

# Old vs. New....What's in it for You



## Treasury Management: Old vs. New – What's in it for you?

Copyright 2008 AnalyticResults and Phoenix-Hecht



**AnalyticResults**  
*Strengthening Financial Performance*



Michael J. Alfonsi  
Managing Director  
AnalyticResults  
P.O. Box 3151  
West Chester, PA 19381  
Tel: (610) 793-7981 Fax: (603) 909-5535  
E-mail: [michael@analyticresults.com](mailto:michael@analyticresults.com)  
Web Site: <http://www.analyticresults.com>

Richard D. Richardson  
Senior Vice President  
Phoenix-Hecht  
P.O. Box 13628  
68 T.W. Alexander Drive  
Research Triangle Park, NC 27709  
Tel: (919) 314-2821 Fax: (919) 541-9026  
E-mail: [richard@phoenixhecht.com](mailto:richard@phoenixhecht.com)  
Web Site: <http://www.phoenixhecht.com>



PHOENIXHECHT

Copyright 2008 AnalyticResults and Phoenix-Hecht



# Old vs. New....What's in it for You

## Today's Discussion Outline



- The Setting...and the Importance of this effort
- Our approach in this session...
- Old & New:
  - Ideas
  - Trends
  - Techniques
  - Myths & Realities
  - Positions
  - Anecdotes
- Summary
- Q & A at anytime, please

Copyright 2008 AnalyticResults and Phoenix-Hecht



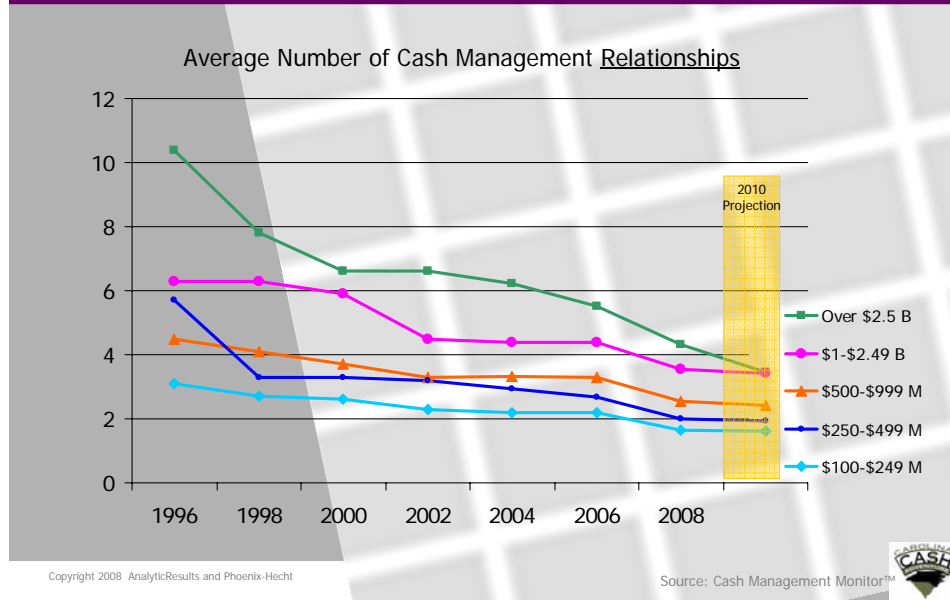
# Relationships

Copyright 2008 AnalyticResults and Phoenix-Hecht



# Old vs. New....What's in it for You

## Something New (emerging) Company Driven Banking Consolidation



## Actual Change in Number of Cash Management Relationships Last 2 Years

Annual Sales	Change %
\$40-\$100 MM Market	6.8%
\$100-\$500 MM Market	3.4%
Over \$500 MM Market	(9.0%)

Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Cash Management Monitor™

# Old vs. New....What's in it for You

## Predicted Change in Number of Bank Relationships Next 2 Years

	Percentage Responding		
	Increase	Decrease	Stay the same
\$40-\$100 Million	4.7%	6.7%	88.5%
\$100 - \$249 Million	6.4%	9.0%	84.6%
\$250 - \$499 Million	6.2%	7.9%	85.9%
\$500 - \$999 Million	5.6%	11.8%	82.6%
\$1 - \$2.49 Billion	7.6%	20.1%	72.3%
\$2.5 Billion or more	6.5%	31.9%	61.6%

Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Cash Management Monitor™



## Bank Relationships

Over \$500 MM	2006	2008	Diff
Cash management only	30%	26%	(4%)
Credit only	31%	35%	4%
Credit and cash management	<u>39%</u>	<u>39%</u>	0%
	100%	100%	
\$100 MM to \$500 MM			
Cash management only	39%	32%	(7%)
Credit only	21%	25%	4%
Credit and cash management	<u>40%</u>	<u>43%</u>	3%
	100%	100%	
\$40 to \$100 MM	2005	2007	Diff
Cash management only	32%	26%	(6%)
Credit only	20%	26%	6%
Credit and cash management	<u>48%</u>	<u>48%</u>	0%
	100%	100%	

