Retail Times
be inspired

Digital payments and the retailer: the pros and cons of using digital payments-only

Published on 30/04/2018

Some retail outlets are experimenting with moving to digital payment-only operations. As non-cash payments become the norm, some retailers, particularly in hospitality, no longer accept cash. Here Richard Loh, MD of Eurostop, and Mark McMurtrie, independent payments specialist outline the benefits and the disadvantages of managing cash

Cards have long dominated retail spending by value but according to the British Retail Consortium (BRC), they now also account for over half of all retail transactions. BRC figures state that debit cards account for 42.6% of all Eurostop transactions, whereas cash is 42.3%. According to UK Finance, 77% of all UK retail spending was made by cards. This trend has been driven by the widespread adoption of contactless and other forms of digital payments, which have finally won over the British public. Both the London Business School and the Bank of England have suggested that contactless cards are fuelling spending. It is less psychologically painful to with a contactless card than to part with cash.

Digital payments are evolving fast

Ten years ago the payments industry was dominated by about 10 companies (banks, Visa, Mastercard etc.), now the payments landscape has changed vastly, with more like 500 companies providing payment services to merchants. While some of the payment services are highly specialised, overall the choice for the consumer has increased tremendously and raised expectations. Consumers now expect fast and secure payments, no risk, and, no charges. This is driving down costs, increasing competition and squeezing margins for the acquirers (typically banks), most of which is good for retailers.
This new payments landscape has been driven by e- and m-commerce, of which most retailers have been a part. PayPal and digital wallets are the most obvious developments, spawning a range of copycat services and opening up alternative payment methods.

Everything is going mobile

Mobile comes in many different forms, it can be people shopping from their mobile devices, checking and comparing product details while out and about, it can be paying from a digital wallet (for example, settling the bill in a restaurant), in-app or social media payments, or can be mobile POS, taking the till in the form of a tablet or smartphone to the customer for customer assisted selling.
As the innovation continues, contactless payments are now evolving thanks to NFC enabled smartphones and the digitizing of cards. Physical contactless cards are no longer needed. This is significant for a few reasons for retailers. If consumers pay using their mobile (ApplePay, Google Pay, SamsungPay etc), the limit is much higher than £30, although few realise this. The customer has the mobile phone which provides additional authentication via fingerprint or other verification/ biometric method, so the risk to the card issuer is much lower. As this becomes more commonly known, so transactions values and volumes are likely to increase even further.
Another important benefit of mobile digital payments is the ability to collect customer data, for marketing use, and to send online receipts. This enables retailers to build a relationship with the customer after they have left the store or made their online purchase. Digital payments can sit alongside loyalty and reward programmes to drive customer acquisition and retention.
Prepaid and gift cards are also an alternative to cash that continue to become popular – used online as well as in-store, they are available in digital format and plastic cards.

There will always be some element of cash

While the complete demise of cash has been predicted in some quarters for years, there are several reasons why we should hope that it doesn't happen. Not everyone has access to a credit or debit card,

or the internet, so a card only policy means some potential customers are excluded. Some people will always prefer cash, often age is an important factor in their choice of how to pay.
There is also another reason that we should keep cash alive. If there were no hard cash alternative for payments, it would be very easy for fees to be increased because there would be no competition. A few years ago there was a public outcry when the banks announced that they were going to phase out cheques. While hardly ever seen in stores, cheques provide a useful method of payment in some instances, for example, for charities, for the elderly or when sending payment by post. Now it is all about providing choice to the consumer, so cash is unlikely to be phased out any time soon.
And as for cryptocurrencies like Bitcoin – another South Sea Bubble or Tulipmania! At the moment, this is a technology looking for a problem to solve, and so far, it hasn't found one in the legitimate, non-money laundering world!

Digital payments – the pros & cons

The benefits of going cashless can be summarised as follows:

- Less chance of fraud and robbery, as no cash held on the premise
- No cash handling fees from the bank, and no trips to the bank to pay it in
- Quicker transactions, better for the retailer and the customer, shorter queues
- Better marketing opportunities by collecting customer data for future use
- The average spend tends to increase when cards or contactless are used
- Required for e- and m-commerce

The drawbacks of banning cash:

- Excluding potential customers that would like to pay with cash
- If cash is withdrawn altogether, processing fees are likely to increase
- Less privacy for the consumer

In summary, there are many more payment types than ever. Consumers are fickle and demanding, by offering a range of options, making it as convenient as possible for customers to pay, gives you the best chance of maintaining customer loyalty. As payment fees are decreasing, thanks to the efforts of the regulators and competition, you can afford to provide more flexibility without eating into profits.