhat representative of the sector as a whole. I will share some of our own observations.

Second, I will share the products and services we offer. We are eager to support business owners in 2009 as we have been for the last 20 years. Our business owners are eager to continue serving their customers with their tradition of service and quality. And at times, they face difficult choices as they quickly adjust to increase their resiliency in this environment. We, too, share their focus on high quality delivery and difficult choices to ensure our own sustainability.

Third, I will explain how we are assisting customers experiencing financial difficulties, and some additional tools we have created for small business customers to increase their resiliency. We work hard to be relevant and timely in providing value and information to our business owner customers.

Finally, I will share some views on how the government can further their mission to be supportive of the incredibly important population of small business owners. As we all know, they are, in fact, the engine of both our local communities and our national economy, and are most eager for a resurgence in demand for their goods and services.

I. The Impact of the Economy on Our Small Business Customers

By all accounts, we are in the midst of the most challenging economic environment in a generation, and this environment is being defined, in part, by three important factors:

1. Demand among consumers and other business customers has declined dramatically.
2. The impact of the weakening economy has affected all sectors and geographies, especially those at the epicenter of the housing market collapse.
3. As accounts payable remain outstanding longer, business owners across the entire supply chain are facing increased cash flow pressures.

At American Express OPEN, we have seen these trends take hold in a number of ways.

1. Demand has declined.

At the end of 2007, consumer demand began to soften. Customers – both consumers and other businesses alike – adjusted their purchasing behaviors. Amid this shrinking customer demand, small business owners cut their inventories.

According to the Institute for Supply Management's April 2009 report, contraction in the service sector has extended seven consecutive months, and economic activity in the manufacturing sector has failed to grow for more than a year.

Our own experience also bears out this softening in demand. Spending growth by our small business customers slowed over the course of 2008, ending the year with a 3 percent decline in comparison to the fourth quarter of 2007. Our small business spending declined 13 percent in the first quarter of 2009.

2. The weakening economy has affected virtually all industry sectors and geographies.

At the onset of the current recession, the industries and geographies impacted were those closest to the tremendous shock occurring in the housing market.

As home prices began to fall, American Express OPEN first saw a decline in the credit quality in our base of mortgage brokers. That was followed by a similar trend for construction businesses and realtors. In fact, the average delinquency rate for our small business Cardmembers in housing-related industries this past March was almost 50 percent greater compared to our overall small business and consumer customer base.

Over time, we saw increasing delinquency rates across many industries, including auto dealers, transportation, event planners, advertising, and virtually all other segments. This was a departure from previous recessions where we saw some segments operate largely unaffected. Delinquency rates for businesses in healthcare and education – although trending upwards – are holding up better compared to other industries.

In addition, markets that experienced the sharpest decline in housing prices, including California and Florida, experienced the largest spike in delinquency rates. Compared to our overall small business customer base, delinquency rates for our small business customers in these two states are approximately 25 percent higher compared to last year, and nearly double their historical averages over time.

At this point, we see a clear picture of a slowdown with evidence across all geographies and industry groups.

3. Slower payments from customers are creating cash flow challenges.

The entire rate of payments in the U.S. has slowed. Small businesses are experiencing delays in receivables.

According to research American Express OPEN conducted in January 2009, the number of business owners who said their customers were taking longer to pay them jumped to 36 percent in January 2009 compared to 27 percent in February 2008 – a 30 percent increase.

This has made managing cash flow a significant challenge for business owners, and the implications for businesses that rely heavily on a small number of large customers are magnified. One of the most common ways entrepreneurs bridge cash flow gaps is by using personal funds for business needs, and the rapidly falling value of personal assets has meant that business owners have fewer credit resources to tap.

In late 2007, we started to see an up-tick in the number of small business owners who were taking more time to pay us back or defaulting on their loans altogether. This trend accelerated over the course of 2008. Overall, delinquency rates for our small business customers increased nearly 70 percent in the first quarter of 2009 compared to the first quarter of 2008.

Small Business Owner Sentiment

In addition to our business indicators, we gauge business owner sentiment through semi-annual research we have conducted for the last eight years and reported in the American Express OPEN Small Business Monitor.

Our most recent survey released in April found that sentiment among small business owners has stabilized following significant declines over the last year, including steep drop-offs last fall.

Despite signs of stabilizing sentiment, however, the economic slowdown is clearly taking its toll on small business owners. Over the last 18 months, the uncertain economy and the rising costs of doing business have been the two biggest concerns of small business owners. Their capital investment plans are at their lowest levels in the eight-year history

of the American Express OPEN Monitor. Hiring plans are down significantly, and 48 percent overall have instituted hiring freezes.

