Cash Management Trends

FOR A NEW CENTURY

Quality and Consolidation

PHOENIX-HECHT

Cash Management Trends for a New Century

Quality and Consolidation

• A Report from the 2000 Cash Management Monitor™ Survey •

Contents

Cash Management Trends for a New Century

Quality and Consolidation

• A Report from the 2000 Cash Management Monitor™ Survey •

Introduction

This report presents an overview of the findings from the 2000 Cash Management Monitor™ (Monitor), a bi-annual survey of corporate perceptions. This overview has been produced for the survey respondents, without whose cooperation and participation the Monitor would not be possible.

Survey Objectives

In October and November of 1999, Phoenix-Hecht completed 1,668 interviews of treasury managers for the Monitor. The survey targeted the 15,909 public and private corporations and domestic subsidiaries of international corporations with annual sales of $100 million or more. Survey respondents were those individuals responsible for adding or terminating a banking relationship.

The objectives of this corporate survey were to:

- Measure the quality of cash management services being provided.
- Measure current cash management product usage.
- Quantify buyer attitudes towards pricing of cash management services.
- Determine company plans and intentions for current banking relationships, product purchases, and cash management projects over the next year.

For analysis purposes, Phoenix-Hecht divided the sample into the Upper-Middle Market, consisting of companies with annual sales between $100 million and $499 million, and the Large Corporate Market, consisting of companies with annual sales of $500 million or more. A separate analysis is conducted for Middle Market Companies (annual sales between $40 million and $99 million).

Significant Findings

The cash management business is being driven by technology and relationships. The two go hand-in-hand as corporations are pre-disposed to doing more business with an ever-shrinking number of existing banks. In this study, we found four variables that are strongly related to a corporation giving more business to a bank. These are (1) the company's perception of a positive change in the bank's quality, (2) the number of relationship calls, (3) whether the company believes that the bank represents a "prime relationship", and (4) whether the company added a new E-Commerce/ Internet-based product. Contrary to popular belief, we found no statistical relationship between more business and (1) the number of years that a company has done business with the bank, (2) the size of the current relationship as measured by fees paid, (3) the size of the relationship as measured by the credit outstanding, or (4) whether there was a change in the relationship manager.

Quality

The decline in the perceived quality of bank cash management services and support, which had been significant in both 1996 and 1998, abated somewhat in 2000. Overall, grades reported in the Phoenix-Hecht Quality Index™ were stable for the Large Corporate market but continued to decline in the Upper-Middle market. Corporations continued to give their banks the highest grades in the most automated products, such as domestic wire transfer and controlled disbursement. Grades continued to be lower in products which require more human intervention, such as wholesale lockbox, and in categories relating to customer service and relationship management.

Products

The most significant changes in product usage by corporations have been the continued, steadily increasing acceptance of P-cards and imaging applications, and the rapid growth of E-commerce, both business-to-business (B2B) and business-to-consumer (B2C). One result of the rapid growth of E-commerce has been the reduction in emphasis on and growth of Financial Electronic Data Interchange (FEDI). Companies are increasingly opting for less structured transactions, thereby avoiding the cost of implementing the strict ANSI standards associated with FEDI.

Consolidation

The consolidation of banking relationships continued to be one of the most important trends in cash management, especially in the Large Corporate market. This tendency of large companies to eliminate banking relationships is not primarily the result of bank mergers. In fact, bank mergers account for only about a quarter of the reduction in bank relationships. While most eliminated relationships are driven by corporate decisions, Phoenix-Hecht believes that some banks have systematically tried to eliminate relationships which they deem not to meet their profit contribution targets.

Fueled by mergers and acquisitions, the largest banks continue to gain market share, both in relationships and dollars, in both the Upper-Middle and Large Corporate markets. The top ten banks in the Large Corporate market now account for 76% of the dollar-weighted market, up from 70% two years ago. In the Upper-Middle market, the top ten providers account for 69% of the dollar-weighted market, up from 59% two years ago. All of these gains are due to mergers, not to new relationships gained by the large banks. In fact, large banks actually lose a significant number of relationships in the wake of mergers and acquisitions.

Pricing

Several factors contributed to continued strong price pressure put on banks by large corporations. Most significant among these factors was the continued consolidation of banking relationships by corporations. As corporations consolidate relationships, and give more business to their remaining providers, they can — and do — negotiate successfully for better prices. Additionally, the strength of the economy and resultant abundance of credit availability lessened the importance of credit in corporate/bank relationships, allowing corporations more freedom in negotiating non-credit prices. Average price increases for cash management services are now no more than adjustments for overall inflation.

Plans

Cash managers remain highly project oriented in their approach to their jobs. This year's survey indicates a strong focus in two areas: expanding e-commerce with suppliers and corporate customers; conducting a treasury review. Treasury reviews head the project list for both the Large Corporate and Upper-Middle market segments. These reviews were defined to the survey respondents as "a study designed to look at many of your treasury functions, usually including collections and disbursements." Our belief that this renewed attention is to lockbox and is likely to be centered around reducing the number of sites, consistent with the general corporate goal of reducing the number of cash management relationships.

