

Cash acceptance within SMEs



Small businesses believe there is still a future for cash payments

Innovation and new technology are making digital payments easier than ever for consumers of all ages. In February 2020, according to the FCA's Financial Lives survey,

84% made a contactless payment in the previous 12 months

↑ up from 63% in 2017¹

84% made a contactless payment in the previous 12 months, up from 63% in 2017. However, despite a decline in use, cash remains a vital payment method for many, including the most vulnerable in society. In February 2020, 5.4 million adults (10%) relied on cash for all or most of their daily purchases.

The FCA commissioned Savanta to conduct both qualitative and quantitative research to understand the key factors that determine whether small and medium sized business owners (SMEs) choose to accept cash and how important the cost of cash acceptance is in this decision, both in absolute terms and relative to the cost of accepting digital payments.

The quantitative research shows that there are high levels of happiness in accepting all face-to-face payment methods now, with nearly two thirds of small businesses 'very happy' to accept cash currently. Furthermore, almost 8 in 10 businesses say they are 'very likely' to accept cash over the next 5 years. The top motivation for accepting cash, as stated by nearly 29% of respondents, is to provide customers with choice over payment type. Nearly all (98%) small businesses agreed that their 'Business would never turn a customer away if they needed to pay in cash'.

¹ <https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus>

Research with SMEs and small businesses

Initially qualitative research² was conducted in late 2020 with SMEs across 3 sectors: Retail, Hospitality and Service³. We focussed on businesses that conducted an element of face-to-face trade and where cash payments were possible (pre-lockdown).

The initial qualitative research noted that the level of cash usage had been gradually declining over the last 5 years. The decline of cash as a payment channel for consumers was largely attributed to 3 key factors:

- 01 increase in the use of contactless payments (via both cards and mobile phones)
- 02 increase in the upper limit for contactless payments to £45
- 03 lockdown government guidance on staying safe using contactless payment, which has remained in the public consciousness

During lockdown, for many customers who had previously relied on cash payments, there was a large-scale move to pay with cards/contactless instead.

Covid-19 has accelerated the longer-term decline in cash usage but businesses plan to continue accepting cash

The qualitative research provided the backdrop to the larger scale quantitative research conducted between 26th April and 2nd July 2021, just as businesses were coming out of lockdown.

For the quantitative research the focus moved to small businesses, defined as businesses with fewer than 50 employees and an annual turnover of up to £6.5m⁴.

Small businesses have typically seen the level of cash being used to pay within their business decline by 15% since before Covid-19, whilst contactless payments have increased by 10%. That said, cash remains the preferred payment method for small value transactions.

Whilst some small business owners believe that the levels of cash payments will continue to gradually increase in the near future, there was general agreement that they will not go back to pre-Covid levels. That said, if cash as a payment method was entirely removed, most felt they would lose customers as a direct consequence.

² The qualitative research comprised 20 extended telephone depth interviews. SMEs were defined as businesses with fewer than 50 employees and with an annual turnover below £25m.

³ Retail includes shops selling e.g. food, beverages and non-food items. Hospitality includes e.g. licensed and unlicensed restaurants and cafes, pubs, take-away and mobile food stands. Service includes e.g. window cleaning, gardening, dental practices, repairs to domestic equipment, hair dressing and dry cleaning.

⁴ 400 telephone interviews plus pilot of 25 telephone interviews. Interviews were 30-minutes long. Quotas were imposed to ensure a good representation of small businesses including by geographic region, rural vs urban and sectors (Retail, Hospitality and Service).



Small businesses exhibit a high level of happiness to accept cash from their customers, and providing customers with choice of payment methods is of key importance

There are high levels of happiness in accepting all face-to-face payment methods, with nearly two thirds of small business owners stating they were 'very happy' to accept cash currently. Further, almost 8 in 10 (78%) stated they were 'very likely' to accept cash over the next 5 years.

Businesses were very customer focussed, indicating their primary motivation was to provide customers with choice to ensure they could pay with cash if they wanted to, as shown in Chart 1 below.

Indeed, this theme of being inclusive and ensuring that customers were offered choice resonates strongly throughout the research.