In addition, nearly 60 percent of business owners report facing cash flow concerns compared to 49 percent in 2007. Among cash flow concerns, the biggest worry for business owners is the ability to pay bills on time (17 percent). Additional concerns for businesses include accounts receivable (15 percent), having enough cash to win new business (10 percent), and the ability to meet payroll (9 percent).

To weather this storm, business owners are making substantial personal sacrifices. In fact, nearly a third we surveyed say they are not currently taking a salary. In addition, one quarter have a family member working for them without pay and 18 percent work a second job.

II. Providing Short Term Financing and Access to Unsecured Credit

Lenders offer a number of products to meet the capital needs of business customers, including term loans, lines of credit, and payment cards. Unlike banks, American Express OPEN today provides short and medium-term, unsecured financing exclusively through our payment card products. We are one credit resource among many that a small business owner may use, and we offer great utility and value to businesses.

We provide our small business customers with the financing and credit they need to help manage cash flow. Our card products are equipped with specialized benefits that provide access to working capital that business owners can reinvest back into their firms, and we also manually underwrite the accounts of some of our largest customers to provide them with the increased facility to spend on their card.

While we offer credit cards to our small business customers, our primary products are charge cards, which are pay-in-full products that do not have a pre-set spending limit. Instead, a customer's purchasing power adjusts with their use of their charge card, their payment history, credit profile, financial resources known to us, and other factors including the size of their business.

These charge card products account for the majority of the overall spending by our small business customers. Many of our most active small business customers gain valuable financing by using their charge cards to support substantial spending each month. The nature of this pay-in-full product means that customers who pay off their entire balance at the end of the month pay no finance charges for the financing we provide.

The small business economy traditionally has been an engine of economic growth, but the slowing economy has led to a decline in small business spending, which has been reflected in our business. In the first quarter of 2009, we authorized nearly \$20 billion in charge card spending for our U.S. small business customers.

However, even as the economy weakened substantially in the last year, we remain committed to our mission and to taking financially sound risk in order to support our customers and help their businesses succeed.

At OPEN and across our card businesses at American Express, we rely on what we call our “spend-centric” business model. That means we focus primarily on facilitating the spending of our Cardmembers, not on increasing our lending balances. Our company derives a greater proportion of our revenue from transacting customers who pay their balances in full each month, compared to customers who choose to revolve a balance.

Providing revolving credit to our small business customers is important to our business – and to theirs. However, in our spend-centric model, the lending we do for our customers is a byproduct of spending, not the other way around. So, when customers spend less on our cards, as has been the case in recent months, our lending balances grow more slowly, or even decline.

Much of the slowdown we’ve seen in spending and borrowing reflects the overall weakness in the economy. The impact of the economic downturn has weakened the financial condition of some businesses, and, consequently, has caused us to reduce some lines of credit or to cancel cards in cases where we believe the small business Cardmembers will not be able to manage and repay the additional debt they would incur.

As we manage through the difficult environment, we are striving to strike a balance between our Cardmembers’ needs and the importance of prudently managing rising aggregate credit risks – for our company and for our small business customers.

We’ve increased lines of credit for some and decreased for others, but the average credit line for our small business credit cards has remained somewhat steady over the last several years. After strong growth in average credit lines in 2008 compared to the year prior, we saw a decline at the end of the first quarter of 2009. However, the average in 2009 is higher compared to the first quarter of 2007. In addition, the aggregate amount of open credit lines available on credit cards to our small business customers at the end of March totaled \$28 billion.

Providing Access to Trade Terms and Increased Spending Power

In addition to providing valuable financing to our small business customers, we’ve expanded access to a very specific type of financing: trade terms, which is broadly defined as providing early pay discounts and the flexibility to pay over time.

A study we commissioned in the fall of 2007 found that small businesses use trade credit extensively, although early payment discounts were not universally available from suppliers. The report estimated that small businesses saved \$12 billion annually through the use of the early payment discounts. If these early payment discounts were made universally available, and the usage rate remained the same, this could save small businesses an extra \$15 billion annually.

So, it was against this backdrop that we expanded access to trade terms and launched the Plum Card in September 2007.

Plum is the first payment card to provide customers with trade terms for virtually every purchase they make on the card. They receive 1.5 percent cash back if they pay their balance within ten days. And those that pay at least 10 percent of their balance can defer payment on the remainder for up to two months, interest free.

For example, a customer who spends \$150,000 annually could earn up to \$2,250 cash back by paying early, or save nearly \$2,700 by deferring payment and foregoing interest charges, assuming a 10 percent interest rate. Since the launch, Plum Cardmembers have saved nearly \$80 million in early pay discounts and forgone interest charges when extending their payment for 60 days. This is money that can be reinvested back into their businesses.

