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Are You or Your Customers Driving Your Decisions

During the last 20 years I have counseled hundreds of business owners on growing their businesses and in most instances, most define growth as more revenue.

Do you remember the bookstore chain called Borders? A 2011 Time Magazine article highlighted two big reasons that caused the company’s demise.

One, when Amazon introduced online bookselling, instead of developing its own online presence, Borders outsourced their online business to Amazon. “So anytime you visited www.borders.com you were redirected (to Amazon). Relinquishing control to another company hurt Border’s branding strategies and cut into its customer base”, the article stated.

Secondly, On November 19, 2007, Amazon introduced the Kindle and the device sold out in five and a half hours and remained out of stock for five months until late April 2008. Borders Books chose not to counter Amazon’s move in digital readers. The Time article stated, “Borders didn’t foresee the rise of e-books like Amazon and later Barnes & Noble did. It didn’t develop its own e-reader to compete with the Kindle or the Nook, and Borders only opened an online e-book store a year ago (2010).”

In both instances, the preference of consumers drove the marketplace. Consumers, when offered the choice, loved the option to buy books online. Likewise, when offered the opportunity to read books digitally via Kindle or other e-readers, their response even exceeded Amazon’s expectations. Successful businesses adhere listen to their customers and respond to their needs/problems/pain points. Those that don’t well, they end up like Borders.

Successful businesses listen to their customers and respond to their needs, problems, and pain points. Those that don’t well, they end up like Borders.

Recently I encountered some circumstances that reminded me of the fate of Borders. I visited three restaurants and one auto detail shop that only accepted cash.

The first was a small eatery in Philadelphia. It was my first visit and I knew the owner so he accepted the cash I had. The second was in Atlanta and fortunately, my colleague knew of the cash only policy and graciously paid for my meal. The third occurred in my neighborhood. After leaving the golf course I decided to stop by a local restaurant to take dinner home (points with my wife). On the one occasion I visited the restaurant, I purchased take-out meals and paid with cash, however, I was unaware of the cash-only policy. So, on this particular visit I ordered take out and when the food was ready I went to the counter to pay, only to be told the establishment was cash only. As a result, I had to drive to an ATM, withdraw cash, and drive back to the restaurant.

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The only reason I did was due to my desire to support local businesses in the community. As for the auto detail shop, I have done business there a few times and always have to go to the ATM beforehand. I patronize the shop because they do a good job. However, there are two other shops located in close proximity that have reputations for doing great work, and they accept non-cash payments.

What really inspired me to write this article, are two experiences I had during this same time period. On a Friday afternoon, I bought lunch at Sweetgreens in Philadelphia, a unique take-out restaurant that sells amazing salads. As I approached the register to pay, I was greeted by a sign that said “no cash payments, we are experimenting with becoming a non-cash business and that same sign cited all of the benefits associated with doing so.

This week, while visiting Washington, DC, the fitness center and spa where I worked out had a similar sign that read, “As of Aug. 14 we no longer will accept cash.”

Different businesses, two different strategies for receiving payments for services. Which strategy is better? Which strategy represents “smart” business? Which strategy would you choose? Let’s examine these questions by analyzing the cash only choices by the business owners.

Passing a Dollar to Grab a Penny

Business owners implement all kinds of strategies to cut cost, improve profitability, and increase revenue. I asked some of the business owners about their rationale for accepting cash only for payments. One of them accepted cash only because he wanted to avoid the 2-3% transaction fee associated with non-cash payments. Another cited his need to have cash available in his account immediately rather than wait 2-3 days for the money to be deposited in his account by merchant services. Still, another cited the flexibility cash afforded them for tax purposes. What seems, from a surface view, as cash savings, data from a recent study indicate otherwise. Read more

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Payment Preferences

For the first time since we began requiring respondents to have a debit and a credit card to be eligible to respond to our survey, when presented with the question of "When given a choice, what payment form do you prefer?", the majority of the survey respondents selected credit. Exhibit 4 includes percentages for the top three selections (debit, credit and cash) over the last four years of our study. Although debit continues to be a strong preference, we saw a stronger preference toward credit. This is consistent with what we're seeing in the overall market as it relates to the use of credit cards. It's also not surprising given the growth in e-commerce and mobile, where many consumers express a preference for using credit in those channels. The resiliency of cash is also interesting, and consistent with what we found in our 2016 Canadian Consumer Payment Study.

