



2011 AFP
Retail Industry Survey
Bank Relationship Management
Report of Survey Results





As economic conditions improve, retailers continue to look for ways to better manage their working capital and grow their business. Recent regulatory changes present unique challenges, along with new opportunities, for the retail community. Fifth Third Bank is pleased to have sponsored the 2011 AFP Retail Industry Survey, which examines the complex business environment facing retailers today. As retailers endeavor to navigate the evolving payments landscape, we remain committed to helping the industry move along the path to prosperity.

This year's survey examines the latest issues and emerging trends around payments, technology, risk management and globalization. The findings reveal insights into how new regulations, such as changes in interchange rates, Regulation Q and FDIC insurance limits, are expected to impact retailers' bank relationships. These factors compound the challenge retailers who typically manage multiple financial institution relationships face.

As retailers consider the growing number of payments options that are available to their customers, the importance of engaging in a meaningful dialogue with banking partners has never been greater. A 2009 Federal Reserve survey revealed that a long-term transformation of payments from paper instruments to cards and electronic payment tools is well underway. Fifth Third Bank believes that through an open discussion with financial institutions, retailers have an unprecedented opportunity to improve internal processes, gain efficiencies and deploy new technologies that will enable them to contain costs and better manage their cash management needs.

Now more than ever, it is critical for retailers to have the right partners and the right strategy in place to ensure their continued success. Fifth Third Bank's extensive expertise in working with retailers, and the bank's intimate knowledge of the marketplace and the challenges faced by the retail industry, allows us to provide highly effective working capital management solutions that encourage businesses to thrive and expand. For example, we recently won the 2010 Celent Model Bank Award for our Remote Currency Manager (RCM) solution, which automates the cash management process for retailer's cash transactions. This innovative solution allows merchants that accept cash over the counter to help increase working capital, reduce operating expense and complements loss prevention policies.

We invite you to explore the valuable insights presented in this industry survey and use them to inspire greater deployment of the latest payments innovations and deeper dialogue with your banking advisors.

Sincerely,

Jeff Ficke
Senior Vice President and
Director of Treasury Management
Fifth Third Bank

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Underwritten by



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2011 AFP Retail Industry Survey: Bank Relationship Management

Introduction

Companies in all industries depend on their financial institutions, and establishing, developing and maintaining a bank relationship is vital to a company's interest. Some would argue that bank relationship management for retailers is more complex than it is for other industries because retail companies typically have to rely on a greater number of bank relationships to manage their cash management needs.

Retailers consider a variety of key factors when establishing a relationship with a new banking partner: the bank's proximity to store locations, the pricing and value of services offered, and whether or not the bank is a provider of credit to the retailer. With merchant card and cash management fees accounting for the majority of bank fees incurred by retailers, it should not be surprising that depository services and credit-card processing are very important to retailers in managing their bank relationships. Many retailers have expressed concerns that potential regulatory changes affecting financial institutions—such as, changes in interchange rates, Regulation Q and FDIC insurance limits—could impact the management of their bank relationships. In addition, retailers need to continue balancing requests from their banking partners for more business with retailers' desire to contain costs.

In March 2011, the Association for Financial Professionals (AFP) conducted a survey of financial professionals who work for a retailer to discern how pending regulatory changes may alter special relationships retailers may have with their financial institutions. The resulting 111 responses to the survey are the basis of this report. The survey results will be the basis of a discussion that will take place at the 2011 AFP Retail Roundtable.

AFP thanks Fifth Third Bank for underwriting the *2011 AFP Retail Industry Survey*. Both questionnaire design and the final report, along with its content and conclusions, are the sole responsibility of the AFP Research Department.

Key Findings

Retailers are of different sizes and operate within differing geographic footprints. These are just two factors that greatly influence the number of bank relationships that retailers maintain to manage their cash management needs. The typical retailer participating in the *2011 AFP Retail Industry Survey* works with 11 banks to meet its retail cash management needs. Still, the distribution of the number of banks is quite wide. Just over a third of organizations work with five or fewer banks, while just under a third work with at least 30 banks.

