



VICOR CPPI 2006 Corporate Payments Progress Index

MEASURING THE PROGRESS OF CORPORATE PAYMENTS

While a great deal of research from highly credible sources is available to the payments industry, most data focuses on market size, growth rates and other key metrics, such as the static share of specific payment types. Without a consolidated view of corporate payments that defines the projected direction in which the industry is moving, managing and interpreting this wealth of information can be daunting. Payment professionals have long been in need of a single, universal metric that quantifies the broad situation of corporate payments, at a level that considers all payment types.

Recognizing the need for a consolidated picture of corporate payments, VICOR has developed the VICOR CPPI – the Corporate Payments Progress Index – the first and only payments industry metric that quantitatively tracks and measures the overall progress of the corporate payment industry from the perspective of corporate payment managers.

Using a sophisticated model that incorporates four major business factors – payment methods used, cost per transaction, investments in payment systems, and satisfaction with payment system performance – the VICOR CPPI provides the payments industry with a single index that measures the progress and direction of the industry as a whole.

One Metric – Many Benefits

By tracking data that quantifies both the current position of the payments industry as well as the future perspective of corporate managers, the VICOR CPPI will advance the payments industry by helping financial institutions and technology providers develop services and solutions that will meet the changing needs of corporate customers.

VICOR CPPI – Structure

In order to ensure the credibility, integrity and insight of the VICOR CPPI, VICOR engaged Celent LLC to conduct custom research for the VICOR CPPI and provide objective, unbiased analysis of the data.

The VICOR CPPI is derived from hundreds of responses from corporate payment industry professionals to a questionnaire administered by Celent. Responses have been obtained and analyzed for 2006 and a projection for 2008.

The VICOR CPPI, measured on a scale of 0 - 100 and tracked on an annual basis, is a consolidation of three equally weighted sub-indices. These sub-indices were identified by payment executives as the three most important industry drivers:

1. Cost per transaction
2. Investment in payment processing and support systems
3. Overall satisfaction

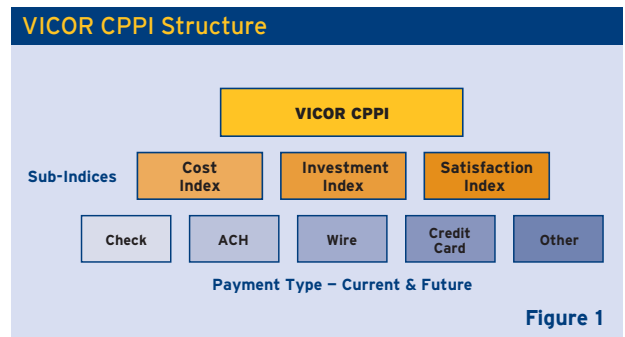


Figure 1

Data from the survey is used to drive a sophisticated model that calculates the three sub-indices – Cost Index, Investment Index, and Satisfaction Index – based upon a weighed-average of the market share percentages of the four major corporate payment methods: ACH, Check, Corporate Purchase Card (P-Card) and Wire. Taken together, the three equally weighted sub-indices produce the VICOR CPPI. The CPPI and each sub-index is determined for the current year of the industry (2006) and projected 24 months out, providing a view into the future. The fundamental structure of the CPPI is shown in **Figure 1**.

Those who will benefit with the VICOR CPPI:

- **Corporate payment managers** can acquire a broad perspective on the payments function, measure their situation and plans against an industry standard, and make their operations significantly more efficient.
- **Financial institutions** can obtain a consolidated perspective of the payments industry and a better understanding of their customers' needs and plans.
- **Technology and solution providers** can focus product development in the direction the industry is progressing.
- **Media and analysts** can benchmark the progress of the payments industry and use the VICOR CPPI as a source of content for articles and reports.
- **Industry leaders** can define their long-term strategies for optimal efficiency and profitability.

VICOR CPPI – How it is Tracked

The CPPI is tracked using a strategic framework that “maps” the corporate payment industry into nine measurable quadrants, each with unique characteristics. The framework used to track the industry and communicate the results and direction is represented in **Figure 2**.

The framework’s Y-axis divides the CPPI into distinct levels. A CPPI between:

- **0 - 33** is characterized by an industry of low satisfaction, high transaction costs and investment in low market share payment.
- **34 - 66** is characterized by an industry of general satisfaction, acceptable transaction costs and even distribution of investment in payments systems that are commensurate with their respective market shares.
- **67 - 100** is characterized by an industry of high satisfaction, low transaction costs and high investment in electronic payments systems.

The X-axis contains the percentage of ePayments and is also divided into three distinct sections that segment the industry by payment environment consisting of:

- Check Dominated
- Mixed Payments
- e-Payment Dominated

This produces a map reflecting nine major characterizations of the corporate payments industry.