Exhibit 4:
Most Preferred Payment Type

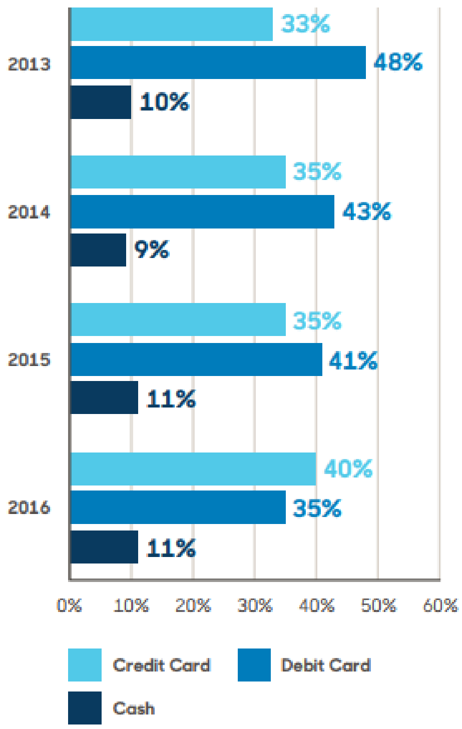

Exhibit 4 shows from 2013-1016 consumer preference for non-cash payment options ranged from 75-81%; while during the same period preference for cash payments at its highest was 11% in 2016.

When you look at non-cash vs. cash payment options by age group and income the results are even more startling.

Exhibit 5:
Preferred Payment Type by Age

Most Preferred Payment Type	Age range: 18 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 or older
Credit card	22%	57%	52%	31%	34%	42%
Debit card	47%	26%	30%	45%	35%	29%
Cash	18%	5%	8%	12%	17%	10%

Exhibit 6:
Preferred Payment Type by Household Income

Most Preferred Payment Type	Total household income for 2015 before taxes: Less than $25,000	$25,000 - $50,000	$50,000 - $75,000	$75,000 - < $100,000	$100,000 - $150,000	$150,000 or more
Credit card	22%	23%	32%	55%	59%	69%
Debit card	30%	47%	41%	28%	28%	19%
Cash	23%	18%	13%	6%	1%	1%

In spite of data indicating consumers have a higher preference for paying with cash in dine-in restaurants (18%) and fast food restaurants (33%), the non-cash payments still exceed cash payments (68% and 51% respectively).

The problem for cash only businesses is the lost sales opportunity with customers who prefer no-cash payments. These establishments are losing significant dollars while trying to save a few pennies. Supposed that a cash-only restaurant has sales of $1000 per month with an average customer spend of $10. If the same restaurant allowed non-cash payment and had a 3% transaction fee for each purchase, the fees for the month would be $30. To cover the cost of those fees, the restaurant would only have to secure ***5 (I repeat, 5)*** customers during the month to cover the $30 fee incurred on the existing sales. I am certain the restaurant is losing more than 5 customers per week because of cash only. The same holds true for the auto detail shop.

Even the idea of saving on taxes by underreporting income is a costly means of financial management in today’s marketplace. The savings on taxes pales to missed sales due to cash-only. For example, let say you underreport income by $20,000, at a 30% tax rate you avoid $6000 in taxes. As in the previous example, if average customer spend is $10, the business would need 600 additional customers for the year. If the business is open for 50 weeks during the year they need 12 more customers per week. AT least twelve potential customers avoid that business per week because of cash only. In addition, the peril and danger of being convicted of tax evasion are certainly not worth the gamble.