Copyright 2008 AnalyticResults and Phoenix-Hecht



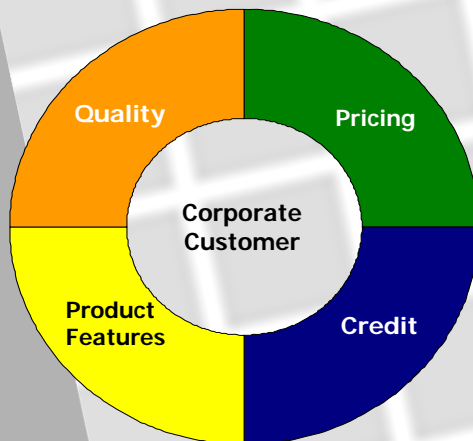
# Old vs. New....What's in it for You

## Changing Dimensions

Copyright 2008 AnalyticResults and Phoenix-Hecht



### Something Old: Influencing Dimensions on the Cash Management Relationship



Copyright 2008 AnalyticResults and Phoenix-Hecht



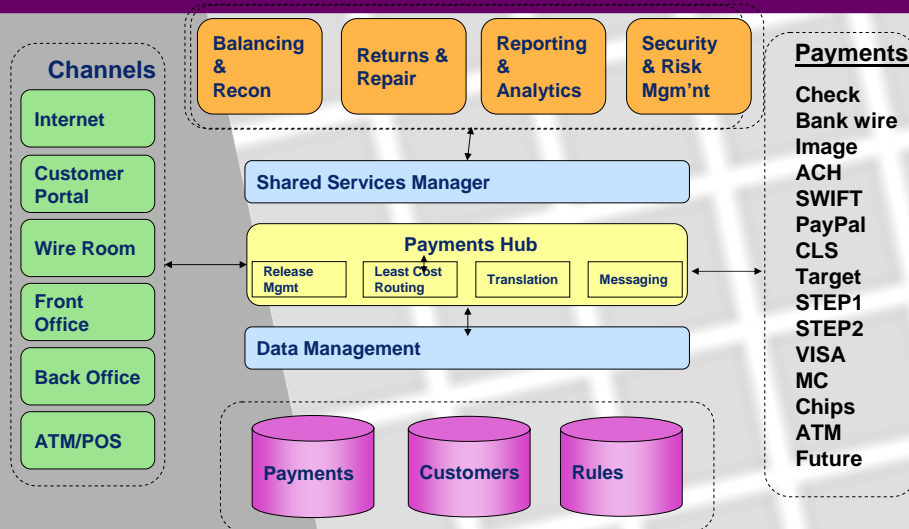
# Old vs. New....What's in it for You

# Payments

Copyright 2008 AnalyticResults and Phoenix-Hecht



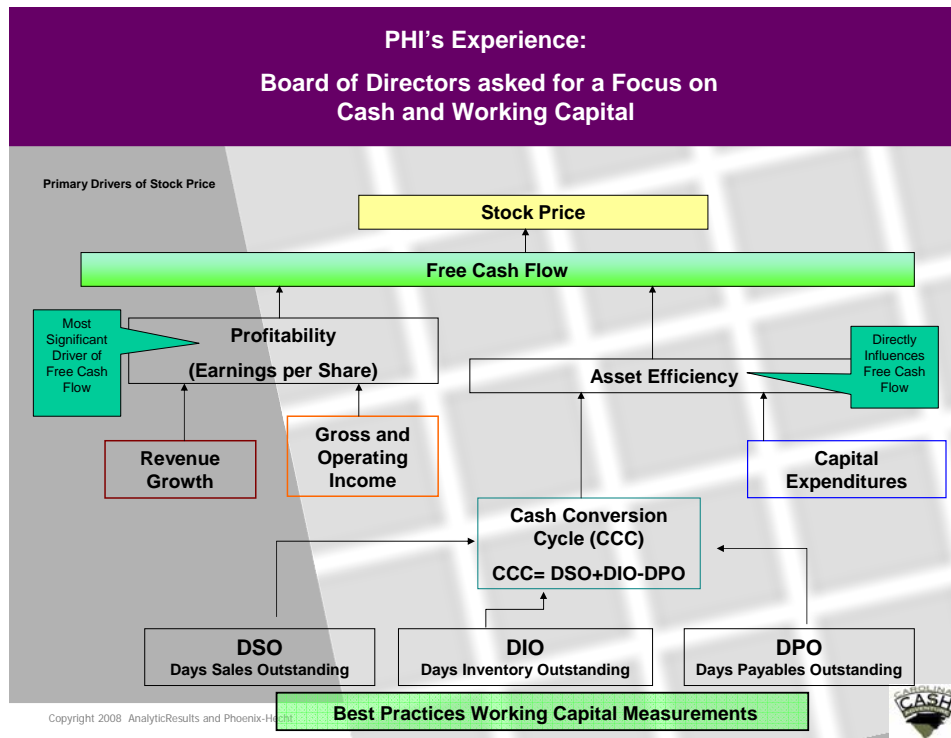
## Enterprise Payment Hub



Copyright 2008 AnalyticResults and Phoenix-Hecht



# Old vs. New....What's in it for You



## Payment Transactions

	% of Payments Made BY Corporations		
	2006	2008	Diff
<b>Over \$500MM</b>			
Check	66.5%	59.3%	(7.2%)
ACH	17.6%	24.0%	8.4%
Wire transfer	10.5%	11.8%	1.3%
Credit/debit card	5.0%	4.1%	(0.9%)
<b>\$100MM to \$500MM</b>			
Check	72.8%	70.8%	(2.0%)
ACH	13.4%	16.0%	2.6%
Wire transfer	8.5%	8.1%	(0.4%)
Credit/debit card	4.8%	4.5%	(0.3%)

Source: Cash Management Monitor™

Copyright 2008 AnalyticResults and Phoenix-Hecht

# Old vs. New....What's in it for You

## Payment Transactions

\$40-\$100MM	% of Payments Made BY Corporation		
	2005	2007	Diff
Check	76.1%	77.2%	1.1%
ACH	12.2%	11.8%	(0.4%)
Wire transfer	7.9%	6.7%	(1.2%)
Credit/debit card	3.1%	3.8%	0.7%

