



*Association for  
Financial Professionals®*

RETAIL INDUSTRY FORUM  
SURVEY:  
**Consumer Payment Choices  
and Bank Relationships**

Key Results

May 2005

## **Survey Report**

Consumers can choose from many different payment options when purchasing products from retailers, securing a hotel room, or even paying an electric bill. In addition to cash and checks, consumers have the option of using a credit card, debit card (where they can either sign the receipt or type in their PIN), or gift certificate/card. While retailers may offer their customers numerous payment options, they frequently prefer certain methods due to transaction costs, speed of executing a transaction, and/or protection from fraud and theft.

This year's survey for the AFP Payments Forum looks at the payments methods used by the customers of retailers (and other consumer businesses) versus those preferred by retailers. In addition, this year's survey also asks about the number of disbursement banks and accounts used by retailers and the expected impact from the predicted increased use of check imaging, remote deposit capture and check conversion to ACH debits.

In April 2005, AFP sent a 14 question survey to AFP members who identified their organization's industry as either "retail," "hospitality," "health care," "communications," or "utility." The 92 responses to the survey are the basis of this report.

### **Payment Methods**

Much like that was found in both the 2003 and 2004 surveys, retailers in the U.S almost universally accept MasterCard, Visa and cash. Only when utilities are included in the analysis do the acceptance of cash and checks pull slightly ahead of MasterCard and Visa. The most striking difference deals with online (PIN based) debit—acceptance of online debit is up 13 percentage points compared to the 2003 survey results. For the most part, the acceptance of different payment methods is not impacted by the size of the typical transaction. However, retailers with average transaction sizes greater than \$25 are more likely to accept checks and offer private label credit cards than are retailers with smaller sized transactions.

**Payment Methods Accepted by Retailers**  
(Percent of Respondents)

	All	Retailers Only
MasterCard	89%	98%
Visa	89	98
Cash	90	97
Checks	91	90
American Express	69	86
Visa debit	67	82
MasterCard debit	66	80
Gift certificates	60	68
Online debit	44	48
Private label credit cards	26	31
Electronic benefits transfer	20	13
Smartcards	5	6

Note: Discover was inadvertently left off the survey. In the 2004 survey, 90 percent of retailers indicated that they accepted Discover.

Nearly half of the annual volume in terms of dollar transactions of retailers—in terms of dollar transactions—are conducted using either credit or debit cards. Thirty-one percent of retailers’ transactions are conducted using cash, while 22 percent are conducted with checks. When utilities are included in the sample, nearly a third of transactions are conducted by check (although check use still trails credit card use at 41 percent). The average transaction size greatly impacts the mix of payment methods used. For example, 38 percent of purchases at retailers with average transaction sizes below \$50 are made with cash, compared to 21 percent at retailers with large transactions.

**Percent of Purchases by Payment Method**

	All	Retailers Only
Credit/debit	41%	47%
Cash	28	31
Checks	31	22

Visa continues to be the top payment method used by customers of AFP’s retail members, with cash and MasterCard following second and third. This order is consistent with that found in the two previous Retail Industry Forum surveys. When utilities are added into the sample, checks replace MasterCard as the third most widely used payment method.

**Top Three Payment Methods Used by Customers**

	All	Retailers Only
1	Visa	Visa
2	Cash	Cash
3	Checks	MasterCard

Retailers continue to prefer their customers use cash over all other payment methods. However, unlike in the 2003 and 2004 surveys, the second and third preferred payment methods are not credit cards; but instead, checks and online debit (PIN based). Among retailers with typical transaction sizes less than \$50, Visa debit and Visa credit cards rank second and third after cash.

**Top Three Payment Methods Preferred by Retailers**

	All	Retailers Only
1	Cash	Cash
2	Check	Check
3	Online debit	Online debit

The typical retailer respondent indicates that the fees their organization pays for Visa and MasterCard credit transactions have increased between 10 and 25 percent since the 2003 settlement between a group of retailers and Visa and Mastercard regarding off-line debit card transactions. A quarter of retailers (26 percent) have seen these fees grow by at least 25 percent during this same two year period. Most retailers indicate that increased interchange rates and increased usage of credit cards are contributing to the increased total fees paid.

