

BMO Plots Growth With Diners Club NA Buy

By Mary Ann McNulty
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BMO Financial Group said its planned acquisition of Citigroup's Diners Club North American franchise would more than double its corporate card business, provide the network relationships necessary to serve multinational accounts and allow it to compete more aggressively against American Express. Toronto-based BMO last month announced the agreement to buy the Diners franchise but didn't disclose terms.

BMO would gain almost \$1 billion in net receivables, \$7.8 billion in card transactions, 6,000 North American corporate clients with nearly 250,000 cardholders and 100,000 Diners Club Professional cardholders in Canada and the United States. It also would obtain the Diners rewards program and a corporate reporting platform that Citi will continue to "run for well over a year," according to BMO Spend & Payment Solutions managing director Terry Wellesley.

"Diners without a doubt is good--if not better--than American Express for global reach. I knew if I ever had an opportunity to go after somebody, if they ever came on the block, that would be the one I wanted," said Wellesley, who previously worked for both Diners and American Express. "No other bank could give me this. No other card company in the United States, outside of American Express," has such global reach.

That reach is important to serve multinational corporate clients, Wellesley said, noting that "This allows us to go after the Fortune 500." Multinational is "where we think our volumes will grow exponentially. We get a couple of those accounts on the books, and that will be our testimony that this is moving in the right direction."

That direction, according to Wellesley, is to "develop a holistic payment structure with the top business card products. My vision is to provide unique benefits of T&E and purchasing card programs in a way that can give us the consolidated data that companies really need to use and use effectively."

As Canada's fourth-largest bank, BMO in recent years aggressively has grown its MasterCard-based purchasing card business in the country and begun to gain traction

in the United States, where it owns Chicago-based Harris Bank. BMO executives claimed the acquisition of Diners advanced its ranking from North America's seventh- to fifth-largest commercial card issuer. Payment newsletter The Nilson Report in June 2009 ranked BMO Harris as the 10th-largest U.S. corporate card issuer and 11th-largest U.S. purchasing card issuer among bankcard issuers (that excludes American Express, Diners and Discover), based on 2008 figures.

"We dominate Canada now as the No. 1 player in p-card over American Express," Wellesley said in August. "Right now, the U.S. is about 15 percent to 20 percent of my (p-card) business in North America, but the ideal is to grow it to" 80 percent from the United States and 20 percent from Canada, he added.

Toward that end, BMO during the past year formed a partnership with Ariba to integrate its software in a source-to-settle solution, and more recently partnered with CyberShift for expense reporting, Worktopia for meetings and Tri-Pen TravelMaster Technologies for integrated reporting.

Most recently, BMO forged referral relationships with three travel management companies--BCD Travel, Carlson Wagonlit Travel and HRG--with plans to sign other deals with midsize TMCs. Now it plans to combine those relationships with those that Diners has long had with TMCs, "but really hasn't marketed," Wellesley said. "Now [BMO's TMC partners] can really tout something that can compete against American Express, which is their arch enemy," Wellesley said. "Basically, they have a competitive product on both the T&E and p-card, and a relationship that goes with it."

Despite all the new relationships and business growth in BMO's North American market, "what we didn't have was global reach on programs for multinational companies," Wellesley said. "Over the last couple years we turned down a lot of multinational RFPs because they were too complex or too difficult" to forge banking relationships necessary to issue local-currency cards in all the countries. Without bank ownership or relationships outside of North America, BMO had been unable to pursue multinational accounts. The Diners Club network and relationships with other franchisees would solve that problem by providing the ability to issue Diners Club cards, as well as dual-branded MasterCard corporate cards, around the globe. The Diners brand is accepted in 185 countries and territories, according to Discover Financial Services, which in 2008 bought Citigroup's Diners Club International brand.

What's Next

The acquisition will require some rebuilding of the brand by both BMO and Discover, Wellesley said. While the brand name still "resonates" as a global brand, he continued,

the Diners name "has been diminished in the United States and Canada to a certain respect. It's really this North America franchise that has to be built up" with investment from both BMO and Discover "to put this brand back on the map. Instead of being the old fuddy-duddy, grandfather kind of card, we're really going to bring this back to a more youthful card."

Citigroup in June 2008 completed the sale of its Diners Club International brand to Discover for a pretax gain of \$111 million, but retained "several important territories" of 49 Diners license regions, including the United States, Canada, Europe, Greece and Japan. Since it accepted federal bailout funds, Citi has shed non-core businesses as part of a strategy to "optimize the assets and businesses within Citi Holdings," according to the company.

Since it acquired the Diners brand, Discover has "worked to build the global network, improve and expand acceptance, build franchise momentum and invest in the brand," according to a spokeswoman. This year, Discover signed agreements to expand the number of merchants in Europe and India that accept the card, signed another deal to allow Discover and Diners Club cardholders to make withdrawals at more than 70,000 automated teller machines in Europe, opened two new airport lounges for cardholders and added a Japanese language version of its global reporting application. Regarding BMO's planned acquisition, a Discover spokeswoman said, "We look forward to the prospect of further investments in the Diners Club business and brand by BMO in North America."

Subject to regulatory review, the deal is expected to close by March 2010, but could close as early as year-end, according to BMO officials. Once the deal is completed, Wellesley said, BMO likely would combine the dozen or so BMO sales reps in the United States with 31 Diners Club reps and hire additional staff. "Our look today will be very different than it will be in six months to a year from now," he said.

To further grow the payment unit, other acquisitions and integration of a booking tool could be possible. "Right now we have our hands full," Wellesley said. "But if we could do this very, very well, we can certainly look at other acquisitions in the marketplace. We want to grow the business. I'm not very happy being No. 2 and if I have to go after that big guy, we will."

Asked if he felt compelled to add a booking tool to the product mix, Wellesley replied, "We probably will. I can't disclose that right now but I would say that will be a natural progression."