A 2017 Visa Report

The Future of Payments for Irish SMEs

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Preface

As a country traditionally fond of using cash, Ireland is at the tipping point of a behavioural transformation that has been happening throughout Europe for the last decade. Since the introduction of contactless payment cards in 2012, Visa reported in March 2017 that over 3 million contactless payments per week were being made by consumers in Ireland. So regardless of what merchants and policy makers perceive as challenges, Irish consumers are voting en masse with sub-second 'tap and go' payments.

And yet for many businesses, large and small, the cost of cash remains an unknown. Business owners are aware of the ancillary costs such as the additional time overhead in 'cashing up' at the end of the day, the risks of carrying cash and the associated security measures required, and the lack of traceability of cash flows. However, it is difficult to give a specific figure as to the actual cost to businesses of these inefficiencies. At the same time, the cost of accepting card payments is eminently visible, consistent and traceable. This study addresses the gap in our understanding by shedding light on the hidden costs of managing cash, and comparing those costs with electronic card payments, with some startling results.

Not only are cash costs orders of magnitude higher than for card payments in many cases, but business owners live with the considerable security, hygiene and employee integrity issues that inevitably surround a cash payments process.

For businesses with a high volume of low value transactions, this report shows that cash is still the preferred payment option for customers. For the low volume of high value payments, cards are prevalent as would be expected. It would be reasonable to suggest that the continued success of contactless payment adoption will disrupt this balance even further.

But what is more surprising about the results of this study is the lack of awareness of insights into customer behaviour made possible through digital payments.

Notwithstanding a further integration point with point of sale systems, merchants aren't aware of the benefits of payments automation, in terms of visibility of customer buying patterns, price sensitivity, brand loyalty, promotion effectiveness, cross selling opportunities and other aspects of the customer relationship. The cost of cash is seen as a cost of doing business, but the business insights available from electronic payments are not fully appreciated or understood.

Thanks to this report, some of the myths surrounding the cost of cash are called into question, and the opportunities for data insights from more integrated payments are rendered visible. Policy makers, merchants and consumers will benefit from this insightful report into a social transformation that is happening before our eyes, in our wallets and on our phones.

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Ireland is at the tipping point of a payment transformation that has been happening throughout Europe for the last decade.

Background and summary

How consumers pay for goods has fundamentally changed over the past decade with the introduction of new technologies, like mobile and contactless payments.

Ireland has now reached a stage where consumers spend more by card than cash[1], with card transactions expected to surpass the amount of cash payments in the coming years. The scale of change over the next ten years will be even more dramatic due to developments in areas like biometrics and the Internet of Things, which mean that customers could pay for a coffee with their fingerprint or for their petrol from the dashboard of their car, without even stepping foot in-store.

1. https://www.bpfi.ie/news/consumers-switch-from-paying-in-cash-to-paying-by-card-2/

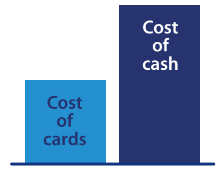
Irish shoppers have been keen to switch to new technology as evidenced by the rise in customers paying for goods with debit cards in-store over the past year. Contactless payments have been highlighted as a key factor behind the rise.

Contactless payments now account for a third of all face-to-face Visa transactions in Ireland, a phenomenal level of growth considering that the technology was introduced in earnest just over five years ago. It is an indication of the future of payments in Ireland, with Generation Z (21 and younger) believing that we will live in a cashless society by 2030[2].

As consumers choose electronic payments, opting for convenient and secure digital transactions over cash, Irish merchants run the risk of missing out on sales and carrying excessive business costs by exhibiting an overreliance on cash. In particular, independent stores like convenience stores, coffee shops or beauticians, still hold on to the idea that cash is cheaper and faster to accept than cards and run the risk of missing out as we approach the tipping point for the shift to digital payments.

Conscious of this trend, Visa wanted to explore the comparative cost for small retailers to accept different payment types and whether it is cheaper to accept cash over card.

The research revealed that, for the small businesses taking part, it is cheaper to accept €1 as a card payment over cash when costs were examined as a percentage of a merchant's turnover.



