

BMO Bets On Diners Revival

By Michael Baker
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BMO Financial Group's agreement to acquire Diners Club's North American franchise from Citigroup potentially could reinvigorate Diners Club's waning usage among large companies while providing new options for buyers developing global travel and entertainment card programs and integrating purchasing card data.

Toronto-based BMO, already a strong player in Canada and a growing presence in the U.S. T&E card market, announced in late November a definitive agreement to buy the franchise operations from Citigroup for an undisclosed price. The deal immediately will more than double BMO's corporate card business and give it exclusive Diners Club issuer rights in the United States and Canada. BMO expects to complete the final pending aspects of the deal in coming weeks and to close the deal by the end of the first quarter of 2010, said Terry Wellesley, BMO's managing director of spend and payment solutions.

Diners Club, the granddaddy of T&E cards and once rivaled only by American Express in the corporate card marketplace, has stagnated in the past several years under Citigroup's control, said David Hillman, principal and payment systems specialist at travel management consulting firm Consulting Strategies. Citigroup, which acquired Diners Club in 1981, had largely relegated it to the midmarket, saving the largest clients for its own T&E card program. It was no secret that Citigroup wanted to unload the franchise, he said.

"Citigroup really didn't need Diners Club, so they weren't really doing Diners Club any favors," Hillman said. "They have their own strong commercial card program without Diners, so it was treated as a stepchild."

Diners Club still retains some large corporate clients—including the World Bank and accounting and consulting firms Deloitte and KPMG—but Wellesley, who worked for

Diners for about a decade before joining BMO, said it would now actively court large, multinational clients to gain share.

A North American resurgence of Diners Club would benefit the entire industry, said AirPlus International CEO Richard Crum, as well as AirPlus, which uses the network and partially owns its franchises in Spain, Portugal and Austria.

"In the U.S., if they become a better competitor, that just raises the bar for all of us," said Crum, also president of the Association of Corporate Travel Executives. "It will be interesting to see if this picks it up and breathes new life into the Diners Club product in the United States and Canada."

Wellesley said Diners Club now enjoys a much greater acceptance level than when he first worked with the brand. It will maintain an agreement with MasterCard that allows Diners Club cards issued in North America to be accepted wherever MasterCard products are accepted (BTNonline, Sept. 24, 2004).

Meanwhile, Discover, which bought the Diners Club international network from Citi last year (BTNonline, April 7, 2008), has worked with their franchises to boost acceptance levels, Wellesley said.

Hillman said the deal catapults BMO to the position of a major T&E issuer in North America. BMO reported \$1.2 billion in U.S.-based corporate T&E charge volume in 2008 (BTNonline, June 8) and a substantial purchasing card program. Diners adds about \$7.8 billion in card transactions to that portfolio.

"This puts them in the big leagues," he said. "They will be able to bid effectively on global card programs, and there aren't that many who can do that. There's no reason why a large company wouldn't consider Diners."

BMO's current portfolio includes BMO Bank of Montreal, its Canadian retail arm, as well as several wealth management firms including BMO Nesbitt Burns and BMO InvestorLine. It serves its U.S. clients through Chicago-based financial services organization Harris.

Wellesley said BMO has eyed growth through acquisition for some time. It considered GE Money's corporate card unit, which American Express ultimately bought (BTNonline, March 27, 2008), but with Diners it gained global capabilities that GE never could have given it, he said.

Once the acquisition is complete, BMO would keep the two sales teams in place, working in tandem for the first year, and introduce its procurement card clients to the Diners Club T&E network and vice versa, Wellesley said. New training for the sales staff will take three to six months, and BMO plans to have the sales forces largely integrated by 2011, he said.

"We'll have a year to tune the engine up, and we'll have the Chevy looking like a Corvette by the end of the 2010," he said. "In a couple of years, we'll be able to match anyone out there on global deals."

BMO plans no downsizing or layoffs with the acquisition, Wellesley said. Citigroup, meanwhile, will continue to support the Diners Club business until it is fully integrated with BMO.

Wellesley said BMO would benefit because of the relative strength of Canadian banks in the current economy. BMO already had been fielding requests for proposals to which it previously did not have the global reach needed to respond, he said. "We've had to turn down a couple of billion dollars worth of business because it was more than we could handle," he said.

BMO also plans to reestablish Diners Club's relationships with large travel management companies seeking a payment component to compete with American Express. Such agreements largely were cut out under Citibank's control, according to Wellesley. "This puts a lot more feet on the pavement to get leads and is very integral," he said.

Eventually, BMO will consolidate purchasing card and Diners Club T&E card databases into a single platform, Wellesley said. Hillman said Diners already has a strong data system, and BMO has bulked up its data capabilities in recent years, including a deal with Ariba last year to create a source-to-settle interface, gaining access to the 160,000 suppliers in Ariba's supplier network, purchase order automation, invoice and contract creation and performance monitoring (BTNonline, Aug. 11, 2008).

Once integrated, the platform will "give companies the capability to go in and pick up 80 to 90 percent of their total spend," Wellesley said. "To have that as one solution from one institution is really neat."