We can also provide valuable financing to customers seeking greater spending power on their cards through commercial underwriting. This capability enables us to work directly with a customer to gauge their credit needs and collect additional financial information that provides insight into their ability to manage additional debt. This information includes cash flow, debt service coverage ratio, revenue, and net worth. Business customers who take part in this program are approved to spend, on average, three times more than our average customer.

Our objective is to provide our small business customers with consistent access to short term financing and unsecured credit. Our customers are working hard to be resilient to the volatility of the current slowdown in demand for their goods and services, and to seek opportunities to drive future growth. We at American Express OPEN are working with them to achieve that goal—both in helping them manage their debt levels and, where possible and appropriate, working with growing small businesses to provide increased access to short term financing and unsecured credit.

Providing Access to Working Capital through Specialized Benefits and Services

For business owners trying to weather the storm and those in growth mode, access to working capital is critically important. American Express OPEN provides access to working capital in several ways.

- We aggregate the spending power of our business customers and negotiate exclusive discounts on their behalf. When our customers use their OPEN cards at program partners including FedEx, Hertz, Hyatt and JetBlue, they receive an automatic discount on their billing statements.

Since launching in 2004, our OPEN Savings program has delivered \$366 million in savings to our small business customers. That's money that they can reinvest in their companies.

- Our Membership Rewards program enables enrolled customers to earn points for virtually every dollar they spend on their cards. They redeem these banks of earned points for a wide variety of rewards, often to reinvest in their business, such as office equipment or airline tickets for business travel. Many of our business customers also use their points to reward their employees.
- We also provide a variety of card products that reward business owners with a cash rebate when they use the cards for business purchases, including travel, office supplies, wireless services, restaurants and gasoline. In 2008, our small business customers using these cash rebate products received nearly \$175 million in cash back.

III. Programs Designed to Assist Financially Distressed Small Business Owners

We proactively manage the risk exposure of our customers and our company, and we are committed to providing businesses a level of credit that they are able to manage. As part of this, we have special programs in place to assist small business owners who may be experiencing temporary financial hardships.

For qualifying customers, these programs, which are 12 months in duration, help reduce a customer's monthly payment by lowering the minimum payment due from two percent to one percent, reducing interest rates, and also waiving any late payment fees and interest from prior missed payments. This can translate into sizeable savings at a critical point in time and help our small business Cardmembers get back on their feet.

In addition to responding to small business Cardmembers who call us directly, we are proactively contacting some of our Cardmembers who we believe may be in financial difficulty and could benefit from this new assistance program.

For those facing longer-term hardships, we offer debt management plans (DMP) that provide eligible consumers with reduced interest rates and the ability to pay off their balance over a longer period of time.

To provide additional relief to those struggling to repay their debts, we have implemented changes recommended by the National Foundation for Credit Counseling that provide a more affordable DMP for those seeking to avoid bankruptcy but who do not have sufficient income to qualify for traditional DMPs. The changes will allow consumers to maintain a reasonable monthly budget, establish a savings account for economic emergencies, make fixed monthly payments more affordable and be out of debt within 60 months.

Advocating for the Growth and Success of Small Business

Our focus on helping our small business customers access opportunities for growth goes beyond our payment products and card benefits. We have created an online community for business owners called OPEN Forum. Drawing 150,000 unique visitors per month, the website provides networking opportunities and includes videos, articles, blogs, success stories and advice from business experts and other business owners, including iconic entrepreneur Richard Branson, marketing expert Seth Godin, management consultant Tom Peters and popular bloggers John Jantsch and Guy Kawasaki. The aim is to provide actionable insights that business owners can apply to their companies.

To further our efforts to help the small business community, we will shortly be launching a new feature on our website that will facilitate connections between successful business owners. These business owners will be able to network directly with each other and cultivate new business opportunities.

We also have established and continue to support a number of partnerships that are designed to help women business owners grow their companies and create new jobs.

- With research showing that less than 3 percent of women-owned businesses generate \$1 million in revenue, we partnered with Count-Me-In for Women's Economic Independence to found the "Make Mine a Million Dollar Business" program. Through this program we have awarded 175 women over the last four years with intensive financial, marketing and mentoring resources to help them take their businesses past the million dollar threshold. As part of the program, more than 65,000 women have declared their intent to reach the \$1 million revenue mark.

"Make Mine a Million Dollar Business" has many inspirational success stories. For example, Theresa Alfaro Daytner is the mother of six children, coaches soccer and is in the construction business. She received her Make Mine a Million award in 2006, and Daytner Construction Group hasn't looked back since. In 2008, the Maryland firm exceeded \$1 million in revenue for the second straight year, and unlike many business owners, Theresa continues to grow and says she will be hiring this year.