Quality

In the latter half of the 1990's there were two very significant shocks to the treasury management business that resulted in the cash management industry evolving quickly into a rather mature market. The first shock was a pronounced move by corporations to use fewer service providers. The consolidation of banking relationships on the part of corporate customers was driven by the need to reduce relationship management costs. The second shock came from the banks themselves as they began merging at an unprecedented rate. Both forces led to the increased treasury managers' reliance on fewer operating banks and hence a focus on quality of service. Since 1992 Phoenix-Hecht has calculated and published the Quality Index™ as part of the Cash Management Monitor™ Survey. The purpose of the Index is to form a statistically comparable data base which can quantify quality differences as perceived by the banks' own customers. The Phoenix-Hecht Quality Index™ measurements look at key components of the service providers' product, people and institutional perceptions.

The Quality Index™ covers 25 different dimensions:

- 12 relating to products (wholesale lockbox, wire transfer, balance reporting, controlled disbursement, ACH and depository services)
- 6 relating to corporate perceptions about their banks
- 7 dealing with relationship management

Each Phoenix-Hecht Quality Index™ is based on over 4,500 individual bank assessments. Survey respondents are asked to rate dimensions of their banks' performance on a scale of one to five with five being the highest. Each survey respondent is only allowed to provide evaluations on banks currently being used to provide cash management services except when responding about a bank's prospecting program. The numeric scores are converted to a letter grade. A letter grading system is used for relative comparisons between providers to help the treasury manager recognize statistical differences in the numeric scores. Individual provider grades are based on scores relative to other providers in the category. Each category score is made relative to the other categories. Individual bank quality averages are reported only if a significant response level for each bank within each category is achieved before assigning a letter grade. Letter grades are assigned based on standard deviation differences. Assigned grades range from A+ to D. An individual bank may or may not elect to make its own Quality Index™ grades available to customers and prospects.

QUALITY INDEX GRADE DISTRIBUTION

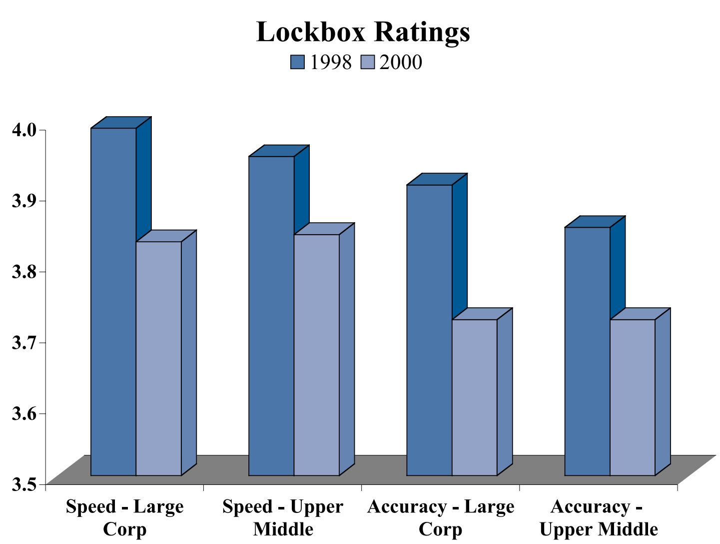
	Sales $500 million and Above		Sales $100 - $500 million	
	1998	2000	1998	2000
A+	15.0%	17.4%	16.3%	14.9%
A	18.9	17.4	18.7	20.6
B	37.0	39.5	46.0	37.9
C	13.6	10.0	9.1	9.8
D	15.5	15.7	10.0	16.8

In the Large Corporate market grades appear stable over the last two-year period. This is significant, because during the 1996-1998 period grades showed a significant drop in this market segment. On the other hand, in the Upper-Middle market grades continued to decline as they had in the previous two-year period.

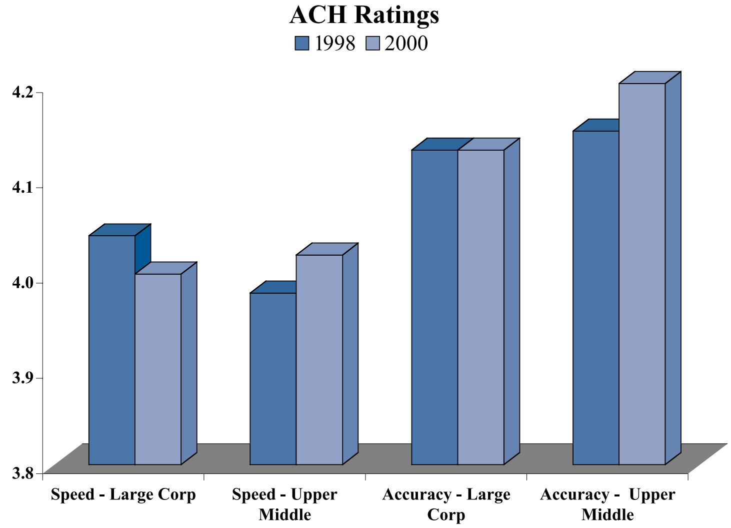
Product Quality Ratings

In previous surveys, corporations have given banks higher average ratings in categories related to delivery of products than in other categories. In particular, more automated areas such as domestic wire transfer and controlled disbursement have been highly rated. This has been true in both the Large Corporate and Upper-Middle markets, and continues to be true in the latest survey.

As the following chart shows, there was a dramatic drop in the quality ratings for wholesale lockbox in both markets. Corporations gave significantly lower ratings both for speed of processing and accuracy of processing and reporting. Phoenix-Hecht has documented in its Postal Survey™ a worsening of mail times over the last year or so, and this might be responsible for part of the lower ratings for speed of processing. However, some of the drop in ratings for speed, and probably all of the drop in ratings for accuracy, are likely due to actual declines in quality within the banks. Unlike wire transfer and controlled disbursement, wholesale lockbox is not completely automated and the quality perceptions are based more on performance of bank employees than bank computers.