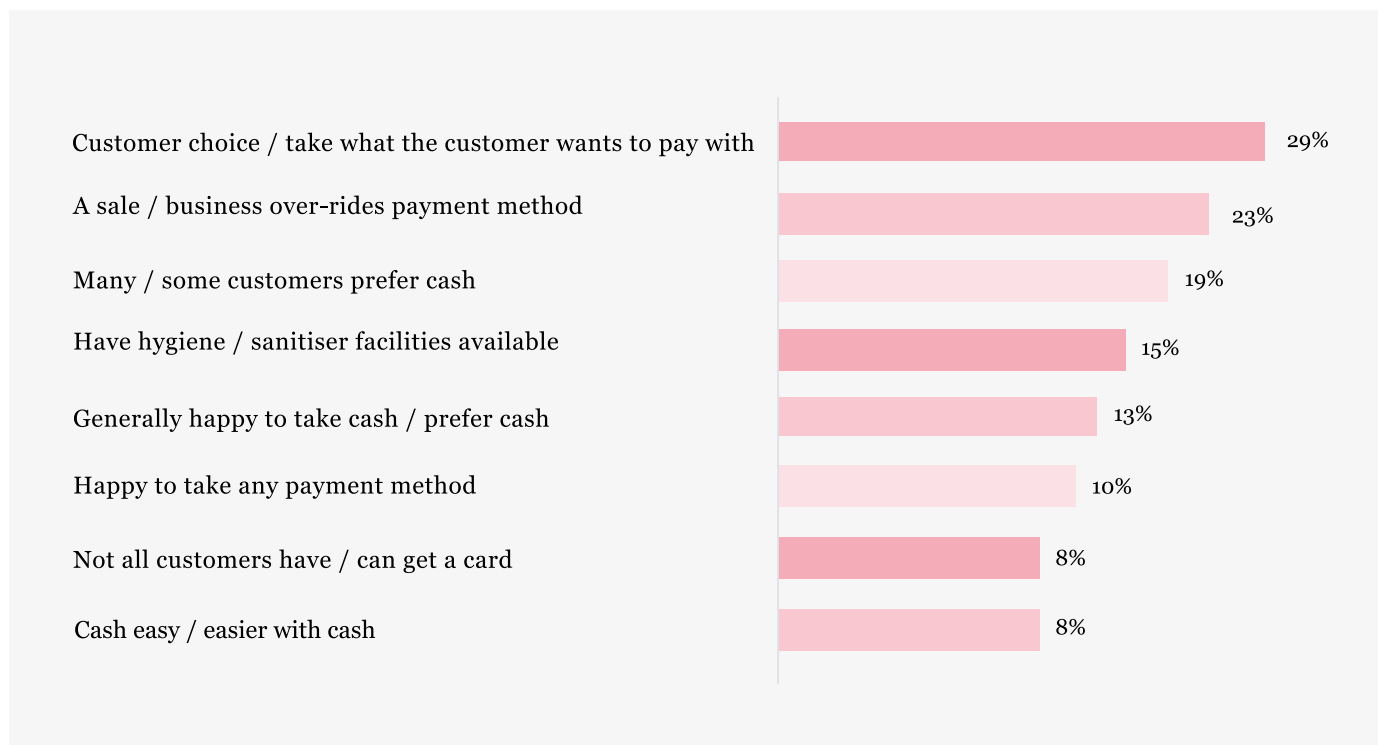
A comment made by one small business owner stated:

"We have small item value products and we are an impulse purchase business. A lot of customers are a lot older and don't always do chip and pin and contactless."

Whilst a further small business owner stated:

"We like to have customers in the shop. We don't want to limit their choices for payment methods. We have a lot of elderly customers who are not all online and don't have cards. So we wouldn't want to stop them. They like to use cash. We do not want to limit people's payment methods and exclude them."

Chart 1: Top 8 spontaneously mentioned reasons why small businesses accept cash from their customers