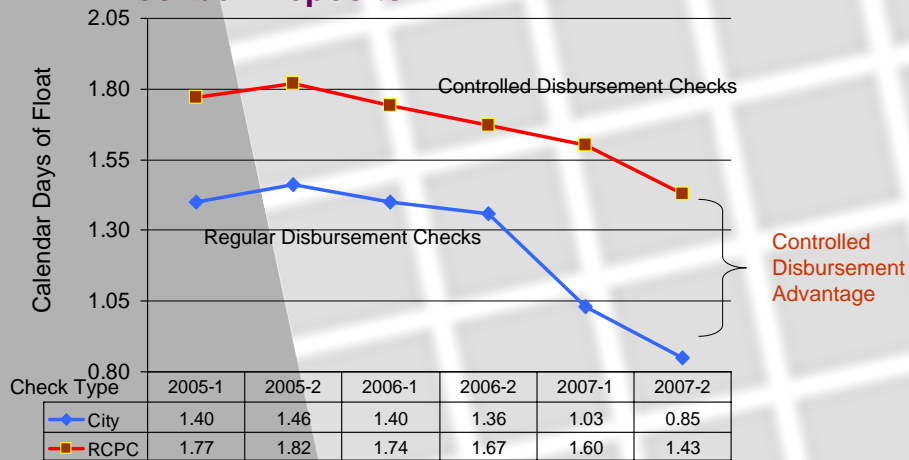
Source: Cash Management Monitor™



Copyright 2008 AnalyticResults and Phoenix-Hecht

## The Controlled Disbursement Advantage

### Check Clearing Time Averages for Lockbox Deposits



Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: The Clearing Study™



# Old vs. New....What's in it for You

## Largest Product Usage Changes Over Past Two Years Percent of Companies Using...

	\$40- \$100 MM	Change	\$100- \$500 MM	Change	Over \$500 MM	Change
Corporate Trade Payments	60.6%	11.0%	69.6%	3.9%	77.3%	1.9%
Remote Deposit	n/a	n/a	39.2%	n/a	48.3%	n/a
Purchasing Cards	26.1%	2.0%	47.7%	10.4%	63.8%	2.8%

Source: Cash Management Monitor™

Copyright 2008 AnalyticResults and Phoenix-Hecht



## Purchasing Cards

Over \$500 MM	2004	2006	2008
Currently using P-cards	60.0%	61.0%	63.8%
Plan to start using within two years	37.0%	34.7%	37.1%
Percentage of vendor transactions to be converted	21.1%	23.0%	20.2%
\$100-500 MM	2004	2006	2008
Currently using P-cards	34.8%	37.3%	47.7%
Plan to start using within two years	25.4%	22.2%	24.3%
Percentage of vendor transactions to be converted	14.1%	17.5%	14.4%
\$40-\$100 MM	2003	2005	2007
Currently using P-cards	22.8%	24.1%	26.1%
Plan to start using within two years	21.9%	22.3%	17.6%
Percentage of vendor transactions to be converted	18.0%	19.8%	10.6%

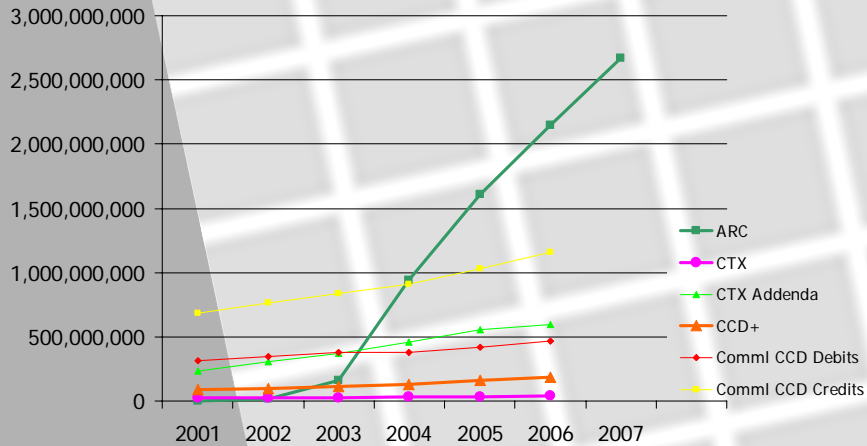
Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Cash Management Monitor™



# Old vs. New....What's in it for You

## ACH Transactions By Selected Entry Classifications



Does Not Include On Us Items

Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: NACHA



## ARC Usage Retail Lockbox Customers Only

**Over \$100 MM**

**Currently Use ARC 14.9%**

**Planning to Use ARC 21.7%**

- ARC ineligible items can be 15-30% of total remittances. Image exchange could cause companies to not implement ARC going forward.
- Actual ARC volume increased 24.2% in 2007.

Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Cash Management Monitor™ and NACHA



# Old vs. New....What's in it for You

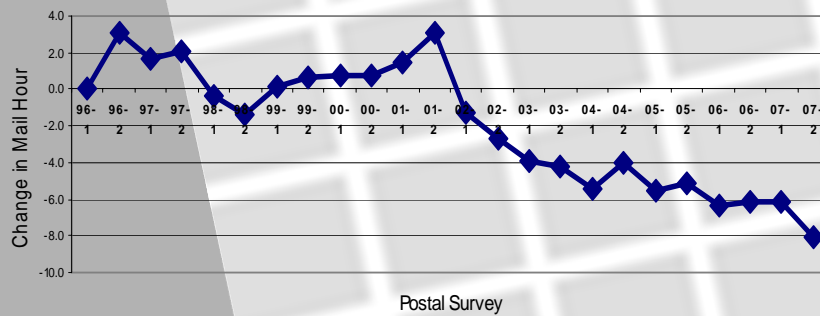
## Lockbox

Copyright 2008 AnalyticResults and Phoenix-Hecht



### 12 Year Trend of the Postal Survey-B2B Lockbox Payments

Trend of Average Site in Nationwide Hours Mail



Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Phoenix-Hecht Postal Survey



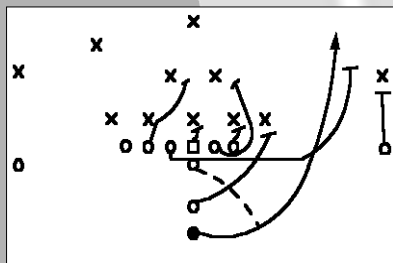
# Old vs. New....What's in it for You

## The Job & The Industry

Copyright 2008 AnalyticResults and Phoenix-Hecht



## The Result of the "Credit Crunch" ....



"34 pitch trap sweep"

(lots of options....but can we, or will we, advance the ball with it, or will we be hit with a loss -- if we try it?)

- Indecision -- Do we have a "play" or not? (Abeline Paradox)
- "Pullback" in lending
- Disappearance of counterparties in secondary markets
- Restructuring of rating agencies....let alone the ratings themselves
- Distrust of credit "enhancements"
- "Due diligence" morphs into exhaustive investigations, using time as the sole measure of cash flow
- INCREASE in interest rates, relative to liquidity available (first attempts to re-price risk....)
- Most say "No page in the "playbook" for this"... the old "5 Cs" don't apply anymore:
  - Conditions (overall economy)...what in fact IS the trend?
  - Capacity (cash flow)...how can you prove it, or can you guarantee it?
  - Collateral (securing assets)...we already have problems with worth....and liquidation
  - Capital (net worth)...too fluid at present time
  - Character (integrity)...the saddest of all the "reconsiderations" currently felt

Copyright 2008 AnalyticResults and Phoenix-Hecht



# Old vs. New....What's in it for You

## Meanwhile....for the treasury manager...

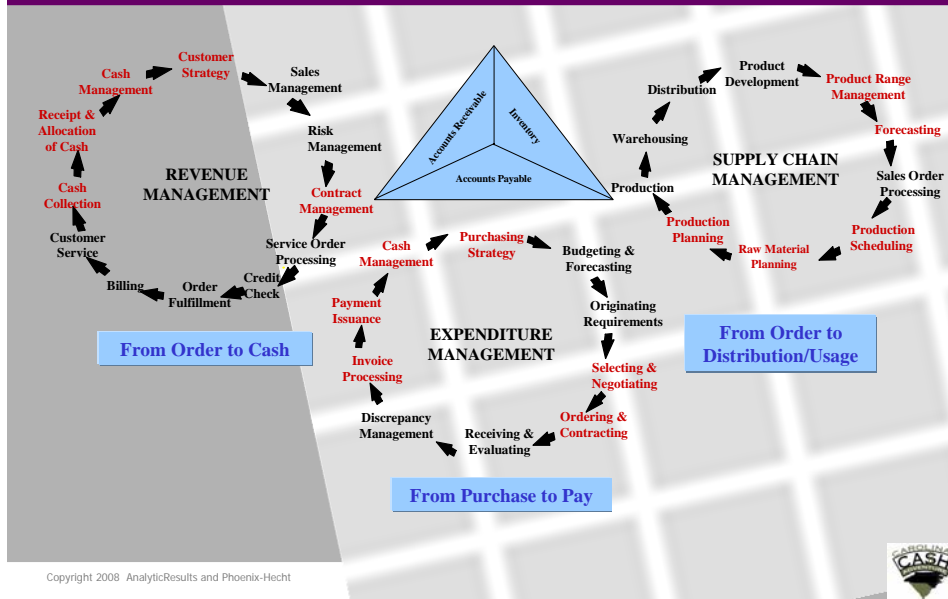


- Liquidity, liquidity, liquidity - WCM
- Managing "Fin-Ops" Quality
- Ad-hoc reporting, as if regular/statutory reporting wasn't enough
- BRM (starting with operations...then more)
- International expansion & risk management
- Overall Compliance (SOX/SAS 70s, OFAC, AML, ACH, field and/or SSC compliance, outstanding covenants, & more)
- Investment Policy / Relationships / Reviews
- BCM
- Payments Risk
- Continued pressure on "leaning out" the organization/activity
- "Other duties as assigned"
  - ERP remediation
  - TWS
  - Mergers/relocations
  - Staff changes
  - Banking personnel changes

Copyright 2008 AnalyticResults and Phoenix-Hecht



## Working Capital Management Focus Emphasis on Treasury, and key operating areas in Revenue Management, Expenditure Management and Sourcing/Logistics/Supply Chain