Cash costs 50% more for our small merchants

It found that cash handling costs were 2.5 cents per euro of turnover compared to 1.6 cents for a card transaction. As a result, cash handling costs are over 50% more than that of card payments and represent the majority of a small retailer's back office costs, which includes the time spent on cash reconciliation, fees for bank deposits and security costs.

Digging deeper, the research found that, for certain merchants, card costs are fundamentally fixed, whereas the cost of cash has more variable elements, with back office administration accounting for up to 25% of the cost, and the physical volume handled representing the other 75%. By making a conscious effort to increase the amount of card payments over cash, small merchants could save thousands on an annual basis on cash handling costs, reduce fraud risks and simplify business administration.

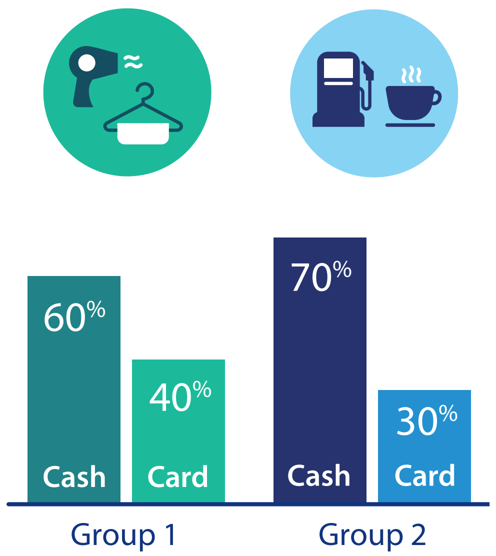
In addition to the basic cost savings, digital payments are also the enabler for new innovative technologies to help small Irish merchants become more efficient and automated. New digital till systems now have the potential to provide retailers with immediate data and insights into their business, enabling them to reduce costs with automated accounting and inventory control, gaining a better understanding of their customers, and competing against larger chains by being able to offer digital loyalty programmes at low cost.

These additional benefits of accepting card transactions over cash have the potential to truly transform a small business, giving retailers more time back to focus on the things that really matter.

In an increasingly complex retail environment, now is the time to seize the opportunity by embracing the future of payments.

1 in 3 of all face-to-face Visa transactions in Ireland is now contactless

2. https://coremediastrategy.wordpress.com/2017/05/23/new-data-signals-gen-zs-role-in-irelands-cashless-future/



Proportion of payments taken in cash and by card for different merchants

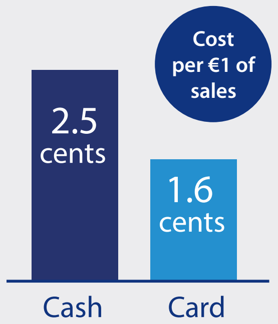
Key findings

The primary objective of the research was to examine the comparative cost for small merchants to accept different payment types and whether it is cheaper to accept cash over card.

Visa commissioned PSE Consulting and Red C Research to engage with a representative sample of 40 retailers in a variety of sectors, who experience different levels of card and cash usage. This involved analysis of sales, interviewing business owners and observing customer purchases in-store.

The 40 merchants, who provided end-to-end cost data, were divided into two categories: Group 1 had lower volumes of purchases and higher average transaction values (such as beauticians and dry cleaners), and Group 2 had high volumes of purchases and lower average transaction values (such as coffee shops, pubs and petrol retailers). Payments taken by Group 1 broadly comprised 40% cards and 60% cash, whereas for Group 2 the breakdown was 70% cash and 30% cards.

The research established that it is already cheaper to accept €1 as a card payment over cash, with cash handling costing 2.5 cents per euro of sales compared to 1.6 cents for a card transaction, for the businesses involved in the study.



From a cost per transaction perspective, some businesses with very high cash usage, representing more than 70% of all transactions, saw a marginal benefit of cash over card. However, these businesses are considering a false economy of scale, as in reality they are still paying a premium per transaction compared to handling the same amount of transactions via card.

The reason for this is one of the key findings of the research, namely that card costs are fundamentally fixed, whereas the cost of cash has more variable elements. For example, back office administration accounts for 25% of the cost of cash, and the physical volume handled represents the other 75% - the more cash accepted, the more resources needed to count, check and control during the day and for banking.