A similar chart for ACH services is more representative of changes in product quality perceptions between 1998 and 2000. Respondents were asked to rate ACH services on speed of error correction and accuracy of processing and reporting.



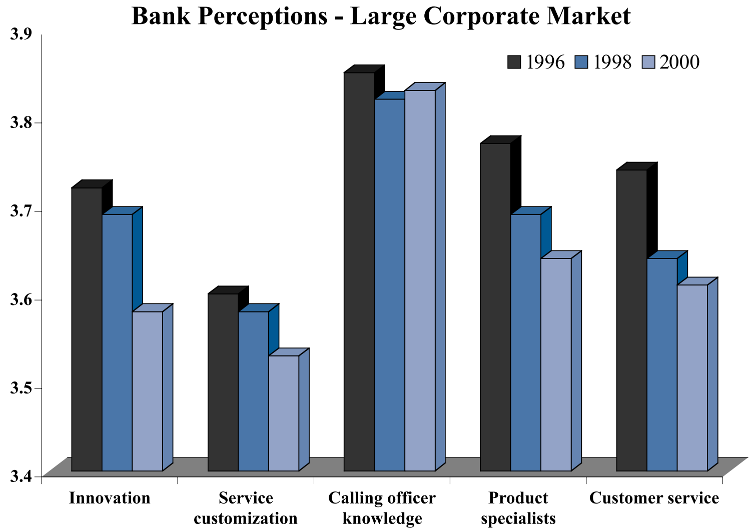
Wire transfer and controlled disbursement followed a pattern similar to ACH in quality ratings. Respondents were asked for the first time in 2000 for their perceptions about quality in balance reporting and depository services, and gave these areas similar marks to those received by ACH and controlled disbursement.

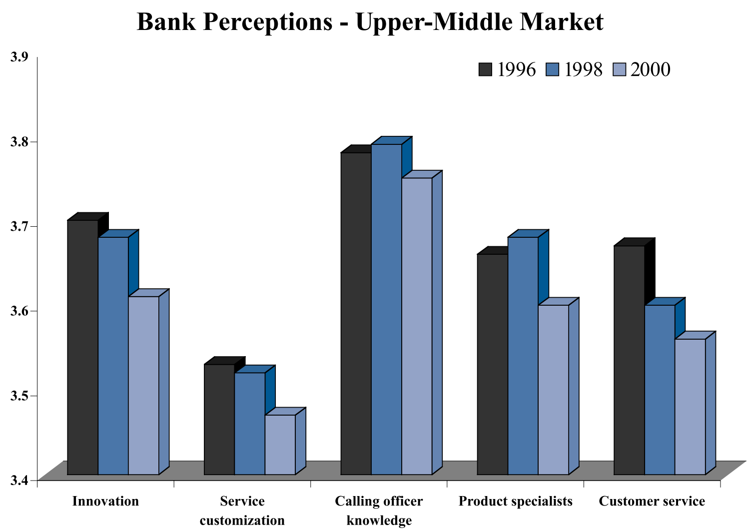
Bank Perception Ratings

Corporations rate the overall quality of their banks in six areas:

- Being innovative and up-to-date
- Being willing to customize services
- Having employees who have a knowledge of cash management
- Having cash management specialists who offer excellent support
- Having excellent customer service
- Understanding of international cash management

Unlike product quality, in which ratings were for the most part unchanged from 1998, ratings concerning these six areas of bank perception continued to decline. The decline was broad-based, statistically significant in several cases, and more pronounced in the Upper-Middle market than in the Large Corporate market. Furthermore, this decline continues a trend that began in 1996.





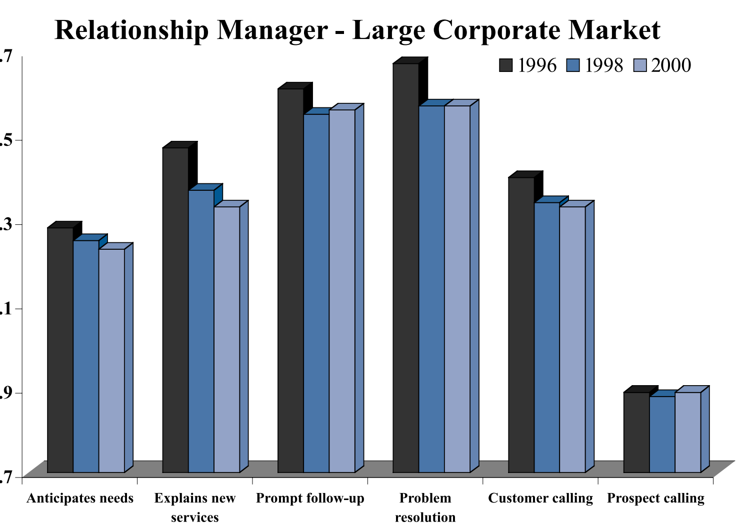
While the decline in bank perception ratings is broad-based, two categories stand out. First, customer service ratings have declined consistently and significantly in the last three surveys for both markets. Since ‘customer service’ is a fairly broad category on which to rate bank quality, the decline signals some general corporate dissatisfaction with the banks’ attention to their accounts and problems that arise. Second, ratings for innovation have gone down in all surveys and markets as well. This is particularly surprising, given the emphasis banks have been placing on new initiatives such as e-commerce and imaging.