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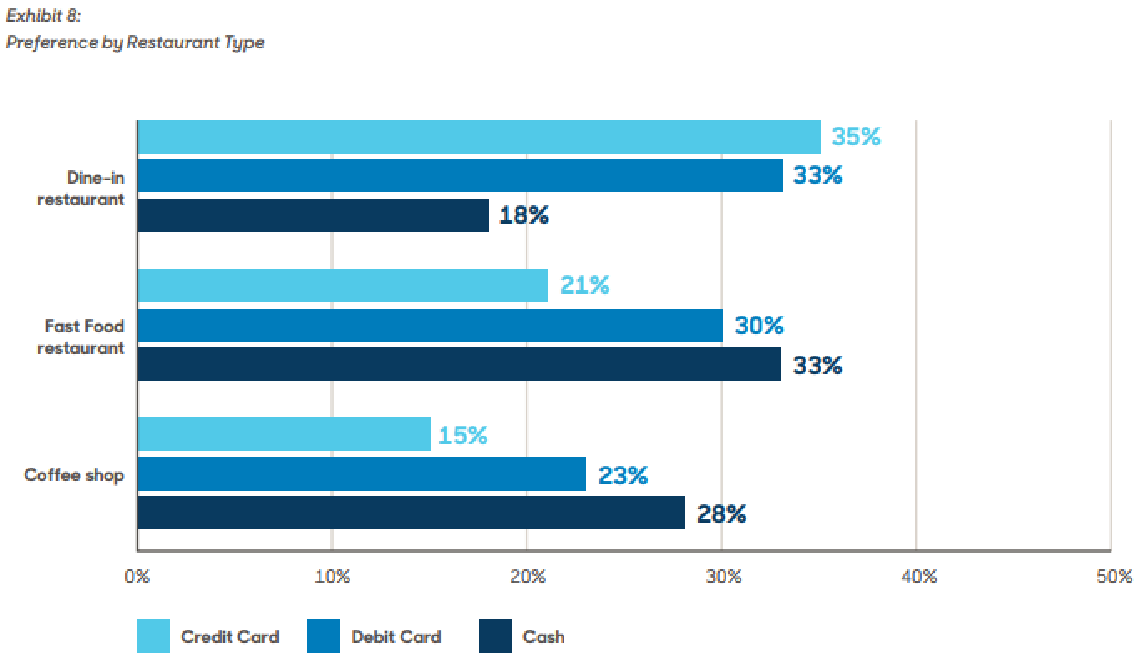

I Get Paid for Making Non-Cash Payments

Consumers receive several incentives for making non-cash payments. Reward programs, coupons, rebates, even lines of credit are extended to consumers for non-cash payments. The TSS survey stated,

> **Rewards continue to be a powerful incentive, and were once again ranked as the most attractive card feature on consumers' most preferred credit cards.**
>
> While many things change with payment offerings and features, consumers still rank rewards as the most attractive feature and a key influencer for using one card over another. The percentage of respondents who selected rewards this year was nearly 60 percent. Cash rebates were almost double the next closest ranked rewards type, and cash rebates are redeemed a few times a year by 30 percent of our survey respondents.

Debit and credit card issuers, payment services (i.e. PayPal) offer the incentives because they have proven to increase sales. Not only are cash only businesses not maximizing the number of customers by accepting non-cash payments, they are not realizing the increase sales facilitated by promotional programs and rewards.

Additionally, the convenience of mobile payments is driving more growth in non-cash payments. According to TSS,

> **Mobile payments are growing, and are expected to continue to do so.**
>
> According to Business Insider's Mobile Payments Report from June 2016, the number of mobile payment users is projected to be 150 million by 2020. The total of in-store mobile payments is expected to be $503 billion by 2020.

Customer Focus vs You Focus

A business exists to meet the needs of its customers. That's it. As a business owner, your primary responsibility is to ensure your business performs the task with the highest level of quality and service.

The cash-only businesses are so because the business owner places his own interest ahead of the customer. The transaction fee savings benefits the business owner; the access to cash a few days faster benefits the business owner; avoiding taxes benefits the owner. Blockbusters could not meet the needs of the consumers, so they shopped elsewhere. Consumer desired a different way to purchase and read books, Border’s did not respond. Going against the tide of consumer desires is not a winning formula for business. The cash-only businesses may be digging their own graves.

Stay focused on the customer, plus meeting their needs, equals success in business.

I want to hear your thoughts. Leave a comment below.

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