The researchers observed that the time spent reconciling card payments compared to cash payments varied widely, with best practice card back office times per day accounting for 28 minutes compared with 94 minutes for cash, reflecting the efficiencies that cards can deliver. Similarly, best practice end of week card processing was calculated at 34 minutes compared with 97 minutes for cash. As a result, businesses such as those we looked at in our research could save anywhere between €5,000 and €6,000 per year on cash handling costs.

The study also revealed that a significant proportion of the merchants involved were victims of cash-related crime, with 28% reporting a robbery and 33% suffering an incident of staff fraud in the past five years.

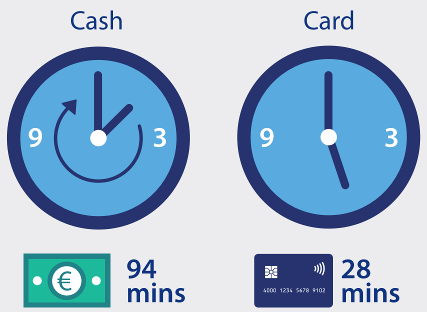
The sums involved were substantial given the small size of the businesses, with the highest value theft recorded equating to €10,800 and the highest level of staff fraud costing €2,400. A small number of the research participants also reported paying additional insurance premiums as a consequence of robbery.

Given this, it was not surprising that interviews with the merchants involved in the study found that the biggest concern over cash related to security, with a total of 62% expressing fears over the cash security risk and the potential for theft and fraud.

Overall, the majority of merchants had very positive views on card acceptance. Disadvantages were mainly raised by a smaller number who had a preference for cash. In this regard, almost a quarter of businesses (23%) said they prefer cash because of its immediate value and 13% preferred it because they are able to pay staff and suppliers in cash.

In contrast, businesses recognise many benefits in using cards. One in five (21%) highlighted the better cash flow into their bank that cards deliver, a statistic that continues to improve, not least in light of recent changes resulting in merchants receiving all pending payments on the following day, regardless of which bank the customer uses. A high proportion also emphasised the improved security (33%) associated with cards. Despite only recently being introduced in Ireland, the majority of merchants (54%) believe being able to accept contactless payments can lead to increased sales.

Some merchants could save up to €6,000 by switching to card payments



Best practice back office times per day

Best practice card back office times per day accounted for 28 minutes compared with 94 minutes for cash, thus reflecting the efficiencies that cards can deliver.

Beauticians

Cash transactions cost 4.7 cents per euro of turnover for beauticians compared to 2.3 cents for a standard card transaction – less than half the amount.

The average cash transaction was €25.91 compared to €42.71 for a standard card transaction, highlighting the fact that card transactions often lead to higher sales for merchants.

Dry cleaners

While dry cleaners had a higher volume of cash purchases compared to cards, the average cost of a cash transaction per euro of sales was 6 cents compared to 4.2 cents for a card transaction.

Similar to beauticians, the average transaction value for a card purchase (€26.29) was higher than the equivalent cash transaction (€20.56).

Hospitality/Pubs

Cash transactions are also twice as expensive for the hospitality sector (4.1 cents for cash transactions compared to 1.8 cents for card purchases per euro of turnover), with the value of an average card transaction (€28.25) almost three times more than the average cash purchase (€11.34).

Coffee shops

Coffee shops that participated in the research had just over twice as many cash transactions compared to cards, but the cost of cash as a factor of a store's turnover (4 cents) was higher than the equivalent cost for cards (2.7 cents).

Despite taking twice as many cash transactions, the average value of card purchases (€13.36) were double that of the cash equivalent (€6.76).

Petrol Retailers

Petrol retailers incurred a cost of 1.5 cents per euro of sales for cash transactions, compared to 0.8 cent for card purchases.

Customers paying with cash also spent €10.53 on average in contrast to a typical customer making a standard card transaction for €29.48.

While the above findings may be indicative of the situation across the industries examined, it is important to note that data only relates to certain merchants which participated in the research.

A changing payments landscape

Despite the fact that Irish consumers spend more by card than cash, the Irish retail community is unusual in that many businesses remain highly cash-centric.