**Change in Total Fees Paid for Visa and MasterCard Credit Transactions Since 2003**

(Percentage Distribution of Retailers)

Increase of at least 50%	7%
Increase between 25 and 50%	19
Increase between 10 and 25%	39
Change +/- 10%	36

Four out of five retailers offer their customers the ability to purchase gift certificates and/or stored value cards. Retailers that typically have smaller transactions amounts are more likely to offer stored value cards; while those retailers with transaction sizes greater than \$50 are more likely to offer gift certificates. Retailers, however, are less likely to charge non-usage fees or place expiration dates on the gift certificates than they were a few years ago. Twenty-seven percent of retailers who sell gift certificates and/or stored value cards attach expiration dates and/or charge non-usage fees. In the 2003 survey, 47 percent of retailers that sold gift certificates and/or stored value cards either attached expiration dates and/or charged non-usage fees.

**Retailers that Sell Gift Certificates and/or Stored Value Cards**

(Percentage Distribution of Retailers)

Sells stored value cards	29%
Sells gift certificates	32
Sells both gift certificates and stored value cards	18
Does not sell either gift certificates or stored value cards	21

## Organization of Retail Treasury Departments

Retail treasury departments vary greatly in size. Among survey participants, the typical retail organization has a treasury department with six employees. Forty-two percent of retailers have four or fewer staff members in their treasury departments; while 24 percent of retail treasury departments have at least ten staff members.

### Size of Treasury Departments (Percentage Distribution)

Number of staff members	
1-4	42%
5-9	34
10-14	10
15 +	14

### Descriptive Statistics of Treasury Departments

	% of Companies Having Position	Average Number	Maximum Count
Treasurers	73%	1.0	1
Assistant treasurers	40	1.3	3
VPs of finance	51	1.2	7
Directors of treasury/finance	33	1.5	6
Managers of treasury/finance	53	1.9	9
Senior financial analysts	53	1.8	10
Cash managers	60	1.1	4
Assistant cash managers	30	1.3	3
Analysts	66	2.8	10

While many retailers use just a select number of banks for cash management services, they are likely to use a greater number of banks to handle depository services for all of their retail locations. Among survey participants, typical retailers use five banks for cash management services. By comparison, these same retailers tend to use nine banks for depository services and have 41 depository accounts.

### Number of Bank Relationships (Percentage Distribution)

	Banks for Cash Management	Banks for Depository Services	Number of Depository Accounts
1-5	51%	35%	12%
5-10	22	17	6
10-20	26	13	12
21-50	*	12	23
51-100	*	9	15
101+	*	14	32
Median	5	9	41

Most responding retailers indicate that they have at least “moderately” decreased the number of depository banks and accounts that they use over the past five years. Thirty-one percent of companies have maintained the same number of depository banks while only 17 percent have maintained the same number of depository accounts. Organizations that have increased their number of depository accounts and banks are most likely to indicate that they have significantly increased their number of store locations (and perhaps have expanded into new geographical regions).

**Change Over the Past Five Years in Number  
of Depository Banks and Accounts**  
(Percentage Distribution)

	Depository Banks	Depository Accounts
Decreased significantly	22%	26%
Decreased moderately	29	29
Stayed about the same	31	17
Increased moderately	14	18
Increased significantly	3	10

A stated benefit of electronic payments is the expected ability of retailers to reduce the number of banks used for depository services. About a third of survey respondents state that their organizations will likely decrease the number of depository banks and accounts that its uses as a result of the predicted increased use of check imaging, remote deposit capture and check conversion to ACH debits.

**Expected Change Over Next Two/Three Years in  
the Number of Depository Banks and Accounts**  
(Percentage Distribution)

	Number of Depository Banks	Number of Depository Accounts
Stay about the same	69%	70%
Decrease moderately	26	26
Decrease significantly	5	4