



Phil Lempert-Facts, Figures & The Future

## How Much Cash Do You Carry?



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A quick Google search on the amount of cash we carry in our wallets shows that for most it's little or none. In addition, research shows that more than half of us don't even keep any extra cash in the house. In the food industry, the move to plastic is undeniable as well. Grocery shoppers use debit or credit cards for an average 53.3 percent of total transactions. Cash transactions continue to drop, although they are making a slight comeback in today's economy. The mix of payment methods differs by store based on clientele, format, the presence of fuel operations and region. Why does this matter to both retailers and consumers? The answer is interchange fees.

Each time shoppers use plastic to pay for their groceries, retailers end up paying part of their profits to the credit card companies. The largest component of the so called "merchant discount fee" that retailers pay on every transaction is an obscure, hidden credit card fee called "interchange."

Interchange fees accounted for an average of 0.66 percent of sales in 2007. While this may not look like much at first glance, with median weekly sales per store topping \$380,000 this translates into more than \$2,500 per store on a weekly basis or \$131,000 per store annually. For regional and national chains, interchange fees easily cost millions of dollars each year. While food retailers are trying hard to absorb the costs internally, these fees may lead to increased costs of food in the long run.

Credit and debit card interchange fees are a great concern to retailers with their ever-growing share of total transactions. Higher-income shoppers and upscale stores tend to have a much higher percentage of debit and credit card payments. Some reported combined percentages as high as 65 percent and more. Reversely, low-price stores tend to have much higher check, cash and other payments.

In these tough economic times it is crucial that businesses and consumers take advantage of any and all opportunities to save money. Credit card fees are one of the largest business costs and concerns with almost no ability to control them. Because there is no ability to negotiate this fee until we are able to get legislation passed in Washington or legal relief, there is probably not much we can do here today to lower "interchange" fees. FMI is leading the charge to pass legislation to fix the problem and a number of our member companies are engaged in litigation as well.

In the interim, every penny counts in the battle to keep costs down both for the shopper and the retailer. Processing costs are the only component of the merchant discount fee that is negotiable. While they represent only about 10 percent of the total paid on every transaction, reducing this component can represent direct and immediate savings.

Here are some ways for you to cut down on your processing costs and make every penny count.

1. Look at your statement. Ask questions. If you are not paying the rate you think you should be, ask why not.
2. Both Visa and MasterCard post their official rates on their websites. Know what the official rates are. Print them out. We haven't found even one of their 15,000 banks that offer anything other than the published interchange rates.
3. Unbundle your charges. Tell your processor you want to be on a cost plus basis. You want to see the various rates you are being charged for each of your transactions and any additional fees that are being assessed.
4. Key entered transactions are expensive (highest rate). Keep your equipment clean and in working order so the card information is captured electronically and does not have to be keyed in by hand. Train your employees that key entered transactions are frowned upon and will be monitored.
5. If you are leasing equipment, check to see when your lease is fulfilled. Some companies are billed and continue to pay for leased equipment long after the lease is fulfilled and the equipment could be purchased for \$1. Think rotary

dial phones!

6. Avoid any vendor who wants to charge you a flat monthly minimum; a terminal fee; a statement fee or the like.
7. Get three bids every two to three years. There are lots of good processors and competition still exists in that market. Make sure your contract can be terminated at will or with 90 days notice after the terms are satisfied.
8. Generally, anything over 10 cents per transaction for processing is too high.
9. You are going to be charged fines and chargebacks. Know the sources of both and work to avoid them. Know what the fines are and what caused each of your chargebacks. Look for patterns and correct them.
10. Avoid fee creep. Before you sign a contract, ask that a sample invoice be attached and include verbiage similar to the following: "The attached invoice represents any and all fees and fee categories that can be levied by \_\_\_\_ on merchant \_\_\_\_."

For more information, purchase your copy of FMI's *Annual Financial Review 2008* at [www.fmi.org/store/](http://www.fmi.org/store/) or contact Jennifer Hatcher, Senior Director of Government Relations for the Food Marketing Institute. Jennifer advocates on behalf of the industry to Congress and the Administration on financial services issues. She can be reached by email, [jhatcher@fmi.org](mailto:jhatcher@fmi.org).