

Reducing Retail Banking Expenses

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Outlet chains typically operate over a wide geographic area and as a result face special banking challenges.

An outlet chain may have dozens or even hundreds of stores, each receiving substantial cash payments daily. In today's banking and regulatory environment, no bank has the national scope required to service such an organization on a single-source basis. The result is that each outlet chain usually has many different accounts, often a separate account for each store, with a bewildering array of varying bank services and fees that are difficult to track.

Adding to the confusion is the fact that these fees are escalating as banks adjust their rate structures in an effort to maintain profitability.

Fortunately for outlet chains, there are better ways to manage and even reduce banking expenses.

But it isn't easy, because everything from deposit fees to returned-check fees can vary so widely not only across banks but even within a single bank. These bank fees are reported to the customers on a monthly statement called the account analysis statement. Analysis statements vary from bank to bank, but they typically show the average monthly balances that were maintained in the account, the earnings credit received on those balances, and the services that were used for the month. Retail chains often receive bank account analysis statements that can best be measured by the pound or foot.

Analyzing banking service information to determine whether a retailer is getting a good value for its money is a challenging task. The result is that, in many cases, large hidden costs can escalate banking expenses.

Effect of maintenance and concentration fees

For example, many retail organizations have a separate account for each store because this approach makes it much easier to track deposit shortfalls. The fact that banks charge a maintenance fee for each account, an average of \$29 per month nationally, makes these fees a substantial cost to a retailer.

A manufacturer that operates 60 company-owned stores that maintains a separate account for each store will pay approximately \$21,000 each year in account maintenance fees alone.

But account maintenance fees are just the beginning.

Having funds deposited into a local branch account doesn't help a company pay its creditors until the money is concentrated into a corporate account. This is typically accomplished by using a wire transfer, automated clearinghouse (ACH) or sweep services. The cost of these services ranges from \$1.50 to \$2 for an ACH to \$12 to \$15 for a wire transfer. In the example of the 60-store retailer, this means that concentration fees would run approximately \$23,000 annually.

One approach to begin reducing these fees is to consolidate accounts on a regional basis so that all stores in a state or region make deposits into a single account. Historically many retailers have

avoided this practice because when there is a shortage on an account, it is difficult to pinpoint which store's deposit created the problem.

Fortunately, many banks now offer deposit reconciliation services that make it much easier to distinguish among deposits coming from different stores. Typically, each store has its own deposit slips that include a unique store code. The corporate treasury department can easily determine the exact amount of funds deposited by each store on each day. In the example above, consolidating 60 bank accounts into six accounts would save approximately \$40,000 annually in account maintenance and concentration fees alone.

Understanding fee structures

In order to look at the big picture, it is a good idea to clearly understand fee structures. Given each bank's unique method of structuring fees and services, this is a daunting task. In some retail organizations, treasury staff members make a monthly manual comparison of the fees from the different banks. However, the chore's magnitude is such that only a summary comparison is possible. Most banks don't break out charges for individual accounts, let alone line-item detail. The time required to fully track detailed analysis statements could be so burdensome that additional staff would be just to handle this assignment.

Fortunately, new software tools are now available that streamline the evaluation of analysis fees. These software packages typically use service codes developed by the Association for Financial Professionals (AFP) to standardize the references and terms that identify bank services and associated charges.

The codes provide for a four-tier description of bank services. For example, wholesale or retail lockbox services are grouped within the lockbox family. The two remaining tiers are represented by single digits and are called "line" and "detail" respectively. These two tiers identify the components of the service provided. If we look at a hypothetical code of "05-0010" the "05" represents lockbox, the "00" represents retail, the "1" represents maintenance, and the "0" represents network services. In this instance we have a maintenance service provided for the network on a retail lockbox.

Capturing analysis statements

The new software captures account analysis statements electronically from banks that support ANSI X12/822 transmissions and also provides for manual input of statements from banks that provide paper statements only.

To access the analysis statements, a corporate retail staff member downloads the files containing the account balances and services into the software, a monthly task that takes only minutes. The software then standardizes all of the bank statements into a consistent format by mapping them into services and standard product groupings.

With each bank statement entered into a standardized database, it becomes relatively easy to prepare consolidated reports. Typical reports include fee performance history, consolidated statements, expected service price and volume violations, service charge comparisons between banks, service performance history, departmental bank fee allocations and balance performance history. Individual consolidated statements can be created by combining values from many statements across banks, accounts or user specific groups.

Automated tools included in the software interrogate the statements to check that prices match each bank's negotiated rates. The software also checks to see that services match the ones ordered by the retailer and that the volume is in line with recent months.

These software tools can help retailers reduce banking fees by providing a clear picture of how these fees are being incurred. It also allows banks to be evaluated by comparing their fees to

those charged by other banks. After implementing the software, treasury managers can quickly identify price, volume and calculation errors on their statements.

Case in point: Deposit Services

In many cases, retail organizations make deposits and use bank services at many bank branches on a daily basis. While there are several banking options available for these daily deposits, often the cost in bank fees is not considered. Because it is so difficult to accurately compare the pricing of depository options, by the time the first account analysis statement arrives, it may be too late to explore alternatives at other banks. By using account analysis software that is now available, the implications of using various banks can be observed before the accounts are opened or the services are contracted. Many treasury managers are unaware that banks routinely provide *pro forma* analysis statements showing projected fees that will be associated with new accounts. These *pro forma* statements can be input into the analysis software system allowing banks to be compared to each other with regard to price. The pricing information, along with other qualitative comparisons, can greatly assist the treasury manager and save the company thousands of dollars each year.

The problem with comparing potential banks based on price is that each bank charges for services in a different manner. For instance, some banks will break out every branch deposit into several different service charges, while others bundle the services together. Like any business, banks try to market their services as superior to services offered by the competition. For these reasons, it is nearly impossible to compare two banks manually on service pricing alone.

Analysis software is capable of standardizing the differences between banks and gives an apples-to-apples comparison of service charging along with the level of compensation granted for balances on deposit.

Negotiating for reduced fees

Once a retailer has a clear understanding of the fees being paid for bank services, a chain can achieve greater cost savings by negotiating with banks for reduced rates. With a firm grasp on the fee and earning information provided by the banks, treasury office personnel can report cross-bank comparisons. Using these reports, the treasury staff can evaluate the return on balances maintained in each of their accounts by looking at the earned credit rate and balance performance. Individual services, accounts or entire relationships can be compared bank vs. bank, either to identify accounts that should be moved, or to develop a better negotiating position with current banks.

The information generated in these reports can be used to negotiate fee reductions. One retailer recently saved \$1,200 annually per store by convincing a bank to rescind its newly increased fees, which the chain showed were 14 percent higher than those of neighboring banks.

The level of decentralization in the treasury operations is another factor impacting the bargaining power of retailers with their banks. Most retail organizations have relatively decentralized treasury operations. In many cases, local regional managers have the authority to go to a bank and open accounts without consulting headquarters. However, regional managers often have little understanding about the array of available bank services and their fees. Banks may be tempted to take advantage of this lack of knowledge by offering services such as automatic deposit reporting, wire transfer capability and special software packages. These frill services can easily drive up a store's monthly banking costs by several hundred dollars.

Even when measures are taken to deal with this problem, a distributed system still has the drawback that it diffuses the negotiating power a large retail organization has in dealing with its banks. For these reasons and more, a centralized treasury operation is far better suited to controlling account analysis fees through price negotiation.

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