Copyright 2008 AnalyticResults and Phoenix-Hecht



# Old vs. New....What's in it for You

## Top WCM projects....

Project	Effort	Usual Result
CCC or NAWCM analysis across the ENTIRE organization	Use of cash documented with amounts and hurdle rates across all areas	4 days cash, c.f., The PEPCO experience
Revenue management projects, e.g., e-payments, old fashioned lockbox studies (yielding 2+ days)	E-payments utilization bids, Phoenix-Hecht Lockbox Model	2 to 3 days cash, c.f., The Henkel Experience
Renewed Forecasting	Determine "right" liquidity... Use of mid-level statistical analysis and/or SaaS or ASP solutions	Forecast rank changes to "reliable" or higher – 20bp of investment opportunity, c.f., The Technitrol Experience
Cash Visibility	Electronic linkages of all accounts/activities above threshold	1.5 days of cash, c.f., The ETS Experience
Disbursement Rankings & Timings	Ensuring disbursement media, vendor rankings & timings, meet predetermined payment goals	1 day of cash, c.f., The Manheim Experience

Copyright 2008 AnalyticResults and Phoenix-Hecht



## Company Plans and Intentions

Percentage assigning 4 or 5 rating Scale 1 to 5, 5=Likely	\$40-\$100 MM	\$100-\$500 MM	Over \$500 MM
Expand number of credit banks	30.0%	14.5%	15.1%
Add or change a lockbox bank	9.5%	9.7%	19.2%
Add Remote Deposit Capture	19.7%	28.8%	34.0%
Add or change a Controlled Disbursement site	9.7%	10.8%	16.8%
Add or change an ACH bank	10.8%	9.7%	18.6%
Reallocate cash management business at existing banks	10.1%	10.3%	21.7%
Add or change international services bank	7.2%	9.5%	22.1%

Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Cash Management Monitor™



# Old vs. New....What's in it for You

## Quality

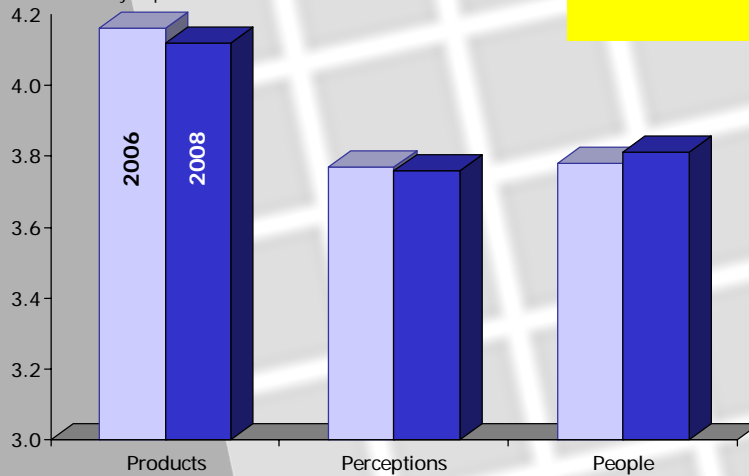
Copyright 2008 AnalyticResults and Phoenix-Hecht



### Average Quality Index Ratings Products, Bank Perception, People

Individual Bank Scores  
Available Directly  
From Participating  
Institutions

Scale 1 to 5 with 5= Very Important



Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Cash Management Monitor™



# Old vs. New....What's in it for You

## Credit

Copyright 2008 AnalyticResults and Phoenix-Hecht



## Credit Influence on Cash Management

	\$40-\$100 MM	\$100- \$500 MM	Over \$500 MM
<b>Credit Influence:</b>			
<b>Size of credit commitment influences use of cash management services</b>	<b>40.2%</b>	<b>36.9%</b>	<b>38.6%</b>

Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Cash Management Monitor



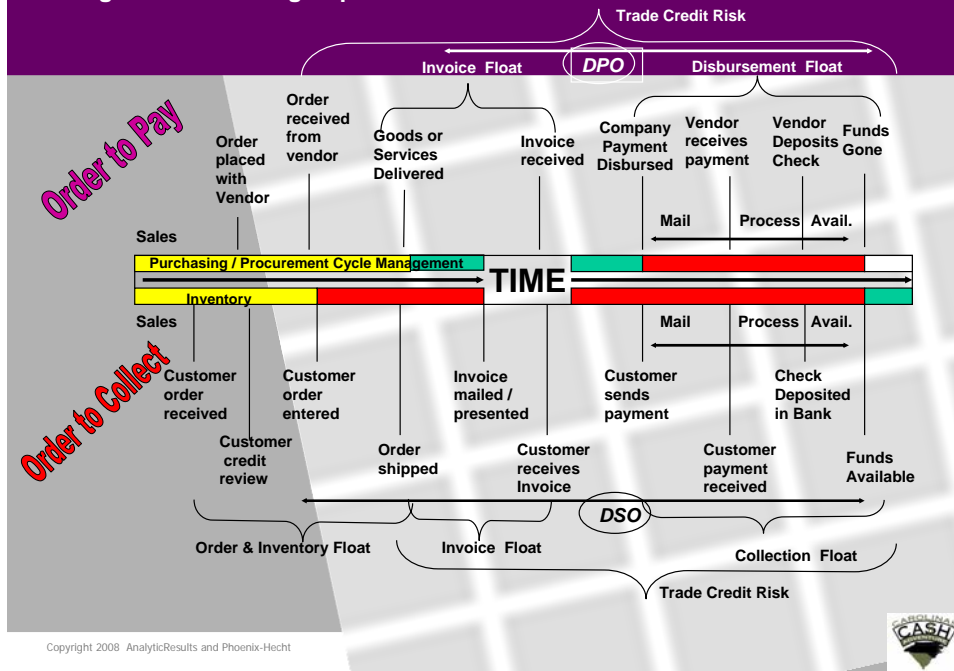
# Old vs. New....What's in it for You

## Why We Make Decisions....

Copyright 2008 AnalyticResults and Phoenix-Hecht



Put it together....It's The Cash Flow Timeline that is now THE Focus...but it's being called "Working Capital".....as it should be!