In addition, Theresa Daytner has been awarded the 2009 Maryland Women in Business Champion award from the Small Business Administration. Earlier this year, she was also invited to the White House to discuss the state of small business with President Obama.

- Government contracting can provide significant opportunity for women business owners. Yet even though the government-wide goal for contracting to women-owned businesses is 5 percent, only 3.4 percent of federal contracting dollars were awarded to them. We've partnered with Women Impacting Public Policy to launch "Give Me Five," a program designed to help more women gain access to federal contracting opportunities and reach the 5 percent goal.

The program educates female entrepreneurs on how to apply for and secure federal procurement opportunities. To date, the program has helped an additional 15,000 women business owners register their firms on the Central Contractor Registration national database, an important first step for those looking to do business with the federal government.

In addition, American Express OPEN supports women business owners through partnerships with leading women's business organizations that foster innovation and learning. This includes the Center for Women's Business Research, eWomenNetwork, National Association for Women Business Owners (NAWBO), Springboard Enterprises, WBENC, Women's Leadership Exchange and Women President's Organization.

Supporting Small Business Recovery

America's small businesses are the job creation engine of our economy, and their health and vitality will be critical in helping turn around the economy. Access to capital plays an important part in their ability to grow, although during a time when GDP has been rapidly contracting over the past six months, access to capital is not the only solution. Increased demand in the form of spending by consumers, other businesses, and federal, state and local governments is fundamental to fueling their growth.

There are a number of solutions put forward by the Administration that will be helpful in facilitating access to capital by small businesses. This includes temporarily eliminating certain lending fees, raising guarantee levels on some of the Small Business Administration (SBA) loans, and unlocking the secondary markets for small business loans.

In addition to providing access to capital, the government is a critically important customer for small businesses. However, many small businesses find it difficult to navigate government programs and compete for government contracts.

For example, recent news coverage has highlighted the frustrations large businesses are having participating in programs funded under this year's stimulus bill. A *Wall Street Journal* article describes how confusion about the stimulus programs appears to be hampering the participation of even large corporations. If a company with thousands of employees is having difficulty understanding these opportunities, how much more confusing is it for a small business with a few dozen employees?

The SBA in partnership with other government agencies and the private sector can expand its outreach to small business in this critically important area. Government agencies need to achieve the 23 percent small business contracting goal for stimulus program contracts. Just in the areas of construction and health care, that would amount to billions of dollars in government contracts for the small business sector.

Our experience with “Give Me 5” is that many small businesses are not even registered to be eligible for federal contracts. But registering is only the first step. Many small businesses need more information on what programs are focused in areas where they can compete for contracts.

The SBA should use the current period as an opportunity to expand its assistance to small businesses that want to tap into programs available at not only the federal level, but also the state and local government levels. For example, the SBA should work with other agencies to provide the equivalent of a small business search engine for programs contained within the stimulus legislation. At American Express OPEN, we would welcome the opportunity to link up our customers with such a service.

IV. Our Commitment to Business Owners

Two decades ago, American Express became the first card issuer to create a payment card specifically designed to meet the needs of business owners, and we remain committed to serving this important customer segment as they manage through this difficult economy.

This environment is being defined, in part, by three key factors. Demand among consumers and other business customers has declined dramatically, and spending has slowed considerably; the downturn has affected virtually all sectors and geographies, especially those closest to the housing market collapse, and slower payments from customers is creating cash flow pressures for business owners. As a result, the spending and credit profiles of many business owners are deteriorating.

As a provider of short and medium term financing and credit through our charge and credit cards, we will continue to offer sound and reliable funding to our small business customers in the midst of this turbulent economic environment, while recognizing the increased risk we and our customers are currently facing.

Our own experience with our customers tells us that access to capital is only part of the solution. Indeed, business owners cite the uncertain economy and the rising cost of doing business as their greatest concerns in our latest research. We remain focused on providing business-centric value to our customers. This includes products and partnerships that provide access to working capital that can be reinvested back into their companies, and programs designed to help entrepreneurs grow their firms.

We are also committed to helping those customers experiencing temporary financial hardships through specialized programs that reduce monthly payments and allow customers who complete the program to continue doing business with us, or provide customers with the ability to pay off their balance over a longer period of time.

Small business is the economic engine of both our local communities and our national economy, and we are focused on supporting them during these difficult times and helping them take advantage of future growth opportunities.

We look forward to working with the members of this committee and others in Congress to restore growth to the small business sector.

I appreciate the opportunity to testify today and to share with you our perspective at American Express OPEN. I am happy to answer any questions you may have.