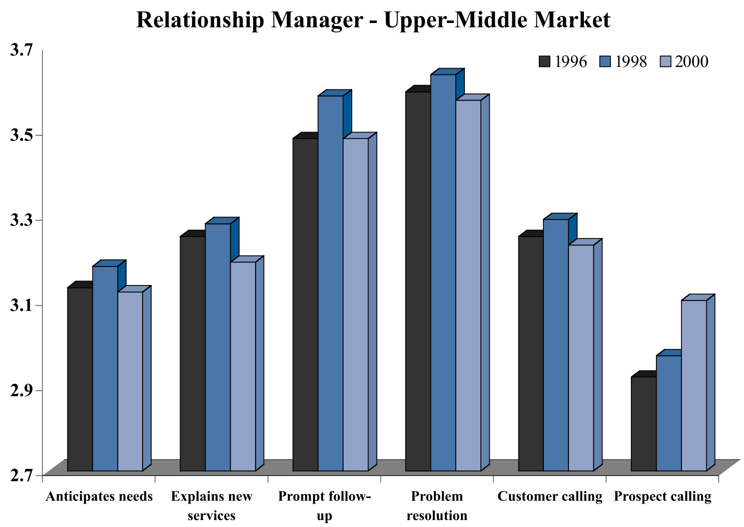
Relationship Manager Ratings

Corporations rate the performance of their bank relationship manager in seven areas:

- Anticipated needs for new or modified services
- Provided information on new or enhanced bank services
- Provided prompt follow-up after calls
- Responded quickly to problems or inquiries
- Understands corporation's business and industry
- Overall worth of bank's customer calling program
- Overall worth of bank's prospect calling program (asked of non-customers only)

The pattern of corporate responses to these questions over time differs from patterns observed for both product quality and bank perceptions. As shown in the charts below, ratings for relationship managers improved between 1996 and 1998 for the Upper-Middle market, but worsened for the Large Corporate market. Between 1998 and 2000, though, the ratings worsened for the Upper-Middle market and stayed about the same for the Large Corporate market. Currently, quality ratings indicate that corporations in the Large Corporate market are more pleased with their relationship managers than their counterparts in the Upper-Middle market. This is primarily due to the better ratings given for everyday, ordinary relationship management issues: prompt call follow-up, problem resolution, and overall worth of customer calls.





What Determines Quality Ratings?

In order to better understand the ratings that corporations give their banks in the various categories, Phoenix-Hecht examined the data from the Cash Management Monitor™ in more detail. As noted above, there are some differences between ratings given by corporations in the Large Corporate and Upper-Middle markets.

One of the major determinants of quality ratings — so obvious that it often goes un-remarked — is the bank with whom the corporation does business. Many corporate treasury managers consider bank cash management products to be commodities, undifferentiated from bank to bank. If that were truly the case, product quality ratings would be the same from bank to bank; in fact, they are not. There is a wide variation in product ratings across the banks included in the Cash Management Monitor™. Even wider variations can be found in ratings given the banks in overall bank perception and relationship management. The Quality Index™ itself is the best source for bank-specific quality information.

Across all banks, and all dimensions of quality, the most significant determinant of quality is the basic nature of the relationship between the bank and corporation. In the survey, corporations are asked to classify bank relationships into one of three categories:

Marginal A bank that is expendable and would be among the first to be considered for elimination should the corporation need to consolidate its banking relationships

Stable An important bank, but one that could be replaced if the corporation went through a major banking consolidation

Prime A key bank. The corporation looks to this bank as a principal long-term provider of banking services.

Phoenix-Hecht has documented in previous surveys that banks were shifting resources toward customers who regarded the relationship as prime. One result of this shift is higher quality ratings from prime customers, as opposed to non-prime:

QUALITY RATINGS: PRIME VS. NON-PRIME RELATIONSHIPS

	Prime	Non-Prime	Difference
Products	4.21	3.89	0.32
Bank Perception	3.82	3.31	0.51
Relationship Management	3.62	3.03	0.59

These differences in average quality ratings are extremely large, and well past any test of statistical significance. Note that the differences are greatest in bank perception and relationship management, which involve substantially more personal contact than products.

Also of interest are the factors that do not have an effect on quality ratings. In past years, quality ratings have improved as relationship size, as measured by cash management fees, has increased. However, the latest survey did not support a relationship between fees paid and quality ratings. It is the more qualitative designation as 'prime,' rather than the more quantitative measure of fees paid, that is positively correlated with quality.

QUALITY RATINGS: SAME VS. DIFFERENT RELATIONSHIP MANAGERS

	Same RM	New RM (last 12 months)	Difference
Products	4.11	4.09	0.02
Bank Perception	3.64	3.56	0.08
Relationship Management	3.40	3.31	0.09

Due to mergers, acquisitions, reorganizations, and reductions in staff, there has been greater turnover in bank personnel in the late 1990's than in previous years. Phoenix-Hecht asked respondents if they had been assigned a new cash management relationship manager in the past 12 months. Overall, a new relationship manager was noted in 30% of bank-corporate relationships. Some banks had new relationship managers in over 40% of their corporate relationships. Surprisingly, quality ratings for new relationship managers were slightly below, but actually fairly close to, those for RMs of longer standing.