# Old vs. New....What's in it for You

## Most Critical Factors in Deciding Which Banks to Keep or Drop

	\$40-\$100 MM	\$100- \$500MM	Over \$500MM
<b><u>The Bank's:</u></b>			
Willingness to provide credit	21.1%	17.2%	28.7%
Commitment to our account	42.4	40.9	28.7
Quality of service	19.8	23.5	24.1
Offering specific product or feature	3.0	6.2	5.3
Competitiveness of pricing	13.6	12.1	13.2

Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Cash Management Monitor



## Importance of Bank's Commitment

Scale 1 to 5 with 5= Very Important	\$40-\$100 MM	\$100- \$500MM	Over \$500MM
Problem resolution response	4.60	4.68	4.68
Credit availability	4.13	3.92	3.99
Proactive in introducing new services	3.78	3.88	3.94
Calling officer stability	3.94	3.93	3.83
Length of relationship	3.83	3.85	3.65
Frequency of calling officer visits	3.15	3.14	3.11

Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Cash Management Monitor



# Old vs. New....What's in it for You

## RFPs

Copyright 2008 AnalyticResults and Phoenix-Hecht



### Corporate Buying Behavior Over \$500 Million

(Percentage Who Agree)	2006	2008	Diff
Company requests competitive bids for new cash management services	61.9%	55.7%	(6.2%)*
Company buys new services only from existing banks	69.8%	74.0%	4.2%*
Bank has won cash management business principally because of low prices	24.6%	29.7%	5.1%*
Company has changed banks primarily because of price increases	13.9%	15.2%	1.3%
Company negotiates price guarantees for specific periods of time	63.6%	63.8%	0.2%

\*Statistically significant change

Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Cash Management Monitor™



# Old vs. New....What's in it for You

## Corporate Buying Behavior \$100 - \$500 Million

(Percentage Who Agree)	2006	2008	Diff
Company requests competitive bids for new cash management services	48.4%	48.5%	0.1%
Company buys new services only from existing banks	74.3	78.8%	4.5%*
Bank has won cash management business principally because of low prices	22.7	22.8%	0.1%
Company has changed banks primarily because of price increases	12.3	12.9%	0.6%
Company negotiates price guarantees for specific periods of time	48.7	49.3%	0.6%

\*Statistically significant change

Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Cash Management Monitor™



## Corporate Buying Behavior \$40 - \$100 Million

(Percentage Who Agree)	2005	2007	Diff
Company requests competitive bids for new cash management services	46.4%	41.7%	(4.7)*
Company buys new services only from existing banks	76.6	79.1	2.5*
Bank has won cash management business principally because of low prices	19.4	21.2	1.8*
Company has changed banks primarily because of price increases	12.0	12.1	0.1
Company negotiates price guarantees for specific periods of time	46.1	42.4	(3.7)*
Company annually reviews bank prices	52.1	55.3	3.2*

\*Statistically significant change

Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Middle Market Monitor™



## Old vs. New....What's in it for You

# Pricing Factors

Copyright 2008 AnalyticResults and Phoenix-Hecht



## Who Gets Discounts?

- High Transaction Volumes
- Most Profitable Relationships
- Most Knowledgeable Customers
- New Relationships

Copyright 2008 AnalyticResults and Phoenix-Hecht



# Old vs. New....What's in it for You

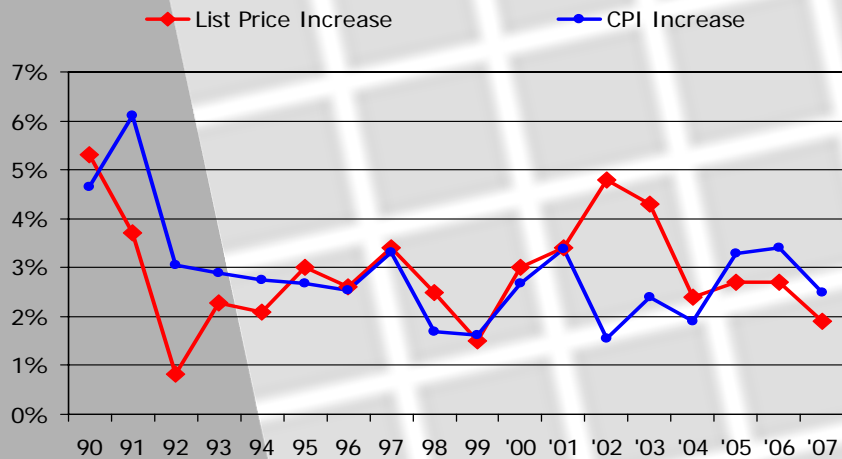
## Cost of Services

- Maintenance Fees
- Transaction Fees
- Idle DDA Balances
- Underperforming Sweep Balances
- Float (Lockbox, RDC, over-the-counter deposits)