In contrast, cash transactions only accounted for 2% of the value of all payments made in Sweden in 2015 – a figure that is expected to fall as low as 0.5% by 2020[3].

3. https://www.theguardian.com/business/2016/jun/04/sweden-cashless-society-cards-phone-apps-leading-europe

Cash-centric small merchants pay an unrecognised penalty for primarily accepting cash. These businesses incur very high back office costs and have significant concerns over security, theft and fraud.

When merchants consider the cost of cards they often focus on their perceptions of bank fees, but are not fully aware that back office cash costs reduce considerably as card volumes increase. This is because the majority of back office costs associated with card payments are relatively fixed (95%) whereas cash back office costs for cash handling are highly variable (75%) – the more cash accepted, the more resources needed to count, check and control during the day and for banking.

Once a business reaches a point where at least half of the payments it accepts are card transactions, every time it increases the percentage of digital payments beyond this point, it can drive potential back office cash administration savings for each cash transaction displaced.

Increasing the volume of card payments can play a crucial part in lowering admin costs.

The savings can be substantial, with the research showing that if card acceptance can be increased to 80%, the businesses we looked at could realise annual savings in staff costs between €5,000 and €6,000.

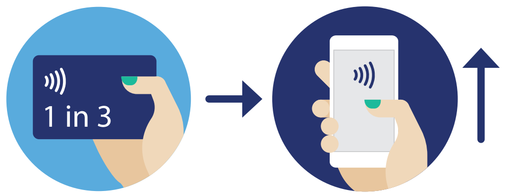
As a result, staff can focus more on helping customers, while business owners can take advantage of reduced theft and fraud risks.

This is important not simply because of the savings that can be made, but because it also enables merchants to respond to changing consumer behaviour and also potentially lead to higher average transaction values as customers are not limited by the amount of cash on hand.

Smartphones are driving this retail revolution and the rapid adoption of contactless payments.

Contactless payments already account for one in every three face-to-face Visa transactions. Now that it is possible to make payments with a smartphone, digital payments will only increase.

Ultimately this means a move away from cash and towards electronic interactions for retailers, highlighting the need for merchants to encourage their customers to do the same, rather than remain ambivalent.



Making a purchase is no longer simply a case of walking into a business. Consumers often research choices online, before deciding where to buy.

In some cases, like ordering a takeaway, consumers may make the purchase from their smartphone without even stepping foot in-store.

Consequently, merchants need solutions which enable customers to pay via any channel whether it is by phone, online or at their physical premises to ensure that they don't miss out on potential sales volume and value.

Future of payments

How consumers pay for goods and services has fundamentally changed. Looking at the UK, debit cards have replaced cash as the top payment method, and for the first time ever, more than half of all retail payments are being made with debit, credit or prepaid cards[4].

4. https://brc.org.uk/news/2017/debit-cards-overtake-cash-to-become-number-one-payment-method-in-the-uk

In Britain the share of debit card payments grew to almost 43% of all retail transactions in 2016, compared to cash which accounted for 42%, according to the British Retail Consortium (BRC).

While contactless payments have been a key driver of this milestone, a number of other developments and trends have emerged which will ensure that the pace of change continues.

The desire of consumers to pay digitally, whether it is with a contactless Visa card or by tapping their smartphone, means that merchants need to have the technology to be able to accept these types of payments. In this respect, the same card terminal that accepts contactless is able to process payments via smartphones, so businesses with this technology are already on the path to the future of payments.

Digital till systems go a step further as they can replace cash registers and card payment terminals in one simple device. They are also more than a payments device as they open up a range of services for small businesses that would ordinarily only be available to large chains. The price point for this technology has now reached a level where it is fully accessible even to the smallest retailers.