From time to time the treasury manager will need to make a decision on the operational quality in order to reallocate business among the existing service providers. Interestingly, research has shown that business is not necessarily awarded to the best operating bank in the company's portfolio. Phoenix-Hecht research has identified the following decisive factors, ranked in order of importance, which are cited as factors leading to increased business with a current provider:

- Perception of change in the bank's overall quality level
- Frequency of calls by the relationship manager
- Customer service support

Product Usage — New Technology

Banks have invested quite heavily in new, technology-based products in the last few years. In the Cash Management Monitor™, corporations shared information on six of these new product areas.

Business-To-Business Electronic Commerce (B2B e-commerce)

Twenty-seven percent of the Large Corporate market and 21.9% of the Upper-Middle market are doing B2B e-commerce. Given that this had grown from almost nothing two years ago, this is a remarkable surge, but not unexpected given the attention that B2B e-commerce has seen in recent days.

As the following table shows, treasury's involvement in e-commerce is extremely strong, even where it does not directly involve the payment process, such as electronic order entry.

TREASURY INVOLVEMENT

Treasury area is involved in:*	Planning	Implementing
B2B Electronic Order Entry	26.7%	24.9%
B2B Electronic Invoicing	30.4	18.6
B2B Electronic Bill Presentment	20.5	14.1

*For companies that indicated they are doing e-commerce with customers or suppliers

Business-To-Consumer Electronic Commerce (B2C e-commerce)

Only 6.1% of the Large Corporate market and 2.8% of the Upper-Middle market are currently implementing B2C electronic bill presentment and payment (EBPP). In addition, 17.0% of the Large Corporate market and 13.2% of the Upper-Middle market are planning to implement B2C EBPP. Although these still represent small numbers, the growth over the next two years should be phenomenal. Also, keep in mind that many companies do not sell directly to consumers, so the low percentages may be misleading.

The results given in the following table suggest that the preferred means of consumer access by companies is to have the consumer go directly to the company's Web site. Most of the research that has been done in this area suggests that this will not work. Essentially, the research finds that consumers will not go to individual company sites in order to retrieve bills or affect payment. They want to go to either a consolidator which will have at least three invoices that they can review, or they want to use personal financial software such as that provided through Intuit's Quicken® or Microsoft's Money®.

INTERFACE AND PAYMENT OPTIONS FOR COMPANIES PLANNING OR IMPLEMENTING EBPP

Have the consumer go to our web site	72.3%
Provide access through a third party, such as CheckFree	36.6
Provide access through a bank or bank consortium	48.3
Use e-mail for bill presentment	65.4
Allow the use of ACH debits for payment	79.8
Allow the use of credit cards for payment	72.8

Another technology that the treasury managers appear to favor is the use of e-mail for bill presentment. Many of the pundits feel that e-mail will not be the preferred method of bill presentment, primarily because of the uncertainty that the bill actually reaches the consumer, since there is no confirmation of delivery. Most likely respondents are referring to an e-mail notification that an invoice or bill has arrived rather than the e-mail containing the invoice.

Financial EDI

The growth in FEDI appears to have slowed, if not stopped. Phoenix-Hecht believes that although there is continued growth among the heavily committed companies, those with 100 suppliers or customers, the potential growth among the rest of the corporate market will be slow for the foreseeable future. This is likely a direct result of the impact of the Internet. Companies are now opting for less structured transactions, thereby avoiding the cost of implementing the strict ANSI standards in communications between trading partners. Finally, Phoenix-Hecht believes the continued concentration of this business in a small group of financial institutions will continue, perhaps with no more than 10 or 15 institutions being players within five years.

Purchase Cards

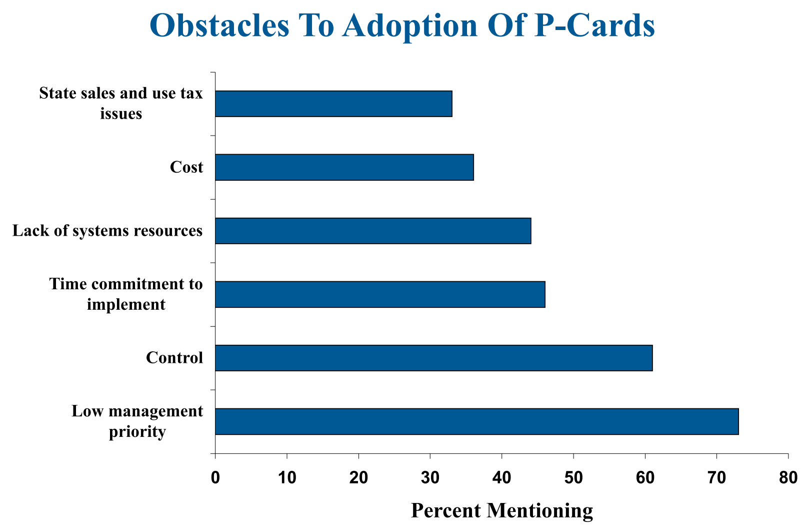
As the table below shows, there has been significant growth over the past two years in the number of corporations who use purchase cards (P-Cards), especially in the Upper-Middle market. However, the table also contains warning signs that the growth of P-Cards may be slowing, and is certainly limited.