Number of Banks Organization Works with for Retail Cash Management Services (Percentage Distribution)

1-5	35%
6-14	28
15-29	5
30 or more	32

Given the importance of maintaining a positive relationship with their bank(s) to manage cash services, selecting the best banking partner is crucial to retailers. Twenty-nine percent of survey respondents indicate that the most important factor in selecting their bank is the physical proximity of the bank's branches to the retail location(s). The second most cited factor is the pricing and value of services provided by the bank (28 percent of respondents), followed by whether or not the bank provides credit to the retailer (27 percent).

Most Important Determinant in the Selection of Cash Management Banks (Percentage Distribution)

Proximity to company's retail locations	29%
Pricing and value of services	28
Banks provide credit to the retailer	27
Branch presence/bank network	7
Products and services specifically tailored to retailers	5
Other	4

On average, retailers spend nearly nine out of every \$10 in bank fees on one of two services: cash management (45.2 percent) and merchant card-related activity (43.6 percent). Retailers spend another nine percent of cash management fees on investment management/custody services (4.4 percent) and investment banking and capital markets activity (4.3 percent).

Average Percentage of Fees Organization Pays for Cash Management Services (Mean Distribution of Fees)

Cash management	45.2%
Merchant card related activity	43.6
Investment management/custody	4.4
Investment banking and capital markets activity	4.3
Foreign exchange activity	2.5

Many retail companies prefer to work with banks that currently provide them with credit. Seventy-one percent of survey respondents indicate that their organizations focus on working with banks that provide credit when selecting providers of core retail banking services

**Organization’s Focus on Working with Banks that Provide Credit
When Identifying Providers of Core Retail Banking Services**
(Percentage Distribution)

Organization focuses on working with banks that provide credit	71%
Organization does not focus on working with banks that provide credit	29

Legislative and regulatory changes affecting financial services are likely to have at least some impact on retailers. For example, as part of the Durbin Amendment to the Restoring American Financial Stability Act of 2010 (popularly known as “Dodd-Frank”), the Federal Reserve has proposed instituting a cap on the interchange fees paid by retailers to process debit card transactions. At the time of this report (early April 2011), the rule-making associated with the proposed cap had not yet been finalized. In addition, Congress repealed Regulation Q, thereby allowing financial institutions to pay interest on demand deposit accounts beginning July 2011. The repeal of Reg Q will give financial professionals—including those in the retail sector—another option for their liquidity management needs. This will have a significant impact if the interest paid on such deposits is comparable to that available on other money market fund instruments. As part of the same legislation, the FDIC raised the limit on insurance deposits permanently to \$250,000 per depositor per institution, and eliminated the insurance cap on accounts that do not generate interest through December 2012. Consequently, FDIC assessments on banks—that is, the FDIC “premium” paid by banks to insure against losses—could have an impact on the fees banks charge to their customers—including large retailers.

Most survey respondents are unsure of how these regulatory and legislative changes will affect the way their organization manages its banking relationships. While only two percent of survey respondents indicate that the proposed changes will *definitely* have an impact on their organizations’ banking relationships, another 77 percent believe that there could *possibly* be an impact. On the other side, 21 percent feel the proposed changes would *not* affect their management of banking relationships.

Likelihood of an Impact on Retail Organizations Resulting from Recent Legislative Changes
(Percentage Distribution)

The proposed changes <i>will</i> affect the way the organization manages banking relationships	2%
The proposed changes could <i>possibly</i> affect the way my organization manages banking relationships	77
The proposed changes will not affect the way the organization manages banking relationships	21

Over the past 12 months, retailers have seen relationships with their banking partners change significantly. Such changes may involve a retailer providing more business to particular banks, or banks altering their services. Fifty-four percent of survey respondents indicate that their banking partners are exerting greater pressure on them to consider purchasing other services in addition to core retail services. Forty-three percent of respondents report that their banks are adding additional services that are oriented towards core retail banking customers, while 13 percent indicate that their bank partners are *dropping* certain core retail banking services. Nearly three out of ten retail organizations are spreading more of their core retail banking services to providers that had requested an increase of fee-based services.