Copyright 2008 AnalyticResults and Phoenix-Hecht



## List Price Increases vs Consumer Price Increase



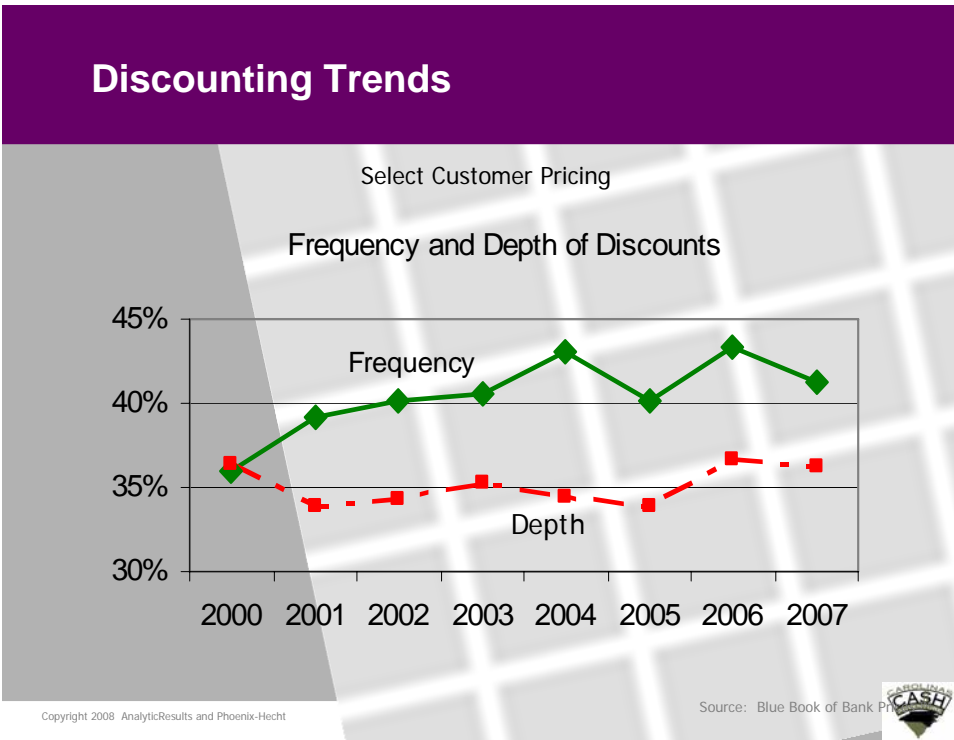
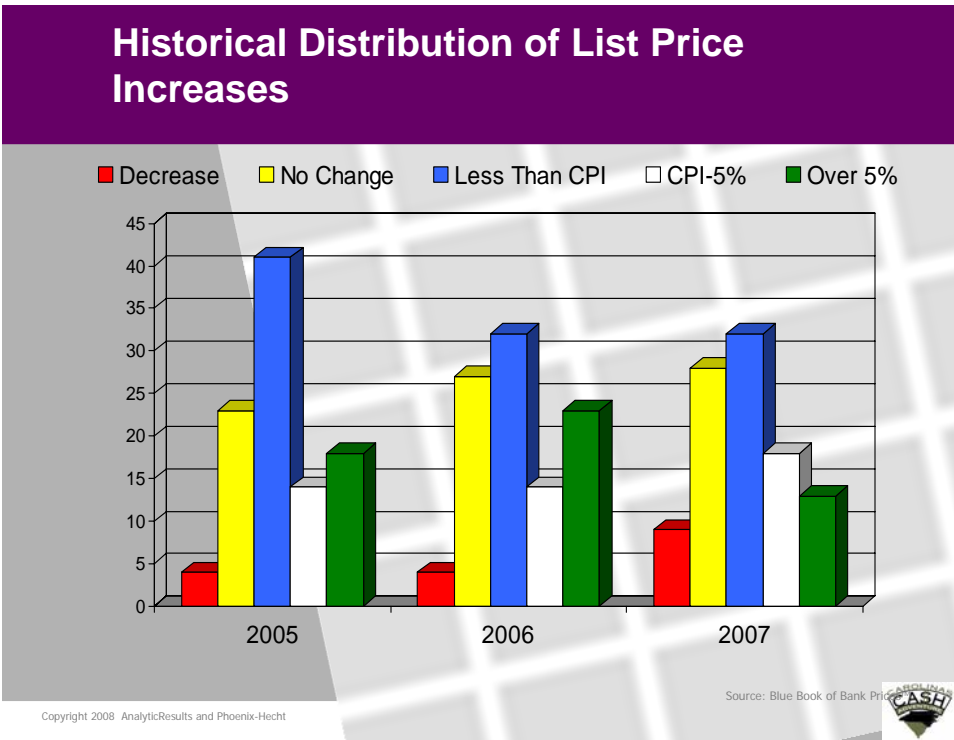
List price (most frequently observed price) increases have averaged less than the CPI since 2005

Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Blue Book of Bank Prices

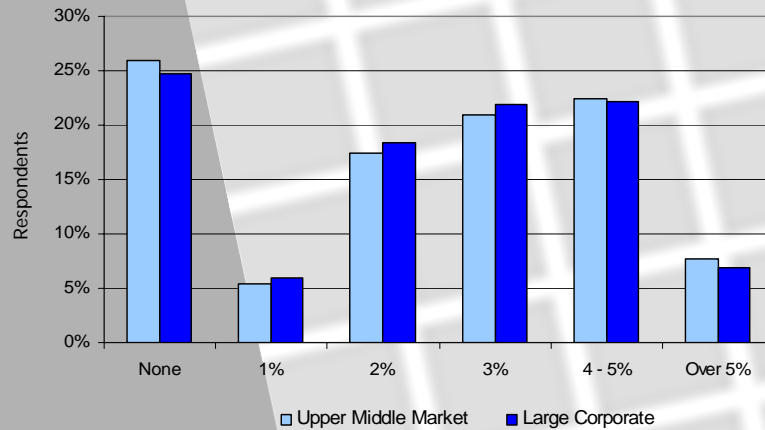


# Old vs. New....What's in it for You



# Old vs. New....What's in it for You

## Expected Price Increases



Copyright 2008 AnalyticResults and Phoenix-Hecht

Source: Phoenix-Hecht2007-08 Blue Book of Bank Prices™



# Did You Know... Are You Prepared?

Copyright 2008 AnalyticResults and Phoenix-Hecht



# Old vs. New....What's in it for You

## Something New....

- **UPICs**
  - ACH now....wires being considered
  - Masks RTNs & Account Numbers
  - CREDITS only....debits blocked
  - Universal RTN "021052053" & other SBs
  - "Account" Number issues by banks
  - Makes it easy to promote a payment account, e.g. websites, e-mails
  - Portable....bank changes, DDA account changes
  - Use with a combination of anti-fraud measures
  - Currently about 1600 adopters
  - Current Banks: Citi, Wachovia, JPMC, B of A, HSBC, BONY/Mellon, PNC, USB, M&T, Union CA, SunTrust, Commerce, Sterling, Peoples, State Bank LI, +5 ramping up now....
  - Usually Priced out with: setup, monthly maintenance, and per item
- **STP 820**
  - "STP": Electronic, Sender/Receiver automatic, mid-tier software – including accounting packages (GP, PT, QB, NL, Sage), NO VAN, Banks, Standard
  - 820 – "EDI-Lite" – BUT a "Proper Subset": Customer Account, Name, Invoice Numbers, Date, Inv Gross Amt, Payment, One P.O., Discount, Adjustment, Adjustment Reasons Code (about 20)
  - Often – initiated right off payment portal/initiator (P&H, Fundtech, S-1)
  - NACHA & ASC approved

Copyright 2008 AnalyticResults and Phoenix-Hecht



## Something New....

- **SWIFT – Corporate Access / Standardizations / Products**
  - Three Options for Corporates
    - **SCORE - Standardized CORporate Environment**
      - Must be a country member of FATF
    - **MA-CUG – Member Access Closed User Group**
    - **TRECO – Treasury Counterparty**
- **FDIC**
  - Beware of NEW FDIC charges that will be appearing on your analysis – in some form
  - Timing.....

Copyright 2008 AnalyticResults and Phoenix-Hecht



# Old vs. New....What's in it for You

## Summary

Copyright 2008 AnalyticResults and Phoenix-Hecht



## “Liquidity Risk Management”

- **Cash Visibility**
- **Technique, skills & best practices**
- **Interest Rates**
- **Market trend analysis**
- **Market volatility**
- **Company Centralization vs. Decentralization**
- **Metrics...and consequences**
  - **Liquid Assets approach**
  - **Cash Flow matching approach**
  - **Combo approach**
- **Cross-border issues**
- **Cross-currency issues**
- **Cross-affiliate or subsidiary issues / or parent issues**

Copyright 2008 AnalyticResults and Phoenix-Hecht



# Old vs. New....What's in it for You

## The Role of Treasury & Payments Professionals is Changing

*The role of Treasury Professionals is evolving from a control and transaction focus, to creating value by adding analysis to management & operations.*

	<u>FROM</u>	<u>THROUGH</u>	<u>TO BEST PRACTICE</u>
<b>FINANCE'S ROLE</b>	Financial Reporting	Risk Management	Business Decision Support
<b>FOCUS</b>	Transaction	Dollar Economic Value	Customer Service & Shareholder value
<b>POLICY</b>	Loosely Defined	Rigid Adherence, Well Defined Triggers & Controls	Automated Control Points and Escalation
<b>PROCESS</b>	Reactive, Lacking Prioritization	Focused & Efficient	Proactive
<b>ORGANIZATION</b>	Autonomous Functions	Cross-functional	A Customer Oriented Team
<b>TOOLS</b>	Multiple Non-Integrated Systems	Multiple Integrated Systems	Common Systems
<b>METRICS</b>	Results Oriented	Process Oriented	Forecast Oriented / Risk Oriented

Copyright 2008 AnalyticResults and Phoenix-Hecht



**Rule 1: Life is not fair - get used to it!**

**Rule 2: The world won't care about your self-esteem. The world will expect you to accomplish something BEFORE you feel good about yourself.**

**Rule 3: You will NOT make \$60,000 a year right out of high school or college. You won't be a vice-president with a company car until you earn both.**

**Rule 4: If you think your teacher is tough, wait till you get a boss.**

**Rule 5: Flipping burgers is not beneath your dignity. Your Grandparents had a different word for burger flipping: they called it opportunity.**

Copyright 2008 AnalyticResults and Phoenix-Hecht



# Old vs. New....What's in it for You

**Rule 6: If you mess up, it's not your parents' fault, so don't whine about your mistakes, learn from them.**

**Rule 7: Before you were born, your parents weren't as boring as they are now. They got that way from paying your bills, cleaning your clothes and listening to you talk about how cool you thought you were. So before you save the rain forest from the parasites of your parent's generation, try delousing the closet in your own room.**

**Rule 8: Your school may have done away with winners and losers, but life HAS NOT. In some schools, they have abolished failing grades and they'll give you as MANY TIMES as you want to get the right answer. This doesn't bear the slightest resemblance to ANYTHING in real life.**

Copyright 2008 AnalyticResults and Phoenix-Hecht



**Rule 9: Life is not divided into semesters. You don't get summers off and very few employers are interested in helping you FIND YOURSELF. Do that on your own time.**

**Rule 10: Television is NOT real life. In real life people actually have to leave the coffee shop and go to jobs.**

**Rule 11: Be nice to nerds. Chances are you'll end up working for one.**

**Since you are reading this in English .....**  
**Thank someone who has served in the military!**

Copyright 2008 AnalyticResults and Phoenix-Hecht