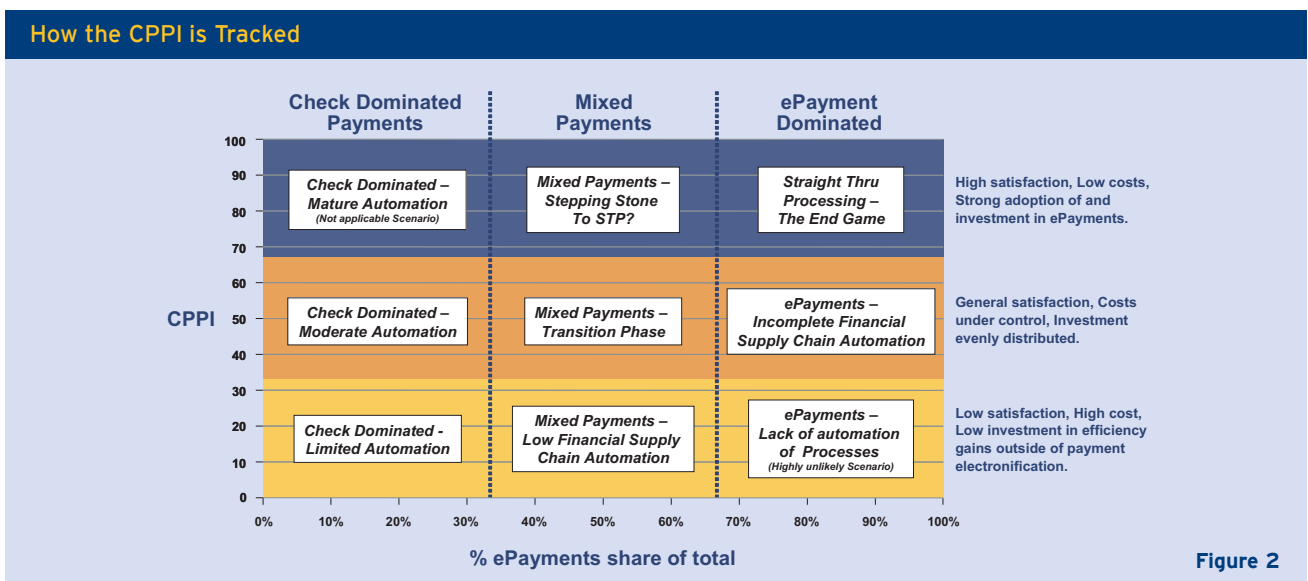


Figure 2

CPPI 2006 and 2008e

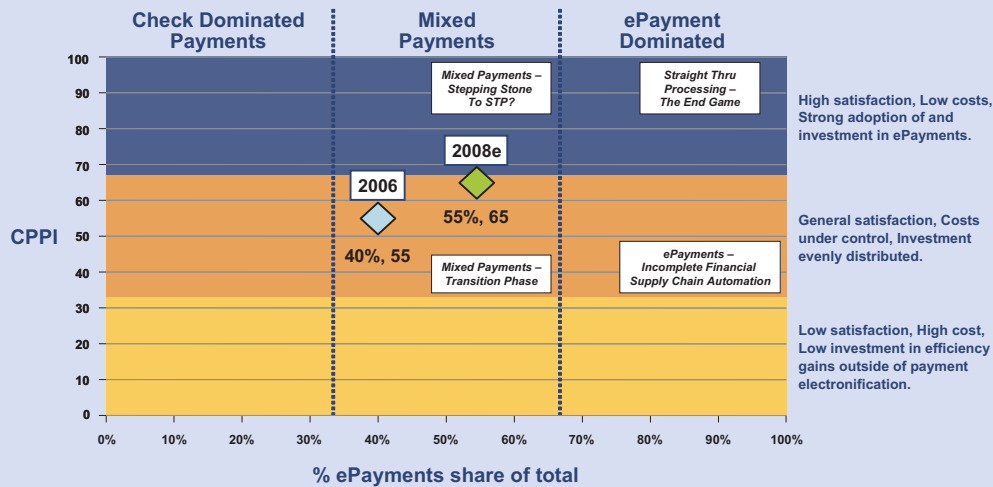


Figure 3

VICOR CPPI – Where are We Today and Where are We Headed?

The VICOR CPPI for 2006 is at 55 with a projected move to 65 in two years. See Figure 3. The CPPI framework shows that the corporate payment industry is currently in the *Mixed Payment - Transition Phase*, with a projection to stay in this section into 2008. The 2008e CPPI projection shows the industry is close to crossing a major milestone by moving out of the *Mixed Payment - Transition Phase* and into the *Mixed Payment - Stepping Stone to Straight Through Processing (STP)* section, expected to occur in the 2008/2009 timeframe.

Between 2006 and 2008, ePayments represent an increase from 40% of the total market share of all

payments to 55%. The Investment Index (as a percentage of total payment system investment) is therefore increasing by 88% between 2006 and 2008e, reflecting that the industry is moving to more electronic payments as appropriate.

Major drivers of the 2006 CPPI are the Cost and Satisfaction Index sub-indices, with each contributing 42% of the CPPI. Major drivers of the 2008e CPPI show a more even distribution among the three sub-indices with the Cost Index at 37%; Investment Index at 25% (up from 16% in 2006); and the Satisfaction Index at 38%. Each sub-index is projected to improve and indicates a healthy and progressing industry. See Figure 4.