**Changes in Organization’s Relationship with Providers of Core Retail Banking Services
Over the Previous 12 months
(Percent of Organizations)**

More pressure to consider other bank services away from core retail services	54%
Banks adding new services to their offerings that are oriented to core retail banking customers	43
Spreading bank fees among more providers that are asking for more fee based services	28
Starting new bank relationships	22
Banks dropping services from their offerings that are oriented to core retail banking customers	13
Being tiered by the bank in client segments with either increased or decreased access to bank resources	8
Other	6

Cash management officers can be useful resources for retailers when they require consultation on their retail product utilization, bank fees and to learn about solutions the bank may offer. More than nine out of ten respondents indicate they consult a cash management officer. A third of retailers (65 percent) turn to a cash management officer “as needed.” Some companies hold meetings with their cash management officers on a more regular basis: 12 percent meet with the cash management officer once a quarter while 19 percent have these meetings once a year.

**Frequency of Using Cash Management Officers as a Resource in Managing Bank Relationships
(Percentage Distribution)**

Never	5%
Once a year	19
Once a quarter	12
As needed	65
Other	*

*less than 1 percent

As business models change, so do the cash management needs of retailers. Three out of ten survey respondents indicate that changes in their companies’ business (e.g., adding/closing stores, entering/leaving markets) have resulted in a change in their companies’ bank relationships.

**Impact on Changing Retail Business Needs on Retailers’ Bank Relationships
(Percentage Distribution)**

There has been a shift in cash management and banking resulting from changes in the business’s retail needs	30%
There has not been a shift in cash management and banking resulting from changes in the business’s retail needs	70

The types of challenges that face retailers’ bank relationships as a result of evolving business needs vary. Some retailers try to reduce expenses or resources expended on cash management services through:

- Cost containment—e.g., reviewing/negotiating fees (76 percent)
- Consolidating bank relationships due to “other” factors (44 percent)
- Consolidating bank relationships due to store closings (four percent).

Others are seeking to expand the number of bank relationships (and/or expand the relationships with current bank partners) because of:

- Expanding business overseas (40 percent)
- Growing store footprint (32 percent)
- Diversification of risk (20 percent)
- Needing more bank involvement because of acquisitions (12 percent).

Challenges in Managing Bank Relationships as a Result of Evolving Business Needs
(Percent of Organizations with Evolving Business Needs)

Internal focus on cost containment, looking at fees and asking banks to negotiate	76%
Consolidating bank relationships due to other factors	44
Expanding business overseas	40
Expanding bank relationships to match growing store footprint	32
Expanding bank relationships for diversification of risk	20
Expanding through acquisitions and needing more bank presence	12
Consolidating bank relationships because of store closings	4
Other	4

Retailer/bank partnerships are not necessarily permanent, and a retailer may decide to end its relationship with a bank for a variety of reasons. Eighty percent of retailers have ended an existing bank relationship sometime over the past 18 months. Three-quarters of organizations that exited an existing bank relationship within the past 18 months did so because of a desire to control costs (e.g., prices for services offered by the bank were too high). Forty-five percent severed a bank relationship because of a service-related issue. Other reasons for ending a bank relationship include:

- The bank no longer provides credit to the company (25 percent)
- A desire to move the business to a bank that provides access to credit (15 percent)
- Issues specifically related to the relationship officer or bank product officer (15 percent)
- Store closings (e.g., pulling out of a specific market) (15 percent).