PURCHASE CARD USAGE

	Sales $500 million and Above		Sales $100 - $500 million	
	1998	2000	1998	2000
Currently using P-Cards	41.6%	48.5%	19.5%	30.3%
Start using P-Cards in the next two years	18.9	17.4	18.7	20.6
Percentage of vendor transactions to be converted to P-Cards	37.0	39.5	46.0	37.9

In 1998, approximately 25% of all corporations indicated that they did not use P-Cards but would begin in the next two years. Two years later, in 2000, the results indicate that well under half of these corporations followed through and actually began using P-Cards. In fact, there are substantial barriers to P-Card adoption, as the survey revealed:

Some of these barriers, in particular lack of systems resources and low priority assigned by management to P-cards, are not under the control of treasury managers. In addition, respondents mentioned, on average, three different obstacles to the adoption of P-cards. When one obstacle is overcome, the next must be confronted and overcome, lengthening the time required to adopt P-cards.



More worrisome than the slowing rate of growth in the number of corporations adopting P-cards is the total lack of growth in the number of transactions being converted to P-cards. One of the hopes for purchase cards was that they would be used for a large percentage of smaller-dollar purchases within corporations. The percentage of transactions that respondents plan to convert to P-cards did not change from 1998 to 2000: 19% for the Large Corporate market, and 13-14% for the Upper-Middle market. Bear in mind that these numbers are long-range projections given by treasury managers; current P-card volumes are likely much smaller.

Imaging

Imaging technology continues to become more important to corporations. The two most important applications are imaging for long-term storage of paid items and on-line approval of positive pay. As might be anticipated, the value of imaging is related to the size of the corporation, no doubt because of larger transaction volumes.

IMPORTANCE OF IMAGING (SCALE 1 TO 5, WITH 5=VERY IMPORTANT, 1=NOT IMPORTANT)

	Large Corporate		Upper-Middle Market	
	1998	2000	1998	2000
Imaging for on-line approval of positive pay items	3.72	3.86	3.23	3.40
Imaging for same-day retrieval of recently paid items	3.75	3.65	3.35	3.33
Imaging for long-term storage of paid items	3.80	3.90	3.47	3.58
Same-day access to remittance documents for lockbox via imaging	3.37	3.40	3.03	3.16
Imaging or return documents as well as checks for lockbox	3.43	3.47	3.15	3.25

Internet Usage

For corporations, the Internet has become the preferred tool for communicating electronically with banks. The data confirms that Internet access is near universal in both the Large Corporate and Upper-Middle market segments. In the two year period between our surveys, there have been enormous jumps in both of these markets in Internet communications between corporations and banks. The e-mail increase is particularly astounding, with 36% of the Large Corporate market and 33% of the Upper-Middle market starting to use the Internet for e-mailing banks in just the last two years.

THE INTERNET

	Large Corporate		Upper-Middle Market	
	1998	2000	1998	2000
Does your Treasury Department have Internet access?	80.8%	94.7%	75.7%	91.1%
Do you use the Internet for e-mailing banks or contacts or customer service?	40.4	76.9	28.4	62.2
Do you *currently* use the Internet to retrieve bank account information?	3.4	24.4	8.9	34.0
Are you *planning* to use the Internet to retrieve bank account information?	28.4	50.0	31.5	37.5

As more companies have embraced the Internet as the access medium of choice, the applications which are of more importance have changed. Today the receiving of account balance information, updated throughout the day, is the dominant need, whereas two years ago consolidation of financial information from multiple institutions and access to financial EDI information were more important. Two years ago it appeared that the Upper-Middle market would receive more benefit from Internet-based bank communications than would the Large Corporate market, especially with regard to retrieving account balance information. Today, that equation is shifting. The Large Corporate market appears to be moving aggressively to retrieving more account information over the Internet.

Product Usage — Traditional Products

Many of the cash management products and services used by corporations are fairly mature, having been available now for several decades. It is not surprising, then, that usage of those products has not changed much in the last two years in either the Large Corporate or Upper-Middle markets. These tables document those small changes:

PRODUCT USAGE

	Large Corporate			Upper-Middle Market		
	1998	2000	Difference	1998	2000	Difference
Wholesale Lockbox	76.0%	77.4%	1.4%	62.5%	55.9%	-6.7%
Controlled Disbursement	90.4	89.4	-1.0	76.8	69.5	-7.3
Wire Transfer	98.0	96.2	-1.8	95.5	90.3	-5.2
Letters of Credit	78.9	72.6	-6.3	64.0	64.6	0.6
Electronic State Tax Payments	79.9	89.0	9.1	71.3	83.5	12.2
Sweep Accounts	60.2	70.4	10.2	61.9	68.1	6.2
Financial EDI	47.1	43.8	-3.3	37.7	30.5	-7.2

Only two products showed significant gains in usage among corporations in both market segments. Electronic state tax payments, a relatively new product, continued its gains from previous years, growing from 79.9% to 89.0% in the Large Corporate market and from 71.3% to 83.5% in the Upper-Middle market. Clearly, though, with overall product usage approaching 90%, growth will subside as this becomes yet another mature product.

Sweep accounts, an older product which has recently been sold more aggressively by banks, also showed gains of 10.2% in the Large Corporate market and 6.2% in the Upper-Middle market.

The drops in usage of financial EDI in both markets are somewhat misleading. Other data gathered in the survey lends credence to the continued growth of electronic methods of transmitting both payments and payment information. However, Phoenix-Hecht believes that respondents to the survey are now more cognizant of the difference between financial EDI, with its exchange of ANSI formatted electronic information, and e-commerce, with its lesser reliance on standards. Thus, they are less likely to indicate that they use financial EDI when they really use some form of e-commerce.

