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INSIGHTS FROM CASH MANAGEMENT, US
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Large Companies Seek Long-Term, Service-Enhanced Bank Partnerships

Large US companies continue to concentrate more of their cash management business with a small number of banks, and seek enhanced value and service from each relationship. These findings are part of Greenwich Associates' "2006 U.S. Cash Management Research Study," which points to the increasing electronification of cash management processes as one of the reasons fueling these trends.

Released in January 2007, the study results are based on the research firm's interviews with 784 cash management specialists and other financial professionals between May and August 2006. Below are four key results from that research.

1#: Companies Continue to Consolidate
While companies see no shortage of options when it comes to obtaining financing—in fact half of the respondents see credit availability increasing—they don't appear to be diversifying their credit portfolios by seeking new banking relationships. Instead, more and more, companies are allocating their total cash management business to just a handful of providers. The study found that the average US company allocated 83% of its cash management business to its top two providers in 2006. In 2005, this figure was 78%.

"The bleeding of cash management relationships appears to have ended as companies have whittled down their partnerships to a select few with whom they look to forge long-term, sustainable relationships," says Don Raftery, a Managing Director with Connecticut-based Greenwich Associates. "Banks that deliver distinctive levels of service and high-caliber product capabilities are winning more business from their clients—and are keeping it."

As a direct result of these lengthening relationships, companies are putting their business out to bid less frequently. Some 40% of responding companies put their business out to bid every three to five years, and more than a quarter do so only once every five or more years.

#2: Advances in Electronification
Another factor contributing to consolidation within cash management is the growing use of electronic payments and receipts. Advances in technology and increased expectations for greater geographic reach have transformed cash management into more of a scale business, requiring increasing investments by both sides of a partnership in terms of people, time and money.

Additionally, electronification has eliminated the need for many companies to maintain several bank relationships. The study found that the proportion of payments made electronically by a typical US company increased from just below 40% in 2005 to 44% in 2006. Responding companies predict this number will rise to nearly 55% in another year, at which point they expect to process 55% of receipts electronically, as well. These forecasts can be attributed to the widespread adoption of remote deposit capture and passage of Check 21 legislation, respondents say.

#3: Industry Expertise Desired
In the process of fine-tuning their banking relationships, companies continue to expect more from these partnerships—particularly industry expertise and consultative advice. Among other things, responding companies want to know how their industry peers are managing cash and they want their capabilities benchmarked.

Most large banks have reorganized their business units over the last few years, accordingly, to increase their coverage efficiency and deepen customer relationships. This shift by banks is a good one: A full 87% of Greenwich study respondents said they value bank cash management specialists with expertise in their industry.

"Credit or investment banking is more episodic in nature, while cash management promotes a more closely connected relationship between banks and their clients," Raftery says. "It's crucial that companies feel their day-to-day servicing needs are being met with the quantitative and qualitative advice they desire. Customer relationship management has never been so critical to the longevity and nature of bank/client partnerships."

#4: Fraud Prevention Important
One area where banks and clients are working together more closely is in the effort to prevent payment fraud. The Greenwich study shows companies' interest in fraud protection growing to new heights.

"It's no surprise that we're seeing fraud receive attention," Raftery says. "What is remarkable, however, is the degree to which companies are saying this is important."

Greenwich research cites 80% of respondents as saying fraud prevention is "extremely important" to their business. Raftery therefore recommends that corporations and their cash management sales representatives continue to make fraud prevention and related product capabilities among the top issues they're discussing.