Reasons Organization May Have Exited an Existing Bank Relationship
(Percent of Organizations that Have Exited a Bank Relationship within the Past 18 Months)

Pricing for services/cost control	75%
Consolidating bank relationships due to other factors	50
Service-related issues	45
The bank no longer provides access to credit to company	25
Desired to move business to a bank that provides access to credit	15
Relationship officer or bank product officer issue	15
Consolidating bank relationships due to store closings	15
Other	5

Nine out of ten retailers *began* a new bank relationship within the past 18 months. Just over half of these retailers did so because the new bank(s) offered more desirable pricing for the services offered (or such services represented a better value). Twenty-nine percent of retailers established a new bank relationship in order to spread risk and/or diversify services among a greater number of banks. Nearly a quarter of survey respondents indicate that they started a new bank relationship in order to gain and/or maintain access to credit.

Reasons Organization Started a New Bank Relationship within the Past 18 Months
 (Percent of Organizations that Have Entered a Bank Relationship within the Past 18 Months)

New bank(s) offer desired pricing for services/better value	53%
To spread risk/diversify services among more banks	29
Gain/maintain access to credit	24
Bank has a niche product	14
Other	19

While retailers face a number of challenges as they manage their bank relationships, 37 percent of survey respondents indicate that the greatest challenge is in taking a long-term view of such relationships even if some of their bank partners are more short-term focused. A quarter of survey respondents indicate that the greatest challenge is being able to allocate their company’s cash management business “equitably” among their bank partners. Another 16 percent report the biggest challenge is allocation of services after a bank merger, while a similar share cite challenges in understanding the impact of new financial services regulations on their business.

The Greatest Challenge in Managing Retail Bank Relationships Today and Going Forward
 (Percentage Distribution)

Developing strategic long-term relationships with less focus on the short-term needs from the bank	37%
Allocating services to banks equitably	25
Understanding how the new regulations from Dodd-Frank and Basel III will play out and affect the retailer	16
Managing bank relationships/allocation of services after a bank merger	16
Other	6

Conclusion

Retailers face a complex environment in managing multiple banking relationships. Against the current economic, business and regulatory backdrop, many companies must balance their banking partners' requests to grant more services against their own desire for longer term relationships. Retailers also are increasingly concerned about managing bank costs, and their relationship with their financial services provider will change as their own business needs evolve. In addition, a number of new regulations will likely impact retailers' bank relationships, particularly since nearly 90 percent of retail bank fees are tied to merchant card and/or cash management services that are subject to new regulatory changes.

About the Survey

On March 10, 2011, the Research Department of the Association for Financial Professionals (AFP) surveyed 1,500 of its corporate practitioner members (and prospective members) from retailers about bank relationship management issues affecting retailers. After eliminating surveys sent to invalid and/or blocked email addresses, the 111 responses yield an adjusted response rate of nine percent.

AFP thanks Fifth Third Bank for underwriting the survey. Both questionnaire design and the final report, along with its content and conclusions, are the sole responsibility of the AFP Research Department.

Annual Revenues (Percentage Distribution)

Under \$50 million	3%
\$50-99.9 million	1
\$100-249.9 million	5
\$250-499.9 million	8
\$500-999.9 million	12
\$1-4.9 billion	45
\$5-9.9 billion	14
\$10-20 billion	4
Over \$20 billion	9

AFP Research

AFP Research provides financial professionals with proprietary and timely research that drives business performance. The AFP Research team is led by Managing Director, Research, Kevin A. Roth, PhD, who is joined by a team of research analysts. AFP Research also draws on the knowledge of the Association's members and its subject matter experts in areas that include bank relationship management, risk management, payments, and financial accounting and reporting. Study reports on a variety of topics, including AFP's annual compensation survey, are available online at www.AFPonline.org/research.



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About the Association for Financial Professionals

The Association for Financial Professionals (AFP) headquartered in Bethesda, Maryland, supports more than 16,000 individual members from a wide range of industries throughout all stages of their careers in various aspects of treasury and financial management. AFP is the preferred resource for financial professionals for continuing education, financial tools and publications, career development, certifications, research, representation to legislators and regulators, and the development of industry standards.

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