CASHING IN OR CASHING OUT?

How far will 'cashless' go in retail?

by M.V. GREENE

What's universal, convenient, anonymous, transferable and fast — and possibly becoming obsolete? Cash, of course.

As other payment methods have proliferated, starting with credit cards and then debit cards, gift cards, prepaid cards and now mobile payment and digital wallets, good old-fashioned cash is increasingly getting a bad rap.

It's far from a universal opinion, but some retailers want a cashless future, despite the virtues the dollar bill still holds. Perry Kramer, vice president and practice lead at consultant Boston Retail Partners, contends that as many as 80 percent of retailers today are already largely cashless — not necessarily by conscious decision, but through the proliferation of payment cards.

Retailers like the ease of reconciling electronic transactions and — while many retailers would disagree — Kramer claims the convenience is worth it despite skyrocketing swipe fees charged by banks for processing transactions.

"Retailers don't really want to be banks. It's not their sweet spot," he says. "It is much less expensive to process credit and debit than it is cash, because cash has a lot of labor involved."

One retail payments expert who disagrees is National Retail Federation Senior Vice President and General Counsel Mallory Duncan.

While he questions the 80 percent figure, Duncan concedes that plastic transactions "are probably the majority" in today's retail world, boosted in part by the popularity of debit cards among Millennials. But cash still gives the retailer 100 cents on the dollar while banks take a cut of 2-3 percent on each credit card transaction — a fee that adds up to more than $50 billion a year industry wide and has been the subject of both litigation and legislation.

Credit and debit card "swipe" fees far outstrip the cost of handling cash, he says.

"Cash has long been the favorite and lowest-cost form of payment for most retailers," Duncan says. "From a cost standpoint for most retailers of any size, cash is still king."

Swipe fees are so high today that it would be "devastating to the merchant's bottom line" to try to absorb them, Duncan says, leaving retailers with no choice but to build them into merchandise prices. Accepting cash — and hoping that customers use it as often as possible — helps mitigate the cost of swipe fees, he says.

PIQUING INTEREST

The notion of a cashless society has been gathering steam globally. In Nordic nations like Sweden, Denmark, Norway and Finland, it is being pursued as governmental policy. Domestically, the Federal Reserve has forecast that cashless transactions will reach $617 billion in 2016, up from about $60 billion in 2010. In September, consultant Capgemini put the annual growth of digital payments at about 10 percent, or 426 billion transactions in 2015.

Such forecasts are piquing interest on numerous fronts, from financial advisers and retailers to policymakers and social-media prognosticators. Vancouver, B.C.-based clothing chain Kit and Ace has stopped accepting cash at its stores, and touts the move in its marketing.