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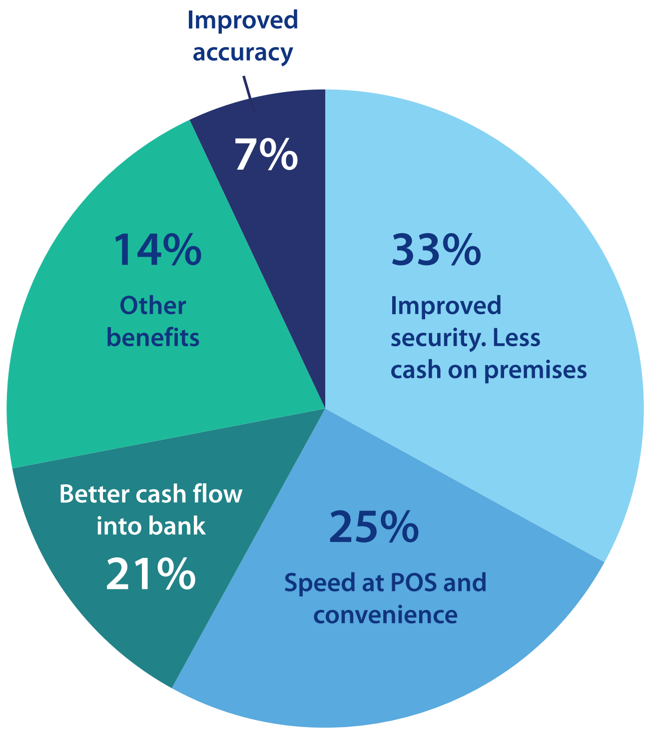

Benefits from accepting card payments

(as experienced by Irish merchants included in the research)

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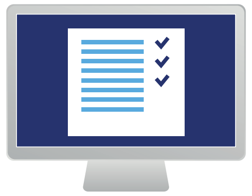
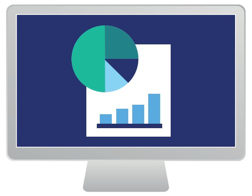
Member rewards



Inventory management



Accounting

Merchants, who in the past would have to do tasks like stock control, accounting or loyalty programmes manually, now have access to systems which will help them track inventory, deliver customer insights and run loyalty programmes at the click of a button.

Payments are also no longer restricted to the four walls of a business premises as merchants can accept debit or credit cards anywhere. With a mobile payments device, tradesmen like plumbers and electricians can now accept card payments and no longer have to worry about having the right change for customers or the security risk of carrying large amounts of cash around. The same devices are an ideal solution for microbusinesses who want to accept a small volume of card transactions.

As we move into the future, consumers will have an increasing number of choices about how they pay.

The Internet of Things – the connection of everyday devices like your fridge or car to the internet – means that thousands of devices other than cards or smartphones will be able to be used to purchase goods or services.

Today, thanks to mobile connectivity and connected devices, people can purchase goods or services anywhere at any time.

The future is already here, as countries like the UK and Poland can testify, where the shift to digital payments has already hit the tipping point. The speed of change in Ireland is also accelerating and over the next five years Ireland will see itself on a similar path to early adopter markets.

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Note on merchant selection

In 2015 Visa undertook a study to understand card acceptance in Ireland. Although cards were widely accepted in larger merchants (named brands and chains), the acceptance levels of cards in smaller independent high street stores was lower. As a result, eight merchant sectors where cash was the predominant payment method were identified. These merchants provided the source for the subsequent Cost of Cash research study which was commissioned by Visa and carried out by PSE Consulting.

To conduct the Cost of Cash research, 40-50 small merchants were recruited through their financial institutions to participate. The selection criteria used were:

- Merchants to be in Dublin City Centre and suburbs plus Cork, Mullingar, Sligo and Athlone;
- Where possible, only local chains to be selected and all to be independent;
- The sectors chosen were typical high street independents: grocery/corner shops, small petrol stations, pubs, coffee shops, beauticians and hairdressers, dry cleaners, fast food outlets and specialist food outlets (including butchers and bakers);
- All to be higher footfall volume outlets;
- That they had no more than two point of sale terminals;
- As many to offer contactless payments as possible (with the exception of beauticians and hairdressers and dry cleaners);
- They should have card revenues of between €50K and €500K and card volumes of between 1500 to 10,000 per annum;
- They accepted all types of card and cash payments, but had a cash-to-card ratio of between 60-70% cash;
- Their average card transaction volume was between €15 and €40.

For more information about the research or receiving payments, please contact us at futureofpaymentsireland@visa.com

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