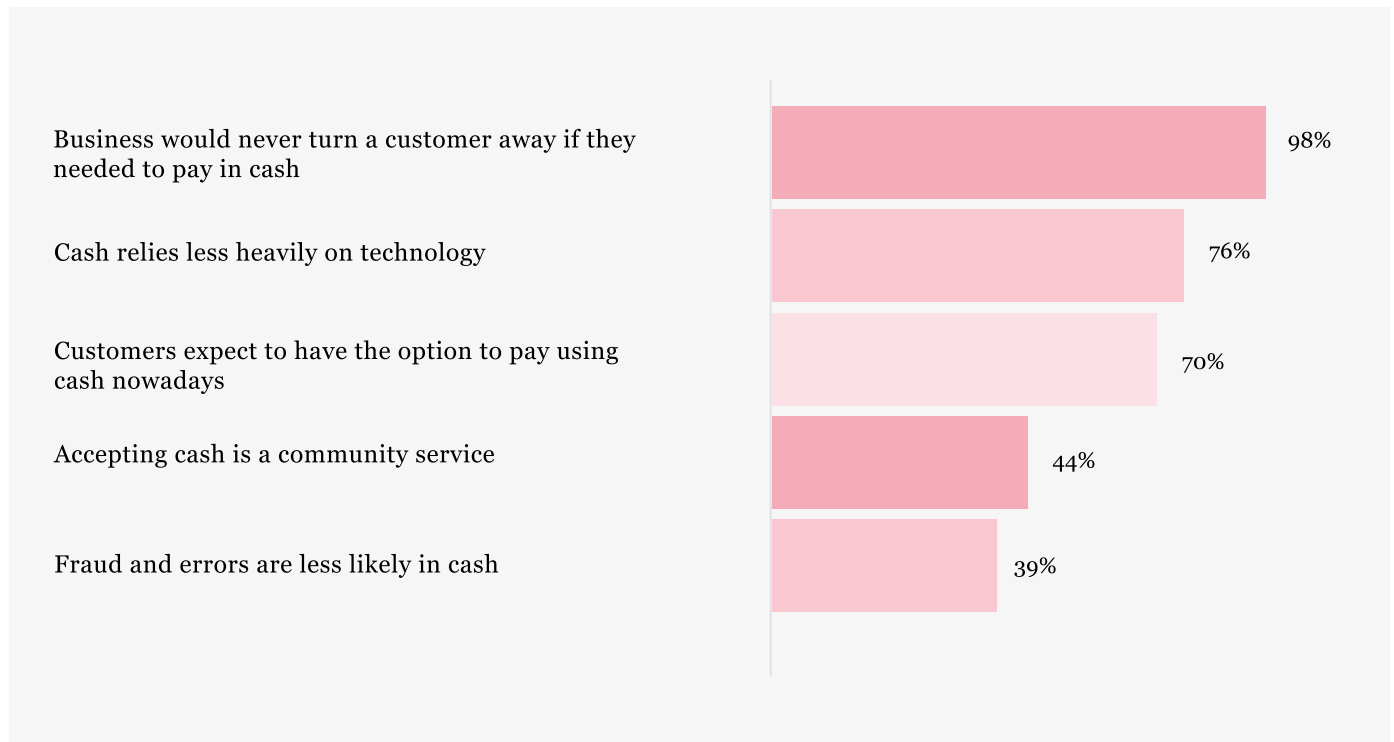
98% of small business owners stated they would never turn customer away if they needed to pay in cash

Business owners were also presented with 11 statements and asked to indicate their level of agreement as to their feelings on accepting cash payments. The top 5 reasons for small businesses accepting cash are shown in Chart 2 below.

Nearly all (98%) agreed⁵ with the statement that their 'Business would never turn a customer away if they needed to pay in cash'. Small business owners acknowledged that some customers simply prefer to pay using cash, with typical mentions made here of the elderly, the young, those on low incomes and those in rural areas being more reliant on cash transactions. Furthermore, 7 in 10 agreed that 'Customers expect to have the option to pay using cash nowadays'.

⁵ Agreed is defined as 'Strongly agree' + 'Agree'.