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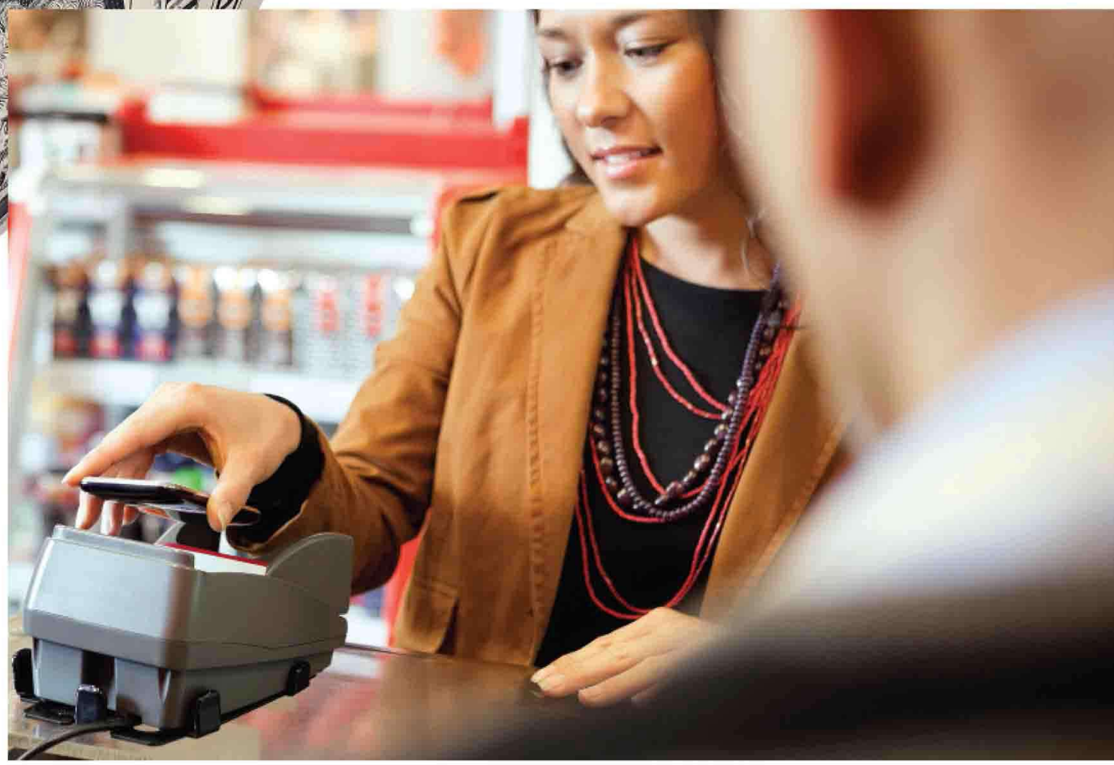

"Broadly, we would love to get rid of [cash] for the whole company," says Ayr Muir, founder of farm-to-table fast-food chain Clover Food Lab, which operates more than a dozen food trucks and restaurants around Boston. "I don't like handling it, and it's a smaller and smaller percent of our business. I think it's just a giant hassle."

With an organic menu and social-media marketing, Clover attracts customers who prefer a card or digital wallet over cash. Even though most of the menu items are under $10, Muir says cash accounts for only about 20 percent of the chain's sales.

That's where the expenses come in, he says, because retailers have to count cash, secure it, account for risk and losses and take it to the bank for deposit.

"Cash isn't free," he says. "If you just add up all the costs it's pretty enormous." Muir says he would "still rather pay the fees" to banks and card processors even at 3 percent than accept cash.

Yet for all the signs of a cashless future, it would not be simple for U.S. retailers to close their operations to cash. A host of considerations are in the mix, including consumer attitudes, laws and regulations — not to mention the $1.4 trillion in U.S. currency in circulation worldwide that the Federal Reserve says is seen "as a trusted store of value."

'RELEVANT AND POWERFUL'

Cash is not going away anytime soon, and remains a relevant and powerful payment option, says Peter T. Wolf, senior vice president of retail marketing for cash services company Glory Global Solutions North America.

"There's part of the population that likes the tactile feel of the money and counting out the bills or having the bills," Wolf says. "There is an affinity for cash."

Regardless of burgeoning alternative payment methods, Federal Reserve studies show that consumers prefer cash for about half of all transactions of less than $50, and use currency more frequently overall than credit or debit cards for a wide swath of spending.

In addition, the Fed says private person-to-person payments are almost exclusively in cash, despite the growth of electronic transfer systems like PayPal or Venmo.

Kramer acknowledges that while plastic is popular with many purchasers, legions of