ACH PRODUCT USAGE

	Large Corporate	Upper-Middle
Direct deposit of payroll	96.5%	91.1%
Cash concentration	74.1	62.6
Corporate trade payments	64.2	49.9
Direct deposit of dividends	30.0	18.1
Consumer debits	25.4	21.6

Due to a change in the survey questionnaire, product usage for ACH-based products is not comparable to previous years. The data indicates a continuation of the increase in usage of direct deposit of payroll and direct deposit of dividends. ACH product usage percentages are shown in the above chart.

Consolidation of Relationships

The consolidation of bank relationships by corporations is continuing. This is driven by two separate factors. First, there is the continuation of bank mergers. During the past two years there have been a number of very large mergers, including the combinations of Bank of America/NationsBank, BankOne/First Chicago NDB, and Wells Fargo/Norwest. By themselves, these mergers have significantly reduced the number of bank relationships. Second, corporations are also reducing the number of bank relationships as their need for geographic coverage, as well as geographical sensitive services, such as lockbox, has been reduced.

In the Large Corporate market, respondents reported a 22% reduction in the number of cash management relationships, from an average of 5.63 in 1998 to 4.38 in 2000. Of this 22% reduction, Phoenix-Hecht believes approximately 4% is due to bank mergers and the remaining 18% is due to corporate efforts to consolidate bank relationships.

In the Upper-Middle market, the drive to consolidation is much less pronounced. Two years ago, corporations in this market reported an average of 2.97 cash management relationships; in the current survey, the average is 2.81, a reduction of 5%. Phoenix-Hecht believes that 3% of this reduction is attributable to bank mergers and the remaining 2% to the consolidation of bank relationships by corporations.

Consolidation of banking relationships has been ongoing for several years, and according to respondents to the latest survey, will continue in the future. Phoenix-Hecht asked survey respondents to predict the change in the number of cash management relationships in the coming two years. Based on their answers, there will be even fewer banking relationships in two years than today, especially among the largest corporations.

PREDICTED CHANGE IN NUMBER OF CASH MANAGEMENT RELATIONSHIPS IN THE NEXT TWO YEARS

Annual Sales	Percentage Change in Relationships
\$100 - \$249 million	+2%
\$250 - \$499 million	-8
\$500 - \$999 million	-2
\$1 - \$2.49 billion	-9
\$2.5 billion or more	-9

To better understand how corporations decide which banking relationships to continue and which to end, Phoenix-Hecht asked survey respondents to list their primary reason for considering a bank to be their most important cash management bank.

There are two significant differences in the reasons listed by Large Corporate and Upper-Middle market respondents. Larger corporations are more concerned about the number or volume of services provided, probably because of their size and their need for more sophisticated cash management products and services. Smaller corporations are much more likely to pay attention to the link between credit and cash management when considering the importance of a banking relationship.

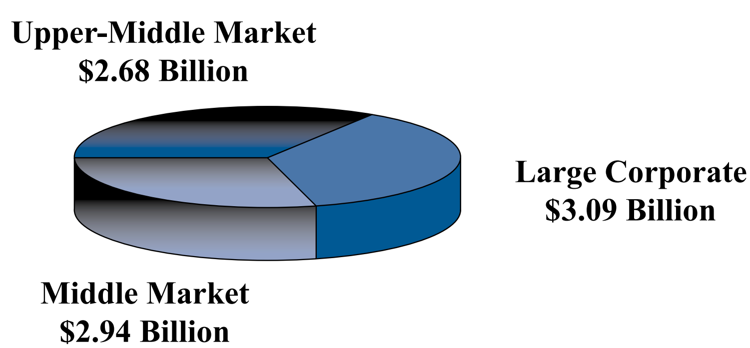
PRIMARY REASON FOR A BANK BEING THE CORPORATION'S MOST IMPORTANT CASH MANAGEMENT BANK

	Large Corporate	Upper-Middle
Our major concentration bank	37%	33%
Provides the greatest number or volume of services	27	16
Most important credit bank	14	25
In most important geographic location	6	7
Most competitively priced	4	6

Utilizing a strict definition of cash management, Phoenix-Hecht has calculated that the 32 surveyed banks derive approximately $8.71 billion in revenue from the three market segments. As corporations continue to consolidate bank relationships, the largest banks continue to gain market share, both in relationships and dollars. The top ten banks in the Large Corporate market now account for 76% of the dollar-weighted market, up from 70% two years ago.

In the Upper-Middle market, the top ten providers account for 69% of the dollar-weighted market, up from 59% two years ago. However, all of these gains are due to mergers, not to new relationships gained by the large banks. In fact, large banks actually lose a significant number of relationships in the wake of mergers and acquisitions.

Cash Management Revenues



Attitudes Towards Pricing

Corporations continue to be reluctant to look outside their current banking relationships to buy new products and services, and they continue to be reluctant to reward cash management business to banks principally because of low prices. Furthermore, corporations are issuing fewer formal Requests For Proposals (RFPs) than in previous years. These attitudes and behaviors would seem to give banks some leeway to raise prices to corporations, but this has not occurred. As reported in the Phoenix-Hecht Blue Book of Bank Prices™, prices paid by corporations have risen by only very modest amounts, barely keeping up with inflation.

