Economists INCORPORATED

NEW STUDY EXPLODES MYTH THAT "CASH-ONLY CAN BE MORE PROFITABLE FOR RETAILERS"

Analysis of small retailers showed costs of payment card acceptance is dwarfed by value created

Washington D.C (November 20, 2014) --- A new study which analyses the point-of-sale practices of small retailers demonstrates that retailers that adopt a cash-only strategy make fewer sales, of smaller dollar-value, yet still incur costs associated with handling cash. The study, *Retail Payment Systems: Relative Merits of Cash and Payment Cards,* was released today by Economists Incorporated, a premier economic consulting firm.

The study weighs the costs and benefits for merchants of different payment systems and in doing so explodes the myth that merchants do not incur costs or any significant disadvantage from rejecting electronic payments and operating on a cash-only basis. The study is the latest contribution to a mounting body of publically available work which quantifies and demonstrates the extraordinary value of payment card acceptance to merchants of all kinds.

The paper, which details case studies of five merchants – a fast-food restaurant, a full-service restaurant, a gas station, a convenience store, and a small, independent grocery store – and the experiences of a florist who added the use of credit cards, reveals that:

- Merchants can expect significant increases in sales when they add payment cards to their mix of accepted forms of payment;
- The difference in merchant costs associated with credit card transactions and cash transactions is relatively small;
- The additional value that merchants derive from payment card acceptance is large relative to any associated costs.

Dr. Philip Nelson, one of the primary researchers for the study, said, "The myth that small merchants can profit by sticking to cash-only at the point-of-sale is surprisingly persistent. Our study shows that merchants who act on this long-outdated notion will have fewer customers who make smaller purchases, while still incurring the costs associated with handling, transporting and securing cash."

He continued, "The merchants in the study spent considerable time processing the cash that flows through their business. In the case of the convenience store, cash processing required an average of 14 hours per week of employee time and nearly 11 hours a week of owner time. Electronic payment cards do not require merchants to incur these costs.""

The study found evidence that merchants experience significant increases in revenues when they shift from a cash-only model to accepting payment cards. The study shows:

- The florist's sales increased after credit cards were accepted (9.2% the first year after starting acceptance).
- Average size of credit card transactions was always larger than the average size of cash transactions.
- In some cases, the average size was much larger (e.g., roughly twice as large at the full-service restaurant and grocery store).
- Similarly, average debit card transactions were often larger than cash purchases.
- While cash is sometimes used for fairly large transactions, the use of cash typically tops out at less than $200.

The executive summary of the study is below. The full study and more information is available at www.ei.com

About Economists Incorporated:

Economists Incorporated is a premier economic consulting firm in the fields of law and economics, public policy and business strategy. With offices in Washington D.C. and San Francisco, Economists Incorporated offers expert consulting and testifying services in the context of litigation, arbitration, proposed mergers and acquisitions, regulatory hearings and business planning. Clients include legal counsel, businesses, trade associations, government agencies, and multi-national organizations. www.ei.com