Chart 2: Top 5 reasons for small business owners accepting cash

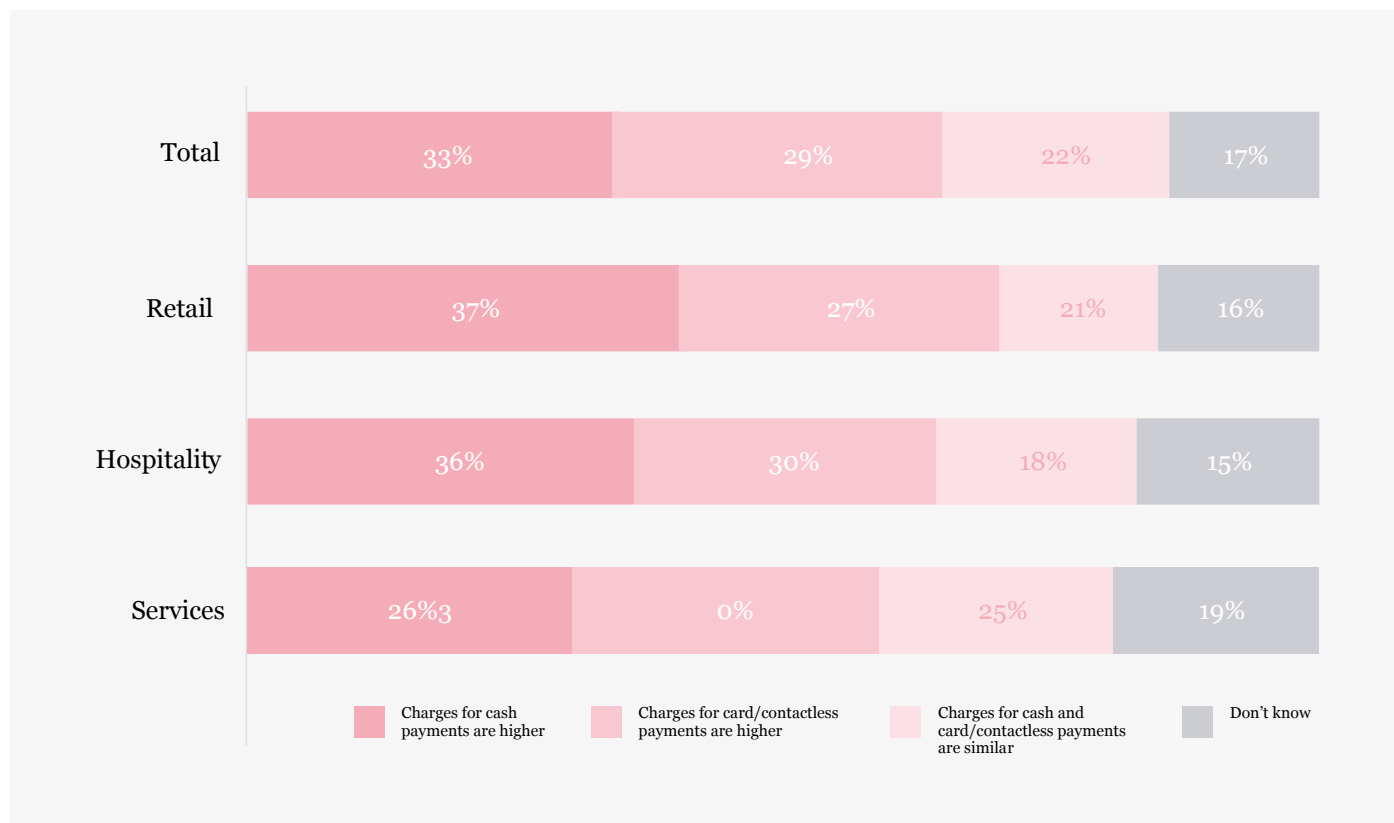


There is a general lack of strong sentiment over the cost effectiveness of any of the payment methods

Cost is of relatively low importance as a factor in driving the decision making within small businesses, in that they do not mention cost as an important factor, and equally their awareness of the relative charges remains low.

When asked about the relative costs involved for accepting cash and card payments, the picture is a very mixed one as to which payment channel is perceived as attracting the highest fees. Whilst a third of small business owners believe that cash charges are higher, a similar number believe the fees for card/contactless are higher, as shown in Chart 3.

Chart 3: Perception of whether the charges for cash or card/contactless payments are higher



When asked directly for the monthly cost of depositing cash, just over 1 in 5 small businesses are simply unaware of the costs for depositing cash. Equally, for accessing cash for use within the business, 1 in 7 do not know what the relative costs are.

Nearly half state that the time taken to deposit cash has remained stable since before Covid-19 (49%), whilst just over 4 in 10 (41%) believe it has increased and, conversely, just over 1 in 10 (11%) believe the time taken has decreased. The primary reason for the change in time for depositing cash, as stated by 7 in 10 small businesses, is attributed to an increase in queuing times, followed by the bank or Post Office where cash is deposited reducing its opening times.

The most common actions taken to reduce depositing and accessing cash costs have been to reduce and consolidate trips to the bank/Post Office with other activities – actions taken by around half of small businesses.



Most small businesses now hold less cash within the business

Almost two thirds of small businesses say that in a typical week they now hold less cash within the business as a result of Covid-19.

When considering how much cash should be kept on the premises, in terms of what is important to small business owners, security was the top factor, as noted by 44%⁶ of respondents, followed by the comfort of knowing that cash is available to use when needed and costs (e.g. bank charges), each with 39%.

In terms of offering cashback, fewer than 1 in 10 businesses currently offer 'formal' cashback with purchase, increasing in rural areas to 1 in 7. The top 2 reasons provided for not offering or considering offering cashback with purchase was the lack of customer demand, followed by holding insufficient cash in the till.

Finally, there is an element of recycling cash within the business. The key purchases for those who do, are for consumables, retaining petty cash and creating a business float, as stated by just under two thirds for each.

⁶ Rating of importance from 1 (not at all important) to 10 (very important). Rating here is based on ratings of 8-10.



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