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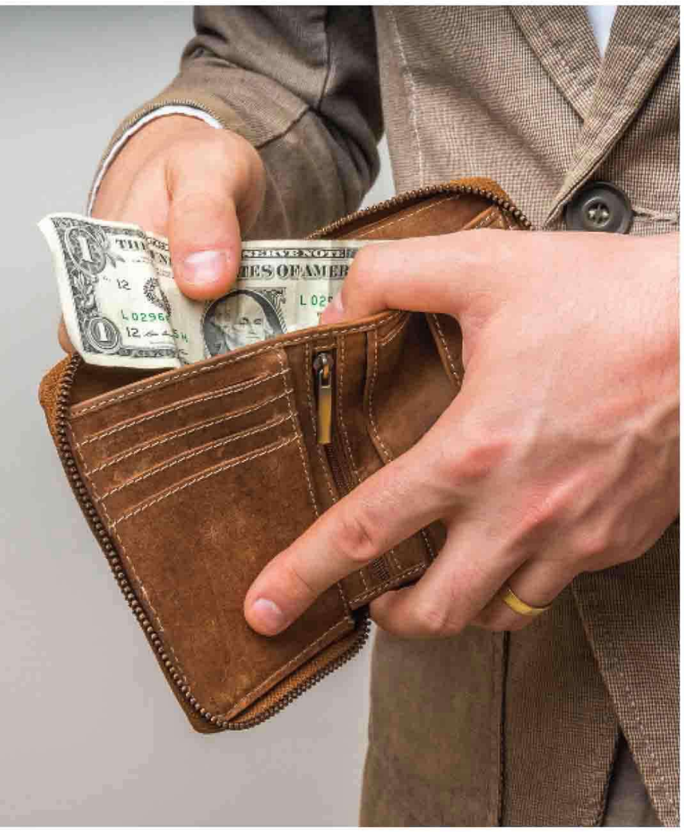
"unbanked" and "underbanked" low-income consumers have limited or no credit and debit cards.

While some consumers might embrace credit cards and mobile payments, the Federal Deposit Insurance Corp. says there are others who prefer cash so as to not leave electronic records. Former Texas congressman and Libertarian Party presidential nominee Ron Paul calls the move to cashless payments a device of economic central planners who want to "eliminate hand-to-hand currency so that governments can document, control and tax everything."



A June Gallup Poll found consumers between the ages of 18 and 29 are more likely to be fine with not using cash, while those over 30 prefer to carry "walking-around money."

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As cashless gains with retailers, Wolf says some cash customers feel like second-class citizens when faced with self-checkout lines that work better with plastic than cash, or card-only line-busting point-of-sale locations some stores employ when traffic gets heavy.

"The customers paying in cash end up having to stand in lines in stores where cash is accepted," Wolf says, "and often must wait longer to check out."

Regulation is another possible impediment to going cashless for retailers, although payments analysts believe that is a lesser issue. Muir says that when he sought to go cashless in Cambridge, Mass., he received a letter from the city saying it would violate a state regulation.

TECHNOLOGICAL HELP

Retailers such as Muir believe solutions to advancing cashless operations may lie in technology. Muir has reached out to manufacturers to determine whether a "reverse ATM" terminal could solve his cash problem: Customers would insert their cash into the machine and then receive a pre-paid payment card, he says.

A 2015 Pew Charitable Trusts report found that the use of general purpose reloadable prepaid payment cards is rising exponentially, particularly among the unbanked. Pre-paid payment cards are growing so fast that the federal Consumer Financial Protection Bureau is considering whether they should be given protection against theft and loss similar to traditional bank accounts.

Pew found that about 23 million adults regularly use prepaid cards, which can be loaded by direct deposit or with cash and then used at ATMs and retail outlets.

Ron Shevlin, director of research for financial services consultant Cornerstone Advisors, says many forces support continued heavy reliance on cash.

Shevlin forecast in 2011 that it would take 200 years to get to zero cash. While smart devices and emerging alternative payment methods have proliferated over the past five years and might have shortened that timeline, Shevlin is holding firm in the spirit of his prediction, describing the cash-to-electronic landscape as messy.

"The reality is that in the shorter term, which is 25 to 30 years out, there are still some very strong forces that will keep cash alive," he says.

Shevlin says carrying cash does have its risks but many questions remain about an all-electronic payments society from access, policy and protection perspectives.

"We're nowhere near having dealt with those types of questions," he says. "If you have $100 in your pocket, you risk losing $100. But if we start to regulate away from cash and move to a more electronic digital version of payment, then a data breach isn't just a hundred bucks out of your pocket. It could be the hundreds or thousands of dollars out of all of your accounts."

Put simply, Shevlin says, "We're not ready." **STORES**

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