While corporations are reluctant to add or change banks based on pricing, they are not reluctant to use annual reviews and competitive bidding to keep prices down within their current banking relationships. This is especially true in the Large Corporate market, where corporations typically use more services at more banks, and pay higher total fees.

ATTITUDES TOWARDS PRICING

	Large Corporate	Upper-Middle
Average number of formal RFPs issued to banks in the last two years	1.8	0.9
Company annually reviews bank prices for cash management services	71%	56%
Company requests competitive bids for new cash management services	67	50
Company buys new services only from existing banks	62	73
Bank has won cash management business principally because of low prices	29	20
Company has changed banks primarily because of price increases	12	9

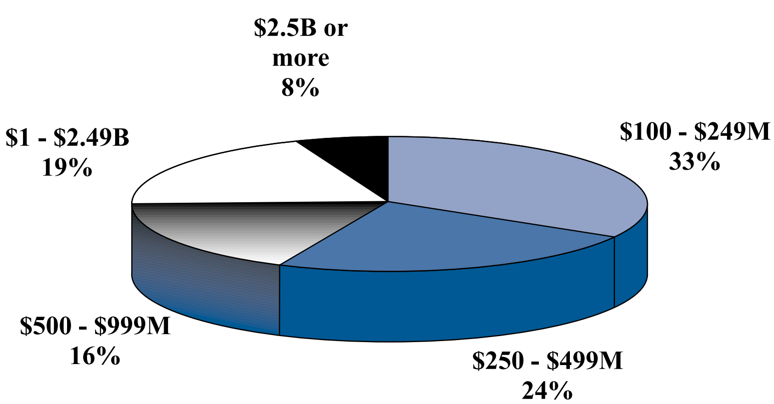
Survey Methodology and Demographics

The 2000 Cash Management Monitor™ targeted corporations with annual sales of $100 million or greater. Survey respondents were those individuals responsible for adding or terminating a banking relationship. A total of 1,668 interviews were completed from the sample universe of 15,909 corporations. This is equivalent to 10.5% of the sample universe, resulting in an error rate, attributable to sampling and random effects, of plus or minus 2.9%, with 95% confidence.

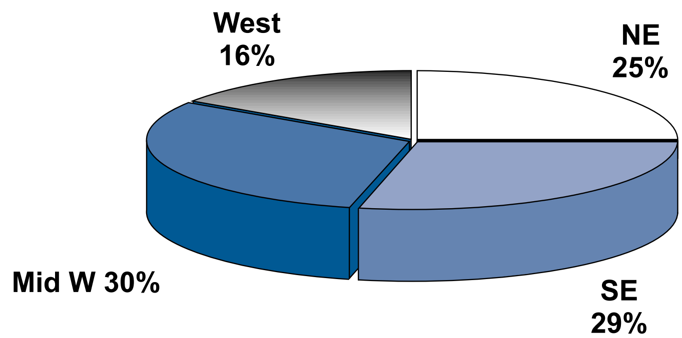
Of the 1,668 respondents to the survey, 947 were in the Upper-Middle market and 721 were in the Large Corporate market. For those firms over $500 million the resulting error rate attributable to sampling and random-effects is plus or minus 3.6%, with 95% confidence. For those firms under $500 million the resulting error rate attributable to sampling and random-effects is plus or minus 3.7%, with 95% confidence.

A division of the two markets based on annual sales alone has some shortcomings. Past research has shown that both the type and volume of cash management services purchased by corporations are dependent on industry type as well as annual sales size. For example, a company doing $250 million in annual retail sales may purchase significantly more cash management services than a manufacturing company with $750 million in sales, and will almost certainly purchase a different mix of services. Nevertheless, annual sales size has been the most reliable way to present the different markets covered by this survey.

Distribution By Sales



Distribution By Region



As part of the survey, respondents were asked about their cash management relationships with 32 leading banks in the United States. The purpose of this methodology was to obtain representative coverage of these banks.

BANKS SURVEYED

ABN-AMRO / La Salle
Allfirst
AmSouth
Bank of America
Bank of New York
Bank One
Bankers Trust Company
Chase
Citibank
Comerica Bank
Commerce Bancshares
First Tennessee
First Union
Firstar
Fleet Boston
Harris Trust and Savings
Huntington National Bank
KeyCorp
Marshall & Ilsley
Mellon Bank
Mercantile Bank
Michigan National Bank
Morgan Guaranty
National City Bank
Northern Trust Company
PNC Bank
State Street Bank
SunTrust
Union Bank of California
US Bank
Wachovia
Wells Fargo

Phoenix-Hecht

Phoenix-Hecht is one of the country's foremost providers of research and education in the field of cash management and corporate banking. Since 1968 Phoenix-Hecht has been known for its insightful study design and market focused analysis. Industry benchmarks such as the Postal Survey™, Clearing Study™, and the Quality Index™, as well as The Blue Book of Bank Prices™, and Treasury Manager's Bookmarks and Favorite Places, are hallmarks of Phoenix-Hecht research.

For further information on treasury management issues, visit our award-winning web site.

www.phoenixhecht.com

Questions or comments regarding the Cash Management Monitor™ Survey
or this report may be directed to:

David A. Bochnovic
Executive Vice President
Phoenix-Hecht
PO Box 13628
Research Triangle Park, NC 27709

E-mail: davidb@phoenixhecht.com
Phone: 919-541-9339 Fax: 919-541-9026
www.phoenixhecht.com

PHOENIX-HECHT®