The 2006 and 2008e CPPI Summary

Indices	2006	2008e	% Change	Comments/Discussion
Cost Improvement	69 (23)	73 (24)	6%	Moderate Increase
ePayment Investment	26 (9)	49 (16)	88%	Significant Increase – indicating strong industry progress and a bright future for system investment.
Satisfaction	69 (23)	74 (25)	6%	Moderate Increase
CPPI	55	65	18%	The Industry is Moving toward: <i>Mixed Payment – Stepping Stone to STP.</i>

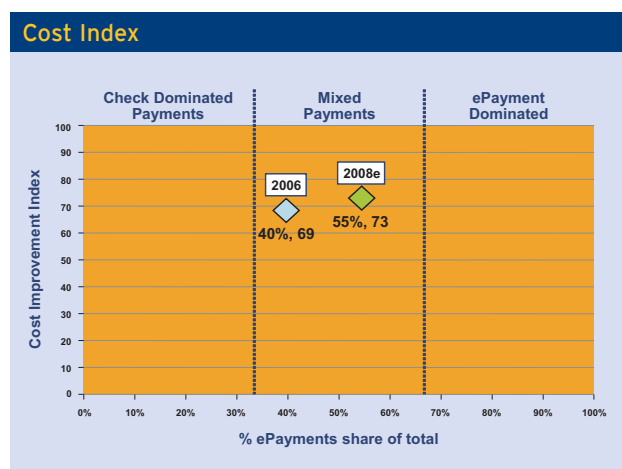
(Figures in parentheses are weighted at 33%. The sum of the three determines the CPPI.)

Figure 4

VICOR CPPI – Sub-Indices

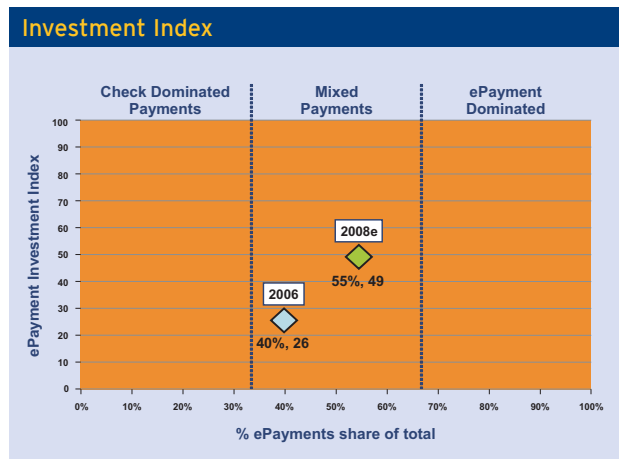
Cost Index

Survey results showed that corporations consider their current costs to be “average” across payment types. The trend is up and to the right because corporations expect to realize cost improvements as a result of an increase in ePayment usage, which is driving costs down. To a lesser degree, expected reductions in the average cost per transaction across all payment types pushed the Cost Index up. The relative low rate of change between 2006 and 2008e is 0.27.



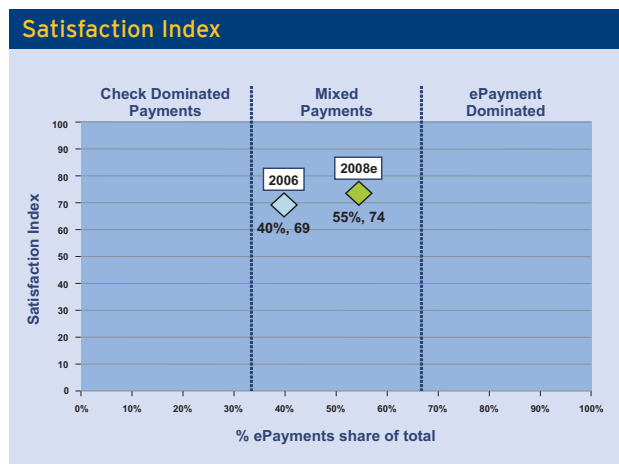
Investment Index

The survey indicated that 37% of respondents had invested capital in their payment systems during 2005. However this figure was expected to rise to 42% over the subsequent two year period, conveying an acceleration in investment in payment systems. The Investment Index is expected to increase due to a reallocation of investment away from check systems to electronic payment systems. The investment shift also parallels an increase in ePayments usage. There is a significant 1.5 rate of change in the Investment Index between 2006 and 2008e.



Satisfaction Index

The industry is generally satisfied with the current payment environment. This is expected since significant system investments in products and services have been made over many previous years. Corporate satisfaction in payment systems is expected to rise overall and is driven by planned investment projects. The greatest expected increase in satisfaction is in ePayment vehicles. There is a relatively low 0.33 rate of change in the Satisfaction Index between 2006 and 2008e.



For more information about the VICOR CPPI, please visit our Web site: www.vicor.com

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Optimizing Complex Payments

